

# DIGITALLY-ENABLED CROSS BORDER REMITTANCES IN LESOTHO: KEY POLICY CONSIDERATIONS TO BREAK UPTAKE BARRIERS



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## DISCLAIMER

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The author has written this paper in his personal capacity and not in his role as the staff member of the Central Bank of Lesotho. Therefore, the views expressed in this paper are those of the author, Mr Lira Peter Sekantsi, and do not necessarily represent those of the Central Bank of Lesotho.

This article draws on the analysis the authors earlier paper “The Assessment of International Remittances Markets in Lesotho: Implications for Economic and Social Development” published in the Journal of Payment Strategy and Systems, Vol. 12, No.2.

## ABSTRACT

This paper assesses international remittance services in Lesotho. It finds that only a small portion of inward remittances are processed via formal remittance services, with the bulk going through informal channels, which are unsafe and inefficient. Existing commercial bank channels are rarely used and international money transfer operators have a limited presence in Lesotho. Innovative channels, such as the mobile money services and Shoprite cash-to-cash services, have the potential to substantially formalize inward remittances and encourage the move towards digital payments, and broader financial inclusion.

However, the market faces numerous challenges, including: a high preference for cash; the limited number of access points and agent networks outside of urban areas; and inefficient interoperability between the commercial banks and mobile network operators, as well as between mobile network operators themselves.

This paper argues that the authorities in Lesotho should enhance the payment systems infrastructure, harmonize the legal and regulatory framework, enhance financial literacy, and encourage remittance service providers to be more active in the remittance market. In addition, the authorities should clarify the consumer protection and dispute resolution framework for remittance services, as well as other financial services.

## INTRODUCTION

Lesotho is a small landlocked enclave within South Africa, with a population of approximately 2 million people. During the past ten years, its real gross domestic product (GDP) growth rate has averaged about 4% per annum, largely driven by the mining, manufacturing, construction and tertiary sectors. Nonetheless, unemployment, poverty and income inequality remain pervasive in the face of non-inclusive growth in the economy (Box 1).

Efforts to promote inclusive growth are constrained by, among other factors, lack of skills, the prevalence of tuberculosis and HIV/AIDS, which stands at about 22.9% of the population, poor investment climate, lack of key infrastructure<sup>2</sup> and the high rate of urbanization and population concentration.<sup>3</sup> With regard to employment, the government is the largest employer, while the largest private sector employer is the garment industry, which employs approximately 36,000 Basotho and benefits significantly from the United States of America (USA)'s African Growth and Opportunity Act 2000.<sup>4</sup>

### BOX 1: KEY FACTS

>24%  
HIGH UNEMPLOYMENT



0.5  
GINI COEFFICIENT  
(INCOME INEQUALITY)



US\$1.25 A DAY  
POVERTY HEADCOUNT  
RATIO



56.2%  
OF THE POPULATION  
REMAINS TRAPPED IN  
EXTREME POVERTY



Lesotho's location within South Africa and her narrow economic base makes the country heavily reliant on South Africa for much of its economic activity, through factors such as trade, remittances<sup>5</sup> from workers employed in various industries in South Africa and water royalties due to the Lesotho Highlands Water Project treaty.

The country is a member of the Common Monetary Area (CMA) along with South Africa, Namibia and Swaziland, and through the CMA arrangement, its currency, the Loti (plural Maloti), is fixed at par to the South Africa Rand (ZAR), with ZAR also circulating as a legal tender in Lesotho. In addition, it is a member of the Southern African Customs Union (SACU) along with all CMA countries and Botswana, and a member of Southern Africa Development Community (SADC), through which it participates in several regional initiatives, including improving the safety and efficiency of payment systems and remittance flows.<sup>6</sup>

The financial sector in Lesotho is mostly dominated by the banking industry, with three of the country's four commercial banks being subsidiaries of South African

2 World Bank, 2015.

3 Sekantsi and Molapo, 2017.

4 Sekantsi and Lechesa, 2018.

5 Remittances are non-reciprocal transfers of money from an individual or household in one place to another individual or household in another place. They can take many forms but they are typically associated with working migrants who send regular amounts of money to support their families and communities back home (Hougaard, 2008 and Cooper et al., 2018).

6 Sekantsi and Lechesa, 2018.

banks. In light of this, the banking sector remains the primary distributor of financial services and products in the country. However, banking penetration and access to banking services and therefore, financial inclusion, remain relatively low by regional and international standards, due to the limited banking infrastructure, especially in rural areas.<sup>7</sup>

With few job opportunities in Lesotho on the one hand and higher incomes and wages in other countries on the other hand, a large portion of Lesotho citizens migrate to other countries (in Africa, United Kingdom and United States of America) - with majority going to South Africa, Lesotho's only neighbor and largest trading partner, to search for jobs. This widespread labor migration to South Africa makes inward remittances to Lesotho not only contribute significantly to the country's gross domestic product (GDP) but also surpass other international inflows, such as portfolio capital inflows, foreign direct investment and foreign aid, and official development assistance.<sup>8</sup>

According to the World Bank estimates, Basotho migrants sent home US\$320 million in 2016, while outflows were negligible. However, remittance inflows have declined dramatically over the past 10 or so years, from in excess of US\$600 million in 2006 to just over half of that in 2016, as fewer men found mining jobs in South Africa due to declining gold prices, stricter immigration policies, and a growing preference for South African workers. Despite this dramatic decline in remittance flows over the years, remittance inflows to Lesotho still account for a significant share of the country's GDP - roughly 18% in 2015, according to the World Bank. This makes Lesotho one of the top 15 most remittance-dependent countries in the world (Appendix 1).

However, a large proportion of Lesotho's inward remittances are still received through unregulated channels, such as cash carried across the borders by bus/truck/taxi operators or in-hand by the migrants themselves; only a small proportion is remitted through regulated channels, including commercial banks, mobile network operators (MNOs) and other money transfer operators (MTOs). According to the Central Bank of Lesotho (CBL) estimates, Lesotho received the sum of ZAR 6 billion (US\$450 million<sup>9</sup>) of inward remittances in 2015, of which only ZAR 1 billion (US\$75 million) is estimated to have been remitted through regulated channels, largely due to higher costs of sending remittances and lack of competition in the remittance markets.

The World Bank Remittance Prices Worldwide (RPW) database, which tracks the cost of sending remittances along 365 corridors, indicates that the cost of sending US\$200 to the Sub-Saharan Africa (SSA) region in the 4th quarter of 2017 was recorded at 9.27%, compared to the global average of 7.09% during the same time horizon.

