

Lesotho



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Basic information about the country:

The British protectorate of Basutoland was renamed the Kingdom of Lesotho in 1966 upon independence. The country is currently a constitutional monarchy: the Prime Minister is head of government and has executive authority, while the King serves a largely ceremonial function and does not actively participate in political activities.¹

The Basutho National Party ruled in Lesotho for 2 decades until a military coup ousted them in 1986. The King, Moshoeshe II (*pron. Moshweshwe*) was subsequently exiled in 1990, but returned to Lesotho in 1992 and was reinstated in 1995. After a 7-year rule by the military, the country returned to constitutional government in 1993. However, violence flared up again in 1998, when protests and a military mutiny followed a contentious election. South African and Botswana military forces, acting under the aegis of the Southern African Development Community (SADC) staged a brief but bloody intervention. Relative political stability was restored, but elections in February 2007 were hotly contested and aggrieved parties continue to protest at the results.²

Lesotho is small, poor, landlocked and mountainous. Surrounded completely by South Africa, the country relies on remittances from miners and other migrant workers employed in the larger country. Much of government revenue consists of customs duties from the South African Customs Union. A small manufacturing industry has, however emerged in the last few years, based on farm products that support the milling, canning, leather, jute and apparel industries.

Lesotho, along with Namibia and Swaziland, is a member of the Common Market Arrangement (CMA) of Southern Africa, which effectively integrates the financial and capital markets of those countries with those of South Africa. There is unrestricted transfer of funds among the members of CMA, which has helped to facilitate trade. The currency, the loti, is pegged to the rand at par and the rand serves as a parallel currency.

¹ US Library of Congress

² CIA World Factbook

Table 1: Lesotho Statistics at a Glance

	BBC	CIA World Factbook
Population	2 million (UN, 2008)	2,130,819 (July, 2009 est.)
Area	30,355 sq km (11,720 sq mi)	30,355 sq km
Border Countries		Completely surrounded by South Africa
Major Languages	Sesotho, English	Sesotho (southern Sotho), English (official), Zulu, Xhosa
Major Religion	Christianity	Christian 80%, indigenous beliefs 20%
Life Expectancy	43 (men) 42 (women) (UN)	Total : 40.38 male: 41.18 fem: 39.54 (2009 est.)
Main Exports – Commodities	Clothing, wool, mohair, food, livestock	Manufactures 75% (clothing, footwear, road vehicles), wool and mohair, food and live animals (2000)
Main Exports – Partners		US 71.5%, Belgium 25.6%, Canada 1.2% (2007)
Currency	1 loti (LSL) = 100 lisente	
Exchange rates		7.75 (2008 est.), 7.25 (2007), 6.85 (2006), 6.3593 (2005), 6.4597 (2004)
GDP		\$1.652 bn (2008 est.)
GDP (PPP)		\$3.37 bn (2008 est.)
GDP per capita (PPP)		\$1,600 (2008 est.)
Real GDP growth rate		6.8% (2008 est.)
Unemployment Rate		45% (2002)
Inflation Rate		10% (2008 est.)

Banking System:

Lesotho's banking system is small, shallow, and dominated by South African banks (see **Table 2**).

Table 2: List of Lesotho Commercial Banks and Branch Network

Name of Institution	# of Branches	Ownership
Standard Lesotho Bank Ltd	15	Foreign
Nedbank (Lesotho) Ltd	3	Foreign
FNB Branch in Lesotho	1	Foreign
Lesotho Post Bank	12	Domestic
Lesotho Bank Under Liquidation	na	na

Source: Central Bank of Lesotho (website April 2009)

According to a 2008 IMF report,

The banking system is solid, but access to banking services for households and SMEs remains limited. The banking system, dominated by three South African banks, is profitable, well-capitalized, and liquid; nonperforming loans (NPLs) are moderate and well provisioned.

