

# Political economy of financial inclusion in Lesotho: Mobile money and the experiences of low-income and rural communities

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## *Abstract*

This paper examines the development of mobile money in contemporary Lesotho, 2012-2020. Using historical and ethnographic sources, it situates the development of this mobile phone-based financial system within the broader economic history of the country. It adopts a political economy approach to analyse the emergence and evolution of mobile money as an instrument of financial inclusion used by the government of Lesotho and international organisations. The paper advances that when operating with the logic of capitalism, free market policies, emergent mobile money networks are hierarchically structured and privileges enterprises and corporations with bigger financial muscle. The majority of small agents, the Basotho entrepreneurs, are marginal and have to operate precariously with limited capital and low cash-flows to ensure efficient services for the people. As a corollary to this, the rural poor are further excluded and exploited by the agents. A general assessment advanced in the article is that the rigidly defined digital eco-system is geared towards integrating the lower echelons of the economy asymmetrically into the mainstream financial economy dominated by corporations. However, this cannot be defined as any meaningful financial inclusion.

**Keywords:** Mobile money; Lesotho; Basotho; Commerce; Economic history; Inequality; Economic democracy; Financial inclusion; Mobile financial services.

## **Introduction**

Lesotho is within South Africa, the regional economic giant.<sup>2</sup> Lesotho's modern economy was shaped by the British in the last three decades of the nineteenth

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- 1 The author is a research fellow. Research for this study was generously funded by the Gerda Henkel Foundation. It is a sub-project within the "Southern African Democracy and the Utopia of a Rainbow Nation" project, Project No. 05/DE/19.
  - 2 The name Lesotho was made official in 1966 to refer to the territory known as the Basutoland Protectorate in the colonial era. In this study, Lesotho is used to refer to the territory throughout the colonial period. The name Basutoland appears in quotations and is used as a descriptive term for laws, institutions, and so on.

century following the exploitation of the minerals in Kimberley (diamonds) and the Witwatersrand (gold).<sup>3</sup> From then on to the present, the official economy assumed four major characteristics. First, the country became a labour reserve for the South African mines throughout the twentieth century.<sup>4</sup> Second, Lesotho depends on imports from and through South Africa. Third, a member of the Southern African Customs Union (SACU) from 1891, about 60% of the country's national income is constituted by revenues from the customs union.<sup>5</sup> Last, the country also depends on foreign direct investment. From the second half of the nineteenth century to the early 1990s, Lesotho's domestic economy came to be dominated by European and Indian traders. Waves of East Asian traders, indiscriminately referred to as Chinese traders by the local people, arrived from the late 1990s. With a strong financial muscle and political influence, they control the country's local economy while the Basotho remain marginal.<sup>6</sup>

From the 1990s, the country's position as the main supplier of male labour to the South African mines declined. Massive retrenchments began in the 1980s, escalating in the 1990s. In the 1970s, there were approximately 130 000 Basotho employed in the mines, but by the 1980s this number had decreased to 50 000 and it continued to decline throughout the 1990s. By the early 2010s, these statistics had reached their lowest at around 40 000.<sup>7</sup> Until then, about 80 of the country's rural population depended on remittances. They supplemented wages with small-scale agriculture, artisanal diamond mining and small businesses in the formal and informal economies.<sup>8</sup> Approximately, 37% of income in the rural areas comes from farming, 9% from wages, 13% from private pensions, 10% from enterprises, 12% from family and friends, 10% from government pensions and 7% from other government welfare grants.<sup>9</sup>

About 75% of the population resides in the rural peripheries of this small, mountainous country. Approximately, two thirds of its total surface area comprises mountain highlands and foothills. These areas are characterised by poor amenities, desperate living conditions and scant economic opportunities. Apart from low

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3 CH Feinstein, *An economic history of South Africa: Conquest, discrimination, and development* (Cambridge, Cambridge University Press, 2005).

4 C Murray, "From granary to labour reserve: An economic history of Lesotho", *South African Labour Bulletin*, 6(4), 1980, pp. 3-20.

5 S Maliehe, "A historical context of Lesotho's integration into the 1910 Customs Union agreement, 1870-1910s", *Southern Journal for Contemporary History*, 46(2), 2021, pp. 24-47; M Lundahl and L Peterson, *The dependent economy: Lesotho and the Southern African Customs Union* (Oxford, Westview Press, 1991).

6 S Maliehe, *Commerce as politics: The two centuries of Basotho struggle for economic independence* (Oxford, Berghahn Books, 2021).

7 Central Bank of Lesotho, *Annual Report, 2011* (Maseru, Central Bank of Lesotho), p.18.

8 E Makhetha and S Maliehe, "A concealed economy: Artisanal diamond mining in Botha-Bothe, Lesotho", *The Extractive Industries and Society*, 7(3), 2020, pp. 975-981.

9 FinMarkTrust, "FinScope Lesotho: Top Line Findings Report, 2011", available on <https://finmark.org.za/finscope-lesotho-2011/> (accessed 15 April 2018).

banking footprints across the country, high banking prices and stringent prerequisites limit accessibility. As a result, most of the people remain unbanked. Around 13% of urban adults and a mere 7% of rural adults in Lesotho have access to financial institutions. Only 7% of the adult population has access to credit from a commercial bank.<sup>10</sup> In sub-Saharan Africa, about 2 million people “remained unbanked, without access to safe, secure, and affordable financial services by the mid-2010s”.<sup>11</sup>

When mobile money facilities developed from 2012, the government of Lesotho and its international partners used this as a vehicle for financial inclusion and economic development of the rural poor and low-income communities. This article argues that while these efforts were important, like elsewhere in the Africa, they demonstrate a lack of understanding of what is happening on the ground. The emergence of mobile money as a financial platform owes its successful uptake largely to its people-centric character. However, this changed from about 2015 when governments and corporations took more control of its development. Central to this was how they introduced biometrical and data mining approaches, on the one hand, and when mobile money companies increased their control by introducing more stringent Know-Your-Clients (KYC) protocols.

