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# FINANCIAL LITERACY TRAINING AND FINANCIAL INCLUSION IN LESOTHO

**BY**

**MAMOLIKALIKO MOLEFE**

A research report submitted to the Faculty of Management, University of the Witwatersrand, in 25% fulfilment of the requirements for the degree of Masters of Management (in the field of Public and Development Management)

**March 2016**

# ABSTRACT

Financial inclusion has taken centre stage in the development agenda in the 21st century. This was widely noticed after the global economic meltdown in 2008 where multinational companies faced bankruptcy and many people were negatively impacted.

Financial inclusion is defined as being the state in which all people have access to appropriate and desired financial products and services. It is believed to be a key component of the financial sector and has been hailed by its proponents to be a positive driver of economic growth and poverty reduction.

Financial inclusion is anchored on one pivotal concept which is financial literacy, or the ability of individuals to use knowledge and skills gained from financial education for betterment of their lives.

The significance of financial inclusion has been acknowledged by many countries and Lesotho is no exception. The Support to Financial Inclusion in Lesotho (SUFIL) project was implemented with the aim of improving financial inclusion in Lesotho. This research was undertaken to ascertain the extent to which the SUFIL has achieved its aims and objectives.

Overall, while there are some areas that require review or improvement, the project has had a positive impact in improving financial inclusion in Lesotho.

# DECLARATION

I declare that this report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Public and Development Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

**Mamolikaliko Molefe**

_____

**31 March 2016**

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# DEDICATION

To God Almighty, who directed my thoughts and ordered my footsteps.

To my family for their continued support throughout the entire period of study.

To my husband, “Ntaate”, it wouldn’t have been easy without you.

To my sweet girls, Madobdob, Nano and Bobo, I know it was not always easy for you to see me busy when you wanted my full attention.

To my late father who believed in me from an early age and my mother who consistently asked how I was doing and kept me in her prayers.

# ABBREVIATIONS

| | |
|---|---|
| CGAP | Consultative Group to Assist the Poorest |
| GDP | Gross National Product |
| NSDP | National Strategic Development Plan |
| PACFL | President's Advisory Council on Financial Inclusion |
| RUFIP | Rural Finance Intermediate Programme |
| SACCOS | Savings and Credit Cooperatives Society |
| SACU | Southern African Customs Union |
| SUFIL | Support to Financial Inclusion in Lesotho |
| UNCDF | United Nations Capital Development Fund |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations International Children's Emergency Fund |

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# CHAPTER ONE

# INTRODUCTION

## 1.1 BACKGROUND

The aftermath of the global financial meltdown in 2008 triggered rigorous financial sector reforms in many countries, with financial inclusion as one of the key strategic development interventions in consumer markets intended to protect consumer savings and promote secure credit facilities in increasingly unpredictable financial markets. This has seen financial inclusion becoming a stronger focus on the development agenda (Ardic, Heimann & Mylenko, 2011). The justification for these reforms is the broad consensus within the development field that well developed financial systems accelerate economic growth and that financial inclusion as a key component for financial sector reform has been shown to have positive effects on poverty reduction. As such, it should be considered central to the developmental objectives of any country (Cull, Demirgüç-Kunt & Lyman, 2012).

Financial inclusion is purported by its proponents to have positive effects on poverty reduction and has emerged as an increasingly important aspect of development (Chibba, 2009). Financial inclusion is defined as a state in which all people have access to appropriate, desired financial products and services in order to manage their money effectively (Sinclair, McHardy, Dobbie, Lindsay & Gillespie, 2009). Empirical evidence indicates that access to basic financial services like credit and savings is instrumental in improving people's lives as it affords them an opportunity to invest in strategic areas of their lives like human capital development (Marr & Schmied, 2013). It further shows that financial inclusion is considered to be a solution that complements other strategies that are

used to fight poverty and achieve the Millennium Development Goals, such as provision of microfinance (Chibba, 2009). The observed increase in income and consumption levels of the households participating in financial inclusion activities provide a direct indication of the effects financial inclusion has on poverty reduction (Marr *et al*, 2013).

One of the main policy and practical interventions for financial inclusion is financial literacy, defined by the President's Advisory Council on Financial Literacy (PACFL) (2008) as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. In line with other countries that are working to ensure that all citizens have adequate financial skills and are financially literate, the government of Lesotho has put in place a number of initiatives that provide financial education with the aim of improving financial literacy which is required for promoting financial inclusion. Support to Financial Inclusion in Lesotho (SUFIL) is one example of such an initiative.

## 1.2 COUNTRY CONTEXT

Lesotho is a country completely surrounded by South Africa with a population of approximately 1, 8 million (UNDP, 2012) of whom 75% live in the rural areas where the main source of livelihood is subsistence farming (UNDP, 2012). Lesotho is ranked at 156 on the United Nations Human Development Index (HDI) with an unemployment rate of 45% and approximately 49% of the population living below the poverty line of US $1.25 per day. On the Global Hunger Index, Lesotho is classified as serious with a score of 12 (UNDP, 2012).

Lesotho has shown great improvement in the period 2001 to 2011 in increasing domestically generated revenue when it registered a 300% increase (NSDP, 2013:5). The real Gross Development Product (GDP) growth rate average is 3.8% per annum but it is still lower than the rate

which is required to reduce poverty in a sustainable manner (UNDP, 2012). More positively, Lesotho has one of Africa's highest adult literacy rates at at 85%.

## 1.3 COMPOSITION OF LESOTHO FINANCIAL SECTOR

The government of Lesotho acknowledges that an efficient financial sector plays a pivotal role in facilitating economic growth (Vision 2020). Lesotho has high rates of access to finance even though the financial sector is still underdeveloped compared to other countries with a similar socio-economic status. It is dominated by four commercial banks with three being from South Africa, namely Standard Lesotho Bank, Ned bank Lesotho and First National Bank, while the Lesotho Post Bank owned by the government of Lesotho. These banks account for 51.3% of the assets in the financial sector but they provide financial services to only 25% of the population that resides in the urban areas (FinScope, 2011). The remainder of the people access financial services from other credit facilitation schemes like credit co-operatives and the informal financial service providers who are mostly moneylenders like *stokvels*. These informal financial service providers have limited capacity to provide services that are responsive to the needs of the entire nation (FinScope, 2011). Overall this sector's contribution to GDP is 6% (NSDP, 2013).

## 1.4 NATIONAL STRATEGIC ISSUES RELATED TO A FINANCIAL INCLUSION AGENDA

### 1.4.1 Lesotho National Vision 2020

In order to address the country's economic challenges, the National Vision 2020 was developed in 2002 which is a long term economic framework that aims to provide a way forward for the country's development. Seven pillars of development were identified in this document and possible scenarios which set out the different alternatives for the country's

development that can be explored in the future are provided (Vision 2020). These scenarios further provide an illustration of the concrete decisions that need to be undertaken and how they can work in the future.

Vision 2020 further identifies one of the main challenges within the macroeconomic level as being the failure to mobilize domestic resources which is instrumental in economic growth as it promotes active participation by citizens at the lower level. This phenomenon has placed a heavy burden on the fiscus which has led to the increase in government spending on social services especially in the context of limited employment opportunities and the decline in South African Customs Union (SACU) revenues.

### 1.4.2 National Strategic Development Plan (NSDP)

The NSDP was developed in 2013 to provide guidance for the achievement of the National Vision 2020. According to the NSDP, Lesotho's financial sector remains underdeveloped compared to other countries with similar socio-economic status. This is evidenced by the percentage of private sector credit as a percentage of the GDP which is only 25%. This is one of the lowest in the Sub-Saharan region and suggests that access to credit is limited in Lesotho (NSDP, 2013:71).

In order to curb the problem of financial exclusion, the NSDP proposes that increasing the number of financial instruments as well as formulation of policies that promote financial inclusion can assist the country to realise its vision.

### 1.4.3. FinScope Survey

Lesotho in the 1970s had an average GDP growth of 8.1% (Lesotho National Vision 2020:15) and currently it runs at 3.8%. One of the main reasons for the decline is lack of capital and the complexity in licensing

(Lesotho National Vision 2020). Alternatives like small, micro and medium enterprises (SMMEs) have been considered and the government considers the need to improve reach and depth within the financial sector as one of the key enablers for the success of SMMEs. This has been one of government's main priorities (Lesotho National Vision 2020).

To achieve this, the Central Bank of Lesotho in 2011 initiated a survey using a tool developed by the Finmark Trust with the objective of obtaining information about individual sources of income and how people were managing their financial lives. This survey was meant to obtain information about the levels of financial inclusion as well as identify factors that inhibit the usage of financial services. According to the FinScope Survey (2011), financial inclusion refers to the proportion of the population using financial services, both formal and informal, while financial exclusion is, on the other hand, defined as the proportion of the adult population who have not used any financial products or services. The latter group relies on family and friends for borrowing and tends to choose home saving as opposed to using financial institutions. The survey results are presented in Table 1 below.

**Table 1: Overview of Financial Inclusion in Lesotho**

| **Type of people** | **Geographic setting** | |
|---|---|---|
| | Rural | Urban |
| Have bank products | 29% | 57.9% |
| Use only informal financial services | 27.8% | 11.8% |
| Use non-bank financial services | 22.3% | 14.0% |
| Have not used any financial products | 20.4% | 16.3% |

Source: FinScope Survey, 2011

**Diagram 1: Access Dashboards: Data disaggregated by individual characteristics**

| | | |
|---|---|---|
| Account at a formal financial institution (% age 15+)<br>18%<br>2011 | Account used to receive government payments (% age 15+)<br>6%<br>2011 | Loan from a financial institution in the past year (% age 15+)<br>3%<br>2011 |
| Account at a formal financial institution, female (% age 15+)<br>17%<br>2011 | Account used to receive remittances (% age 15+)<br>10%<br>2011 | Loan from family or friends in the past year (% age 15+)<br>51%<br>2011 |
| | | |
| Account at a formal financial institution, income, bottom 40% (% age 15+)<br>8%<br>2011 | Saved at a financial institution in the past year (% age 15+)<br>8%<br>2011 | Debit card (% age 15+)<br>15%<br>2011 |
| Account used to receive wages (% age 15+)<br>7%<br>2011 | Saved using a savings club in the past year (% age 15+)<br>16%<br>2011 | Credit card (% age 15+)<br>2%<br>2011 |

Source: Global FinDex

Overall, the survey showed that 81% of the adult population is financially included. This was attributed to the high number of Basotho adults who have funeral schemes. In spite of this relatively high level of financial inclusion, the Gini coefficient which measures the degree of inequality in the distribution of family income in a country stands at 63.2, rendering Lesotho one of the most unequal countries in the world (FinScope, 2011). Following the results of the FinScope survey, it was evident that the high levels of financial inclusion do not in any manner signify extent of knowledge or optimal usage of these financial products especially in the light of the 29% of the rural based adults and where 79% of Basotho reside. Financial literacy was found to be a missing ingredient that would assist these individuals to make sensible financial decisions and address inequality.