For the South Africa-Lesotho corridor in particular, the average total cost of sending US\$200 was estimated at US\$32.06 (or 16.03% of the amount sent) in the 4th quarter of 2017, higher than the SSA average, and double the global average. Like in most markets, remittance services offered by the commercial banks in the South Africa-Lesotho corridor appear to be the most expensive - ranging from

15-22% in the 4th quarter of 2017, while services offered by MTOs were relatively cheaper, at an average cost of 11.57% in the same time period.

Due to their growing value and importance, remittances have gained prominence on the global policy agenda.<sup>10</sup> Therefore, the authorities and private sector players in Lesotho, with the assistance of the regional and international development partners, have heightened efforts to enhance the safety and efficiency of remittance services in the country, through the adoption of digitally-enabled international remittance services. This is done in an effort to further increase their contribution to economic development (including poverty reduction) in the country.

This paper briefly assesses the existing cross-remittance channels in Lesotho and examines remittance regulation in Lesotho. Furthermore, the paper highlights the barriers to the adoption of digitally-enabled cross-border remittances in Lesotho and provides some key policy considerations to break uptake barriers.

7 Sekantsi and Motelle, 2016; Sekantsi and Motheo, 2018; Sekantsi, 2018.

8 In 2015 alone, the Central Bank of Lesotho (CBL) estimated that inward remittances amounted to approximately ZAR 6 billion (\$450 million), of which ZAR 1 billion (US\$75 million) is estimated to have been remitted through regulated channels, including banks, Mobile Network Operators (MNOs) and other Money Transfer Operators (MTOs).

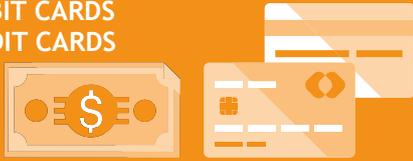
9 All USD (\$) prices indicated in bracket are estimates.

10 Cooper et al(2018).

## EXISTING INTERNATIONAL REMITTANCE CHANNELS AND TRENDS IN LESOTHO

### BOX 2: COMMERCIAL BANK FIGURES (2017)

TOTAL OF 49 BRANCHES  
220 AUTOMATIC TELLER MACHINES (ATMS)  
1,624 POINT OF SALES (POSS) DEVICES  
474,410 DEBIT CARDS  
11,423 CREDIT CARDS



### COMMERCIAL BANKS

Owing to their extensive domestic and international networks, including national payment systems, commercial banks traditionally used to be the most effective channel for cross-border remittances in most countries. Likewise, they remain the principal regulated channel for migrant remittances in Lesotho.

There are four commercial banks that are licensed to operate in Lesotho which, with the exception of Lesotho Post Bank, are subsidiaries of South African banks (Box 2).<sup>11</sup> Among these commercial banks, Standard Lesotho Bank is the largest, with 17 branches, 92 ATMs and 622 POS devices.

On one hand, commercial banks with international presence usually use their own network to make cross-border transfers. On the other hand, those that have limited presence in other jurisdictions often use correspondent banking relationships or franchised networks operated by international MTOs. In the same manner, the commercial banks in Lesotho offer international money transfer services, mainly through their subsidiaries and correspondent banking relationships with other banks in other jurisdictions, using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network. However, for remittances sent or received within the SADC region, the commercial banks recently implemented SADC integrated regional settlement system (SIRESS) and Bankserve, Africa's largest automated clearing house in South Africa, which processes transactions belonging to South Africa and those of the African region.

In the case of remittances transmitted through banks from South Africa to Lesotho, account-to-account transfers through Standard Bank and Nedbank are possible because these banks are within the same banking group and the remittances are transmitted through Bankserve. Nedbank money transfers from South Africa to Lesotho using

Bankserve can be conducted at no cost, whereas transfers from Lesotho to South Africa cost roughly ZAR300 (US\$22). In the case of First National Bank (FNB) Lesotho, whose core banking system is based in South Africa, transfers between the two countries can be made directly and, therefore, this service is currently free.

Nonetheless, commercial banks are rarely used for regional and international remittances in Lesotho due to a number of reasons, including the high average bank transfer fees, especially for small amounts, inadequate service offerings for low-value remittances, and the concentration of bank branches and other access points (such as ATMs, POS devices, and bank agents) in urban areas. In addition, bank transfers are slow and require both the sender and receiver to have a bank account. The limited use of banks for international remittances and the low bank account ownership of 46% in Lesotho implies that remittances sent to and received from other countries go through other formal channels or informal channels.<sup>12</sup>

### INTERNATIONAL MTOS; INTERCHANGE BUREAU DE CHANGE LESOTHO, MONEYGRAM AND MUKURU

Apart from the commercial banks, other principal regulated channels for international remittances in Lesotho are international MTOs. Currently, there are three international MTOs operating in Lesotho. These include the two well-established ones, namely: Interchange Bureau de Change Lesotho and MoneyGram, as well as one new smaller player, namely: Mukuru (Table 1).

Traditional international MTOs (Western Union, MoneyGram, etc.) present a formidable competition against the commercial banks regarding the provision of remittance services. However, they currently offer their services through very few branches in Lesotho, despite an opportunity for growth in Lesotho - given that the significant remittance inflows into the country; the prevalence of the large untapped informal market for remittances between Lesotho and South Africa; the favorable legal barrier to entry; and the possibility to partner with appropriately-licensed financial institutions to offer remittance services in the country.<sup>13</sup> Therefore, it is obvious that MTOs have little interest and/or no plans to expand their footprint in the remittances market in Lesotho. Even if they were to expand their coverage in the country, they would probably not attract large masses of customers in Lesotho, due to expensive service fees by international standards relative to other existing remittance channels.

The average total cost of sending US\$200 from South Africa to Lesotho and Mozambique was 14.4% and 17%, respectively, compared to 11.7% when sending the same amount to Zimbabwe as of March 2017.<sup>14</sup>

<sup>11</sup> These South African banks are Standard Lesotho Bank, First National Banks and Nedbank.

<sup>12</sup> World Bank, 2017 and Demirgüç-Kunt et al, 2018.

<sup>13</sup> They are also allowed offer their services through agents.

<sup>14</sup> Mela et al, 2017.