In Lesotho, one of the significant developments in this rigidly hierarchical approach, imperial in nature, was when finally, on 30 July 2021, Vodacom Lesotho informed its subscribers: “M-pesa personal information kept by VCL will now be shared with VCL Financial Services. If you are not willing, SMS ‘opt-out’ to 52057, to close your M-pesa Acc”. As a result, emergent mobile money networks are now rigidly hierarchal and privilege big companies and actors with a strong financial muscle, while the Basotho agents and rural communities remain marginal with limited opportunities.

Focusing on a time before and after the emergence of mobile money in 2012 to a period before the outbreak of the Covid-19 global pandemic in 2020, the research for this paper relies on ethnographic observations and historical sources – oral sources as well as published and unpublished documentary sources. Most of the literature on mobile money and financial inclusion comes from development experts, economists and anthropologists<sup>12</sup> working on money. Written by an economic historian, it makes a contribution to the growing literature on mobile money in Lesotho and

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10 FinMarkTrust, “FinScope Lesotho: ...”, available on <https://finmark.org.za/finscope-lesotho-2011/> (accessed 15 April 2018).

11 Global System for Mobile Communications, “The state of mobile money in sub-Saharan Africa”, available at <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/07/2016-The-State-of-Mobile-Money-in-Sub-Saharan-Africa.pdf> (accessed 16 September 2021).

12 S Kusimba, *Reimagining money: Kenya in the digital finance revolution – culture and economic life* (Stanford, CA, Stanford University Press, 2021); S Maliehe and J Sharp, “The digital world and a human economy: Mobile money and socio-economic development in Africa”, *Development Finance Agenda*, 4(2), 2018, pp. 18-19; S Maliehe, “A human economy and mobile money in Africa: Lessons from South Africa”, *CODESRIA Bulletin*, 3/4(2017), pp. 14-21.

across the continent. Furthermore, scholarly and developmental interests in mobile money intensified after Safaricom launched M-pesa in Kenya. Literature and popular commentary on mobile money is zealous about its impact. Such observations see it as a vehicle for financial inclusion of the so-called “unbanked” and “under-banked” majority, including marginal groups such as women, youth, and people with disabilities. Some scholars celebrate the innovative role that Africa is playing in the transition to mobile-based digital and cashless economies.<sup>13</sup>

In Lesotho, scholarly interest in mobile money as a vehicle for financial inclusion has intensified as well.<sup>14</sup> Coming from economics and business studies, this literature has focused on the role, opportunities and challenges mobile money contributed towards financial inclusion. However, thus far, no efforts have been dedicated towards situating the development of mobile money within the country’s economic history and political economy. With this in mind, the article revisits the historical precursors of the emergence of mobile financial services.

This paper takes the critical political economy approach adopted by Lena Gronbach in her study of digital payment systems in South Africa. By the late 2010s, there were about 17 million recipients of social grants. The South African government launched the social grants policy as part of its welfare policies to alleviate poverty. In 2012, the South African Social Security Agency (SASSA) appointed a private company, Cash Paymaster Services (CPS), to disburse social grants to ensure efficiency. CPS partnered with Grindrod Bank to provide free bank accounts with online banking provisions, services and products.<sup>15</sup>

Soon after CPS implemented the new payment model, the Black Sash Trust – a civil society organisation – discovered some irregularities that included unauthorised and undocumented deductions from grant recipients’ accounts. Gronbach argues that though popular discourses and media attributed this to corruption and bureaucratic incompetence, there were “deeper structural issues...”. She advances that:

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13 Global System for Mobile Communications, “The state of mobile money in sub-Saharan Africa”, available at <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2017/07/2016-The-State-of-Mobile-Money-in-Sub-Saharan-Africa.pdf> (accessed 16 September 2021); G Peebles, “Rehabilitating the hoard: The social dynamics of unbanking in Africa and beyond”, *Africa*, 84(4), 2014, pp. 595-613; J Agar, *Constant touch: A global history of the mobile phone* (London, Icon Books, 2003); IZ Quadir, “It’s economics, stupid: Mobile technology in low-income countries”, *Harvard International Review*, 2013, pp. 44-49; B Brown, “Reshaping the flow of urban-to-rural remittances”, *Sustainable Development Law and Policy*, 11(1), 2010, pp. 50-72; N Oranye, *Disrupting Africa: The rise and rise of African innovation* (Johannesburg, Nnamdi Oranye, 2016).

14 LP Sekantsi, “Assessment of the mobile money sector development in Lesotho”, *Journal of Digital Banking*, 4(1) 2019, pp. 60-75; LP Sekantsi and SI Motelle, “The financial inclusion conundrum in Lesotho: Is mobile money the missing piece in the puzzle?”, *Central Bank of Lesotho Research Bulletin*, 1(2), 2016, pp. 57-94.

15 L Gronbach, “Financialising poverty: Social grants and financial inclusion in South Africa”, available at <https://socialprotection.org/discover/blog/financialising-poverty-social-grants-and-financial-inclusion-south-africa> (accessed on 12 October 2021).

Upon closer investigation, more than half of these deductions could be traced back to other subsidiaries of CPS's parent company, Net1, which was leveraging CPS' direct access to a large and promising segment.

Through biometrical technologies, the partnership between the state and these private companies prioritised data mining for corporate interests and surveillance – disguised under the rubric of efficient service delivery.

The discussion for this article is organised thematically and chronologically. The first section below is a historical background to financial exclusion in colonial and post-colonial Lesotho. The second section explores the emergence of mobile money and the government's efforts to use the platform as a vehicle for financial inclusion. The third section examines the unequal nature of mobile money agent networks, while the final section focuses on Basotho's survival strategies in a continuing context of economic exclusion.