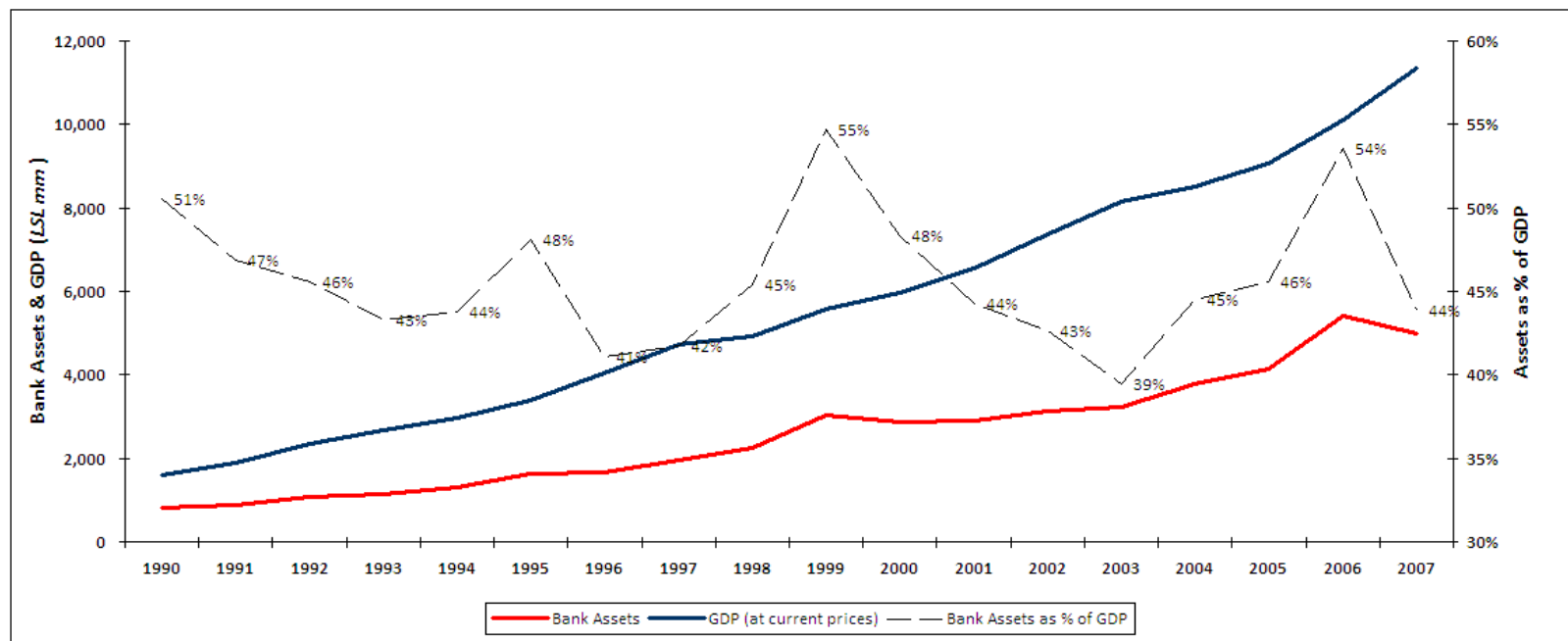
Table 3 illustrates the above, while **Table 4** shows Lesotho bank assets versus GDP.

Table 3: Capital Adequacy, Liquidity and Profitability Ratios of Lesotho Banks

	2005	2006				2007
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Capital adequacy						
Basel capital ratio	22	25	23	19	19	20
Nonperforming loans to total capital	3	2	2	6	6	9
Top 20 exposures to total capital	100	84	63	98	117	116
Asset quality						
Loans to deposits ratio	29	30	17	30	26	26
Earning assets to total assets	93	94	95	94	95	95
Nonperforming loans to total loans	2	1	2	2	2	3
Reserve for losses to total loans	3	2	3	2	3	3
Reserve for losses to nonperforming loans	167	242	161	112	125	93
Liquidity Ratios						
Liquid assets to total deposits	120	112	132	88	100	98
Available reserves to total deposits	8	6	6	5	4	5
Liquid assets to total assets	77	75	83	75	78	78
Current assets to total current liabilities	86	85	95	83	85	84
Profitability ratios						
Net income to average total assets (return on assets)	2	1	1	2	2	1
Net income to average total equity (return on equity)	15	7	8	20	27	8
Total expenses to total income	73	75	73	68	70	74
Solvency ratios						
Total debt ratio	10	12	12	10	7	8

Source: IMF Article IV, Country Report No. 08/136, April 2008

Table 4: Lesotho Bank Assets vs. GDP



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Bank Assets	804	886	1,068	1,153	1,298	1,628	1,666	1,970	2,235	3,046	2,885	2,908	3,140	3,216	3,792	4,128	5,419	4,986
GDP (at current prices)	1,592	1,889	2,343	2,664	2,965	3,384	4,054	4,720	4,921	5,565	5,964	6,565	7,370	8,144	8,518	9,065	10,120	11,358
Bank Assets as % of GDP	51%	47%	46%	43%	44%	48%	41%	42%	45%	55%	48%	44%	43%	39%	45%	46%	54%	44%

Source: SADC

Both the IMF and the African Development Bank (AfDB)³ criticize the banks (and the South African banks in particular) for their limited lending to household and SMEs, and their preference for short term government securities.