TABLE 1: INTERCHANGE BUREAU DE CHANGE LESOTHO, MONEYGRAM AND MUKURU

INTERCHANGE BUREAU DE CHANGE LESOTHO	MONEYGRAM	MUKURU
<ul style="list-style-type: none"> <li>&gt; Started its operations in August 2012;</li> <li>&gt; First non-bank full foreign exchange service provider in the country;</li> <li>&gt; Principal agent for Western Union in 14 countries;</li> <li>&gt; Network of sub-agents operating throughout 1,200 outlets in the world;</li> <li>&gt; Only one branch in the district of Maseru (capital city); with no other agents attached to that branch;</li> <li>&gt; Offers money transfer services quickly and easily through Western Union's vast distribution network.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Service is offered through Standard Lesotho Bank at all 17 branches;</li> <li>&gt; Allows travellers, migrants and expatriates to send and receive funds through a highly secure channel from more than 200 countries and territories without the need for a bank account;</li> <li>&gt; It makes cash available to the recipients immediately: the cash recipients simply require to produce national IDs or passports and the PIN received from the senders in order to receive the funds;</li> <li>&gt; Senders are also required to produce national IDs or passports as a customer due diligence (CDD) procedure;</li> <li>&gt; Through its vast distribution network and speed required by remitters, this service enables most Lesotho citizens to easily access the remitted funds without travelling long distances.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; UK registered remittance company and facilitates money transfers from outside Africa and from South Africa to other African countries;</li> <li>&gt; Started in 2010 through partnership with Inter Africa Bureau de Change, operating at least 26 branches in South Africa;</li> <li>&gt; Has a secured South African Reserve Bank (SARB) authority to utilize over 2,500 retail outlets as cash-in points for international remittances;</li> <li>&gt; Offers its services through only two branches in Maseru;</li> <li>&gt; Has an arrangement with Shoprite Lesotho, which acts as its agent for its cash-in/cash-out services through its 12 branches, mostly in Maseru.</li> </ul>

TABLE 2: INTERNATIONAL MTOS TRANSACTIONS<sup>15</sup>

	INBOUND TRANSACTIONS		OUTBOUND TRANSACTIONS	
	VOLUME	VALUE	VOLUME	VALUE
2015	2,447	US\$738,390.23	3,849	US\$1.03 million
2016	2,759	US\$764,454.92	3,824	US\$1.01 million
Growth 2015 to 2016	+13%	+4%	-0.65%	-1.3%

Table 2 shows that both volume and value of inbound transactions increased between 2015 and 2016 but decreased for outbound transactions. Inward and outward remittance transactions are generally between Lesotho and the rest of the countries in the world, including United States, United Kingdom, China, South Africa, and other countries in Africa and Asia. The growth in these remittance transactions is generally driven by the speed of services, safety and reliability.

<sup>15</sup> Note that the MTO transaction figures include only those where information was available at the time of writing. The actual volume and values of MTOs transactions are actually greater than what is reflected here.

## THE EMPLOYMENT BUREAU OF AFRICA (TEBA) LESOTHO

The other remittance service provider operating in Lesotho is the Employment Bureau of Africa (TEBA) Lesotho (Box 3). This organization has established two schemes that enable mineworkers to send funds to their families at home in Lesotho. These are the “standard remittance scheme” and the “cash remittance system”. The former enables the mineworker to send 30% of his net of tax remuneration to his family in Lesotho and the costs associated with this scheme are covered by a 1.5% charge to the mine owner. On the other hand, the latter scheme allows the mineworker to send a variable amount (up to ZAR 25,000 per month, US\$1,820) to his family members in Lesotho at a cost of ZAR42 (US\$3) per transaction. In both cases, a thumbprint is required for the identification of the recipients of the funds in Lesotho.<sup>16</sup>

In terms of integration plans, TEBA seems to have no plans to move from cash-to-cash remittances into links with mobile money or bank accounts. Nevertheless, there are plans to apply for a deposit-taking micro-finance institution (MFI) license at the Central Bank of Lesotho, in order to reflect the fact that the organization holds funds on behalf of its customers, in particular, the mineworkers.

### BOX 3: TEBA LESOTHO

- > Long-established organization set up to assist Lesotho mineworkers in South Africa to send money to their family members in Lesotho;
- > Continued to offer its services to Basotho mineworkers, despite the recent decline in the number of Lesotho mineworkers in South Africa on account of, *inter alia*, declining gold prices, stricter immigration policies, and a growing preference for South African workers over other workers from other countries, including Lesotho;
- > Approximately 28,000 Basotho miners working in South Africa use TEBA's services;
- > Have offices in other jurisdictions in Southern Africa, such as Mozambique, Swaziland and Botswana and 9 branches throughout the country.

## SHOPRITE CROSS-BORDER MONEY TRANSFER SERVICES

The Shoprite cross-border money transfer services (Box 4) enables South African ID or passport holders and Lesotho passport holders in South Africa to send any amount, of up to ZAR5,000 (US\$364) per day and ZAR25,000 (US\$1,820) per month, from any Shoprite store in South Africa, including affiliated Checkers, Shoprite U-save and OK Bazaar stores, to Shoprite and Shoprite U-save stores in Lesotho.

These funds used to be sent in a single money transfer transaction for a fixed fee of ZAR9.99 (US\$0.73) per transaction, paid by the sender with no fees charged to the recipient in Lesotho to receive the funds. However, this fixed fee has been revised upwards to ZAR19.99 (US\$1.46) per transaction in 2018.

This fixed fee makes the service fairly attractive, relative to other remittance platforms, such as those provided by the mobile money service providers, whose fee changes with the transfer amount.

The service has, to a great extent, addressed the money transfer challenges faced by the Basotho diaspora in South Africa, who had to use informal channels, which are unsafe and inefficient, to send money to their family members, relatives and friends in Lesotho due to, *inter alia*, high costs of bank transfers and barriers that hinder an all-inclusive financial system. It has a potential to become one of the innovative channels that can be implemented as a two-way solution in Sub-Saharan Africa to transfer money from one country to another.<sup>17</sup> In addition, its coverage in Lesotho has increased through expansion of Shoprite and Usave stores, enrolment of other stores as cash-out agents, and through integration with other remittance platforms, such as ATMs and mobile money wallets. Therefore, it can significantly contribute towards broader financial inclusion in Lesotho and reduce informal remittances flows between countries in the Sub-Saharan region.