### 1.4.4 Emergence of SUFIL

Notwithstanding the results of the survey, the government of Lesotho, similar to other developing countries, embraced the Financial Inclusion concept and forged relations with the United Nations Development Programme (UNDP) and the United Nations Capital Development Fund (UNCDF) to address the paradox of financial inclusion that does not translate into wise financial decisions.

Support to Financial Inclusion in Lesotho (SUFIL) was started in 2010 through a partnership of the United Nations Development Programme (UNDP), the United Nations Capital Development Fund (UNCDP), the Government of Lesotho and the Rural Finance Intermediation Programme (RUFIP). This programme aims to address the issues of economic growth identified by the National Vision 2020 which is the country's long-term development framework. Such issues included, *inter alia*, a non-inclusive financial sector and limited financial literacy programme.

The SUFIL programme aimed to improve and expand access to sustainable financial services in urban and rural areas in the low income segment of the market. Target beneficiaries of this programme were role-players in the delivery of financial services in Lesotho, ranging from co-operative societies, associations, savings and credit groups, to banks, moneylenders and insurance companies. These beneficiaries were located in both the rural and urban areas of Lesotho.

All these financial service providers are registered and administered by different bodies but the types of products they offer are similar as they all deal with savings and credit and the majority of them are found in the rural areas. The Ikaheng Makesi Savings and credit co-operative was one of the groups selected under this programme. It is registered under the Co-operative Societies Act No. 6 of 2000 of the Society's Act of the Kingdom of Lesotho and under the Ministry of Trade and Industry, Cooperatives and Marketing. Ikaheng Makesi was one of the co-operative societies that was already receiving technical assistance from RUFIP, a development partner under SUFIL. Though the target areas of SUFIL were both urban and rural populations, the highest level of acceptance was found among the rural population. The number of savings and credit co-operatives (referred to as SACCOs) that were targeted by the programme was 15 financial co-operatives and 30 rural savings and credit groups.

## 1.5 PROBLEM STATEMENT

There is broad consensus within the development sector that financial inclusion is one of the channels through which poverty can be reduced (Aguera, 2015). This is premised on the belief that it improves livelihoods because it has causal effects (Lyman *et al*, 2012). According to the NSDP (2012:74), the main factor that hinders financial inclusion in Lesotho is lack of financial knowledge. SUFIL is a programme that, among other things, aims to promote financial inclusion by strengthening the capacity of

financial service providers in Lesotho with a particular focus on financial literacy. The extent to which this objective was achieved was not known. It was therefore necessary, following closure of this project that an inquiry be undertaken to ascertain the effectiveness of the training on financial literacy and the contribution it has made towards improving financial inclusion. An in-depth review of the SUFIL's performance in this regard was undertaken with the aim of providing knowledge and assisting in future implementation of projects of a similar nature.

The purpose of this research was to examine the performance of the SUFIL programme on its financial literacy objective using the Ikaheng Makesi Saving and Credit Co-operative as a case study to see the extent to which this intervention had contributed towards improving financial inclusion in Lesotho.

### 1.5.1 Objectives of the research

The objective of the research was to assess whether the SUFIL financial literacy programme has improved financial inclusion levels in the rural communities of Lesotho using the Makesi Savings and Credit Co-operative as a case study.

### 1.5.2 Research questions

The primary research question was:

How did the SUFIL financial literacy programme enhance financial inclusion in the rural communities?

Secondary questions were the following:

1. What were the aims of the SUFIL financial literacy program in promoting financial inclusion?
2. What opportunities will a financial literacy program afford targeted beneficiaries in the long term?

3. What are the perceptions of participants of the SUFIL on training provided to enhance financial knowledge and promote financial inclusion?

### 1.5.3 Significance of the research

This research aimed to examine the dynamics and effectiveness of financial inclusion and financial literacy as development tools in Lesotho, with the focus on the Support to Financial Inclusion in Lesotho (SUFIL) programme. This research provided insightful information on whether the SUFIL intervention has been effective as it presented the actual outputs of the programme towards achievement of the outcomes of the programme which were as follows:

1. At the Macro level: Regulatory and policy environment improved through increased sector co-ordination and leadership role of the Ministry of Finance and Development Planning.
2. At the Meso level: Supportive meso financial infrastructure strengthened through capacity building of selected financial service providers, financial literacy and knowledge dissemination.
3. At the Micro level: Access to a broader range of financial services improved through innovations and support to sustainable inclusive finance and market leaders.

For the purpose of this research, the focus was on the third output of the project which endeavoured to improve and accelerate access to a broader range of financial services. The indicator used was to capacitate 15 financial co-operatives. The emphasis of this output was training on financial literacy which is one of the key elements of financial inclusion. Information was obtained from members of the Ikaheng Makesi savings and credit co-operative (SACCO), one of the financial co-operatives due to be trained under the SUFIL, project authorities responsible for the implementation of the training, and the evaluation report on the

implementation of the project which was analysed to establish how effective the capacity building programme was.

### 1.5.4 Structure of the research report

Chapter one provides an overview of the research and the background for undertaking this study. It introduces the study and the problem statement, background of the research and history of the main issues.

Chapter two explains the basis for the research. It presents the literature on financial inclusion and the role that financial literacy plays in promoting financial inclusion. Central concepts and themes are presented and the central arguments discussed.

Chapter three explains the methodological orientation that includes the following items: research paradigm that underpins this research, the research approach, research design, data collection methods and analysis, together with strategies that were employed to overcome data quality issues. Finally, the ethical considerations for the study

Chapter four presents the data or the results of the study as collected through interviews, was transcribed and analysed. It explains the recurring themes that emerged.

Chapter five is focused on the analysis of the data presented in line with the research questions.

Chapter six presents the conclusions based on the discussions of the data as well as recommendations for future development.

## 1.6 CONCLUSION

This chapter provided the background for the research, identified issues relevant to the study, and explained the structure of the report. The main reason that informed the study was presented as the problem statement and the main research questions were stated.

The following chapter provides the literature on financial inclusion and the main issues relevant to financial inclusion. The literature in financial inclusion and financial literacy as well as the central arguments are presented.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 INTRODUCTION

The purpose of this chapter is to provide a brief review of the academic literature on financial inclusion and the central role that financial literacy plays in promoting financial inclusion. A brief history of financial inclusion is provided from the international perspective, as well as the developments of this concept in the local setting. Factors associated with financial inclusion, the main concepts and arguments are discussed. This review assists in identifying the foundation of financial inclusion which is financial literacy and linking it to the objectives of the research.

According to the literature, financial inclusion is anchored on two main pillars which are financial literacy and a strong supervisory and regulatory framework (Lyman *et al,* 2012)**.** The emphasis on the former is education on financial matters while the latter looks at the regulatory and supervisory policies that promote financial inclusion activities. The focus of this research is on financial literacy.

## 2.2 HISTORY OF FINANCIAL INCLUSION

According to the literature, programmes on financial literacy that accelerate financial inclusion started in the 1930s (Martin, 2007) and gained momentum in the 21$^{st}$ century after the emergence of the global economic meltdown. Financial inclusion has since become a policy priority in many countries (Sarma & Pais, 2011; Global Financial Development Report, 2014). This is mainly driven by the financial regulations that were imposed by countries in an effort to promote financial inclusion. In the

United States the Community Reinvestment Act that requires banks to offer credit to all people within their areas of operation was enacted in 1997 (Sarma *et al,* 2011). This Act provides that all people be served regardless of their economic status. In France legislation that emphasizes a need for everyone to have a bank account was promulgated in 1998. In 2005 a task force was formed aimed at monitoring developments of financial inclusion (Sarma *et al*, 2011).

In the regional context, the South African Banking Association launched the Mzansi account in order to cater for financially excluded people, while locally the support of financial inclusion in Lesotho (SUFIL) was started in 2010 through a partnership of the United Nations Development Programme (UNDP), the United Nations Capital Development Fund (UNCDP) and the Government of Lesotho with the same intention of promoting financial inclusion.

Financial inclusion is defined by Sinclair, McHardy, Dobbie, Lindsay and Gillespie (2009) as being a state in which all people have access to appropriate desired financial products and services in order to manage their money effectively. It is achieved through financial literacy and financial capability on the part of the consumer, and access on the part of financial products, services and advice suppliers.

The Rangarajan Committee (2008) defined financial capability as a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups. Financial exclusion, on the other hand, is defined by Sinclair (2001) as the inability to access necessary financial services in an appropriate form. Kempson and Collard (2012) indicates that people who are mostly excluded are located in the rural areas. Given the two contrasting meanings, it is evident that financial inclusion plays an integral role in human development and therefore should be adequately examined.

## 2.3 FACTORS INFLUENCING FINANCIAL INCLUSION

Sarma (2011) claims that there are multiple factors that affect financial inclusion and the complexity of their interaction differs. He mentions the following three factors as being strongly associated with financial inclusion:

1. Banking sector;
2. Physical infrastructure; and
3. Socio-economic factors.

For the purpose of this research, the first two factors, namely banking sector and physical infrastructure, were briefly discussed and the emphasis was placed on socio-economic factors which are critical in financial inclusion. Financial literacy as a socio-economic issue is extensively discussed due to the central role it plays in financial inclusion.

### 2.3.1 Banking sector

Financial inclusion has been recognized by many countries as a policy priority because of its close relationship with development. In Lesotho, the literature shows that exclusion from the formal banking sector is found mainly in the rural areas with only 29% of the population having access to banking facilities in Lesotho (FinScope, 2011). The banking sector has been at the forefront in the promotion of financial inclusion (Sarma, 2011).

The main objective of financial inclusion is to draw the unbanked population into the formal financial system so that they can access financial services. Services like credit, insurance and savings are only accessible through formally organized institutions like banks. Alfred (2010) indicates that despite commendable strides made by microfinance institutions, the majority of rural people are still excluded from the formal

financial institutions like banks. He points out that half of the world's adult population does not have access to financial services.

A financial service to the unbanked has in recent years become an area of growing interest. In Lesotho, the SUFIL financial literacy training has succeeded in responding to this challenge. Globally this has contributed to the notion of building inclusive financial systems which not only target the rural poor but also capacitate institutions on how to reach the unbanked population.

Members of the Makesi savings and credit co-operative have benefited a lot from this intervention and now benefit from financial services through increased access in the banking sector. Add (2005) states that the ability to use available financial services and products offered by the financial institutions indicates the extent of access. This is confirmed by the members of the Makesi savings and credit co-operative who explained that once they were made aware of the available financial services they started using them. This has empowered them and they now have the opportunity to improve their lives.