Domestic deposits form ~70% of bank liabilities. Of these, about 75% are demand deposits, 15% time deposits, and 10% savings deposits (see **Table 5a**). About 25% of bank loans are to the private sector, and 10% to the public sector (see **Table 5b**). **Table 6** shows the interest rate spread between loans and deposits at the commercial banks.

Reasons cited in the AfDB report for the lack of bank lending beyond government securities include "... [a] lack of bankable projects and the high probability of default by borrowers resulting from Lesotho's lack of mechanism to enforce repayment of loans."

(Reforms aimed at formalizing land titling, building the credit bureau, and reforming commercial courts are expected to increase the availability and quality of bank credit to the economy.)

There is no explicit deposit insurance in Lesotho.

³ IMF Article IV (2008) and African Development Bank cited by the Financial Standards Foundation (2008)

Table 5a: Liabilities of Lesotho Commercial Banks (LSL mm)

EOP	Demand and Call Deposits			Time Deposits			Savings Deposits			Total Deposits	Deferred Pay Fund	Capital & Reserves	Foreign Liabilities	Unclassified Liabilities	Total Liabilities
	Govt	Official Entities	Private Sector	Government	Official Entities	Private Sector	Government	Official Entities	Private Sector						
2006															
Oct	113	469	1,644	0.01	102	266	1.63	0.00	402	2,997	0.00	342	286	369	3,994
Nov	120	479	1,789	0.01	102	265	1.82	0.00	406	3,163	0.00	351	112	741	4,367
Dec	121	475	1,712	0.01	104	300	1.95	0.00	415	3,129	0.00	312	73	659	4,174
2007															
Jan	122	477	1,753	0.02	105	286	1.95	0.00	398	3,143	0.00	332	51	664	4,189
Feb	120	469	1,824	0.02	112	312	2.06	0.00	405	3,244	0.00	341	87	581	4,253
Mar	111	452	1,901	0.02	111	362	2.61	0.00	416	3,356	0.00	355	137	534	4,382
Apr	132	510	1,955	0.02	111	305	2.74	0.08	413	3,429	0.20	358	90	615	4,492
May	127	496	1,827	0.03	110	282	2.90	0.08	416	3,261	0.34	367	137	559	4,324
Jun	108	458	1,812	0.02	129	401	2.87	0.08	416	3,328	0.20	329	127	623	4,406
Jul	116	423	1,677	0.02	134	448	2.65	0.09	409	3,209	0.25	350	82	621	4,262
Aug	132	522	1,732	0.02	133	449	2.86	0.09	414	3,385	0.32	362	77	706	4,531
Sep	128	527	1,704	0.03	132	457	3.02	0.09	421	3,374	0.25	378	95	711	4,557
Oct	155	574	1,767	0.03	131	465	3.16	0.09	410	3,504	0.00	389	100	680	4,674
Nov	147	576	1,943	0.03	130	469	3.09	0.09	412	3,680	0.28	403	103	630	4,817
Dec	151	603	1,969	0.04	129	557	3.55	0.10	404	3,817	0.45	413	73	682	4,986
2008															
Jan	151	609	1,941	0.04	128	477	3.65	0.10	409	3,718	0.00	427	51	739	4,934
Feb	155	391	2,320	0.04	131	528	3.79	0.12	433	3,961	0.00	429	120	768	5,277
Mar	143	443	2,186	0.04	133	520	3.66	0.13	411	3,840	0.00	457	77	936	5,311
Apr	169	511	2,546	0.04	129	480	3.85	0.56	425	4,265	0.00	471	227	958	5,922
May	167	603	2,489	0.04	128	481	3.75	0.13	427	4,299	0.00	492	66	1,012	5,869
Jun	166	635	2,603	0.04	128	432	3.75	0.13	428	4,395	0.00	448	66	1,200	6,109
Jul	156	513	2,318	0.03	135	447	3.62	0.12	425	3,996	0.00	466	74	988	5,524
Aug	157	522	2,304	0.03	136	463	3.60	0.12	427	4,013	0.00	480	73	859	5,425
Sep	164	586	2,220	0.03	137	470	3.55	0.12	424	4,004	0.00	452	46	1,163	5,665