### BOX 4: SHOPRITE CROSS-BORDER MONEY TRANSFER SERVICE

- > Launched in March 2015 by the Shoprite stores, in collaboration with Capitec Bank of South Africa;
- > This facility, initially conceived and started by FinMark Trust, resulted from intensive consultations among the Central Bank of Lesotho (CBL), South African Reserve Bank (SARB), Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank as the sponsoring bank;
- > Capitec Bank was subsequently replaced by Standard Bank as the sponsoring bank for this remittance facility, to facilitate the expansion of the facility to other Sub-Saharan countries where both Standard Bank and Shoprite have subsidiaries;
- > Main objective: develop an affordable, convenient, safe, and reliable, as well as real-time inbound remittance corridor to facilitate remittance flows from South Africa (Sekantsi and Lechesa, 2018).

Since its launch in March 2015, the Shoprite money transfer service has experienced phenomenal growth in terms of processed transaction volumes and values (Table 3). These significant transactions volumes and values are due to a high take up by a large number of Basotho diaspora residing and working in South Africa, who use it as a channel for remitting money to individuals, relatives and friends in Lesotho because of its low service charge or fee, convenience, safety and reliability. According to the project plan, the next phase of this remittance project would be to facilitate the outbound transfer of money from Lesotho to South Africa, so that the facility works both ways and potentially expands to other common monetary area (CMA) countries, including Swaziland and Namibia.

<sup>16</sup> However, the thumbprint is not digital.

<sup>17</sup> Sekantsi and Lechesa, 2018.

**TABLE 3: SHOPRITE CROSS BORDER MONEY TRANSFER SERVICE**

	TRANSACTIONS	
	VOLUME	VALUE
2015	33,977	US\$2.30 million
2016	148,858	US\$10.20 million
2017	299,328	US\$21.79 million
Growth 2016 to 2017	+101%	+113%

### MOBILE MONEY INTERNATIONAL MONEY TRANSFER SERVICES

Box 5 describes the mobile money ecosystem in Lesotho. Besides the above-mentioned remittance service offerings, MNOs in Lesotho have also launched inbound cross-border remittance services in partnership with licensed international money transfer service providers. In particular, Econet Telecom Lesotho (ETL) partnered with WorldRemit<sup>18</sup> in June 2015 to facilitate inbound cross-border remittances from the United Kingdom (UK) and United States of America (USA). This service enables people in the UK and USA to directly send money to EcoCash registered users in Lesotho and these registered users will receive the money directly, and instantly in their EcoCash wallets in Lesotho.

In terms of the fees, WorldRemit charges the senders an average commission of 4% of the sending amount. Cash withdrawal charges for registered EcoCash users range from ZAR1.00 to ZAR 11.50, depending on the amount withdrawn. For instance, if someone sends ZAR2,700 (US\$200) to a registered EcoCash user for cash withdrawal in Lesotho, the cost would be 4%, payable by the sender and ZAR11.50 (US\$0.84), payable by the receiver, amounting to a total of less than 4.5%.

As part of the expansion of its cross-border remittance services, ETL also partnered with Flash South Africa and subsequently, launched inbound cross-border money transfer service for remittances from South Africa to Lesotho in December 2017. This service enables South African identity document or passport holders and Lesotho passport holders, with an active subscriber identification module (SIM) card from any South African network, to send money from over 70,000 Flash South Africa agents<sup>22</sup> in South Africa to EcoCash registered users in Lesotho.

Similar to the former service, EcoCash registered users also can receive money directly into their EcoCash wallets in Lesotho and this money can either be instantly withdrawn from any EcoCash agent nationwide, or used to purchase goods and services through normal EcoCash mobile services.<sup>19</sup>

Likewise, Vodacom Lesotho (VCL) also partnered with Mukuru in 2014 to facilitate inbound remittances from South Africa to Lesotho. This facility, like that of ETL, enables South African identity document or passport holders and Lesotho passport holders to send money from several Mukuru agents in South Africa. In the same manner, money also becomes instantly available into the recipients' M-pesa wallets and therefore, can be used to conduct normal M-pesa services.<sup>20</sup>

In terms of fees, a commission of 10% of the sending amount is charged. Cash withdrawal charges for registered M-pesa users range from ZAR1.50 to ZAR11.39, depending on the amount withdrawn. For instance, in the case of ZAR2,700 (US\$200) sent to a registered user for cash withdrawal in Lesotho, the cost would be 10%, payable by the sender and ZAR11.39 (US\$0.83), payable by the receiver, amounting to a total of approximately 10.4%.

Though the total fees associated with these remittance services could be high, especially when compared to the low-cost cash-to-cash service offered by Shoprite, they are not only secure, reliable and user-friendly but are also convenient to the cash recipients in Lesotho because the funds are instantly and directly received into the recipients' EcoCash and M-pesa wallets anytime, and at the comfort of their homes.<sup>21</sup>

Since the launch of these services, the transactions associated with these remittance facilities continue to grow significantly (Table 4). The growth in cross-border transactions associated with mobile money is generally driven by its convenience, safety and reliability.

**TABLE 4: TRANSACTIONS ASSOCIATED WITH MOBILE MONEY CROSS BORDER REMITTANCE FACILITIES**

	INBOUND TRANSACTIONS	
	VOLUME	VALUE
2015	83	US\$7,726.23
2016	11,806	US\$514,813.16
2017	51,088	US\$2.21 million
Growth 2016 to 2017	+333%	+326%
Growth 2015 to 2017	+61.5%	+28.3%

<sup>18</sup> WorldRemit is a digital money transfer company that enables migrants and expats to easily send money to family members and friends in more than 100 receive countries.

<sup>19</sup> World Bank, 2017 and Central Bank of Lesotho, 2018.

<sup>20</sup> Mobile money agents could also be used to receive inward remittances sent through other remittance channels. However, this has not yet happened due to a lack of interoperability among the different in platforms in Lesotho.

<sup>21</sup> World Bank, 2017.

### BOX 5: MOBILE MONEY ECOSYSTEM IN LESOTHO

Mobile money in Lesotho started with the launch of Econet Telecom Lesotho (ETL)'s EcoCash in October 2012 followed by Vodacom Lesotho (VCL)'s M-pesa in July 2013. Therefore, the mobile money market structure in Lesotho takes the form of a duopoly with the two firms in the market. The latter possesses 72% of the subscriber base and 60% of the mobile money subscription in the country, while the former owns the remainder of the subscriber base and mobile money subscription. At the end of 2017, mobile money service providers in Lesotho registered approximately 1.35 million mobile money customers, representing 67% of Lesotho's total population.