## **Background: A history of financial exclusion**

From the 1870s, Britain laid out the colonial bureaucratic infrastructure to administer the country. Between 1871 and 1884, the territory was annexed to the Cape Colony. Thereafter, from 1884 to 1966, it was ruled from Britain through the High Commission Office in the Cape.<sup>16</sup> In 1871, the colonial government promulgated the Mercantile Law. The law formalised trade within the country. This law introduced trading licences as one of the main prerequisites to carry out trade in defined business premises. Commerce, both retail and wholesale, became the main pillars of the local economy.<sup>17</sup>

The colonial government enforced the new trade regulations from 1884. European traders established businesses in large numbers. By the end of the century, local commerce was dominated by one company, Frasers Company. By the mid-1930s, there were three companies and 16 licences had been issued to the Basotho and Indian traders by the colonial government. Significantly more (175 licences) were issued to European traders.<sup>18</sup> In October 1934, Allan Pim arrived in Lesotho to investigate the state of the country's economy. Pim was a British financial expert commissioned by the Colonial Office. The Pim Commission observed that "... more than one-third of the 194 stores appear to be controlled directly or indirectly by two large firms and their influence extends even more widely so that competition has largely ceased to operate".<sup>19</sup>

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16 For a detailed history of the colonisation and annexation of Lesotho, see, M Thabane, "Reconsidering the motives for colonisation", NW Pule and M Thabane (eds), *Essays on aspects of the political economy of Lesotho, 1500-2000* (Roma, Department of History, National University of Lesotho, 2002).

17 S Maliehe, "An obscured narrative in the political economy of colonial commerce in Lesotho, 1870-1966", *Historia*, 59(2), 2014, pp. 28-45.

18 A Pim, *Financial and economic position of Basutoland: Report of the commission appointed by the secretary of state for dominion affairs* (London, His Majesty's Stationery Office, 1935), p. 60.

19 A Pim, *Financial and economic position of Basutoland: ...*, p. 60.

The colonial government adopted an exclusionary policy to restrict the Basotho and the Indian traders' access to trading licences. It worked closely with the Europeans-only Basutoland Chamber of Commerce to attain this objective. In addition, it granted the European traders numerous privileges.<sup>20</sup> By colonial design, Lesotho was created as a cheap labour reserve for the South African mining economy. The Basotho's participation in local commerce countered these colonial designs by widening their economic opportunities within the country. In fact, when Lesotho became a British Crown Colony, it had lost significant tracts of land to Afrikaner agriculturists. As a result, Britain's long-term plan was to annex and incorporate what was left of Lesotho into the Cape Colony where it would be governed through a department of native affairs.<sup>21</sup>

The colonial policy of exclusion in commerce had numerous impacts. The Basotho had to operate informally and illegally without licences. They sold traditional beer, food, handicrafts, livestock, grain, paraffin, and other sporadic necessities.<sup>22</sup> Furthermore, they were constantly harassed by the authorities, and sometimes imprisoned for not abiding by colonial laws. The Basotho responded collectively to confront these colonial injustices through their political organisations the Basutoland Progressive Association (1906), Lekhotla la Bafo (1919) and the Basuto Traders' Association (ca 1940).<sup>23</sup>

Financial institutions that invested in Lesotho supported an emergent formal economy dominated by Europeans. The Basotho were also denied access to credit.<sup>24</sup> In 1891, the colonial government established the Basutoland Post Office Savings Bank to facilitate flows of money and information in and out of the country. Its deposits were passed on to the South African Post Office Bank.<sup>25</sup> Then, in 1901, Standard Bank began to advertise its banking services in the country. In the beginning, it operated as an agency managed by Alfred Ellenberger. Ellenberger would travel on horseback between Maseru and Ladybrand, a neighbouring South African town, to make deposits and withdrawals. In 1904, the bank established a branch in Maseru.<sup>26</sup>

Commercial banks presented themselves as "saving institutions" and not as "lenders of credit" to the Basotho. This could be seen in how they advertised their services.

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20 S Maliehe, *Commerce as politics...*, pp. 74-79.

21 M Thabane, "Towards an identification of historical roots of Lesotho's political instability", M Thabane (ed.), *Towards an anatomy of persistent political instability in Lesotho, 1966-2016* (Roma, National University of Lesotho, 2017), pp. 1-22.

22 D Ambrose, *Illustrated history of Maseru* (Moriya, Morija Museum and Archives, 1993), pp. 159-160.

23 S Maliehe, "An obscured narrative in the political economy...", *Historia*, 59(2), 2014, pp. 28-45.

24 For a broader history of financial imperialism in Africa, see, T Nyamunda, "Money, banking and Rhodesia's unilateral declaration of independence", *The Journal of Imperial and Commonwealth History*, 45(5), 2017, pp. 746-776.

25 M Thabane, "Indigenous entrepreneurial initiative and attempts to solve problems of access to credit in Lesotho, 1868-1975", Seminar paper, National University of Lesotho, Department of Historical Studies, Roma, 11 September 2009, p. 4.

26 D Ambrose, *Illustrated history of Maseru*; M Thabane, "Indigenous entrepreneurial initiative...", pp. 3-4.

First, when Standard Bank opened a branch in Maseru, the capital of Lesotho, it advertised that it had done so for “the purpose of all transactions/operations carried out by banks, that is, to receive and save money in its interest”.<sup>27</sup> Second, the Post Office Savings Bank advertised: “If you are paid in cash, you have to save it for the COMING DAYS. Go to the Post Office near you, they will tell you how you can get a savings book and you can start saving”.<sup>28</sup>

The Basotho responded by establishing alternative savings and farmers’ cooperatives, with assistance from the Christian missionaries operating in the country. They launched cooperatives to deal with the economic hardship they faced. Part of the money earned from mining wages and from the sale of their produce or livestock was saved in cooperatives. Various cooperatives kept their monies with commercial banks. In these cooperatives, people would pool their money together in order to procure farm implements, groceries, as well as to provide credit to members.<sup>29</sup>

The cooperative movement rose quickly. In part, this was due to Basotho’s communal work parties (Matsema) and extended families. This spirit of societal interdependence led the Pim Commission to comment: “The conception of co-operation is by no means foreign to life under tribal conditions in which a practical working communism is a striking feature”. The Commission added: “The native family, in the large sense of that term, may almost be described as a readymade co-operative”.<sup>30</sup> As a result, the colonial government passed Proclamation No. 47 of 1948 to officially recognise and control cooperatives.<sup>31</sup>

When Lesotho attained its independence from Britain in 1966, the new government under the Basutoland National Party (BNP) established the Lesotho National Development Corporative (LDNC). This parastatal was mandated to develop the country’s economy. The country gained national independence in the post-Second World War Keynesian welfare and developmental state period. Accordingly, the government played a significant role as the engine of development. Through the LDNC, the government established two banks, the Lesotho Bank and the Agricultural Development Bank, popularly referred to as the Agric Bank.<sup>32</sup>

Like their predecessors, these banks reproduced the colonial patterns, serving only elitist interests. In an interview conducted with one business owner and former senior employee of the Lesotho Bank and Agric Bank, I was informed that bank managers would “request them to approve certain business loan applications from

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27 M Thabane, “Indigenous entrepreneurial initiative...”, p. 6.