Source: Central Bank of Lesotho, Money and Banking Statistics QIII 2008

Table 5b: Assets of Lesotho Commercial Banks (LSL mm)

EOP	Cash at Hand	Balances w/ Central Bank	Foreign Assets	Claims on:			Unclassified	Total
				Government	Statutory Bodies	Private Sector		
2006								
Jul	74	49	1,639	492	19	719	452	3,445
Aug	72	160	1,698	532	20	720	450	3,651
Sep	78	101	1,683	487	15	740	314	3,419
Oct	82	73	1,869	483	17	734	736	3,994
Nov	92	111	2,029	508	17	764	846	4,367
Dec	128	111	1,845	598	17	777	697	4,174
2007								
Jan	82	65	1,915	592	18	852	666	4,189
Feb	81	80	1,970	589	17	833	682	4,253
Mar	59	122	1,970	589	18	836	789	4,382
Apr	67	97	2,091	589	12	867	769	4,492
May	61	125	1,933	598	23	872	713	4,324
Jun	48	227	1,858	599	34	931	709	4,406
Jul	59	133	1,719	585	43	944	779	4,262
Aug	68	227	1,937	502	46	986	766	4,531
Sep	71	109	1,971	570	48	1,011	778	4,557
Oct	76	112	2,077	564	49	1,015	782	4,674
Nov	91	195	1,837	634	51	1,103	906	4,817
Dec	108	126	2,274	559	51	1,073	794	4,986
2008								
Jan	84	173	2,042	552	50	1,111	923	4,934
Feb	72	71	2,414	523	50	1,149	998	5,277
Mar	92	32	2,448	533	50	1,177	978	5,311
Apr	76	85	2,978	526	48	1,204	1,006	5,922
May	62	225	2,607	550	48	1,255	1,123	5,869
Jun	71	103	2,858	553	48	1,309	1,167	6,109
Jul	81	130	2,290	551	46	1,354	1,073	5,524
Aug	78	103	2,334	561	45	1,388	915	5,425
Sep	97	270	2,208	547	44	1,362	1,137	5,665

Source: Central Bank of Lesotho, Money and Banking Statistics QIII 2008

Table 6: Interest and Deposit Rates at Lesotho Commercial Banks (LSL mm)

EOP	Lending Rates		South African Prime	Deposit Rates		Midpoint Savings Rate [2]	Lending Spread [1] - [2]
	Prime [1]	Maximum		Savings	Call		
2006							
Jul	12.25	17.42	11.00	1.00-2.96	4.10	1.98	10.27
Aug	12.25	17.42	11.00	1.00-2.96	4.10	1.98	10.27
Sep	12.33	17.06	11.50	1.00-2.96	4.10	1.98	10.35
Oct	12.67	17.67	11.50	1.00-2.50	4.50	1.75	10.92
Nov	12.83	17.83	11.50	1.00-2.50	4.50	1.75	11.08
Dec	13.50	18.00	12.00	1.00-5.00	5.00	3.00	10.50
2007							
Jan	13.58	18.00	12.50	1.00-5.00	5.00	3.00	10.58
Feb	13.58	18.00	12.00	1.00-5.00	5.00	3.00	10.58
Mar	13.58	18.00	12.00	1.00-5.00	5.00	3.00	10.58
Apr	13.67	18.00	12.50	2.00-5.00	5.00	3.50	10.17
May	13.67	18.00	12.50	2.00-5.00	5.00	3.50	10.17
Jun	14.08	18.33	12.50	2.00-5.50	5.25	3.75	10.33
Jul	14.08	18.33	13.00	2.00-5.50	5.25	3.75	10.33
Aug	14.75	19.00	13.50	2.40-5.50	5.50	3.95	10.80
Sep	14.17	18.83	13.50	2.40-5.50	5.50	3.95	10.22
Oct	14.50	19.17	13.50	2.00-6.00	5.75	4.00	10.50
Nov	14.50	19.17	14.00	2.00-6.00	5.75	4.00	10.50
Dec	15.42	19.83	14.50	3.00-6.75	6.30	4.88	10.55
2008							
Jan	15.50	19.83	14.50	3.00-6.75	6.30	4.88	10.63
Feb	15.67	20.67	14.50	3.00-6.75	6.30	4.88	10.80
Mar	15.67	20.67	14.50	3.00-6.75	6.30	4.88	10.80
Apr	15.92	24.05	15.00	2.80-6.95	6.50	4.88	11.05
May	15.92	24.08	15.00	3.63-6.95	6.50	5.29	10.63
Jun	16.25	25.25	15.50	3.64-7.52	6.75	5.58	10.67
Jul	16.58	24.75	15.50	3.64-7.25	6.75	5.45	11.14
Aug	16.58	24.75	15.50	3.64-7.25	6.75	5.45	11.14
Sep	16.58	24.75	15.50	3.64-7.25	6.75	5.45	11.14