### 2.3.2 Physical infrastructure

Basic infrastructure is a vital requirement for providing access to financial services. The ability of the financial services to reach the majority of clients is dependent on infrastructure like the railway, road network and telephone access. The location of the Makesi savings and credit co-operative and the limited infrastructural development has contributed to the inability of the members of the Makesi savings and credit co-operative to access financial services. Limited technological knowledge has made it even more difficult.

Beck, Demirgüç-Kunt and Levine (2007) asserts that reliable telephone network helps increase outreach. In order to set up bank branches, there

is a need to have good physical infrastructure like roads *(*Beck *et al*, 2007).

### 2.3.3 Socio-economic factors

#### 2.3.3.1 Social exclusion

Empirical evidence shows that financial exclusion provides an indication of a deeper problem of social exclusion (Sarma, 2011:621). This is evident even in high income countries like the United States of America and the United Kingdom where the low income groups and ethnic minorities are still marginalized (*ibid).* In spite of all the profits that banks make, they have failed to include all the segments of the population and as a result the people in these segments are socially excluded in their communities (*ibid*). It is believed that financial inclusion can assist the poor and the vulnerable to move out of poverty (Leeladhar, 2006; Sarma, 2011).

The nature and extent to which people are financially excluded has many consequences which can be detrimental to the growth of any country. The following examples provide some of the consequences that may result from financial exclusion:

- Crime: When people are financially excluded they resort to different types of crime like money laundering and terrorist financing which cripples the economy (Sarma, 2011).
- Social exclusion: Financially excluded people fail to participate in social events and as a result feel like they are not part of the community (Sarma, 2011).
- Decline in investment: When people receive income, they opt to save some for future consumption, but if they are financially excluded they are not able to save or invest (Sarma, 2011).
- Increased unemployment: Financial inclusion activities assist people to create jobs even if they are small-scale. Financial

exclusion, on the other hand, aggravates unemployment (CGAP, 2010; Leeladhar, 2006; Sarma, 2011). Leeladhar (2006) further points out that banking services are now considered as public goods and therefore have to be enjoyed by everybody.

Based on the above discussions, it is believed that financial inclusion can assist in addressing some of the social challenges that are becoming prevalent in many societies.

#### 2.3.3.2 Employment, income and inequality

Income levels are crucial in measuring financial inclusion, either the individual income or the country income, as they all indicate to a certain extent the level of financial inclusion in a country (Sarma, 2011). The economic principle explains that the higher the level of employment the more the aggregate demand is triggered and this is good for economic growth. The increase in the income levels due to an increase in employment also contributes to bridging the gap of inequality, since the higher the inequality levels the higher the levels of financial exclusion (*ibid*). The unemployed and people with irregular employment are usually unable to participate in the social and economic affairs of their countries. Ullah (1990) argues that low income also contributes to a low level of psychological well-being and it can drive a person to exert less effort in seeking employment.

Without financial inclusion, the above situation would see inequality levels rising and the negative externalities growing exponentially.

#### 2.3.3.3 Women empowerment

Demirguc-Kunt, Klapper and Singer (2013) asserts that having access to formal financial systems can contribute to greater economic empowerment of women as it enables them to increase their assets ownership. Even

though financial inclusion is purported to have economic benefits, the barriers that constrain women from accessing financial services in the same way as men put women at the disadvantage by half of men's benefits. This denies women the opportunity to reduce their poverty levels and enjoy developmental gains (*ibid).* At the international level, access to finance is still gender influenced and is compounded by the legal discrimination against women which is often perpetrated in the guise of "cultural norms" (*ibid*).

In Lesotho, the enactment of the Legal Capacity of Married Persons Act of 2006 came as a relief to women because they were previously barred from entering into any financial contracts without spousal consent or, if not married, they could not access any loan at the bank on their own and the level of autonomy that women could enjoy was thus limited.

Johnson (2004) suggests that the major sources of household income are controlled by men with women controlling small sources. According to FinScope and Fin access surveys of 2004 to 2009, in Sub Saharan Africa more males were accessing financial services. Jirane and Zawanda (2013) further indicates that worldwide women largely play a role of child-bearing and primary domestic roles. The literature shows that in Lesotho the literacy rate stands at 85% with women constituting the largest proportion (NSDP, 2013). These statistics indicate that women in Lesotho are more likely to make well-informed financial decisions than their husbands might because of their higher education level.

#### 2.3.3.4 Financial regulation

Around the world financial regulators are increasingly compelled to face the potential challenges that may be brought about by increased campaigns on financial inclusion (CGPA, 2011). This also calls for forward thinking or understanding of the risks that may accompany them and the

development of mitigation measures (*ibid*). The increase in the number of low income customers who have no experience with formal finance poses a new challenge to the regulators as they have a legal obligation to promote consumer protection. There is an increase in the new bank deposit-taking institutions like the financial co-operatives, some of which are politically backed but where little attention is given to the challenges they may cause for the regulators (CGPA, 2011). In Lesotho, there is a long-standing problem of the Boliba Savings and Credit Co-operative which has been taking deposits from people without adhering to the provisions of the financial regulator, the Central Bank of Lesotho (Lesotho Financial Sector Development Strategy, 2013).

While the intention is to encourage innovation for the promotion of financial inclusion, it is contingent upon the regulators to strike a balance between innovation and safety, in order to achieve the core goals of stability and consumer protection. It is therefore pertinent that the financial regulators focus on the overall stability measures to avoid consumer dissatisfaction and expand economies.

In order to understand the dynamics of financial inclusion in Lesotho, Ikaheng Makesi savings and credit co-operative was used as a case study to establish whether the support of financial inclusion in Lesotho (SUFIL) programme which was started with the sole purpose of increasing financial inclusion through promotion of financial education was effective. One of the key themes of financial inclusion, financial literacy, which was central in this research is further examined.

#### 2.3.3.5 Significance of financial literacy in financial inclusion

Naha (2013) asserts that financial literacy is a prerequisite for financial inclusion and states that financial illiteracy is detrimental to the country's economy. Financial literacy is one of the key themes in financial inclusion.

It is defined by the President's Advisory Council on Financial Literacy (PACFL) (2008) as the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Sarma (2011) asserts that adult literacy is significantly associated with financial inclusion.

The economic meltdown in 2008 strongly identified the need to increase efforts to strengthen financial education (Chibba, 2009; Choi, 2009; Willis, 2009). The proponents of financial literacy claim that the financial crisis came as a result of the imbalance between the financial products that were actually needed and those that were supplied by the market. They further assert that it presented the need for a broader financial landscape that has consideration for consumers (Messy, 2012; Lyman, 2012).

Financial literacy has taken centre stage in development agendas in this era of globalization which is characterized by highly competitive markets that demand competent human beings (Hilgert, Hogarth & Beverly, 2003; Wan, 2012). This change is premised on the principles of human capital development which suggests that accumulation of knowledge and skills is essential for increased production which culminates in economic growth. The increase in the demand for financial education is attributed to the diversification in the financial products and the need for individuals who are informed about the risks and opportunities involved so as to ensure financial security (Hilgert *et al,* 2003; Wan, 2012; Global Financial Development Report, 2014; Messy, 2012).

Financial literacy accelerates financial inclusion because when people are financially literate they are clear on which products and services they need, regardless of their locations. Financial literacy plays a pivotal role in advancing the financial inclusion agenda and as a result equips people with the skills that enable them to participate economically.

## 2.4 FINANCIAL LITERACY CONCEPTS

### 2.4.1 Consumption smoothing

Individuals derive satisfaction of consumption over a longer period of their lives, and need to be empowered in order to make projections of their future and decide which consumption plans to take up early (Lusardi, 2008). In order to make these decisions, there is a need for understanding of basic financial concepts like time value of money, interest rates, inflation and risk (Lusardi, 2008; Willis, 2009). All these concepts are critical in making future projections because they provide a preview of the future financial outcome. Knowledge of these issues enables one to understand the opportunity cost of forfeiting consumption now and the benefits they will enjoy later (Willis, 2008). It also helps individuals to decide on how much to accumulate now in order to smooth their consumption over a longer period. A certain level of financial literacy is, however, required to achieve the abovementioned results.

The basic lifecycle model provides that when people decide on a choice about consumption, the aim is to get satisfaction and derive a future benefit (Booth, Grimmond & Stroombergen, 2000). Saving and borrowing wisely along different stages of life assists individuals to raise their consumption over time (*ibid*). Literature shows that increased knowledge on financial issues assists individuals to provide for their future especially for low income earners (*ibid*).

Empirical evidence indicates that socio-demographic characteristics play a fundamental role in attaining smooth consumption over a period of time (Lusardi, 2008). It shows that there are varied patterns across elderly groups, racial groups as well as education groups. For example, the elderly are especially vulnerable to financial scams (Lusardi, 2008). There is also evidence that across different education groups, only 50% of

people with less than high school qualification are able to respond correctly on issues requiring simple numeric computation *(ibid*).

It is therefore pertinent to acknowledge that without proper financial education one may not be able to sustain the desired levels of consumption in the long term.

### 2.4.2 Change in behaviour

People are increasingly concerned with their own financial security (Hung, Yoong & Parker, 2009; Lusardi, 2008; Willis, 2008). This is because of the volatility and complexity of the financial instruments within the financial realm. According to Martin (2007), there is a positive relationship between financial knowledge and change in behaviour. This behaviour relates to the ability of an individual to make changes in the way in which they decide to use their finances in order to attain maximum utility. This includes, among other things, decisions on planning for the future, whether savings for retirement or adjusting one's consumption practices. Financial literacy is instrumental in bringing about financial well-being as it is essential in making positive financial decisions (Martin, 2007; Choi, 2009).

Empirical evidence shows that there is a link between financial knowledge and household behaviour with regard to how they manage their cash flow, credit, savings and investments (Choi, 2009; Martin, 2003).In a study conducted at the University of Michigan, a positive and significant correlation between change in behaviour and knowledge of financial matters was established (Hilgart *et al*, 2003; Martin, 2003).

Increased knowledge of financial issues impacts positively on financial behaviour because financially literate individuals make fewer mistakes compared to those who are financially illiterate (Hilgart *et al*, 2003; Martin, 2007; Meier & Sprenger, 2007). Increasingly sophisticated financial products are presented in the financial area and contrary to the earlier

situation where people were required by the financial institutions to have collateral in order to get credit, it has become easier (Lusardi, 2008). This therefore calls for individuals with adequate knowledge and financial discipline to avoid becoming entangled in debt (*ibid*).

Financial education has also been found to be important in changing the way in which individuals and communities conduct their issues of development in a way that fosters economic growth (Hilgert *et al*, 2003). Being financially literate assists individuals to understand the full range of their products, assesses the risks involved and identifies matching mitigation measures (*ibid*).