28 M Thabane, “Indigenous entrepreneurial initiative...”, pp. 6-7.

29 A Pim, *Financial and economic position of Basutoland: ...*, pp. 172-173.

30 A Pim, *Financial and economic position of Basutoland: ...*, p. 174.

31 AC Thompson, *The laws of Basutoland: Containing the orders in council, proclamations and notices, Volume III* (Cape Town, Cape Times Limited, 1961), pp. 2056-2058.

32 Government of Lesotho, “Lesotho’s second five-year development plan, 1975/76-1979/80”, II (Maseru, Govt Printer), pp. 4-5.

high-ranking government officials and their friends, even if they did not meet the bank's conditions".<sup>33</sup> The informant disclosed: "The banks at the time had political issues. I have a very difficult personality to deal with. I don't just agree to something when I realise that it is not proper". He went on to say that it was not unusual for a person to be granted "a loan of half a million". Worse, one would often find that such an applicant did "...not qualify, [but] you are instructed to process the loan ... and I wouldn't do it ... I decided to say, okay, fine, [then] I am leaving. I left the bank (Lesotho Bank)".<sup>34</sup>

In 1986, the military overthrew the civilian BNP dictatorship government in coup. The following year, the military government adopted the Structural Adjustment Policies (SAPs) to allow for foreign investment into the multi-billion Lesotho Highlands Water Project designed to supply water to South Africa. In 1993, the country de-militarised and transitioned to a multi-party electoral system. The Basutoland Congress Party (BCP) assumed power, and continued with the World Bank's market policies. It privatised various state-owned companies, while promoting foreign direct investment.<sup>35</sup>

In 1995, the government privatised Lesotho Bank. It partnered with the South African Standard Bank to form Standard Lesotho Bank. It dissolved the Agric Bank. In 1997, the Nedbank Group established a branch in Maseru, naming it Nedbank Lesotho.<sup>36</sup> Another South African bank, the First National Bank (FNB) opened a branch in 2004.<sup>37</sup> Only the Post Bank is fully owned by the government. Due to stringent formal requirements, for the most part these banks serve a few segments of the population employed in government, business, non-governmental organisations and education sectors. As shown above, the majority of the low-income and rural communities are excluded.

## **The development industry, mobile money and financial inclusion**

The 1990s were a significant period in the economic and political history of

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33 The Lesotho Bank went bankrupt and was liquidated in 1999. Commissions of inquiry into the bankruptcy of these banks was carried out; however, the reports were never disseminated to the public owing to wide allegations of mismanagement and looting of resources.

34 Due to the sensitivities and the controversies that surround the collapse and bankruptcy of these banks, I decided to hide the name of the informant.

35 Govt of Lesotho, "First Lesotho privatisation and private sector development project: Progress report (1995-2002)", available at <http://lesothoembassy.de/PUweb/documents/progress-rpt-9502.htm> (accessed 14 May 2014); Govt of Lesotho, "Fourth annual report: Lesotho privatisation and private sector development project, 1 April 1999 to 31 March 2000", available at [Lesothoembassy.de/PUweb/ projects/Privatised.htm](http://lesothoembassy.de/PUweb/projects/Privatised.htm) (accessed 13 May 2014).

36 Nedbank Lesotho, "Our History", available at [https://www.nedbank.co.ls/content/nedbank-lesotho/desktop/lt/en/aboutus/about-nedbank-lesotho/who-we-are/Our-history.html#:~:text=The%20first%20general%20meeting%20was,Chartered%20Bank%20\(Lesotho\)%20Limited](https://www.nedbank.co.ls/content/nedbank-lesotho/desktop/lt/en/aboutus/about-nedbank-lesotho/who-we-are/Our-history.html#:~:text=The%20first%20general%20meeting%20was,Chartered%20Bank%20(Lesotho)%20Limited) (accessed 2 Jun 2022).

37 *News24*, "FNB's 1st branch in Lesotho", 25 October 2004, available at <https://www.news24.com/fin24/fnbs-1st-branch-in-lesotho-20041025> (accessed 2 Jun 2022).

the country. From 1970 to 1986 and 1986 to 1993, the country was under civilian and military dictatorships, respectively. By the 1990s, poverty and unemployment had escalated and there were bleak economic prospects for the rural majority in the local economy. From 1993, the country returned to electoral democracy. Elected governments since then have been grappling with the question of financial inclusion as one of the main pillars of development and job creation.<sup>38</sup> Since 1993, the governments of Lesotho have adopted various of the World Bank's privatisation reforms as a strategy to develop the economy. Opening the economy to more foreign direct investment, governments privatised previously state-owned enterprises (parastatals). Many South African, regional and international financial and telecommunications corporations invested in the country from the late 1990s and early 2000s, as shown above.

Despite the adoption of the World Bank's privatisation policies and foreign direct investment, the economy continued to exclude the majority of the rural and poor communities. In fact, the economy became ever more unequal, serving the interests of those with lots of money and access to lucrative job opportunities. In attempts to address the exclusion of the poor, the government designed a number of rural initiatives with its development partners. In his *Anti-politics machine* (1994), James Ferguson demonstrates that the development industry played a significant role in the advancement of the country's economy and society after independence.<sup>39</sup> And *In dreams for Lesotho*, John Aerni-Flessner observes that international institutions and non-governmental organisations continue to play a role in the country's advancement, although it is true to say that people have persistently had to carry out various initiatives on their own accord in attempts to solve their own developmental challenges.<sup>40</sup>

In October 2007, the government of Lesotho, in partnership with the International Fund for Agricultural Development (IFAD), established the Rural Financial Intermediation Programme (RUFIP). This was a seven-year development project (2008-2015) meant "to enhance access to efficient financial services by the rural poor on a sustainable basis".<sup>41</sup> RUFIP's mandate was specific to rural communities. When the project ended, the government implemented another to continue its mandates.