Source: Central Bank of Lesotho, Money and Banking Statistics QIII 2008

Insurance companies and other financial institutions:

The insurance industry in Lesotho is categorized into general and life insurance. The former includes fire, motor, marine, accident, employers' liability and other types that exclude life. **Table 7a** and **Table 7b** show summary statistics of the insurance industry for 3 years.

Table 7a: Lesotho Insurers Statistics

	2004	2005	2006
Total Gross premiums Written	376,126	381,322	453,320
<i>Memo: % of GDP</i>	4.42%	4.21%	4.48%
Total Assets	1,273,395	1,630,087	1,779,926
Total Liabilities	1,092,550	1,338,465	1,573,894
Total Net Worth	180,845	291,622	206,032
Total Investments	986,209	923,341	1,136,106

Source: Central Bank of Lesotho

Table 7b: Major Ratios for Lesotho Life Insurance Companies

	2004		2005		2006	
	Life	General	Life	General	Life	General
<i>as % of Gross Premiums:</i>						
Premiums Ceded	1.4	55.6	1.8	55.0	1.5	55.7
Net Premiums	98.6	44.4	98.2	45.0	98.5	44.3
Gross Claims	68.7	23.6	78.9	20.2	64.0	15.2
Commission Paid	8.8	9.2	14.6	15.3	10.6	13.4
Net Claims / Net Premiums	69.7	53.1	79.9	43.9	64.5	34.3
Underwriting Gain / Loss to Net Premiums	11.1	17.2	74.0	15.5	84.4	19.9
Management Expenses / Net Claims	39.1	11.4	15.5	9.8	15.2	10.5

Source: Central Bank of Lesotho and calculations

The Insurance Supervision Department of the Central Bank of Lesotho monitors the insurance industry in Lesotho and the Central Bank acts as Insurance Commissioner.

The 6 insurance companies operating in Lesotho as of March 2008 is as follows:

- Lesotho National General Insurance Company
- Lesotho National Life Assurance Company
- Alliance Insurance Company Ltd
- Metropolitan Insurance Company
- Sentinel Insurance Ltd
- Prosperity Insurance Company

There were 12 insurance brokers in the country in March 2008.

Other financial institutions consist of money lenders, of which there are more than 50.

The Central Bank requires capital reserves of LSL 65,000 for insurance companies and an LSL 5,000 trust deposit for insurance brokers. There are no specific capital requirements for money lenders.

Central bank and its role in the economy:

Established in 1980 Lesotho Monetary Authority became the Central Bank of Lesotho in 1982. In August 2000, the law of the Bank was revised to establish the sole and primary objective of the bank as the achievement and maintenance of price stability in the economy.

While the bank has its own budget for operational purposes, the paid-in capital is subscribed and held exclusively by the government of Lesotho. Its Governor and 2 Deputy Governors (Executive Posts) are all appointed by the King, under the advice of the Prime Minister, and hold office for a (renewable) term of 5 years. Other members of the Board of Governors hold Non-Executive posts, are appointed by the Ministry of Finance and serve for a (renewable) term of 3 years.

The functions of the Bank are:

- Banker to government

- Bank as financial adviser to government
- Formulation and execution of exchange rate policies (however, the government sets the exchange rate regime of the currency)

The Central Bank of Lesotho utilizes the following instruments of monetary policy:

- Moral suasion
- Repurchase operations
- Open market operations
- Reserve requirements
- Lombard rate

The reserve requirements that the Bank has set for the commercial banks are:

- Minimum local asset requirements. 10% of domestic deposits and balances, other borrowings, paid-in-capital, and reserves must be maintained locally
- 25% liquid assets in the form of total currency held, surplus funds at the Central Bank, deposits with local banks, and government securities
- Capital requirements of LSL 10mm or 8% of risk-weighted assets in line with Basel conventions
- Cash reserves amounting to 3% of deposit liabilities

The Central Bank supervises commercial banks, as well as the money-lenders, and insurance companies that are the non-banking financial institutions in the economy.