### 2.4.3 Youth empowerment

Exposing children to financial education promotes their understanding of economic and financial matters and enhances their cognitive development (Sharrden, Johnson, Guo & Elliot, 2011). In order to succeed and maximize well-being in this era of shifting financial systems, individuals should have a basic knowledge of the financial issues (Choi, 2009). The need for financial skills and knowledge by the youth in order to be successful adults cannot be underplayed (Center for Financial Security, 2012). A good understanding of how well the youth develop financial literacy is therefore essential in designing a relevant financial education curriculum (Center for Financial Security, 2012).

Children obtain information that influences their thinking from various sources like their peers, parents, media and school. Financial education is crucial at an early stage as it is a key element of financial literacy (Center for Financial Security, 2012). Financial education is defined by Hung as being:

> "*a process through which people improve their understanding of financial products, services, concepts so that they are empowered to make informed choices, avoid pitfalls, know where they go for*

*help and take other actions to improve their present and long term wellbeing"* (Hung *et al,* 2009:5).

Choi (2009) asserts that financial education should be a necessary life skill especially among youth, so that they become responsible and successful adults. He further emphasizes that for financial education programmes aimed at assisting the youth to be effective, these should be designed in such a way that they provide real world application so that the youth see its relevance in their lives and comprehend its benefits thoroughly. Financial topics like financial planning, budgeting and savings should be instilled so that they learn to live within their means (*ibid*).

The literature shows that young people move into adulthood already encumbered by debt because they lack financial knowledge (Mae, 2009). From a very early age the youth should be advised on the importance of building their credit score so that by the time they get their first credit cards they will know how to use them wisely (Choi, 2009). The negative consequences of the subprime mortgage lending in the United States of America was a direct reflection that individuals did not fully understand the terms of their loans and it can be inferred that lack of financial education was the contributing factor (*ibid*).

Personal financial education in high school impacts positively on the way in which youth later manage their financial issues like savings when they enter the labour market (Bernhein, Garrett & Maki, 2001). This translates into change in behaviour and becomes more effective when the youth are provided with interactive opportunities for application and practical skills and knowledge are acquired (Hilgert *et al*, 2003).

Empirical evidence indicates that factors like race, education and parental guidance play a key role in increasing the students' knowledge of financial issues (Choi, 2009).

Making poor financial decisions is a common phenomenon that contributes to negative social outcomes. It is often not recognized until there is a crisis (Hung *et al*, 2009). Lusardi (2008) suggests that in order to avoid burdening the taxpayers when a crisis emerges as a result of bad financial decisions, mandatory financial education should be provided and should be a policy issue.

It is therefore against this background that the research report is proposing that a well-designed curriculum on financial education for the youth be designed, taking cognizance of the dynamics in the market so that the youth will make informed decisions pertaining to their lives.

As part of the drive to improve financial inclusion in Lesotho, SUFIL embarked on a number of training interventions on financial literacy which were meant to equip participants with skills that would assist them to make sound financial decisions and improve their well-being. This research attempted to understand the extent to which these trainings on financial literacy benefited the participants. A case study was used to answer the research questions.

## 2.5 FINANCIAL LITERACY ARGUMENTS

The extent to which financial literacy programmes adequately achieve the results they are intended for is important in establishing whether they have been effective or not. The proponents of financial literacy purport that it is necessary when making financial decisions (Hung *et al,* 2009) and state that financial literacy is required in order to effectively deliver financial products (*ibid*). Diverse views on the effectiveness of financial literacy programmes (Lusardi, 2008; Hung *et al*, 2009) are presented below.

### 2.5.1 Effectiveness

Financial inclusion is believed by policy makers to be an essential tool for poverty reduction (Willis, 2009). This is premised on the basis that financially literate individuals are responsible and empowered to make informed decisions in dynamic financial markets. These decisions are believed to increase their welfare (*ibid).*

Despite much credit being attributed to financial literacy, finding ways of effectively delivering it in a way that will influence behaviour remains a challenge to both governments and policy makers (Choi, 2009). This is primarily because evaluation of financial literacy programmes is still a challenge because it requires time and resources to keep track of the changes in behaviour and document results (*ibid*).

According to the literature, some authors argue that there is no evidence of measurable success at improving a participant's well-being (Cole, 2008; Martin, 2007; Khatiwada & Hathaway, 2008). Willis (2009) asserts that empirical evidence on the effectiveness of financial literacy programmes is somewhat negligible. He further contends that the financial literacy vision lacks empirical support. He goes on to suggest that due to complexity and shifting financial markets and the skills required to comprehend the financial issues, it remains difficult to assess. In pursuit of financial literacy, participants often incur costs that dilute any benefits (Willis, 2008). Levine *et al* (2007) emphasizes that the formal financial sector benefits only the rich while the poor get assistance from the informal sector which includes their families and friends.

Evaluation of financial inclusion programmes remains a challenge because it requires time and resources in order to keep track of the changes in behaviour (Willis, 2009). Moreover, it only boosts the participant's confidence and falls short of effectiveness *(ibid*).

Willis (2009) further argues that financial inclusion is only effective if it enables consumers, given the challenges posed by inadequate resources, to make decisions that will enhance their financial well-being. Khatiwa *et al* (2008), on the other hand, argues that results on the effectiveness of financial inclusion are inconclusive. He observes that authors tend to assume a causal relationship even where it is weak. He suggests that in order to keep track of the financial inclusion operations and be able to document effectiveness, the following programme clarification steps should be followed: Pre-implementation, Accountability, Programme clarification, Progress towards objectives, and Programme impact (Khatiwa *et al*, 2008).

The factors affecting financial inclusion in Lesotho are multifaceted, hence the need for a rigorous method of assessment. It is therefore critical to test the different models of development while taking cognizance of the different contexts in order to see which one better suits each context.

### 2.5.2 Participation

Meier *et al*. (2007) and Willis (2009) suggest that the issue of who participates in financial literacy programmes is crucial in order to make an assessment of the impact financial education has on economic behaviour. They further suggest that the results are an over-estimation because there is limited knowledge of the outcomes, and furthermore participation is voluntary and this precludes randomization.

### 2.5.3 Millennium Development Goals

In 2001 the emergence of the Millennium Development Goals (MDGs) brought hope to the international development fraternity as great strides on development issues were envisaged (Malcom *et al*, 2013). Following the international agreement on the objectives of development, many

nations have made progress towards attainment of the MDGs while others have had less success.

Chibba (2009) argues that although there are other useful conventional ways of tackling poverty, they still lack rigor to fully tackle these challenges. He suggests that Financial Inclusion offers another solution that, together with other interventions, may succeed in tackling poverty and address the MDGs and bring about growth that translates into development. It is believed that sharing lessons learned on the implementation of financial inclusion initiatives, new models can be useful.

With proper planning and policy making coupled with programming, financial inclusion can be used to fight poverty and attain the MDGs. Supporting Chibba's proposal of including Financial Inclusion as part of the MDGs, Sinclair (2013) suggests that it should be part of post-2015 target categories, arguing that the involvement of credible agencies and expert groups like the International Labour Organisation (ILO) and the United Nations Children's Rights & Emergency Relief Organisation (UNICEF) may mitigate the damage suffered by microfinance initiatives through improved transparency, regulation and scrutiny. He suggests that it would also improve effectiveness (*ibid*).

Incorporating Financial Inclusion as one of the MDGs may bring increased attention of other microfinance institutions like co-operatives and credit unions as they form an integral part of Financial Inclusion (Sinclair, 2013). He goes on to argue that Financial Inclusion has registered some success to date and incorporating it into the MDGs may bring greater effectiveness in the eradication of poverty.

On the other hand, Sinclair *et al* (2013) mentions that while he acknowledges that higher financial inclusion levels in countries correlate directly with higher levels of poverty reduction, he is opposed to financial

inclusion being incorporated as an MDG for 2030. He argues that there are no credible indicators for measuring Financial Inclusion and points out that using credit as an indicator is illusive. He suggests that the role of well-functioning financial markets in promoting achievement of MDGs should be the focus instead.

### 2.5.4 Individuals' wealth and well-being

Over decades, psychologists have been greatly focused on the negative emotional interests of people (Van Hoorn, 2007). This changed in the 1950s when there was an interest in positive emotional status and feelings of well-being (*ibid*). These positive emotions together with self-reports on how good life was were taken seriously and subjective well-being emerged.

The economic position of a person or material which is measured by the extent of wealth one has accumulated and the level of income dictates the level of consumption as well as other material positions (Helliwell &Putnam, 2004). These social circumstances affect the individual's subjective well-being (*ibid*). Subjective well-being is defined by Diener *et al* (1999) as a broad category of phenomena that includes people's emotional responses, domain satisfactions and global judgments of life satisfaction. According to Van Hoorn (2007), there are six key determinants of subjective well-being. These are: Personality factors, Contextual and Situational factors, Demographic factors, Institutional factors, Environmental factors and Economic factors.

In order for an individual to attain a certain level of utility, his or her well-being has to be taken care of and this includes good health as a determinant of subjective well-being (Helliwell & Putnam, 2004).

While income plays a vital role in economic development, it is limited only to the low levels of development whereas for high level economic

development it does not have much effect (Helliwell *et al*, 2004). This suggests that a certain level of income cannot be a means of increasing subjective well-being (*ibid*). In social circumstances; comparison with one's peers is what matters. Helliwel *et al* (2004) states that even though the GNP has seen an upward trend in most countries recently, the levels of subjective well-being have remained unchanged. Financial education is an instrumental variable that is associated with subjective well-being. Though health is a critical variable in subjective well-being, through education one may not have direct impact as it is indirectly important to address other socio-economic needs.

Even though income is another variable that has a positive correlation with subjective well-being (Helliwel *et al*, 2004), it has a limited impact relative to its increase. The level of happiness diminishes for people who are well-off while for the poorer people it has a direct effect (*ibid*).

Contrary to the historic view that economic growth was closely linked to availability of tangible assets like land, labour and capital equipment (Kern, 2007), a positive correlation between education and economic growth which brings development has been reported in the 21$^{st}$ century (Olaniya & Okemakinde, 2008). Human behaviour is now driven by the economic self-interest of individuals operating within freely competitive markets (Kern, 2007). It is evident from the above discussions that financial inclusion targets mostly people in the lower quartile of the population, and the knowledge they acquire through financial education can assist them to make sound financial decisions which will ultimately increase their income and boost their subjective well-being.

## 2.6 CONCLUSION

The literature assisted the researcher to understand the key elements of financial inclusion as well as the pivotal role played by financial education

in enhancing financial inclusion. In order to address the primary research question, the literature demonstrated that there are divergent views on the effectiveness of initiatives geared towards improving financial inclusion. It was clear from the literature that having access to appropriate financial services assists in addressing financial inclusion.

# CHAPTER THREE

# METHODOLOGY

## 3.1 INTRODUCTION

This chapter will discuss the methodology that was applied in conducting the research. Methodology is defined by Lapan (2004) as the theory of how inquiry should proceed, and that involves analysis of the principles and procedures in a particular field of study. As a starting point, the research paradigm that underpins this research was discussed. Secondly, the research approach, research design, data collection methods and analysis, together with strategies that were employed to overcome data quality issues, were discussed. Finally, the ethical considerations for the study as well as the limitations of the study were tabled.