Of these registered customers, 41% and 31% were, respectively, active on a 90-days and 30-days basis at the end of 2017. In addition, the mobile money service providers jointly accumulated a total of 7,945 agents, of which 73% and 60% were active on a 90-days and 30-days basis, respectively, at the end of 2017. In terms of transactions, mobile money service providers processed a total of 40.34 million transactions valued at ZAR5.94 billion (US\$434.29 million) compared to the 29.69 million transactions valued at ZAR4.21 billion (US\$307.89 million). This represents 35% and 41% growth, in terms of transaction volumes and values, respectively, between 2016 and 2017.

Table 5 illustrates the mobile money sector statistical trends in Lesotho between 2015 and 2017. Therefore, mobile money agents, customers, as well as transactions volumes and values kept growing between 2015 and 2017. This signals that the growth in mobile money in Lesotho is generally attributed to accommodative legal and regulatory framework.

TABLE 5: MOBILE MONEY SECTOR TRENDS IN LESOTHO BETWEEN 2015 AND 2017

INDICATOR	2015	2016	2017
Number of registered customers	1,064,028	1,137,903	1,345,114
Of which were			
90-days active customers	268,056	447,430	554,092
30-days active customers	210,914	347,786	411,357
Number of registered agents	3,654	6,479	7,945
Of which were			
90-days active agents	2,746	3,039	5,706
30-days active agents	2,286	2,103	4,661
Number of transactions	16,761,604	29,686,875	40,336,227
Value of transactions	US\$142,283,770.25	US\$307,893,855.85	US\$434,290,948.54
Trust account balance	US\$4,966,988.12	US\$6,458,607.30	US\$10,475,773.14

Source: Central Bank of Lesotho.

In terms of service offerings, a range of services, including cash-in (customer deposits) and cash-out (withdrawals) services, bill payments, domestic money transfers, merchant payments, and salary (batch/bulk) payments are offered through mobile money. Other services offered are bank-to-wallet transfers and cross border remittance services, which is offered in partnership with licensed international money transfer operators (MTOs), such as Mukuru and WorldRemit. The mobile money service sector in Lesotho is regulated under the Payment Systems (Issuers of Electronic Payments Instruments) Regulations 2017, which operationalizes the Payment System Act 2014, by the Central Bank of Lesotho (CBL), with support from the Lesotho Communications Authority (LCA). The support from LCA was established through a Memorandum of Understanding (MoU) signed by LCA and CBL.

## INTER-POSTAL SERVICES MONEY TRANSFER CORRIDOR

Apart from offering traditional postal services and acting as agents for domestic money transfer, post offices in many countries in Africa recently began offering inter-postal money transfer services or cash transmission services (Box 6). Post offices are usually under the regulatory ambit of communication regulatory authorities via communication law. In the same manner, the Lesotho Communications Authority regulates the Lesotho Post office, under the Communications Act of 2012. In light of this, they are not subjected to exchange controls.

As a result, they offer their services at cheaper prices than commercial banks and other remittances services providers in most countries (Ibrahim, 2015). They are very important for financial inclusion because of their wide coverage and outreach in major towns and remote, and/or rural areas of the country and for offering cash transmission services without the need for bank accounts.

They have the potential to further reduce the scale of financial exclusion in Lesotho by acting as agents of other financial services providers, such as the commercial banks (including the only state-owned commercial bank, Lesotho Post Bank) and mobile network operators, for offering either cash-in or cash-out services. In addition, this remittance channel is very useful for remitting money within the common monetary area (CMA) countries due to the prevalence of the free movement of funds between these countries.

### BOX 6: INTER-POSTAL SERVICES MONEY TRANSFER

- > These services enable migrants and expats in various jurisdictions in Africa to send and receive money to and from other countries;
- > Lesotho Post Office, in collaboration with other postal services in Botswana, South Africa, Swaziland and Zimbabwe, launched a reliable and secure inter-postal money transfer service, which enables people without bank accounts to send and receive money to and from these countries through the post offices, using postal orders and money orders;
- > Compared to other remittance service providers, post offices have the largest outreach network through the country, including remote rural areas where banking infrastructure is inadequate to deliver remittances (Nalane, et al, 2012; Ibrahim, 2015).

## INFORMAL REMITTANCE TRANSFERS IN LESOTHO

Aside from the formal remittance channels, a large proportion of Lesotho's inward remittances are still received through unregulated channels. For instance, in the case of taxi operators (Box 7), money transfers take place in the taxi operators' offices in South Africa, where the remitters are required to provide the recipients' phone numbers so that the operators' office at the border posts can call the recipients when the funds are ready for collection. However, the recipients of the funds are not requested to present any identification documents by the transport operators' offices at the terminal stop but they are charged a late collection fee in the event of failure to collect the funds at the agreed time.<sup>22</sup> The drivers of informal channels in Lesotho are presented in Box 8.

### BOX 7: INFORMAL REMITTANCE TRANSFERS

- > According to the Central Bank of Lesotho (CBL), approximately US\$450 million of inward remittances were received into the country in 2015 alone;
- > However, of this sizeable amount, only US\$75 million is estimated to have been remitted through regulated channels, including commercial banks, mobile network operators' M-pesa and EcoCash cross-border money transfer services and international MTOs (World Bank, 2017);
- > This implies that approximately US\$375 million were received through informal channels, which remain the most commonly used remittance channels for inward remittances in Lesotho, especially from South Africa.
- > These channels usually include cash carried across the borders through bus, truck and taxi operators or in-hand by the migrants themselves.

### BOX 8: DRIVERS OF INFORMAL CHANNELS IN LESOTHO

- > High costs of remittances due to: 1) currency conversion and strict cross-border remittance regulations (aimed at, among others, curbing illicit money flows) and sometimes ongoing account costs, and 2) the absence of multiple money transfer companies put the burden of high fees on few existing customers and this pushes people who cannot afford to use informal channels;
- > Lack of proper documentation by migrant workers and the fragmented nature of informal remittance services, increase access to some form of remittance service to undocumented persons, and people in remote, rural and marginalized areas. These people may not have the money to transport fees to acquire such documentation, even if the documentation itself is free.

(Ref: Sekantsi, 2018 and TechnoServe, 2016).