The Bank also houses and operates the Maseru Clearing and Settlement House, which conducts clearing activities in the payments system (a manual and paper-based process). The Bank supervises the clearing process, acts as a settlement agent of the clearing and settlement system. Participating banks maintain settlement accounts with the Central Bank through which settlement is made.

Government Bond Market:

The Central Bank conducts auctions for Treasury Bills with maturities of 91-days, 182 days, 273 days and 364 days.⁴ There is also no formal debt market for the issuance of treasury bonds, as the Government only issues treasury bills for its monetary operations.⁵

The indirect instruments of monetary policy (open market operations) were introduced in Lesotho in 2001, overhauling the money market. 91-day and 182-day treasury bills are traded competitively and the former are mostly used by the central bank to manage liquidity in the economy. 91-day bills are traded monthly and 182-day bills every two weeks.

The sale of the treasury bills is divided into two markets: competitive and non-competitive. The minimum bid in the competitive auction is LSL 250 000 and in the non-competitive section is LSL 5000. An English Auction system is used where securities are sold first to the highest bidders until the entire allotment has been sold. Because the competitive auction is dominated by large companies and commercial banks, there are, on average, seven bidders in the competitive market.⁶ In the non-competitive market, participants are largely members of the public and SMEs. The Central Bank sets a uniform price for the securities. Foreign investors do not participate in government treasury offerings.⁷

A time series of historical yields on Lesotho treasury bills is shown in **Table 8** and **Table 10** while **Table 9** shows the volume of bills outstanding.

⁴ Financial Standards Foundation (2008)

⁵ African Development Bank (2006)

⁶ Central Bank of Lesotho, *Central Bank of Lesotho Implements Strategies Aimed at Strengthening Money Market in Lesotho: Implications for Economic Growth*, August 2008

⁷ AfDB (2006)

Table 8: Select Money Market Interest Rates

	Central Bank Rates		Treasury Bills	
	CBL*	SARB+	Lesotho	South Africa
2006				
Jul	10.90	12.50	6.90	7.19
Aug	10.86	12.50	6.86	7.88
Sep	10.86	12.50	6.86	8.00
Oct	10.86	12.50	6.86	8.23
Nov	10.76	12.50	6.76	8.26
Dec	10.76	12.50	6.76	8.26
2007				
Jan	11.02	12.50	7.02	8.49
Feb	11.30	12.50	7.30	8.87
Mar	11.46	12.50	7.46	8.41
Apr	11.49	14.00	7.49	8.27
May	11.50	14.00	7.50	8.32
Jun	11.56	14.00	7.56	8.68
Jul	11.62	14.50	7.62	9.10
Aug	11.76	15.00	7.76	8.86
Sep	12.12	15.00	8.12	9.30
Oct	12.32	15.50	8.32	9.43
Nov	12.74	15.50	8.74	9.96
Dec	12.82	15.50	8.82	9.96
2008				
Jan	13.10	16.00	9.10	10.52
Feb	13.17	16.00	9.17	10.37
Mar	13.21	16.00	9.21	10.29
Apr	13.81	16.50	9.71	10.46
May	13.91	16.50	9.81	11.55
Jun	13.94	17.00	9.91	11.38
Jul	13.94	15.50	9.94	11.27
Aug	13.94	15.50	9.94	11.16
Sep	14.01	15.50	10.01	11.11

