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THE REMITTANCES FRAMEWORK IN LESOTHO:

Asessment of policies and programmes promoting the multiplier effects

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Remittances inflows entering Lesotho from Basotho migrants working outside the country predominantly enter the country through informal channels, such as bringing the money home personally by migrants and via friends or co-workers. A survey by the Southern African Migration Project (SAMP) showed that **about 88 per cent of sampled population remitted money home through the informal channels**, they neither used the banking system, post office nor any other formally recognized channel (SAMP, 2010).

This could be due to **high costs of making transfers in the formal sector**; **low ownership of bank accounts** among migrants and their families, since some could not meet the requirements for opening bank accounts; **low incentives for saving** because of too low interest rates and high bank charges and low income levels; **lack of awareness on the benefits of using the banking channel** and identification documents by migrants and their families; **unavailability of service providers in rural areas** where most migrants live, and there are few remittances transfer products which suit the characteristics of migrants.

Remittances play an **important role in the survival of many households in Lesotho**. Remittances not only comprise the largest contributor to the household budget of migrant-sending households; in several cases they are actually the only source of income for households. Indeed, without remittances, a large proportion of the households would have fallen deeper into poverty.

There is little evidence to suggest that the remittances are generating multiplier effects at the local or national level. **Most of the remittances are spent on consumption** with very little being directed to savings or investment projects. Lesotho's reliance on imported goods from South Africa means that remittances tend to promote economic development in South Africa, not Lesotho. Hence, policy measures need to be introduced to ensure that the remittances spur economic development in Lesotho.

Most products offered by services providers in the country suit those who **earn a quite high regular salary** whereas a large number of migrants, which include seasonal migrant workers employed in the farms and construction sector, earn low irregular incomes. The **remittance infrastructure in Lesotho is poorly developed**, as evidenced by the heavy dependence on informal transfers. In particolar, **rural areas are poorly served** by remittance service providers, most of whom are exclusively located in urban centres around the country. The Postal Services is the only remittances service provider which has a presence in remote rural areas.

Mobile-based money transfer services are still at their infancy, currently offered in one bank, and could not facilitate international transfers. Enabling mobile **phone-based products** to make cross-border money transfer could be very effective in reducing the volume of remittances transferred through the informal channels, and help to bank the unbanked remittances-receiving households. This is because of a quite **high level of mobile phone penetration** even among the poor who live in remote rural areas in Lesotho. According to the Lesotho Communication Authority (2011), the country's teledensity stood at 54 per cent and the mobile services had experienced a steady growth.

There are **disadvantages associated with the use of informal channels** instead of the banking system to both a remitting migrant and his or her country; lots of benefits are missed.

If a remitter uses the banking sector to send money, as a customer of a bank, he or she would qualify for **loans** which may be used to finance entrepreneurial activities, education of children, and purchase of durables. The banking sector is much safer, and a portion of migrant income which is not immediately spent could **earn**

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interest if saved in various savings products. Increased ownership of various deposits accounts by migrants at different banks in Lesotho would raise the **stock of deposits** that could be lent out for productive purposes and education.

If remittances flows happen through the banking sector and other formal channels, they could be easily captured and monitored by the Ministry of Finance and Development Planning, Central Bank of Lesotho, and Bureau of Statistics.

Despite the benefits associated with the **Deferred Pay act**, such as increasing the amount of deposits held by the banking system which could be lent out to the government and private sector – though the evidence has shown low and cautious financial intermediation in the country – and opportunities for getting loans by remittances senders, the policy has its limitations: it only **applies to mineworkers located in South Africa** while there are many other Basotho migrants working in other sectors of South African economy and other countries; the interest rates on the savings accounts linked to the act are too low, with the maximum annual interest rate of 0.75 per cent (much lower than the inflation rate and the rate of return of other rival financial assets sold locally and in South Africa); and the Deferred Pay-linked savings accounts are only offered in two commercial banks.

Furthermore, besides the Deferred Pay Act which requires mineworkers to defer one third of their income by depositing it into commercial banks in the country, there is no existing **policy adopted by relevant government ministries for attracting remittances** inflows in such a way that they could be used for development.

The **engagement of government ministries with Basotho migrants also appears to be very limited** in scope both in terms of geography and employment sectors. Most of the focus is on Basotho mineworkers employed in South Africa who have declined considerably in numbers over the last decade.

The **state-owned commercial bank**, which is a new bank and still growing, and government securities like treasury bonds issued by the Ministry of Finance and Development Planning, and attractive financial investment products offered by asset managers or collective **Investment schemes have not yet been used to attract remittance inflows** into the country or exploit opportunities remittances present.

There is **only one remittances-linked savings product offered** in two commercial banks, introduced as a result of the Deferred Pay Act. Overall, there is a general lack of adoption of remittances-linked financial products by the private sector, government ministries and parastatals.

This **lack of adoption of innovative financial products** linked to remittances in Lesotho could be explained by inadequate information about the distribution and socio-economic characteristics of Basotho migrants and diasporas across countries and knowledge gap on the available savings products for harnessing remittances for development.

Lesotho would benefit from **adopting and adapting some of the remittances-linked financial products implemented in various countries**. In Bangladesh, the government introduced US dollar and wage earners bonds to encourage remittances inflows and its use for economic development (AL Hasan, 2006). Financial intermediaries in Ecuador, Peru and Kenya, among others, offer savings products linked to remittances (Comstock, et al., 2009).

The development of remittances linked savings products by the government through the state-owned bank and use of government bonds issued by the Ministry of Finance and Development Planning could help in the mobilization of funds for financing expensive viable public projects like transport infrastructure, expansion of telecommunication infrastructure, electricity generation, distribution, and connection, and water projects, among others.

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