## REGULATION OF CROSS-BORDER REMITTANCES IN LESOTHO

The CBL Act empowers the CBL to promote the efficient operation of the payment systems and this role is made explicit under the PSA, which, among other things, mandates the Bank to oversee the operation of payment systems in Lesotho to ensure their safety and efficiency. In this regard, the commercial banks are licensed to provide cross-border remittance services under Tier I of the FIA. This kind of licence is also granted to merchant banks and mortgage finance institutions. The PSA does not explicitly provide for the oversight of payment systems service providers such as MTOs. However, the oversight of such institutions is governed under the FIA. Therefore, MTOs provide remittance services under Tier IV of the FIA, which also covers foreign exchange bureaus and credit-only microfinance institutions, in accordance with the Money Transfer Regulations 2014, which operationalizes the provision of these services.

Although international MTOs do not appear to be required to obtain a local licence for the provision of remittance services, their local agents are required to obtain a Tier IV licence under the FIA. In addition, non-financial institutions offering remittance services are also expected to partner with appropriately licensed financial institutions to provide their services domestically. For this reason, Shoprite partnered with Standard Lesotho Bank to launch Shoprite's cross-border money transfer services, which facilitate inbound remittances from South Africa to Lesotho.

Mineworkers' cross-border remittances from South Africa are governed under the Deferred Pay Act 2006/2007, which is administered by TEBA. For quite some time, TEBA itself operated without a licence from the CBL as a regulator of financial institutions in Lesotho, including as those providing remittance services. Nonetheless, plans are at an advanced stage for this institution to apply for a deposit-taking non-bank financial institution licence, in order to be under the regulatory ambit and oversight of the CBL.

The Payment Systems (Issuers of Electronic Payments Instruments) Regulations 2017 (henceforth referred to as the e-money regulations), govern the provision of mobile money services, including cross-border remittance services offered by the MNOs (namely Vodacom Lesotho and Econet Telecom Lesotho). These e-money regulations provide for the licensing and oversight of issuers of electronic payment instruments including mobile money as a form of electronic money.

### BOX 9: LEGAL AND REGULATORY FRAMEWORK

- > Remittance transactions in Lesotho are subject to a set of legal and regulatory framework, such as the Deferred Pay Act 2006/2007 and Foreign Exchange Control Regulations 1989.
- > The institutions offering these remittance services are also required to comply with the Financial Institutions Act (FIA) 2012; Payment Systems Act (PSA) 2014 and Payment Systems (Issuers of Electronic Payments Instruments) Regulations 2017; Money Transfer Regulations 2014 and Money Laundering and Proceeds of Crime Act 2008 (read in conjunction with Money Laundering (Accountable Institutions) Guidelines 2013); with some laws and/or regulations, such as Deferred Pay Act 2006/2007 and Foreign Exchange Controls 1989, which puts direct influence on the volumes of remittance flows in the country (Ref: Nalane et al, 2012).
- > Drawing its powers from the Central Bank of Lesotho (CBL) Act 2000, the Central Bank of Lesotho (hereafter referred as the Bank), among other things, regulates, supervises and oversees all financial institutions in Lesotho, including those that provide international remittance services, licensed under the FIA

They bring banks and non-bank financial institutions that issue e-money and electronic payment instruments under the PSA. In this regard, they provide certainty and clarity in the market, and consequently promote market confidence, protect investors and manage risks associated with the provision of mobile money and other e-money services.<sup>23</sup> Aside from this, the customer due diligence (CDD) requirements for all financial services, including remittances, and other anti-money laundering (AML) and countering financing of terrorism (CFT) issues are regulated under the Money Laundering and Proceeds of Crime Act 2008 (read in conjunction with the Money Laundering (Accountable Institutions) Guidelines 2013).

The CDD requirements, including know-your-customer (KYC) requirements, are currently uniform across all financial services in the country and financial institutions' customers are required to provide a national identification document or other proof of ID, proof of residence, and in some cases, the source of funds, as KYC requirements. However, tiered KYC requirements have been provided for mobile money services under e-money regulations to provide for the low-level risks inherent with these services; work is also at an advanced stage to amend the Act to allow for tiered KYC and CDD requirements for banking services.

<sup>23</sup> These e-money regulations also allow inward international remittances received through mobile money to be withdrawn (cashed out) at the mobile money agents' shops. Despite permitting outward flows of international remittances, the mobile money service providers have not yet launched outward remittance services to date. The available outward remittances services are those that are offered by commercial banks, MTOs and Postal services.

Remittance flows in Lesotho are also subjected to some of the Foreign Exchange Control Regulations 1989, in line with Lesotho's membership within the CMA, as conceived by the CMA agreement. These exchange control regulations require all foreign exchange transactions in Lesotho to be under the regulatory ambit of the CBL and prohibit the independent handling of foreign exchange transactions without the CBL's knowledge.<sup>24</sup>

Based on the above mentioned legal and regulatory framework, it is obvious that the CBL has a clear responsibility for the regulation, supervision and oversight of remittance services in Lesotho. To this end, the CBL has created the necessary infrastructure to facilitate regulation, supervision and oversight of all entities involved in the provision of remittance services. In particular, the supervision and oversight of the institutions involved in providing remittance services rests on three departments within the CBL:

- > **Banking Supervision Department:** supervises and regulates the commercial banks, including their remittance services and therefore, covers commercial banks' own products and services, as well as Standard Lesotho Bank's partnership with Shoprite and MoneyGram;
- > **Department of Other Financial Institutions Supervision (formerly known as Non-Bank Financial Institutions Supervision Department):** regulates and supervises the MTOs' partnership with non-bank financial institutions; Interchange Bureau de Change Lesotho (for partnership with Western Union) and Mukuru (for the partnership with Inter Africa Bureau de Change);
- > **Department of Payments and Settlements** (formerly the National Payment System Division housed under the Department of Operations): regulates and oversees all payment, clearing and settlement systems and MNOs in relation to the provision of mobile money services, including their cross-border remittance services.

Other important roles related to cross-border remittances are handled by the following:

- > **Research Department and Bureau of Statistics (BOS):** provides statistics related to Basotho mineworkers in South Africa and the related remittance flows;
- > **Financial Intelligence Unit (FIU):** enforces AML and CFT regulation, and receives reports of all transactions, including those related to remittance services and suspicious transactions, and regularly monitors those institutions providing remittance services;
- > **Ministries of Finance and Development Planning:** recognizes the importance of remittances for the Lesotho economy and for financial inclusion in particular. As such, they collaborate with the CBL and other stakeholders to undertake various initiatives, including the preparation of the Financial Sector Development Strategy (FSDS) and National Financial Inclusion Strategy (NFIS), aligned with the National Strategic Development Plan (NSDP) and other strategic policy documents that are aimed at improving access to financial services (including remittance services), with a view to improving economic development in Lesotho.