## 3.2 RESEARCH PARADIGM

This research was anchored on an interpretivist paradigm. This paradigm allows one to understand and interpret human action because it emphasizes the importance of understanding differences between humans (Saunders, Lewis & Thornhill, 2011). Bryman (2012) suggests that humans are distinct as against their natural order and they should be treated as such. The aim of the interpretivist approach is to understand social action in order to reach an explanation of its cause. It is a subjective meaning of social action which may even change with time and context.

What is important with this paradigm is the fact that the research has to take an empathetic position and let the subjects of the research be the ones understanding their own social realities (Bryman, 2012). This is different from positivism which uses natural science to explain human

behaviour. The interpretivist paradigm allowed the research to gather data in a in a way that provided the opportunity to observe and interpret divergent realities in relation to financial inclusion in Lesotho. An interpretivist believes that multiple realities are constructed socially by individuals (Merriam, 1995). Moreover, it looks at humans as subjects in different contexts and acknowledges that humans are distinct and as such they ought to be studied differently. This research aimed to assess the extent to which the support to financial inclusion in Lesotho (SUFIL) capacity building programme on financial literacy benefited its members as well as the progress these trainings have made towards improving financial inclusion in the country.

## 3.3 RESEARCH STRATEGY

The choice of a research strategy depends on the strategy's ability to answer the researcher's questions and meet its objectives (Saunders *et al.,* 2011). This research will use a qualitative strategy. Leedy (2010:135) suggests that a qualitative research approach is an approach that focuses on a phenomenon that happens in the natural setting and studies with all its complexity. Qualitative research is subjective in that it interprets and deduces meanings in what one sees. It is important in understanding phenomena.

Qualitative research may be influenced by perceptions and biases as it is subjective (Leedy, 2010). Qualitative researchers believe that it is necessary to understand and interpret the social phenomena and the researcher is an instrument. The qualitative researcher believes that there is not a single truth that can be discovered, but rather multiple realities can emerge out of a situation hence the need to explore all these multiple perspectives (Leedy, 2010:135). He further suggests that qualitative research can be used for the following purposes:

- **Evaluation:** Merriam (1998) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real life context. She further states that a qualitative case study is an intensive holistic description and analysis of a single instance, phenomenon or social unit. The qualitative researcher believes that a researcher's ability to interpret and make sense of what he or she is studying is necessary for understanding a phenomenon. When used for evaluation qualitative research provides ways in which the effectiveness of the particular policy or strategy can be judged (ADB, 2005). By using the qualitative research method, the extent to which the financial literacy training by SUFIL was effective was explored.
- **Verification:** Qualitative research method allows the researcher to test the validity of certain claims within the real world situation. In this regard it was necessary to test whether the claims in the evaluation report by the project co-ordinator were valid.
- **Interpretation:** Through qualitative research the researcher gains insights about the particular phenomenon and they assist in developing new perceptions about it. This method enabled the researcher to better understand the social realities of the Makesi savings and credit members and the specific challenges of rural communities regarding financial inclusion.

Due to the exploratory nature of the research, the strategy used was qualitative. Qualitative research is appropriate for understanding phenomena and also studying the history of a situation (Merriam, 1995). It was highly relevant to this research because it attempted to inquire whether the capacity building programme on financial literacy under SUFIL benefited the Ikaheng Makesi savings and credit co-operative participants, and also whether this training improved financial inclusion in Lesotho.

This approach's strengths in relation to my research were that it allowed me to unpack the key themes of Financial Inclusion in order to understand

and do an in-depth analysis of the data from multivariate perspectives in the SACCOs. It also allowed me to tackle complex issues and provide knowledge that were crucial in evaluating Financial Inclusion programmes as well as providing insight into formulating new ones. The assumption of the relation about the relationship to the participants was that they would have trust in the researcher as this had a bearing on the accuracy of the information they provided.

### 3.4 RESEARCH DESIGN

Deciding on the appropriate research design depends predominantly on the purpose of the research, what the researcher seeks to find out as well as the resources available (De Vos, Strydom, Fouche & Delport, 2005). The type of qualitative research design used was a case study. Evaluative research design is used to assess the efficacy of an intervention (De Vos *et al*, 2005). Hays (2004:225) states that a case study is a demanding type of design as it requires much focused research effort.

A case study allows a particular programme or event to be studied in depth within a given period of time. This helps in understanding or informing practices for similar situations. A case study further assists in learning more about an under-examined situation and helps understand how it changes over time. Merriam (1988:21) defines a case study as “an intensive description and analysis of a single instance, phenomenon or social unit”.

Case study can also be used to study two or more cases that are different in a certain way (Leedy, 2010:137) in order to do a comparative analysis. It helps to study how a programme or individuals change over time, mainly due to some intervention. It was appropriate in this study because the programme that is being studied has had some changes brought about by external factors. In order for the researcher to understand the case well,

he or she has to collect data extensively through different modes like interviews and relevant document analysis.

The operations of the Makesi savings and credit co-operative were studied thoroughly through interviews with five members and the project co-ordinator and the analysis of the evaluation report. This was very helpful because the focus was only on the experiences of members after the training. It was found to have had an effect on the way the members behaved after the intervention. The Ikaheng Makesi savings and credit co-operative was chosen from among fifteen co-operatives due to its proximity to the researchers' area and because it is located in the rural areas.

Qualitative case studies are used in a design that allows the researcher to obtain insight and interpretation. They are usually specific and descriptive and they tend to be contextual (Merriam, 1988:31). A case study is the best research design because it is unique in that it can identify a lot about a phenomenon that is being studied. Case study involves description, explanation and judgment. It is more appropriate when the aim of the research is to obtain insight into the dynamics of a programme.

It was appropriate for the research because the research sought to obtain the perceptions of the Ikaheng Makesi savings and credit co-operative members on the financial literacy training undertaken via SUFIL. Babbie and Mouton (2001) suggests that evaluation research can determine whether the social intervention has been effective as it provides information about the outcomes of the programme and informs future endeavours through collection of information related to activities. Choosing a case study in this research allowed for information to be obtained regarding the effectiveness or otherwise of the capacity-building programmes that were intended to benefit SACCO's members in the

implementation of SUFIL and provide feedback for implementation of similar financial inclusion programmes in the future.

## 3.5 SAMPLE

Sampling is defined as identifying an appropriate area from which data will be acquired. The sample is fundamental in research as it comprises of relevant people who are conversant with the subject to be researched (Leedy & Ormrod, 2010). It is about the time and individual one selects to observe or interview (Maxwell, 1998:235). Purposeful sampling is used in particular settings, and persons or events are deliberately selected for important information they can provide that cannot be found anywhere else (*ibid)*. It is usually used to represent a particular setting or individuals. Qualitative researchers are therefore non-random in the selection of data sources (Leedy *et al*, 2010:147).

A purposive sampling type was used to choose respondents. The sample consisted of five individual members who were drawn from the members of Ikaheng Makesi savings and credit cooperative and 1 coordinator of the capacity building programme. The criterion for selection of this sample was that they should be conversant with the aims and objectives of the project. These respondents were chosen from the members of the rural and savings groups who have been part of the capacity building programme. Based on the research aims, a purposive form of sampling was appropriate because the participants were relevant to the research questions and conversant with the subject. The project co-ordinator was also relevant because she is conversant with the aims of the project and its objectives. Moreover, she was part of the implementation from the beginning of the project to the end.

## 3.6 DATA COLLECTION METHODS

Being clear about the objectives and purpose of the research is important as it helps in deciding on the appropriate technique for collecting data (Saunders *et al.*, 2011). Maxwell (1998) asserts that methods are the means to answering research questions. When deciding on the method of data collection, the researcher must be aware of the ethical principles and comply accordingly.

### 3.6.1 Interviews

The interview is another method of data collection used in research (Saunders *et al.*, 2011). Interviews are helpful in gathering data that are relevant to the research question (*ibid)*. They are the richest sources of data collection in a case study (Hays, 2004:229). Within a qualitative research, unstructured interviews are preferred because they are flexible and manage to elicit more information from the interviews. There is, however, a disadvantage because of its openness, where the interviewer obtains different information from the same questions so that it may be hard to make comparisons among interviewees. The situation should prescribe to a certain extent the method that is suitable and be likely to provide the data that is needed.

Multiple forms of data collection are used in a single qualitative research study. It can be observation, interviews or document analysis to mention a few (Leedy, *et al*, 2010:145). Data collection in a qualitative study usually takes a long time (*ibid*). Five individual members who were drawn from the members of the Ikaheng Makesi savings and credit co-operative were interviewed.

In order to establish the extent to which the Financial Inclusion capacity building programme has been effective in rural savings and credit groups, one-on-one semi-structured interviews with open-ended questions were employed to gather primary data from Ikaheng Makesi savings and credit co-operative members. Justification for using this technique was that due

to the exploratory nature of this research, this technique was very helpful in doing an in-depth exploration of the Financial Inclusion themes and concepts and understanding them.

### 3.6.2 Document analysis

This is a popular method of data collection that is widely used in evaluation studies. Lapan (2003) suggests that using document analysis in evaluation research can reveal other aspects of a programme's history. This data can be corroborated with the participants' views and sponsors. They can assist in developing the final picture that the researcher is trying to develop (Lapan, 2003). Secondary data was also gathered by analyzing the project evaluation report compiled by an external evaluator, the project documents as well as the FinScope report of 2011. These documents were helpful because they included the project issues from inception to the point of evaluation. The project document showed the aims and objectives of the project while the evaluation report presented all the findings and challenges as well as the areas for improvement in the future.

### 3.6.3 Data analysis

In qualitative research, data analysis begins at the data collection stage (De Vos, *et al*., 2005). Upon completion of data collection through interviews, audio recorded data and notes taken during the interview were transcribed and analyzed using thematic content analysis. Secondary data from the programme's reports (both mid-term and end of term) were analyzed. Data relevant to the questions was coded and the major themes on financial literacy and its contribution in improving financial inclusion were identified and discussed. Furthermore, data was evaluated using the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) evaluation criteria in order to understand whether the training on financial literacy had any effect on the improvement of financial inclusion in

Lesotho. OECD/DAC evaluation criteria is used to judge the effectiveness of development programmes, mainly by development agencies and donors.

Hays (2004) asserts that case studies require reflective and focused research efforts. Following data collection, there were data which needed to be analyzed. In order to make sense out of these data, patterns of consistency had to be established, and these patterns were very important because they provide a meaning (Hays, 2004). In this analysis, research questions were central as they were the guiding principle. The data was analysed and recurring themes were then developed to tell the story about the case being examined.