Source: Central Bank of Lesotho

*Central Bank of Lesotho overdraft rate

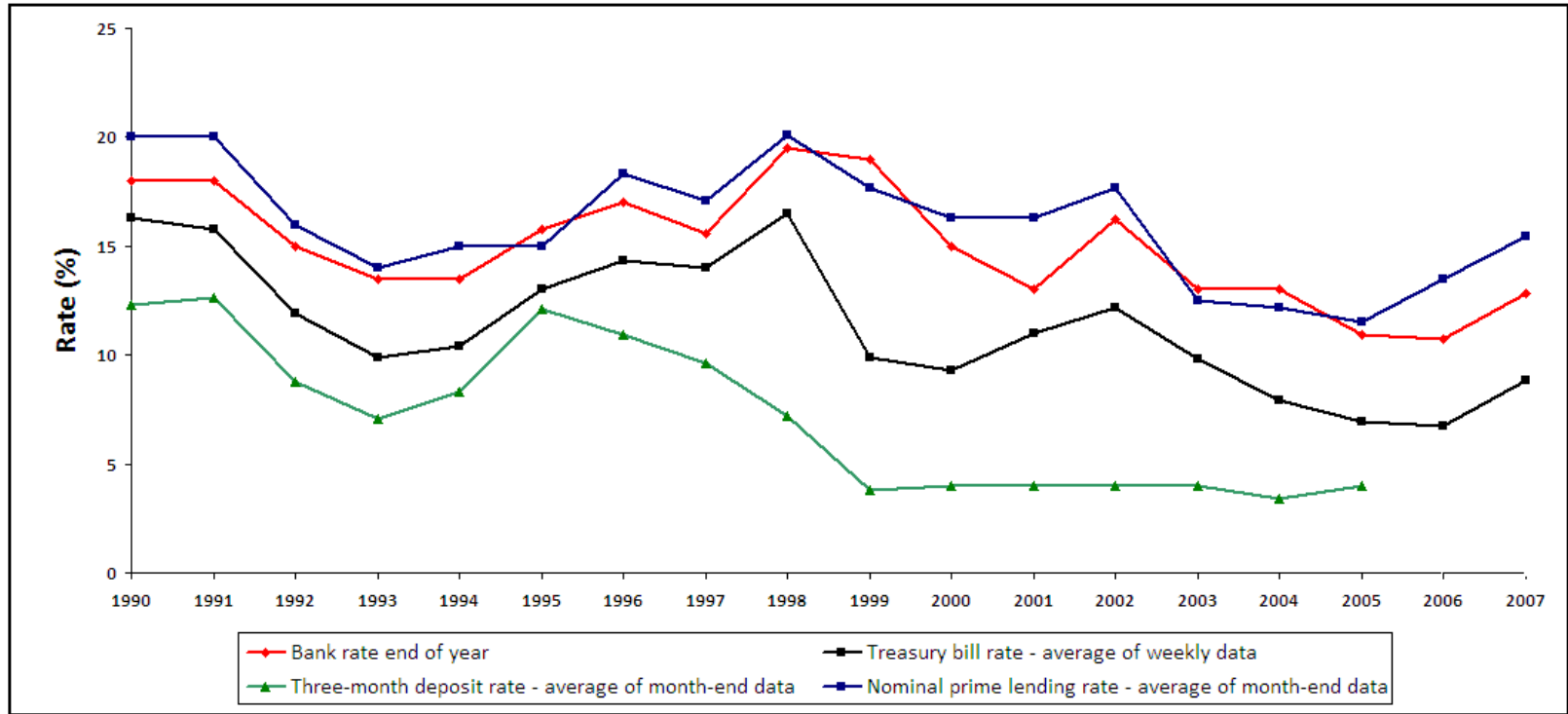
+ South African Reserve Bank marginal lending rate

Table 9: Lesotho Treasury Bills by Holder (LSL mm)

	Central Bank of Lesotho	Commercial Banks	NBFI	Others	Total
2006					
Jul	0.00	516.60	14.40	9.40	540.40
Aug	0.00	430.90	53.70	79.60	564.20
Sep	0.00	384.20	53.70	100.80	538.60
Oct	0.00	380.70	53.60	104.20	538.60
Nov	0.00	383.50	70.00	89.00	542.50
Dec	0.00	467.50	0.00	95.00	562.50
2007					
Jan	0.40	495.40	0.40	90.00	586.10
Feb	0.40	494.60	0.40	90.80	586.10
Mar	0.30	494.60	0.40	90.70	586.10
Apr	0.30	494.50	0.00	91.20	586.10
May	0.30	502.50	0.50	96.20	599.50
Jun	0.30	508.60	0.50	91.70	601.00
Jul	0.30	489.20	0.50	103.20	593.20
Aug	0.30	491.80	0.00	101.10	593.20
Sep	0.30	480.10	0.00	109.90	590.30
Oct	0.32	474.50	0.31	105.20	580.30
Nov	0.32	472.20	0.31	97.40	570.20
Dec	0.32	470.30	0.31	89.30	560.20
2008					
Jan	0.32	468.10	0.31	74.01	542.74
Feb	0.32	455.02	0.31	77.09	532.74
Mar	0.32	457.88	0.31	74.49	532.99
Apr	0.32	444.97	0.31	87.40	532.99
May	0.32	456.73	0.31	75.80	533.15
Jun	0.32	455.15	0.31	77.37	533.15
Jul	0.32	462.40	0.31	45.65	508.67
Aug	0.32	442.22	0.31	65.83	508.67
Sep	0.32	468.24	0.31	68.88	537.74