The bulk of inward remittances in Lesotho are from South Africa. Therefore, the legal and regulatory framework for cross-border remittances in South Africa has a significant bearing on the remittances market in Lesotho. In particular, the Financial Intelligence Centre Act (FICA) 2008, enacted and promulgated by the Parliament of the Republic of South Africa, previously placed stringent documentation requirements for cross-border remittances, including proof of residence and valid work permit. These requirements presented a significant barrier to Basotho immigrants and migrant workers in South Africa, many of whom are either undocumented or do not have proper documentation, either to reside or work in South Africa. In recognition of this burden, the Minister of Finance in South Africa issued a FICA exemption for low-value cross-border remittances from South Africa in July 2015. The exemption eliminates the proof of address requirement for cross-border transactions below a daily limit of ZAR3,000 (US\$218.5) and a monthly limit of ZAR10,000 (US\$728.33). However, this exemption is balanced with enhanced transaction monitoring.<sup>25</sup>

Through Lesotho's membership and participation in the SADC regional block, the wide legal and regulatory framework of SADC also influences the regulation of cross border remittances in Lesotho. For this reason, Lesotho, among others, has to align the PSA 2014 and Payment Systems (Issuers of Electronic Payment Instruments) Regulations 2017 with the SADC Payment Systems Model Law and SADC Mobile Money Guidelines. Harmonizing the domestic legal and regulatory framework to that of SADC would, among others, enhance remittances safety and efficiency within the SADC region.<sup>26</sup>

24 Nalane et al, 2012 and World Bank, 2017.

25 FICA, 2015.

26 Sekantsi and Lechesa, 2018.

## BARRIERS TO ADOPTING DIGITALLY-ENABLED CROSS-BORDER REMITTANCES

There are many barriers to adopting more formal remittance sending methods, as shown in Box 10. Some remittance services providers (RSPs) in South Africa have lowered their remittance fees to 5% of the value sent. However, these fees may not be as compelling as it first seems and may not be enough to attract some customers to switch to formal digital channels because of other barriers. In addition, some formal remittance channels contain hidden costs. For example, remittance channels that tie transfers to vouchers can be quite expensive than informal channels. In addition, the high RSPs' margins in South Africa are still protected by the limited number of players who partner with the main cash-in and cash-out providers. Therefore, greater competition in the market could drive these margins down in the future.

### BOX 10: BARRIERS TO ADOPTING MORE FORMAL REMITTANCE SENDING METHODS

- > High costs associated with sending remittances, especially by banks and international MTOs;
- > Burdensome documentation requirements;
- > Limited access to technology and supporting infrastructure;
- > Lower levels of financial literacy, especially among migrant workers and rural dwellers;
- > Lack of banking infrastructure and agents in rural areas.

Despite the recent efforts by the Ministry of Home Affairs to furnish the Basotho diaspora in South Africa with proper documentation, lack of proper identification documents for sending remittances continue to represent a barrier to the adoption of formal services. South Africa has reduced documentation requirements by introducing "FICA light" registration, which allows migrants in South Africa to send ZAR3,000 (US\$218.5) per day and ZAR10,000 (US\$728.33) per month to their countries with just a simple ID. However, banks and MTOs in South Africa have not invested in updating these regulatory requirements in their systems, in fear that the South African Reserve Bank might reverse the "FICA light regulation" after they have invested in updating the regulatory requirements for sending smaller remittances, due to a lack of a clear road map for regulation, including documentation requirements. Therefore, most MTOs' products do not meaningfully compete for the low-income workers. In addition, there is a general fear among migrants in South Africa that the burdensome regulation requirements for sending funds through formal channels could expose them to border authorities.<sup>27</sup>

Lack of financial literacy among the Basotho migrant diaspora in South Africa and rural dwellers in Lesotho is often a barrier to adopting formal services, particularly in the case of remittances. For one, remittances include layers of costs, such as a transfer fees, exchange rate margins, and sometimes ongoing account costs, which can be difficult for the remittance users to understand. Furthermore, limited access to technology and supporting infrastructure (for instance, the national switch) act as an obstacle to financial inclusion. Moreover, the inefficient interoperability arrangements between the commercial banks and mobile network operators' mobile money systems, and between MNOs themselves limit the exchange and transfer of money between the bank accounts and mobile wallets, and between mobile wallets of different providers. Low telecommunications connectivity, especially in rural areas in Lesotho, also acts as an obstacle to the uptake of domestic and cross-border digital payments, either by sender and recipient communities.<sup>28</sup>

There are also limited cash-in and cash-out access points beyond urban areas in Lesotho. For instance, banking infrastructure (in the form of bank branches, automatic teller machines and point of sales) and mobile money agents are concentrated in urban areas, while two-thirds of the country's population resides in rural areas. The international MTOs also have limited presence with Western Union in Lesotho, the largest international remittances provider, having only one branch, while Mukuru has only two branches, with one also in Maseru.

Last but not least, there is a lack of transparency regarding the pricing of financial products, services and terms to customers by financial services providers in the country, as well as lack of clarity on the consumer protection and dispute resolution framework for remittance services, both in Lesotho and South Africa, all of which limits the uptake of financial services, including remittances.<sup>29</sup>

27 TechnoServe, 2016 and Sekantsi, 2018.

28 TechnoServe, 2016 and Sekantsi, 2018.

29 TechnoServe, 2016 and Sekantsi, 2018.

## POLICY AND/OR REGULATORY INITIATIVES UNDERTAKEN TO BREAK THE UPTAKE BARRIERS

In an effort to deal with these challenges, the Government of Lesotho (GoL) and Central Bank of Lesotho (CBL) work together with remittance services providers to increase financial education and literacy, as well as awareness and knowledge in the country. This is because improving customers' understanding of the choice access to different remittance channels and the benefits of digital channels can accelerate uptake and usage of new digital remittances channels.

To this end, GoL and CBL, in collaboration with market players, have launched an inclusive business ecosystem project called "Lesotho Scaling Inclusion through Mobile Money" (Lesotho SIMM), with support from United Nations Development Programme (UNDP)'s Regional Service Centre for Africa (Box 11).

In addition, GoL and CBL, in collaboration with market players, continue to implement other projects (including those that relate to remittance services) identified under the Financial Sector Development Strategy (FSDS) 2013 to increase access and usage to financial services. They also have developed the National Financial Inclusion Strategy (NFIS) aligned to the National Strategic Development Plan (NSDP), with the aim of strengthening policy framework to further enhance access to financial services, including remittance services. In line with this, the Financial Inclusion Steering Committee (FISC) and the Financial Education Steering Committee (FESC) have been set up to coordinate all activities and policies, as well as strategies geared towards scaling access to, usage and quality financial services.