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38 Govt of Lesotho, "National strategic development plan" (Maseru, Lesotho Govt Printer, 2000), pp. 36-41 and 76-83; Govt of Lesotho, "Financial sector development strategy" (Maseru, Lesotho Govt Printer, 2000), pp. 8-35.

39 J Ferguson, *The anti-politics machine: "Development", depoliticisation, and bureaucratic power in Lesotho* (London, University of Minnesota Press, 1994), pp. 3-9.

40 J Aerni-Flessner, *Dreams for Lesotho: Independence, foreign assistance, and development* (Notre Dame, Indiana: University of Notre Dame Press, 2018), pp. 1-7.

41 Govt of Lesotho, "Rural finance international programme supervision (RUFIL) report, 2013", (Unpublished), p. 5; Govt of Lesotho, "Support to Financial Inclusion in Lesotho (SUFIL): End of project evaluation report 2014", available at <https://erc.undp.org/evaluation/documents/download/8859> (accessed 25 Mar 2018).

This was named the Support to Financial Inclusion in Lesotho (SUFIL) programme. SUFIL was established as a joint programme between the United Nations Development Programme (UNDP), the United Nations Capital Development Fund (UNCDF), the Ministry of Finance and the Central Bank of Lesotho between 2011 and 2014.<sup>42</sup> While SUFIL was still running, in August 2013 the Ministry of Finance, the Central Bank and the Ministry of Development Planning established the Making Access [to Finance] Possible (MAP) project, with financial support from the FinMark Trust.<sup>43</sup>

When significant mobile money advances were observed in about 2015, the government and international partners abandoned the above projects in favour of mobile money. They saw its development as one of the main potential drivers of financial inclusion of the low-income and rural communities. Accordingly, in 2016, the Ministry of Finance, the Central Bank, UNDP and the FinMark Trust launched the 'Scaling Inclusion through Mobile Money' (SIMM) project to foster financial inclusion and provide access to credit. This three-year project formed part of the three pilot projects introduced by the UNDP Regional Service Centre for Africa to advance Inclusive Business Ecosystem Initiatives (IBEI) in Lesotho, Uganda and Senegal.<sup>44</sup>

Tied to mobile phones, mobile money emerged as one of the signifiers that digital technologies carried infinite possibilities, and indeed, could be a panacea of a myriad of social and economic challenges. Across the world, the miniaturisation of mobile phones facilitated wider access to the movement of data (audio, virtual and text) in a context of exclusive landlines. Miniaturisation of mobile phones began in the early 1970s, and developed through the 1980s and 1990s into the present. Previously, mobile telephonic communications were used primarily in security forces' surveillance activities and navy seal operations.<sup>45</sup>

In the late nineties, mobile phones reached the Global South. They are now indispensable technologies in the everyday forms of communication, entertainment, organisation of economic activity, and management of finances, to name but a few. In 1991, Finland developed the Global Systems for Mobiles (GSM) as a platform for universal mobile networks. The European Telecommunications Standards Institute (ETSI) rolled out the system in Africa between 1998 and 2003.<sup>46</sup>

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42 Govt of Lesotho, "Support to Financial Inclusion in Lesotho...", available at <https://erc.undp.org/evaluation/documents/download/8859> (accessed 25 Mar 2018), p. 5.

43 Govt of Lesotho, "MAP: Demand, supply, policy and regulation synthesis report, 2014", available at <https://cenfri.org/map/lesotho/> (15 Apr 2018), p. 2.

44 United Nations Development Programme (UNDP- Lesotho), "Demand for mobile money among the rural and low-income population in Lesotho", SIMM terms of reference, available at <https://www.selibeng.com/project-officer-scaling-inclusio-mobile-project-undp/> (accessed 13 Nov 2017).

45 J Agar, *Constant touch* : ..., p. 19.

46 J Agar, *Constant touch*: ..., pp. 67-72.

By 2010, mobile phone networks had grown by about 5 000% in Africa. There were “more mobile phone subscribers than there were people ...” in South Africa.<sup>47</sup> In the 1980s, the Nigerian Telecommunications Limited (NITEL) was providing around 500 000 landlines for a population of about 100 000 million in Nigeria. In 2004, there were about seven million mobile phone subscribers. By 2011, six in ten households owned mobile phones in a population of about 160 000 million. Similar growth rates are recorded in other African countries.<sup>48</sup> Connected to these global and continental developments, mobile network operators arrived in late 1990s in Lesotho. In 1996, Vodacom launched its operations. It was followed by Econet Telecom Lesotho in 2008. Due to the activities of these two companies, Lesotho’s teledensity – the number of people using mobile phones per 100 inhabitants – increased from 1% in 2002 to 84% in 2013.<sup>49</sup> By 2014, Vodacom was the leading mobile phone operator with an estimated one million subscribers and a market share of about 80% in a population of about two million.<sup>50</sup>

In 2012, Econet Telecom Lesotho introduced Ecocash, the country’s first mobile money service. In 2013, Vodacom Lesotho introduced M-pesa. Designed as a mobile-based financial non-bank product, mobile money was first developed in Kenya in 2007 by Safaricom, a subsidiary of Vodacom. It was launched as a grassroots mobile phone-based system for transfers of small amounts of money (through Person-to-Person transfers) involving largely unbanked and under-banked people. In 2012, FNB introduced its mobile banking product, FNB “e-Wallet”, with the aim of serving unbanked communities. The FNB “e-Wallet” allows a holder to send money to any mobile phone number, whether they have a bank account, or not.

The Central Bank of Lesotho observed that there had been an estimated 62% increase in the use of mobile money by March 2013.<sup>51</sup> By 2017, the number of mobile money agents had increased to about 7 000, with the most concentration in Maseru.<sup>52</sup> In the months between December 2012 and July 2014, the Central Bank noted that there had been an increase of approximately 200% in the rate of employment due to digital money services, which included electronic funds transfers, internet banking and mobile money services. Total mobile money trust accounts stood at about R8 million in the first quarter of 2014.<sup>53</sup> The concentration of Basotho businesses across the country had an impact on the distribution of agents

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47 J Agar, *Constant touch: ...*, p. 66.

48 J Agar, *Constant touch: ...*, p. 67.

49 Lesotho Communications Authority, “Annual Report, 2014”, available at [www.lca.org.ls](http://www.lca.org.ls) (accessed 25 Oct 2014), pp. 3-4.