These data were further sorted and reorganized to provide a meaning. Codes were used to categorize data and labelling which provided categories that answered research questions in a meaningful way.

## 3.7 LIMITATIONS OF THE STUDY

### 3.7.1 Data quality issues

There are usually limitations in research studies, even with the most carefully planned ones (De Vos *et al,* 2005). It was therefore imperative to identify them beforehand in order to control bias. A number of challenges were encountered by the researcher during the data collection period. Firstly, the struggle to secure a date for an interview with the project co-ordinator made it difficult for the researcher. The interview had to be done through email. Failure to generate data on the current status of financial inclusion was also seen as a limitation. This was mainly because of the weak monitoring and evaluation of the project indicators.

The following issues were also taken into consideration.

#### 3.7.1.1 Validity (internal and external)

Bryman (2012) describes validity as the consistency of the research findings with reality and the extent to which these findings can be generalized across social settings. In order to ensure validity in this research, multiple sources of data were used to confirm the findings. For this research, five participating members of the Ikaheng Makesi savings and credit co-operative were interviewed on the same questions. The co-ordinator of the RUFIP capacity building programme was also interviewed. This was done with the aim of considering the results as a fair representation of the reality on the ground in as far as financial literacy and inclusion are concerned.

In order to address the issue of validity, triangulation was used. Multiple sources and methods were found. This afforded the researcher the opportunity to get responses to the research questions. For this research, interviews of the selected participants as well as the project authority were conducted. Furthermore, reports on the implementation of the project were analyzed for further information.

#### 3.7.1.2 Reliability

Merriam (1995) defines reliability as the consistency of the results of a study with the data collected. In order to ensure reliability of this research, multiple sources of data were used to confirm the findings (triangulation) in order to check whether the results on the efficacy of financial literacy training were consistent with data that was collected from the people who are participants in this programme. Furthermore, an audit trail which will assist in verifying the data collected was done before final conclusions were made about the subject.

## 3.8 CONCLUSION

This research addressed a financial literacy programme implementation process and a case study was used to answer focused questions and interpret how the programme worked. Hays (2004) maintains that case studies are an easy way of doing research as one only observes or conducts interviews and then writes a story. The following chapter presents the finding of the study. It provides comprehensive detail of the information obtained from the project participants and the project co-ordinator.

# CHAPTER FOUR

# DATA PRESENTATION

## 4.1 INTRODUCTION

In this chapter the researcher presents the results obtained from the collection of data on the implementation of the SUFIL. This data was gathered from five members of the Ikaheng Makesi savings and credit co-operative, the SUFIL project co-ordinator and the SUFIL evaluation report. The opinions provided by these five respondents from Makesi savings and credit co-operative are regarded as being representative of the group. The information presented here will be used to interpret the findings of the study in chapter five.

The next section presents four distinct themes that emerged from the data analysis which were as follows:

Theme 1: Access to financial services in the rural areas;
Theme 2: Financial education;
Theme 3: The change in behaviour; and
Theme 4: Empowerment.

## 4.2 THEME 1: ACCESS TO FINANCIAL SERVICES IN THE RURAL AREAS

Access to financial services is recognized by the government of Lesotho as the main challenge and barrier to sustainable growth and employment creation for poverty reduction. Members of Ikaheng are no exception to this phenomenon. They reported that they were not aware of the different financial services that are available in the financial sector. This is primarily due to their location in the rural area. The focus has always been on

salaried individuals who are based mainly in the urban areas. A co-operative society based in the outskirts of the Leribe district in a village called Qoqolosing shared the view of a member as follows:

> "*Before we were trained we did not know any other financial products except the burial society that we have in the community where we contribute money when one of our members is bereaved. I think this is due to the distance of our village from the nearest town".*

When asked whether they ever saved anything in their society, she indicated that they only paid in advance the contributions for the burial society on a monthly basis even when there is no one who has passed away.

The second respondent reinforced this by saying,

> *"Yes before the trainings we did not have any knowledge of financial products. After forming a co-operative society and after being taught about the different financial products, we started a saving scheme. I personally did not know or have access to financial products. I then learned that access to numerous financial services can open a lot of opportunities for us".*

Another respondent echoed the same sentiments and said,

> *"I did not even know that there are different financial services that we can access from the comfort of our homes like Mpesa which is used to transfer, receive and pay for other financial services. I only learned about this after attending the training on financial literacy".*

The fourth respondent said that she did not know of any other financial services that they can access even though they are based in the rural areas. She explained that,

*"I did not even know that I can open a bank account even though I am not working and do not earn a salary. I thought only people with stable income were allowed to open and operate an account at the bank. I have since opened a bank account at the Lesotho Post Bank where I save some of the money I got after selling some of my products".*

The last respondent reiterated this view and indicated that ever since being part of the training she had gone out to explore other opportunities. She said,

*"I am now very inquisitive. I make finding wherever I go about the financial products and services that can benefit me and my community."*

The abovementioned claims were confirmed by the project co-ordinator when interviewed, who explained,

*"The beneficiaries were only focusing on community burial societies. The training on financial literacy gave them knowledge about other different financial products which will help them diversify their portfolios*".

She warned, however, that the main challenges for the rural communities to fully explore the different products that suit them are the myths about financial scams.

Furthermore, on the issue of access to financial services, the evaluation report which covers the project implementation from 2010 to 2014 indicates that the main objective of SUFIL was to address gaps and bottlenecks that have impeded financial inclusion in Lesotho. Even though the report shows mixed results with regard to attaining objectives, enlightening rural communities on the services they can access is one of

the success areas. This is evidenced by the number of groups trained and awareness raised on issues of inclusive finance.

It was evident from the responses that access to financial services is both a barrier and a challenge in the rural areas.

### 4.3 THEME 2: FINANCIAL EDUCATION

Financial education is defined as the process through which people improve their understanding of financial products, services and concepts (Hung *et al*, 2009). The ability to use these services, products and concepts effectively is the ultimate goal which indicates how financially literate people are. Through financial education people become aware of financial opportunities, choices, and possible consequences. In particular, financial education helps individuals to develop skills that can be useful in their life.

When asked about the objectives of the financial education trainings, the majority of them indicated that they were not clear about the objectives but as time went on, it became very clear. The first respondent said that,

> *"Before I went for training on financial literacy, I had no idea what saving was all about. One of the valuable lessons that I gained from the trainings was the lessons on culture of saving. I had no idea that I needed to acquire skills in order to manage and use my money wisely. Our primary reason for starting the co-operative society was simply to respond to our problem of access to finance which we hoped we will get from donors. I had no clue that this would culminate into something so important".*

When asked about the way in which the savings scheme operates, she indicated that they lent out money and earn interest and mentioned that they have two kinds of lending, which are:

1. Lending money for developing individual business;
2. Lending money for personal needs like health and school fees.

She clarified that if the money is borrowed for business purposes the interest is charged at 5% but if it is for personal use interest is charged at 10%. The reason for the inconsistency was to discourage the members to borrow money for reasons that may turn out to be wasteful. On the other hand, it is believed that borrowing for the business will yield some future profit and therefore is encouraged. She went on to say,

> *"After the training that we had, I now have knowledge that I have to save for my family. I currently have two accounts in the bank, one for my daily needs but the other account is an investment that will benefit my business". I have two kinds of savings, which are long term and short term. I use the money saved in long term differently from the short term. The former is saved for short periods so that I can access it in times of need, while the latter is used for big family projects".*

She then explained that in all the lending categories in the co-operative, the most important part is the interest charged as it differs from the purpose of borrowing the money. The second respondent echoed these sentiments, saying,

> *"The trainings were helpful to us as co-operative members because we now understand that we must save more because it will be beneficial to us in the future. Each member is eligible for borrowing not more than what they have saved. This forces us to save more for different purposes like developing our families, and businesses for sustainability of our livelihoods".*

She then explained that in order to strengthen her saving capacity she is also engaged in *stokvels.* She stated that they currently do not have any

savings with the bank but only have savings in the co-operative because they get higher interest.

The third respondent indicated that having undergone the training, she learned that financially literate individuals are able to assess the risks that they may be subjected to and identify the ways for mitigating or managing the risk without being affected adversely. She said,

> "*I have learned from the trainings that in order for me to have reliable sources of income in the future, I should invest my money in interest bearing accounts with low to medium risk. I would like to save more money in order to get income periodically and maintain the same level of consumption when I get old. If I could afford, I would build flats for renting in town so that I can have income even when I am old".*

She mentioned that since the training she now has knowledge on how to accumulate assets but only has a little coming in,

> *"Even though I know this fact and its benefits, I have nowhere to invest for the future except for the commercial banks which are not found in our rural areas and I am also afraid the bank will not give me good returns".*

The fourth respondent focused on a different issue when talking about financial literacy training and how beneficial it has been to her. She said because she is already involved in small business, she found the record-keeping subject to be crucial,

> *"I had difficulty keeping track of all the stock I had bought and sold for my small business. This sometimes made it hard for me to establish whether I have made profit or not. Ever since I went for the trainings I have started to notice the things I bought with the money I have generated as well as the money I use for my family".*

*This is primarily due to the record-keeping module that we did. It assisted me to so much".*

Other important subjects had been budgeting, debt management, business planning, marketing, costing and saving. She indicated that all the others were equally important but the record-keeping stood out for her. She further explaind that even though she was happy about the record-keeping, she encountered challenges in her business even after the training.

*"I realized that knowledge of financial concepts is crucial and interdependent. My business did not do very well even though I was keeping record of all the transactions. I found out later that the clothes I was selling were not demanded in the area my business was located. I learned the hard way."*

The fifth respondent confirmed that the financial literacy trainings were very important to her. As a small-scale business woman, her business has greatly improved. She indicated that some of the modules that she did included market research which enabled her to assess the market she was operating in and aiming to expand in,

*"After the training I made research about other poultry farmers in my area and how their products were being offered. This assisted me a lot. I made so much profit that I managed to buy cages M23,000 for my project. Ever since that time I have not looked back. I sometimes go over my notes from the trainings. Through the knowledge I acquired from the trainings, I have also managed to scan the internet to find out what is going on in the market".*

## 4.4 THEME 3: BEHAVIOUR CHANGE

The Makesi savings and credit co-operative members who participated in the trainings on financial literacy were asked to state the role of the

trainings in their lives on both a long and short term basis. The researcher wanted to find out whether they are able to apply the skills from the training in making long term and short term decisions.