These activities include financial education, literacy and awareness, data collection and development of financial inclusion indicators, as well as monitoring and evaluation of financial inclusion in the country. The Financial Sector Development Strategy (FSDS) Secretariat has also been set up to coordinate the implementation of the FSDS. Further to that, GoL and CBL through technical assistance from the World Bank are working on the development of consumer protection and dispute resolution framework for financial service. The aim is to provide financial consumer complaints redress mechanism and to protect consumers against unfair market practices and illegal and harmful conduct by financial service providers.

CBL and the market players in the financial sector have also developed the National Payment System Vision Document 2019-2024, which provides high-level strategic direction for the modernization of the national payment system for the next five years, from 2019 to 2024. This vision document, among others, proposes the implementation of interoperability to enhance safety and efficiency, and industry standardization to facilitate the development of interoperable platforms that drive competition and lower costs. In line with that, the CBL continues to modernize domestic payment, 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 Principles of Financial Markets Infrastructures (PFMIs) and the General Principles for International Remittance Services.

CBL also continues to participate in relevant SADC committees, such as SADC Payment Systems Oversight Committee (PSOC). It also aligns the domestic legal and regulatory framework with that of the SADC region and implements SADC regional cross-border payment systems infrastructure and initiatives (such as SIRESS in Lesotho) and other projects, with the aim of increasing regional trade integration and improving remittance flows within the SADC region, among others. Last but not least, CBL also undertakes payment system cooperative oversight with other regulatory authorities within the SADC region, to ensure consistent and uniform requirements and standards between and/or among all geographies, regardless of the direction of the payment.

As a member of the Alliance for Financial Inclusion (AFI), CBL participates in several working groups, such as the Digital Financial Services Working Group (DFS WG), Consumer Empowerment and Market Conduct Working Group (CEMCWG), and Financial Inclusion Strategy Peer Learning Group (FISPLG). These working groups pay particular attention to how financial technology (including mobile money), among others, can be leveraged to increase access, usage and quality of financial services (including remittance services).

## CONCLUSION AND RECOMMENDATIONS

International remittances constitute a significant source of income for the Lesotho economy. However, the bulk of inward remittances in Lesotho are still processed through unregulated channels, which are unsafe and inefficient. For this reason, the authorities and private sector players in Lesotho, with the assistance of the regional and international development partners, have heightened efforts to enhance the safety and efficiency of remittance services in the country, through the adoption of digitally enabled international remittances services.

However, remittance services, among others, are fraught with high costs of offering especially by banks, inadequate service offerings for low-value remittances, limited cash-in and cash-out access points beyond urban areas, low levels of financial literacy especially in rural areas, and inefficient and/or the absence of arrangements for interoperability among service providers.

With the bulk of remittances still sent through unregulated channels, it is necessary to shift international remittances from unregulated to regulated channels - especially through the adoption of digital technology - in an effort to improve the safety and efficiency of remittance services. In particular, a coordinated programme of action between service providers, the financial regulators and other industry stakeholders in Lesotho and South Africa could unlock uptake barriers.

First, remittance service providers (RSPs), both in Lesotho and South Africa, should further lower the costs of their products and services (including remittances) and bring the cash-in and cash-out access points to the doorstep of both senders and recipients through partnership with agents, stores and mobile-wallets. In addition, the regulatory authorities should work in tandem with services providers to offer a variety of mechanisms to maximize the number of payment-in and payment-out options for each unique sender-recipient pairs through interoperable remittance platforms. This will not only achieve greater economies of scale but it will also invite greater competition on both the sending and receiving ends.<sup>30</sup>

Many financial companies in South Africa have not yet invested in updating documentation requirements within their systems, in response to the introduction of FICA light regulation for those sending smaller remittances. This is due to the lack of clarity regarding the future road map for regulation in South Africa, which increased uncertainty and fear of regulation reversal in the future. In light of this, financial regulators in South Africa should ensure that there is clarity regarding the future road map for regulation, including documentation requirements. This will drive investments by financial companies without fear of regulation reversal.

GoL should also scale up documentation of all Basotho migrant workers and integrate financial services providers' systems to the national identification system to enable automatic and digital verification of know your customer (KYC) or customer due diligence information. In addition, cooperative oversight between regulatory authorities, between and/or among countries in the SADC region is also important to ensure consistent, and uniform documentation requirements and standards, between and/or among all geographies, regardless of the direction of the payment.

The financial regulators and market players should also raise awareness about the available remittance services, which could take many forms from targeted education programs delivered by local organizations to mass media campaigns, and may cover issues related to transparent pricing and terms to customers. Another idea that merits particular mention is a single-point database that outlines remittances options by corridor, including latest pricing data and information on how to access each option.

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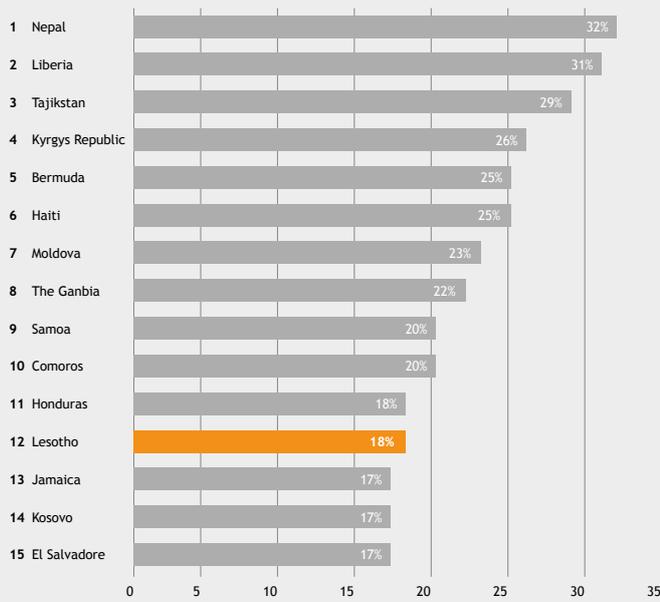
30 TechnoServe, 2016.

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# APPENDIX

APPENDIX 1: WORLD'S MOST REMITTANCE-DEPENDENT COUNTRIES IN 2015, %



Source: World Bank (2014)



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