50 Lesotho Communications Authority, “Annual Report, 2014”, available at [www.lca.org.ls](http://www.lca.org.ls) (accessed 20 Jul 2016), p. 4.

51 Central Bank of Lesotho, *Supervision Department quarterly report* (Maseru, Central Bank of Lesotho, 2013), p. 4.

52 S Maliehe, “Demand for mobile money among rural and low-income populations in Lesotho”, Unpublished report commissioned by the UN Development Programme, Central Bank of Lesotho, Ministry of Finance and FinMark Trust, April 2018, p. 32.

53 Central Bank of Lesotho, “Annual report, 2013”, available at [www.centralbank.org.ls](http://www.centralbank.org.ls) (accessed 25 Jun 2021), p. 4.

and delivery of mobile financial services. Maseru accounted for about 40% of all Lesotho's mobile money agents. Other districts had less than 10% except Mafeteng, which accounted for about 11%.<sup>54</sup>

New to Lesotho, there was no legal framework to support the development of mobile money. As a result, the Central Bank issued what was called “A Note of No Objection” to support its continued use. This arbitrary permission was issued on an assessment of annual mobile money audits compiled by the network operators demonstrating that the platform did not support financial criminality. In 2013, the Central Bank provided mobile money guidelines but only passed the electronic payments regulations in 2017, framed as Legal Notice No. 30 (Payment Systems Regulations – Issuer of Electronic Payments Instruments).<sup>55</sup> Testifying to the hardships they faced while launching Ecocash, Senate Mofolo, Econet's operations manager at the time, said: “Coming in as a new product, it was very difficult for us and even Central Bank did not have the regulations... We had to advertise a lot and convince people to subscribe. We had to win people's trust”.<sup>56</sup>

Mobile money became instrumental in the movement of small sums of money within kinship networks and small business circuits as people supported each other and family members. In an interview held with Kuena Phafane, the immediate past-president of the Lesotho Chamber of Commerce and Industry (LCCI), he said:<sup>57</sup>

... I didn't know that this thing that is called M-pesa was that good. My herd boy asked for money to give to his family in the mountains. He showed me an SMS after a few minutes that his family had received it. I was shocked! I trusted it since then.

People did not automatically trust the service. As a new service, there were numerous challenges associated with poor network. Lack of signal during peak times often tempered with the Unstructured Supplementary Service Data (USSD) session. This meant that mobile operators had to hold frequent training and awareness campaigns to build trust between them and their subscribers. Motebang Moeketsi, manager of Vodacom Lesotho's M-pesa unit clarified that: “We did encounter such problems. The fact that people found their money in their accounts after such incidents [re] assured them. We would have [had] serious problems if people's money disappeared

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54 Central Bank of Lesotho, *Supervision Department quarterly report* (Maseru, Central Bank of Lesotho, 2015), pp.19-20.

55 Central Bank of Lesotho, “Legal Notice No. 30” (Payment Systems Regulations - Issuer of Electronic Payments Instruments (Maseru, Lesotho Govt Printer, 2017).

56 S Maliehe (Personal Collection – hereafter SMP), Interview: S Mofolo (Operations Manager, Econet Lesotho, Maseru)/S Maliehe (researcher), June 2016.

57 SMP, Interview: SK Phafane (Businessman and immediate past president of the Lesotho Chamber of Commerce and Industry, Maseru)/S Maliehe (researcher), June 2016.

in their accounts”.<sup>58</sup> Within a short time, mobile money allowed the people to move money across the country. From 2015, the service assumed wider relevance and applicability when it became a mobile-based payments system through which people could pay utility bills (water and electricity), pay school fees, receive social grants, renew digital satellite television subscriptions and purchase airtime. From a payment system, it also evolved into a mobile-based financial system. People started using it to save money, manage their finances and procure insurance, particularly life insurance. Mobile money is now indispensable to their self-organised credit and savings schemes, known as “stokvels”.<sup>59</sup>

### **The unequal nature of mobile money agent networks**

Like elsewhere in Africa, mobile money is embedded in the country’s unequal commercial and financial landscape. It is dominated by the Basotho agents. As shown, however, the majority of Basotho people occupy the lowest echelons of the local economic hierarchy. With declining job opportunities in South African mines, many Basotho sought to exploit scant opportunities in local commerce, working mostly in the informal economy and small business sphere. The government classifies the Basotho businesses as small-to-medium enterprises (SMEs). Small enterprises employ between one and three people while medium-sized businesses employ between ten and fifty people. The Basotho’s businesses comprise about 85% of the country’s local business. In 2008, there were an estimated 100 000 SMEs, employing about 300 000 people. Of the percentage that Basotho occupied in local business, only 15% were more prosperous Basotho business owners.<sup>60</sup>

Between 2013 and 2014, the government’s Bureau of Statistics carried out another census this time focusing on formal businesses. The report revealed that there were about 9 541 registered businesses around the country. About 83% were sole proprietors, concentrated in Maseru (26%). The Leribe district came second (20%), while the Thaba-Tseka district, in the central highlands, constituted the least (4%).<sup>61</sup> Of the 9 541 total, about 577 were owned by foreign investors. Dominated by the Chinese traders, wholesale and retail accounted for the largest share of the total number of businesses. The majority of the Basotho-owned businesses generally have a turnover of less than R500 000. Only 3% of the total businesses reported a

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58 SMP, Interview: M Moeketsi (Manager, M-pesa Lesotho (Vodacom), Maseru)/S Maliehe (researcher), June 2016.

59 S Maliehe, “Demand for mobile money...”, Unpublished, commissioned report, April 2018, pp. 3-4.

60 Ministry of Finance and Development Planning, *Lesotho poverty reduction strategy 2012* (Maseru, Govt Printer, 2012), pp. 107-110; Ministry of Trade and Industry, Cooperatives and Marketing, *The state of small enterprise in Lesotho* (Maseru, Ministry of Trade and Industry, Cooperatives and Marketing, 2009), pp. 1-2; “White Paper, Development and promotion of small business 2002”, available at [www.sbp.org.za/uploads/media/Lesotho\\_White\\_Paper\\_6-2.pdf](http://www.sbp.org.za/uploads/media/Lesotho_White_Paper_6-2.pdf) (2 Nov 2012).