One participant gave an example that before the training they expended the money whichever way they deemed proper. She mentioned that they would buy things that were not absolutely needed for their lives and they were sometimes very extravagant. She said,

> *"I now buy things that I need not want. The training helped me to save for long term needs and short term, for example I have two accounts in the bank whereby the other accounts I use for the needs of the household and the other account I save for the business and other major important thing. I just don't use money I save more than I consume."*

The second participant said the training was important and valuable to them. She said even though their financial status is not yet at the point where they can save substantial amounts of money for the long term, the knowledge they have acquired helps them in making decisions that are sound. All the other participants indicated that the training has influenced the way they use money in their households. One of the participants said,

> "*It is true that I currently do not have money and personal saving which I am currently working on, but I no longer use my money anyhow; for example; in the past when going to the market or the shops to buy the groceries, I used to buy anything that I come across mostly things that I don't need, I will spend all the money for unnecessary things but now I know that saving is important and I now buy important basic needs in the household."*

### 4.5 THEME 4: EMPOWERMENT

Empowerment is a social process that helps people gain control over their lives as it fosters power in people for use in their own lives. Being empowered affords people the capacity to identify issues that are deemed to be of great importance within the sociological, psychological and economic dimension. Empowerment takes place at various levels like individual, group or community.

The Makesi savings and credit co-operative members who participated in the financial education training were empowered because they were trained in a number of subjects that are core to financial education. These included among others budgeting, debt management and saving. The project co-ordinator said,

> *"Through the trainings the participants are now able to save money voluntarily and use it responsibly to do their personal needs. Through the trainings participants are in a position to review and diversify their portfolios". They no longer focus on life insurance only but they are also able to make savings for the future".*

This suggests that these participants are no longer trapped in debt like before because they now weigh their priorities better. She also indicated that participants were taught debt management which is periodical payment of debts in line with the agreed terms which is necessary in sustaining the society's activities. When interviewed about how well they feel empowered, one respondent said,

> "*I am now able to make decisions about issues that involve money more easily without referring to my husband for decisions. I feel empowered by these trainings".*

Another respondent explained,

> *"I am now so empowered that I feel I can now take a loan that is worth M50,000 without fear of not being able to repay it. Through the training I have the ability to map out all my family commitments*

*and figure out how I am going to roll it out. This is more so now because I have better understanding of financial products. I now fully understand that whatever decision I make will affect my future consumption and as such, I should always be cautious."*

Another respondent highlighted that she feels so empowered by the trainings because she is now able to assess the risks when embarking on any project. She said,

*"I used to venture in projects without assessing the risk that I might be confronted with. Sometimes I used to lose a lot of money. Even though it was difficult at first, I now decide on the investment options after thoroughly assessing the risks and figuring well how I am going to mitigate them".*

The project co-ordinator showed that among other things the participants were taught how to assess the risk in the midst of all the possible threads and build assets for future generations. She also indicated that financial literacy training empowered participants with skills to preserve their assets for future use.

## 4.6 CONCLUSION

The majority of the Makesi savings and credit members positively commented about the training they undertook. They implied that they now have knowledge of the different financial services that they can access. This they report is primarily due to the training they attended. They clearly expressed that they feel highly empowered and they have already started adjusting their spending patterns.

The next chapter presents the analysis and interpretation of the research findings.

# CHAPTER FIVE

# DISCUSSIONS, INTERPRETATION & FINDINGS

## 5.1 INTRODUCTION

In this chapter the researcher presents the discussions and interpretation of the research findings. Qualitative research method was used to interpret the findings of this research. It is a broad field of inquiry that uses unstructured data collection methods, such as observations or documents to find themes and meanings to inform understanding of the world. It tends to try to uncover the reasons for behaviours, attitudes and motivations, instead of focusing on the details like what, where and when.

The reason for conducting this study was to assess the effectiveness of SUFIL financial literacy trainings and the contributions they have made towards improving financial inclusion in the rural communities of Lesotho. The Makesi savings and credit co-operative was used as a case study for this research. The main research questions that were addressed were:

1. What were the aims of the SUFIL financial literacy programme in promoting financial inclusion?
2. What opportunities will a financial literacy programme afford targeted beneficiaries in the long term?
3. What are the perceptions of participants of SUFIL on training provided to enhance financial knowledge and promote financial inclusion?

## 5.2 AIMS OF THE SUFIL FINANCIAL LITERACY PROGRAMME IN PROMOTING FINANCIAL INCLUSION

The aims of the SUFIL were to contribute to poverty reduction and promotion of economic growth towards the attainment of the Millennium Development Goals **(**MDGs) by working with the government and related stakeholders to strategically and effectively address the gaps and bottlenecks that have impeded financial inclusion in Lesotho. This was planned to be done through spreading awareness and skills building of the intended beneficiaries as potential users of financial services. The underlying reason was to provide beneficiaries with clarity on the financial concepts in order to enable them to make better financial decisions and facilitate linkages between banks, micro and rural finance service providers.

The objective of SUFIL was to improve access to sustainable financial services in the urban and rural areas by the lower income segment of the market. The target beneficiaries of this programme were key players in the delivery of financial services in Lesotho. They ranged from co-operatives, societies, associations, savings and credit groups, banks, moneylenders and insurance companies. These beneficiaries were located in the rural and urban areas of Lesotho. For the purpose of this research, the focus was on output 3 which sought to improve and accelerate access to a broader range of financial serves. Mixed results were reported with regard to attaining the programme objectives. There were areas where there were positive results as well as under-performance in some areas. Fifteen savings and credit co-operatives were identified for capacity building.

The funding was provided by the UNDP, UNCDF, IFAD, Government of Lesotho and the Central Bank of Lesotho. The overall funding for this project was US$4,085,000 which was to complement RUFIP's US$1,835,000. Out of the total budget, 74% which amounted to

US$3,032,000 was identified for a capacity building programme. The duration of the project was three years starting in 2011 and ending in 2014.

Monitoring for this project, which was to track progress on constraints, successes and lessons learned in line with the benchmark data and indicators, was supposed to be done by the Ministry of Finance, while evaluation was the responsibility of the UNCDF.

The main findings from the programme were that the capacity building and technical support to financial service providers was successfully done. The financial literacy trainings went well but the level of financial inclusion in the country cannot be measured due to shortcomings on the monitoring and evaluation. Various sources of data which were indicated at the beginning of the project were not used.

Zuba (2015) states that empowerment is a management practice of sharing information and power so that individuals can take the initiative and make decisions on their own and solve problems. The initiative of the GOL, IFAD and UNDP was meant to empower the intended participants so that they may be aware of the available financial services and make use of them for the betterment of their lives.

Mason and Wilson (2000) asserts that programmes that educate to improve individuals with the knowledge and skills are necessary because they become more inquisitive and seek more knowledge. The majority of Makesi members said they were empowered by the trainings they attended. They reported that they are already using the knowledge they acquired to change their lives. One of the members affirmed this and said the aim is always to get more knowledge.

Sinclair (2001) notes that the inability to access necessary financial services in an appropriate form leads to financial exclusion. This is supported by Kempson and Collard (2012) who explain that people who are financially excluded are mainly found in the rural areas. This was confirmed by FinScope (2012) which indicates only 29% of the rural population is financially included. It can, however, be concluded that the self-claims from the members of Makesi on their exposure to other financial services is evidence enough that the gap is being bridged. A success story was the report by one of the Makesi members who said that she has already opened an account with the Lesotho Post Bank (LPB) which primarily offers services to the rural population.

The ultimate goal for improving financial inclusion is to stimulate economic growth. This begins by providing people with access to financial services, loans, credit and insurance, thereby allowing them to engage in gainful economic activities that promote aggregate demand**.** The participation of Makesi members in SUFIL financial literacy trainings has proven to be a positive trajectory towards this goal as some of the participants indicated that she has already opened a bank account while another explained that she has generated so much profit that she could buy cages worth R26,000 for her poultry project**.** Oji (2015) explains that all African countries have a high proportion of financially excluded people which reflects lack of access to, and use of, formal financial resources. He further asserts that by enabling localised development, financial inclusion impacts positively on economic growth as a whole. It is evident from the reports by Makesi members that their family economy has changed positively.

Serma (2011) asserts that financial inclusion can assist the poor to emerge from poverty. The majority of the Makesi members implied that due to the trainings their family well-being has improved as they are now able to provide for their families.

## 5.3 OPPORTUNITIES FOR BENEFICIARIES OF THE FINANCIAL LITERACY PROGRAMME IN THE LONG TERM

It was expected that based on the trainings members will have lifetime opportunities which included knowledge of the financial services that they can make use of. The training would also help them to acquire skills that will enable them to make long term financial decisions that will improve their lives. Most of these opportunities were realized. This is also demonstrated in the report which further shows that the trainings provided the participants with useful opportunities which will be part of their lives as they are now able to make sound financial decisions. Hathaway (2008) mentions that the ability to make sound financial decisions is a starting point in identifying and overcoming vulnerabilities. Overcoming vulnerabilities aids in planning towards economic security. Most Makesi members emphasised that the trainings have not only assisted them in overcoming their present challenges, but indicated that they will benefit for a long time.

One of the valuable lessons that the respondents said they gained from the trainings was the lesson on a culture of saving. Saving is defined by Margaret (2001) as using fewer resources in the present and keeping some for the future. According to Margaret (2001) saving serves two main primary functions which are economic security and accumulation of wealth. Kay (2010) says saving means different things to different people; to some, it means putting money in the bank, to others means buying shares or contributing to a pension plan.

The participants stated that before they underwent the training on financial literacy, they did not understand what saving was all about, but since saving and credit are fundamental concepts of their society, they eventually understood and practiced them. Clancy and Grinstein-Weiss and Schreiner (2001) assert that with regard to saving, people in general

and the poor in particular might not be completely rational and completely knowledgeable. Schreiner, *et al* (2001) elaborates that saving is not a simple concept, not only for the poor but for financially knowledgeable people as well. He shows that it requires sacrifice because of the scarcity of resources.

Wealth levels of individuals differ over their life cycle. Financial education plays a fundamental role in individuals making decisions about their future. Making better financial decisions assists individuals to accumulate and allocate assets in order to ensure that they are financially secure in the future. Financially literate individuals are able to allocate some of the resources wisely and enjoy their returns over a longer period of time. This is mostly seen in people who have retired. Financially literate individuals are able to assess the risks that they may be subjected to and identify ways for mitigating or managing the risk without being affected adversely.

One of the participants pointed out that she would like to save more money in order to get income periodically and maintain the same level of consumption when she gets old. She observed that if she could afford it she would build flats for renting in town so that she will have income even when she is old. Annamarie (2011) asserts that individuals tend to save resources so that they can transfer them to life stages where marginal utility of consumption is highest. This is often done when individuals earn high incomes to periods where they earn less. Members of the Ikaheng Makesi savings and credit co-operative mentioned that they want to maintain their consumption even when they are old and that due to the training, they now have knowledge on how to accumulate assets but they have little coming in.

Choi (2009) elaborates that the skills related to personal financial management are very important in this era of rapidly changing financial systems. In order to successfully navigate and maximize economic well-

being, individuals must possess a basic level of financial knowledge and decision-making ability. On the same note, the project co-ordinator mentioned that the participants are able to make sound financial decisions for personal household and business expenditure. She further indicated that the participants no longer focus solely on burial societies but they now have knowledge of other financial products which will assist in sustaining their livelihoods.

