

## **BRIEF ON IFAD INTERVENTION IN RURAL INTERMEDIATION IN LESOTHO UNDER THE RURAL FINANCIAL INTERMEDIATION PROGRAMME (RUFIP)**

### **BACKGROUND**

Absence of formal financial institutions to support financial intermediation in Lesotho is underscored as the main inhibition to growth of the rural economy. However, various financial institutions both formal and informal to include Rural Savings and Credit Groups (RSCGs), moneylenders, burial societies, financial co-operatives and rotating savings and credit groups (ROSCAs) operate in Lesotho.

The Government of Lesotho (GOL) in pursuance of the national Poverty Reduction Strategy, has jointly with IFAD entered into a new commitment to improve access to financial services by some of the above institutions the rural communities through a demand and market driven approach. The approach focuses on groups that engage in income generating activities to benefit from improved access to working capital. It also seeks to strengthen those that are less productive to the lowest grassroot level. The IFAD sponsored programme is intended as a pilot in a few areas, namely, Quthing, Maseru, Leribe with Berea being the latest inclusion, of the country and later expanding countrywide still maintaining emphasis on rurality. At the initial stage before start of operations, joint efforts by stakeholders brought about the main loan document which was signed for by the two parties namely, IFAD and GOL in Rome Italy in 2007. At this important occasion assurances were passed with a no objection leading to the programme start as stipulated in the aide memoire. The entire programme financing is shared between Lesotho Government and IFAD at the cost of approximately US\$10.9 million of which the latter contributes US\$7 million during the period of 7 years. The programme is in its third year of operation.

### **OBJECTIVES**

The main objective of this programme as mentioned above is to alleviate poverty, improve household income through facilitating access to credit and contribute to economic development especially in small sectors of the economy.

### **PROGRAMME COMPONENTS**

There are four components of the programme as follows:

- 1) Development of member-based financial institutions through three sub-components of capacity building of: informal groups; financial cooperatives and RSCGs.
- 2) Facilitating the rural outreach of formal financial institutions which include support to Lesotho Postbank and linkages between commercial banks and target groups. This will also include configuring of the guarantee scheme currently administered by CBL.
- 3) Developing an enabling environment for development of rural and microfinancial services which entails capacity building of 1) service providers 2) Central Bank of Lesotho (CBL) and 3) co-operatives. Conducive framework under the appropriate policy dialogue will be enabled through training, study tours, studies and research, workshops and conferences and promulgating and revision of laws and regulations.
- 4) Programme coordination, monitoring and evaluation within the Programme Coordination Unit (PCU).

The coordination and administration of this programme is vested in the Ministry of Finance and Development Planning within the Department of Private Sector Development and Financial Affairs. A programme co-ordination unit (PCU) manned by staff of four namely, the Programme Co-ordinator, programme officer, financial controller and technical Advisor has been established. Overseeing of the overall running of the programme will be the responsibility of the Financial Sector Steering Committee comprising both public and private sectors.

Implementing agencies include CBL, Lesotho Postbank (LPB), the Department of cooperatives (DoC) and service providers comprising Ministry of Agriculture and Food Security (MAFS) through field facilitators and NGOs.

Under the RUFIP the above agencies play various roles as below:

CBL is responsible for facilitation of stakeholders including RSCGs, and the administration of the credit guarantee fund. The former role is to be handed over to a fitting institution with a good performance track record in due course.

It is also mandated with coordination of some programme activities pertaining to it, appointed a focal point for programme-related activities and further responsible for revision and promulgation of all laws pertaining to Non-Bank Financial Institutions.

Lesotho Postbank (LPB) with 100% Government shareholding and its wide branch network within Lesotho, acts as a financial intermediary of rural groups and other low income communities. LPB draws most of its business from group account transactions and salaried employees.

The Department of co-operatives continues with normal responsibilities for the general welfare of co-operative societies with special focus on training and strengthening financial cooperatives for sustainability and future responsibility of other member-based organizations to be entrusted to them in the future following their readiness.

Service Providers include Non-Governmental Organisations (NGOs) and field staff of the Ministry of Agriculture and Food Security (MAFS) and Ministry of Trade Industry Cooperatives and Marketing (MICTM). As defined above these will be engaged as the main vehicles driving the training component ensuring readiness of quality groups with instilled culture in savings , credit and high repayment rates. However, before embarking on their identified role, they also must be exposed to training of trainers as provided for by the programme.

PCU authorises all expenditure related to programme implementation. All stakeholders submit expenditure requests to execute to PCU. Almost all project funds are allocated to capacity building including vehicles and equipment, salaries and fees pertaining to international technical assistance and consultants, and national technical support given that the programme entails a great deal of technical support.

The implementation of this programme will result in benefits that will be derived from this initiative to include the following :

- ❖ Improved regulatory and supervisory framework for all non-bank financial institutions to increase trust and confidence in the financial sector
- ❖ Enhanced capacity of the rural community in managing their business concerns
- ❖ Improved quality of banking services and commitment to contribute to development of the country
- ❖ Improved access to financial services by the rural populace facilitating increased productivity in income generating activities

The following milestones are reported in the implementation of the programme:

- Preparations have advanced towards achievement of goals following several interventions with all stakeholders.
- A meeting of all stakeholders was held to pave way forward and prepare for the launch of the programme. This launch was effected through a workshop comprising NGOs, Agric facilitators Commercial Banks and representatives of rural and co-operative groups which was immediately followed by the start-up workshop together with several others for all

stakeholders held to discuss draft annual work plans (AWPBs) and budgets . These formed the basis for all activities to be performed during the period of programme implementation and led to the recruitment of the full complement of the PCU staff as detailed above.

- Since inception of the programme, three workplans 2008/2009, 2009/2010 and 2010/2011 have been drawn and implemented except for the latter now undergoing the implementation stage.
- Recruitments of various international and local consultants and technicians have been effected to include the Chief Technical Advisor to the PC, Advisor to the CEO LPB, consultants in NBF policy and regulatory framework, consultants with expertise in credit guarantee fund establishment and management, consultancies engaging in financial access studies, RSCGs data on formation, size, characteristics, extent of their operations, and loan delinquencies.
- Recruitment of equipment and furniture has continued to facilitate operations of participating agencies.
- Recruitment of service providers to drive capacity building and training of trainers and groups has partly been achieved and is ongoing.
- Consultations among participating agencies and stakeholders continue for enhancement of performance in implementing the RUFIP.