61 Bureau of Statistic, *2013/2014 Economic activity census: Business register Volume I*, May 2015 (Maseru, Lesotho Govt Printer, 2016), pp. vi-viii.

turnover exceeding R5 million.<sup>62</sup>

This state of local commerce has impacted on the efficiency of mobile money services. Though mobile money made significant advances within a short period, there were persistent challenges, especially within the agent network. Working as one of the main platforms to drive the country's efforts for financial inclusion, network agents with small capital and low cash-flows cannot service an increased number of clients and monetary volumes in the digital sphere of the mobile money network. Within the mobile money circuit, there are two forms of money flow at different but connected levels. Within the digital sphere, it flows as commoditised data (float, value or electronic money, or just e-money) that must be converted into hard cash (and vice versa), within the currency system of a particular country. Value is treated as a commodity because an agent must purchase it first to receive and issue hard cash. For this reason, small Basotho agents struggle to buy e-money in bulk to perform back and forth cash to digital money conversions efficiently.

The new financial eco-system connects big and small, formal and informal, business together, albeit, in unequally hierarchical ways. On the one hand, it privileges big companies with the financial muscle to procure value at scale, while on the other, it marginalises small Basotho agents with weak financial muscle. This is how the network is designed and functions: Starting from the top echelons of the agent network, mobile network operators establish a Trust Account holding "value" with a local bank. Only financial institutions registered under the Financial Institutions Act of 2012 can hold and issue money. Banks, and not mobile network operators, are licensed financial institutions; hence, the mobile network must set up an account with a bank. Section 15 (b) of the Legal Notice No. 30 of 2017 enforces the issuers of e-money to ensure the "provision of financial services in partnership with financial institutions, as may be approved by the Central Bank".<sup>63</sup> The Central Bank recognises these companies as Money-Transfer Institutions and are thus seen as part of the Non-Bank Financial Sector.

In line with the Central Bank's electronic payment instrument regulations, a Trust Account must be opened with a Core Capital of M500 000.<sup>64</sup> The issuer of e-money must register with the Central Bank at a fee of M500 and pay a licence fee of M1000, renewable annually.<sup>65</sup> The Trust Account must be separated from the company's main account. The issuer of e-money must "ensure that the balance on the Trust Account shall

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62 Bureau of Statistic, *2013/2014 Economic activity census*, pp. vi-viii.

63 Central Bank of Lesotho, *Financial Institutions Act of 2012* (Maseru, Lesotho Govt Printer, 2012).

64 Schedule 2, Regulation 7(1)(b) and 16 in Central Bank of Lesotho, *Legal Notice 30 of 2017* (Maseru, Lesotho Govt. Printer, 2017), p. 154. The currency of Lesotho, Maloti (M), is packed to the South African Rand (ZAR), which is a legal tender in the Common Monetary Areas (CMA) with its regional members as South Africa, Lesotho, Eswatini and Namibia.

65 Central Bank of Lesotho, Schedule 3, Regulation 13(1), (4)(b), *Legal Notice 30 of 2017*, p. 155.

at all times be equal to the outstanding (unclaimed) balance of all e-money holders”.<sup>66</sup>

Buying in bulk from the registered issuers of e-money are merchants (so-called super agents). These are enterprises registered under the Companies Act of 1967 and 2011.<sup>67</sup> The merchants service the agents (small agents) and individuals, especially those who wish to upload or withdraw large sums of money. These are transactions that the small agents cannot typically carry out daily. Small agents buy e-money to service a multitude of people moving small amounts of money. These are usually sole proprietor or partnership enterprises licensed under the Industrial Licensing Act of 1969 and Trading Enterprises Act of 1993.<sup>68</sup> In addition to these requirements, small agents must provide their cash-flow patterns, proof of tax payment and the location of their businesses. Following a screening process by mobile network operators, all agents are provided with a Till Number as a point of reference. They must provide an inventory of transactions of money flowing in and out of the business.

Individual subscribers must provide their mobile phone number and biometrical information as outlined in their national identity (ID) cards. At the beginning of the process, agents register accounts using only the cell phone number. The Legal Notice No. 30 of 2017 enforced the “Know Your Client” (KYC) compliance process; however, it was only from July 2019 that the regulation was implemented. As a result, subscribers were forced to provide biometrical data. To enforce this, the Central Bank placed monthly and daily transaction limits, and increased the limits for those who provided biometrical data.<sup>69</sup>

In the way that mobile money networks are designed in Lesotho, we observe that they adhere to the free market principle of demand and supply. However, this capitalist ethos defines financial inclusion as an asymmetric integration of weak businesses owned by the Basotho into the mainstream financial economy dominated by big enterprises with massive capital investments. Despite development interest to use mobile money as a vehicle for financial inclusion, the majority of the rural poor remain excluded from the service, which functions better in the urban areas where there are better amenities, stronger telecommunication network infrastructure, electricity and better resourced agent networks. As a result, agents and customers in the rural areas have to adopt various coping strategies. Below, we explore some of these adaptations made in an unequal commercial and financial landscape such as that of Lesotho.

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66 Central Bank of Lesotho, Schedule 4, Regulation 2(1), 7(1)(c)(vi), *Legal Notice 30 of 2017*, p. 156.

67 Govt of Lesotho, *Companies Act of 1967* (Maseru, Govt Printer, 1967); Govt of Lesotho, *Companies Act of 2011* (Maseru, Govt Printer, 2011).

68 Govt of Lesotho, *Industrial Licensing Act of 1969* (Maseru, Govt Printer, 1969); Govt Lesotho, *Trading Enterprises Act of 1993* (Maseru, Govt Printer, 1993).

69 Central Bank of Lesotho, “2019 Supervision Department annual report”, available at [www.centralbank.org.ls](http://www.centralbank.org.ls), (accessed 25 Jun 2021), p. 56.

## Survival in an unequal digital financial eco-system

The unequal nature and restrictions that mobile money assumed over time produced their own antithesis; they promoted various survivalist propensities among its users and the Basotho service providers. The service assumed wider applicability quickly, and within no time, it became indispensable in everyday forms of financial movement and management. Soon, the government and corporations consolidated their control over the platform, and started dictating terms in the pretext of ensuring financial security and combating illicit flows of money.