## 5.4 PERCEPTIONS OF SUFIL PARTICIPANTS ON TRAINING TO ENHANCE FINANCIAL KNOWLEDGE AND PROMOTE FINANCIAL INCLUSION

Making sound financial decisions demonstrates to a great extent how financially literate people are. Members of thr Makesi savings and credit co-operative considered the training to be very important in their lives. Their view about the training was that it is going to change their lives for the better. As reported by the majority of the participants, the way in which they view life has already changed and they are now in charge of their lives.

One of the participants said after the trainings they are able to provide funding for their children and their children are in a better position to avoid the mistakes they had made because they have the opportunity to attend school. They believe that the knowledge acquired has changed their attitudes towards individual financial management. They are of the opinion that their livelihoods will be improved and sustained. Robert (1991) states that livelihoods are only sustainable if they bring some positive change on the assets at the disposal of individuals. He further asserts that it is necessary for individuals to be equipped with skills that enable them to overcome adverse effects brought about by shocks and stress in their environment.

This was supported by the project co-ordinator who showed that participants are now able to do research about the different business ventures they are involved in. This is perceived to be a valuable element of their training because they are now able to assess the probability of risk occurring. This is more so because risk is a phenomenon that human beings are always exposed to. It is therefore important that individuals maintain and enhance their capabilities for the future in order to overcome shocks and stress in their lives.

## 5.5 ISSUES FOR FURTHER DISCUSSION

The government of Lesotho and its development partners have been working hard on the improvement of financial programmes and reforms (FinScope, 2011). The International fund for Agricultural Development (IFAD) and the Millennium Challenge Corporation (MCA), for example, have been intent on increasing access to finance for the rural population in order to overcome some vulnerabilities. There have been opportunities as well as challenges in this regard and these are explained some detail below.

### 5.5.1 Challenges

The majority of the population in Lesotho is faced with the problem of low income levels, and where there is income, it comes from irregular sources (FinScope, 2011). Most of these people are located in the rural areas and are unbanked. This is sometimes linked to the private sector that is underdeveloped. The demand for financial services in Lesotho is substantial especially in the rural areas. In order to access a banking facility people travel up to 120 kms because the coverage for banking services in the country is very poor (FinScope, 2011).

### 5.5.2 Opportunities

The government of Lesotho acknowledges that failure to access credit is one of the main constraints to growth, and therefore strives to find ways of addressing this challenge. The following are some of the interventions made by the government to enhance access to finance.

#### 5.5.2.1 Financial Co-operatives Policy Formulation

The Ministry of Trade and Industry: Co-operatives and Marketing has formulated the financial co-operatives policy which will aid in the implementation of the financial co-operatives act. Most of the financial co-operatives are based in the rural areas and this would promote their active participation in the financial sector and thereby improve their financial position.

#### 5.5.2.2 Rural Financial Intermediation Programme (RUFIP)

This is a seven-year programme funded by the IFAD with the objective of enhancing access to efficient financial services by the rural poor (FinScope, 2011).

#### 5.5.2.3 Lesotho Post Bank

The establishment of the Lesotho Post Bank in 2004 by the government with the aim of expanding financial services to the rural poor provides a good opportunity. The LPB operates throughout the country targeting only the unbanked communities.

## 5.6 SUFIL ASSESSMENT AGAINST OECD/DAC EVALUATION CRITERIA

Following a summative evaluation of the SUFIL to determine the extent to which the targeted results were attained, the researcher felt that it would

be useful to subject the findings to different assessment criteria. The OECD/DAC criteria were used. These are criteria that are widely used in the development field to assess the effectiveness of interventions. The results were as follows.

### 5.6.1 Relevance

The intervention by the UNDP, RUFIP and other development partners was highly relevant because access to financial services had been identified as one of the main impediments to economic growth in the country (NDSP, 2013). This was also consistent with the elements of the Vision 2020 which is a long term economic framework developed with the aim of charting a way forward for the country's development.

### 5.6.2 Effectiveness

The extent to which SUFIL achieved its objective in the second output, which aimed to improve and accelerate access to a broader range of financial services, was effective. This is due to the fact that most of the participants indicated that they benefited from the trainings. There were, however, some challenges along the way but these did not deter the intended beneficiaries from gaining their anticipated benefits.

### 5.6.3 Efficiency

The use of resources was not cost-efficient. One of the indicators to support this assertion is the fact that RUFIP had to use its own funds due to unavailability of funds from other partners like the government of Lesotho.

### 5.6.4 Impact

It is too early to tell whether the impact of the programme has been positive or negative due to the time that has passed since the closure of

the project. On the other hand, in the medium term lack of effective monitoring and evaluation of the project indicators resulted in the absence of evidence for impact assessment.

### 5.6.5 Sustainability

In order to sustain the benefits derived from the financial literacy training, there is a need to continuously build the capacity of the participants. This would accelerate the momentum built by these trainings.

## 5.7 SUMMARY OF KEY FINDINGS

Financial inclusion is a highly complex phenomenon that cannot be understood in isolation. It needs to be understood in the context of other dynamics within a country or community like the social and economic profile of communities as well as the capacity of the country. To fully comprehend financial inclusion, it is necessary to understand issues like the profile of the population, the different ways in which people generate income, their social realities, and their perceptions regarding financial services. People residing in the rural communities are usually not privy to the different products in the financial markets mainly due to their location. The training is important as this impacts positively on the economy of the country and results in a reduction of poverty, but there are challenges that are encountered by the rural communities of Lesotho.

The development of information and communications technology is opening up the opportunity for providing essential financial services to most people. Financial inclusion is important as it contributes positively in the economy of a country. The challenge is how to harness the potential of what has become to be called financial inclusion through addressing financial services for the poor. To reduce the vulnerability of the poorest communities, and specifically people who live in the rural areas, the banks

should also introduce the facilities that accommodate both working class and non-working class clients.

Financial literacy is relevant and important to all people because it contributes towards poverty alleviation that affects future generations. In this chapter the researcher has presented, analysed and interpreted data collected from the Ikaheng Makesi savings and credit co-operation, the project co-ordinator and from the document scan in order to identify valid information on the importance of financial inclusion in Lesotho. The documents were also used for analysis in order to gather more facts on the study.

The researcher has learned that financial literacy in the rural area requires further attention. People in the rural areas of Lesotho mostly generate money through subsistence farming. The report of the FinScope Consumer Survey (2011) indicates that the Basotho who reside in the rural areas experience problems with basic financial services. This is evidenced by the distance to the nearest grocery store, local village market, post office and bank and is measured in terms of the time taken to reach these places. This situation points to deficiencies of the main drivers of financial inclusion, namely the levels of access to infrastructure. The other critical factor is the availability of financial services institutions.

Very often there is lack of physical access; the banks are too far away which is given as the reason why people do not engage with the formal financial institutions. The government should exert pressure on the formal financial institutions to erect points of presence in these rural areas. The problem that is encountered by Ikaheng members might also include people borrowing beyond their means and as a result failing to pay their debts.

The participants interviewed reported that they were trained on conducting market research in order to establish which products the market demands. This enabled them to communicate with the local people to establish what their basic need is in order to start a business that will be responsive to the needs of the community. The training also assisted them to save from the small income they have. The challenge is inadequate financing due to lack of access to credit.

# CHAPTER SIX

# CONCLUSION AND RECOMMENDATIONS

## 6.1 INTRODUCTION

This chapter presents the conclusions drawn from the discussions and provides recommendations. According to the FinScope (2011) report, the levels of financial inclusion in the rural communities of Lesotho stands at 29%. This was seen as an impediment to the general economic growth of the country (Vision 2020) and this situation gave rise to SUFIL which is a programme aimed at contributing to poverty reduction and economic growth by strategically and effectively addressing the gaps and bottlenecks that have impeded financial inclusion in the country.

SUFIL was implemented in partnership with RUFIP which was already involved in a number of activities geared towards improvement of financial inclusion levels in the country. The Makesi savings and credit co-operative was chosen as a case study to evaluate whether the aims of the SUFIL through financial literacy training undertaken by its partner RUFIP were effective. For the purpose of this research the focus was on the second output which sought to examine the Meso level that set out to improve and accelerate access to a broader range of financial services.

-emphasized. Even though SUFIL as a programme did not meet all its objectives there were gains made by the implementation of this programme. The following conclusions were drawn from the data collected and the analysis made.

## 6.2 CONCLUSION

Even though there are multiple strategies and initiatives that have been implemented with the aim of reducing poverty, none has been found to be effective alone. Financial inclusion needs to be a complementary solution to add to these existing interventions.

Central to financial inclusion is financial education which leads to greater financial knowledge and greater financial knowledge translates into better financial behaviour. Better financial behaviour in turn leads to improved consumer outcomes. For the rural population where there are minimal financial activities, access to financial services would catalyse economic activity and increase aggregate demand which is necessary for economic growth. An improved level of the domestic economy will also impact positively on the general economy of Lesotho. In India, for example, 41% of the adult population was financially excluded even though the financial literacy level has risen to 61%. The advent of mobile banking saw the number decline and the use of different financial services expand (Naha, 2013).

## 6.3 RECOMMENDATIONS

Even though SUFIL had success stories, they did not occur at the standard that was anticipated at the inception stage as some deliverables were not realized. Some unanticipated challenges emerged along the way. There are, however, a number of recommendations that could be taken into consideration for implementation of projects of a similar nature in the future.

### 6.3.1. Pre-project design

Pre-assessment is crucial in the conception of a project (Mouton *et al*, 2014). Relying on the evidence drawn from other countries can sometimes

be misleading. An in-depth analysis of the capacity of the implementing agencies should be assessed. Furthermore, the roles and responsibilities of each partner should be clearly defined. This would allow for accountability and delivery of project results on time and to the expected standard and quality.

### 6.3.2 Monitoring and Evaluation

Monitoring and evaluation is a process that helps improve performance and deliver results. It is defined by Mouton *et al* (2014:4) as management of activities that are necessary to ensure the achievement of policy goals in the form of concrete results. Outcomes with clear indicators should be explicitly defined from the inception of the project. For the implementation of projects of a similar nature in the future, the researcher recommends that more effort has to be expended on the monitoring and evaluation function to better track the activities.

Even though great strides have been made, the extent to which the programme enhanced financial inclusion cannot be established at this point. This is mainly because the issue of financial inclusion can be measured through a special study which will show the factors that contributed to the improvement or decline in financial inclusion in the country. It is against this backdrop that a study to establish how widespread financial inclusion is, is recommended.

The researcher observed that there is still much to be done for the rural communities to be financially included in the country. The government should make a deliberate effort to ensure that the rural communities are aware of the different financial products and have access to financial services that are suitable for them.

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