Source: Central Bank of Lesotho

Table 10: Select Interest Rates



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Bank rate end of year	18	18	15	13.5	13.5	15.8	17	15.6	19.5	19	15	13	16.2	13	13	10.95	10.76	12.82
Treasury bill rate - average of weekly data	16.3	15.8	11.9	9.9	10.4	13	14.3	14	16.5	9.9	9.3	11	12.2	9.8	7.92	6.95	6.76	8.82
Three-month deposit rate - average of month-end data	12.3	12.6	8.8	7.1	8.3	12.1	10.9	9.6	7.2	3.8	4	4	4	4	3.38	4	-	-
Nominal prime lending rate - average of month-end data	20	20	16	14	15	15	18.3	17.1	20.1	17.7	16.3	16.3	17.7	12.5	12.17	11.5	13.5	15.42

Source: SADC Bankers

Stock Market:

No stock exchange exists: companies are able to list on the Johannesburg Stock Exchange. However, a Unit Trust was established to allow private individuals to purchase shares in large companies that were being privatized.

Other Types of Finance/Financial Market:

Because of the paucity of lending by the banks to private individuals and SMEs, a credit cooperative sector has risen in Lesotho in response to this low access to bank credit. This is the oldest form of microfinance in Lesotho, and involves the mobilization of savings by the institutions and extension of credit to the public. The rapid growth of sector calls has highlighted the need for their better regulation and supervision. The extent of their operations is not well known, and the quality of supervision is limited at present. Measures to remedy the gaps in regulatory oversight include revision of the regulatory framework and a strengthening of the role of the Central Bank, which at present has no jurisdiction in this area.

In addition, certain unlicensed deposit-taking entities operate in Lesotho. These vehicles attracted sizable deposits from the public by offering inordinately high rates of return (60% per year in one case), accumulating large and fast-growing liabilities. Authorities are concerned that these liabilities will be very difficult to meet. As a consequence, these vehicles face significant rollover risks, and a high probability of failure. Thousands of savers could lose their investments. Their operation may create opportunities for money laundering and could undermine deposit-taking activities of the banks (though their failure would pose very low credit risk to banks). IMF staff have noted that the liabilities of the largest vehicles have grown quite large (~8% of GDP) and that their unwinding might cause social unrest.

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Appendix: Template for Reports on African Countries

Brief (one or two paragraph) history of the country	Section 1
Population	Table 1
GDP and GDP per head	Table 1
Most important industries	Table 1
Macro data such as inflation, unemployment	Table 1
Growth rates	Table 1
Banking System	Section 2
Number and size of banks	Table 2
Foreign versus domestic ownership	Table 2
Source of funds	Table 5a
Investment of funds	Table 5b
Privatizations: partial versus full	Partial
Interest spread (lending rate minus deposit rate)	Table 5
Bank credit to the private sector	Table 5b
Bank credit to the public sector	Table 5b
Deposit insurance: partial versus full	None
Insurance companies and other financial institutions	Section 3
Size and structure of insurance companies	Table 7a
Life and property and casualty?	Section 3
Other financial institutions such as mutual funds, etc	Section 3
Central bank and its role in the economy	Section 4
Does it set interest rates, if so how?	Section 4
Does it set exchange rates or are they floating?	Pegged to ZAR
Data on the rates it sets and on the exchange rate	Section 4
Functions: unitary role of price stability; or price stability plus bank supervise	Both
Independence and governance	Section 4
Government bond market	Section 5
Maturities	Section 5
Volumes	Table 8
Interest rates	Table 9
Government bond market	None
Primary versus secondary	None
Methods of primary issuance (e.g, auctioning)	Section 5
Stock Market	Section 6 (None)
Other types of financial market	Section 7 (None)
Bond Markets	None
Derivatives etc	None
Other types of finance	Section 7
Micro finance	Section 8
Informal finance	Section 8
Private equity and so forth	Section 8