With expanded financial functionalities and increased demand after 2015, it became increasingly difficult for the Basotho stand-alone agents to perform cash-digital money conversions, as shown. In June 2016, I interviewed an agent. I stood at a shop counter when an elderly woman walked in to make a deposit into her mobile money account. “I am here to deposit”, she said. “M-pesa is not available”, the agent responded. “Hao! M-pesa is strange; you can’t even take money because it’s not available. Now, I must take a taxi to town”, she said, as she walked out slowly. Another customer questioned:

I do not understand this thing sometimes. Yes, we can send money and receive money. Then sometimes when you get there, they tell you that they cannot take your money because there is no [float].

Small agents often find it difficult to meet people’s demands at the end of the month when everybody wants their money. Typically, people withdraw all their money from their accounts at once. If an agent has bought M5, 000 worth of *value*, it means they can only receive and issue cash not exceeding that worth. Faced with liquidity challenges, some agents force their clients to use part of their money to buy items in their shops. If a client seeks to withdraw M500, for example, the agent coerces them make purchases that may amount to M200 either in a friendly way or on a “take-it-or-leave it” basis. Cash becomes a scarce commodity that clients must earn by negotiating their way through hierarchically structured power relations. One street trader supported that:<sup>70</sup>

You go there to the shop and when you get there, they tell you that there is no M-pesa, but the owner will give their friends money. Where does it come from? You see what I mean? Yes, those are the problems we encounter. Sometimes they tell us to buy; and they don’t give us all our money. You understand that sometimes we need medication – not salt, tomatoes ...

The difficulties that agents confront means that some business owners complain that mobile money is unprofitable. For others, mobile money services perform the function of advertising their businesses. It attracts potential customers who might end

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70 For purposes of anonymity, I concealed the name and related information of this respondent.

up purchasing a few items in their businesses. Thabo Makoae owns a boutique business in the district of Quthing.<sup>71</sup> He sells clothes imported from South Africa to the local people. In winter, he stocks warmer clothing such as jackets, sweaters and boots. Due to the nature of his business in the rural area, there are days when he sells nothing. He allows people to buy some items through a 'lay-by' agreement. In this informal credit system, customers pay a percentage of the total price of the item and service the remaining debt in instalments over a three-month period. He lamented that:

I must buy stock for my business. This side, I must buy float. It is a lot. Customers must return [home] (without being served) because I do not have float. Small agents like us cannot make a good profit; only those with financial muscle can. We end up using this thing for advertising our businesses. When people see it, they come and buy other things sometimes.

Some business owners resort to using their personal mobile money accounts to perform transactions. These informal agents subvert various legal requirements. In this guise, certain transactions appear as personal transactions. These activities go beyond the scope of KYC regulations, and often raise no suspicions. They do not go through a Till Number, as a point of reference, but as person-to-person transactions. For an added fee, these informal agents assist customers to move money from one point to the next and to buy mobile phone airtime, data and electricity, or to make another form of payment.

Due to low literacy rates in the rural areas and poor mobile money services, unregistered agents remain indispensable in the movement of money, giving them legitimacy and bargaining power. Small and precarious agents nudge poor, rural communities into an unequally structured digital money system. In this manner, the small agents perpetuate the systematic unequal nature of mobile money networks through these obscured, informal survivalist strategies. At the end, a self-perpetuating and pragmatically voluntary system of coercion is created in the everyday forms of need and improvisation.

With increasing formalisation of the mobile money eco-system, under historic conditions of marginality, we observe the widening of informal activity. Thus, formality and informality combine dialectically to ensure efficient, but sometimes coercive, service delivery to the poor and rural communities. Informality and formality as conceptual categories, are defined by the predominance of content more visible in either economy, the formal (regulation, law, bureaucracy, and so on, typical of the official economy), or informal economy (unorthodox exchanges, criminality, civil disobedience, irregularity, and others, which Hart calls "unspecific

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<sup>71</sup> I used a pseudonym to ensure the requested anonymity of the informant.

content”).<sup>72</sup> It is important to emphasise that criminality, for example, exists in the formal economy such as in the case of “corruption”. Equally important, formality can exist in the informal economy when the government issues permits or when traders form a constitutional association.

How either form of content is demonstrated in both forms of economic organisation is a matter of degree. Ordinarily, informality will be more visible in the informal economy; and formality predominates in the formal economy. Hart observes that bureaucracies as impersonal forms of organisation must contain personal elements to function. This means that there is informality in the formal economy, and vice versa.<sup>73</sup> For example, an institutional official may sign-off, or endorse, official documents for a friend, or for a bribe, doing so quicker than those of a stranger, or an adversary, who may well be subjected to professional procedures and impersonal bureaucracy. As we saw, mobile money in Lesotho emerged as an informal arrangement endorsed by the Central Bank. The legal framework developed over time.

## Conclusion

This paper provides a critical examination of the development of mobile money in contemporary Lesotho. It situates the emergence of this mobile-based financial system within the broader economic history of the country. It accounts for how the changing nature of mobile money as a people-centred platform becomes a highly unequal and exploitative system, which privileges big corporations. The political economy approach that the paper adopts serves to highlight the unequal nature of commerce and finance, historically and systemically, to which mobile money is embedded in Lesotho. This approach unveils the superficial nature of developmental narratives that mobile money is a vehicle for financial inclusion.

Exploring the experiences of rural communities and small Basotho agents, the article reveals that these economic actors are not passive observers and victims of inequality in the economy. They exercise agency to solve their problems of access to credit, management of their finances and movements of money for their livelihoods. Working along unequal economic power relations, they have developed coping strategies that illuminate the dialectical ways in which formal and informal economies are connected.

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72 K Hart, “The real economy? The challenge of dialectical method”, Unpublished paper presented to a conference, “Real economy: Ethnographic inquiries into the reality and the realization of economic life”, Rio de Janeiro, 16-18 June, 2016, p. 7.

73 K Hart, “Informal economy”, K Hart, J Laville and AD Cattani (eds), *The human economy: A citizen's guide* (Cambridge, Polity Press, 2010), pp. 142-154.