

**THE PAYMENT SYSTEM IN
LESOTHO**

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1. INSTITUTIONAL ASPECTS

1.1 General legal aspects

The supervision of banks and any other financial institutions is carried out by the Central Bank of Lesotho in accordance with the provisions contained in the Financial Institutions Act, 1973.

Netting arrangements are carried out using the Central Bank of Lesotho Clearing House rules. There is no law as such.

The Central Bank can appoint persons, acting with the prior written approval of the Minister, if a bank's condition is unsound or its business is being conducted in an unlawful or imprudent manner. The central bank's appointee shall take an inventory of assets and property of the institution and this shall be available for examination by interested parties at the office of the commissioner (Central Bank).

Payment instruments such as cheques and credit cards are issued to those people who fall into a certain category of salary.

Other institutions providing payment services by law are the Post Office and development banks. The Post Office issues postal orders and these are acceptable everywhere and are treated the same way as cheques.

1.2 Financial intermediaries that provide payment services

Financial intermediaries such as commercial banks also act as savings banks because they provide banking services to the public by accepting saving deposits as well as demand deposits. They operate according to the Financial Services Act.

Partial financial institutions exist in the form of development banks (non-banks because they do not offer the full services of commercial banks, such as cheque accounts) and also The Employment Bureau of Africa (TEBA) which makes payments on behalf of migrant mine workers. Other types of financial institutions which accept deposits from the public are insurance companies.

1.3 Role of the central bank

The Central Bank is responsible for issuing maloti notes and coin to settle legal payments and the loti is thus legal tender. It takes the form of token money or paper which has no commodity value but is acceptable as a medium of exchange.

The Central Bank operates accounts for banks to enable speedy settlement between themselves. It also operates accounts for certain international agencies. The Central Bank also fulfils its obligations as banker to the government by operating accounts and tellers' facilities for the government departments and agencies. Usually the Treasury will instruct the Central Bank to make payments on its behalf per letter with the designated signatories.

The Central Bank executes monetary policy via several monetary policy instruments such as interest rates, reserve requirements, open market operations, credit ceilings and moral suasion. The discount rate is rarely used as most commercial banks usually have excess liquidity.

The Central Bank, through the Bank Supervision Division, keeps an eye on banks to ensure they adhere to the set rules contained in the Financial Institutions Act.

1.4 Role of other private sector and public sector bodies

The Treasury's role is to issue instructions authorising payments on behalf of the Government by the Central Bank.

2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON BANKS

2.1 Cash payments

Denominations of bank notes used are the M200, M100, M50, M20, M10 and M5 including coins (the loti and M2 coins).

2.2 Non-cash payments

2.2.1 Credit transfer

- Telegraphic transfer (S.W.I.F.T.) which is quite efficient.
- Mail transfer.

Users of these credit transfers are mainly the commercial banks and the Forex Division of the Central Bank. The Post Office also operates this facility.

2.2.2 Cheques

Only commercial banks are allowed to issue cheques. Their acceptability as a payment medium is quite good. Types of payments made by cheque are for goods and services, salaries, pensions, etc.

2.2.3 Direct debits

Commercial banks use direct debits for making payments on behalf of cheque account holders to pay stop orders, usually to insurance companies. These are normally quite efficient.

2.2.4 Payment cards

The card that is the most commonly used is the credit card and is acceptable everywhere and is used widely to make all types of payments.

The other card that is widely used is the Automatic Teller Machine (ATM) card. This card operates via a network known as Saswitch, which is an association of banks which have agreed to facilitate banking transactions amongst themselves.

The smooth operation of ATMs relies on the telecommunication systems being functional, as this is the mode of transmission. Transmission lines have recently been increased in order to improve their efficiency. Several ATMs exist in a few of the districts such as Butha-Buthe, Leribe and Roma and they operate normally for as long as the telecommunication lines are working normally.

2.2.5 Other payment instruments

Travellers' cheques are normally exchanged for the local currency at any commercial bank, but are generally acceptable, especially at hotels.

3. INTERBANK EXCHANGE AND SETTLEMENT SERVICES

3.1 General overview

Interbank transfers are effected through the Central Bank which operates as a clearing house for the banking system in Lesotho by participating in the exchange of cheques with the commercial banks on a daily basis.

Since the Central Bank holds settlement accounts for all the banks, the system of interbank exchange and settlement is quite efficient.

There is no legislation governing clearing and settlement, but clearing house rules exist which the commercial banks have to abide by. The Central Bank is responsible for ensuring that these rules are adhered to.

The main criteria for participation is that an institution should be a fully fledged commercial bank carrying out the business of banking.

The transactions handled are:

- Table clearing which involves preparation and accounting for outward clearing of cheques deposited at the Central Bank of Lesotho (CBL) but drawn on customers' accounts at commercial banks, and inward clearing of cheques deposited at commercial banks but drawn on customers' accounts at the Central Bank.
- Outward clearing cheques are put in an envelope for each commercial bank, and the total amount to be cleared is written on the surface of the envelope.
- Amounts to be cleared (in and out) are recorded in the CBL Clearing House Register. Similarly, each bank should record the amount cleared in and out in their respective registers. The difference between the amounts cleared in and the amounts cleared out is the net settlement figure and can be in favour or against a bank.
- The settlement figure is recorded in the clearing house register under, against or in favour.
- CBL Clearing House account will be credited if it is in favour or debited if it is against. The same will be done for individual banks depending on whether they are in favour or against.
- A batch will be prepared for the settlement entries.

Clearances normally start at 9.30 a.m. and end at about 10 a.m.

The clearing process is done manually, that is, using simple adding machines, on a clearing table. The exchange process takes place on the table.

Afterwards, settlement figures representing vouchers debits and credits must be accurately posted to the correct accounts. These postings are the source data for the production of banks' financial statements.

In the case of participant failure, losses are incurred in the form of interest lost had the bank been in favour, because this would mean that there is no outward clearance for that particular day.

Commercial banks rarely resort to borrowing from the Central Bank because most of them have excess liquidity.

3.2 Settlement

The net settlement is effected by debiting or crediting the accounts of affected Banks held with the Central Bank. So far the banks in Lesotho have been liquid and have not encountered any difficulty meeting their debt obligations.

4. SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS

International payments are effected through S.W.I.F.T. The foreign currencies traded in the country are US dollar, pound sterling, Swiss franc and others, but on a very small scale. The payments are processed directly to the payee and arrangements are made with foreign banks to process payments on their behalf. For example, the South African Reserve Bank and the Federal Reserve Bank of New York act in this capacity for the Central Bank of Lesotho because they have accounts with them.

The present situation with securities markets is that they operate with cash mostly or transfer of funds from commercial banks' call accounts in CBL.

5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SETTLEMENT SYSTEMS

The Central Bank supervises interbank settlement system and chairs the Clearing Bankers monthly meetings at which issues of common interest are handled.

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM

There is no new system as yet. We are still operating manually.

7. INFRASTRUCTURE

The Lesotho Telecommunication Corporation has covered the whole of Lesotho with telephone facilities.

The whole of Lesotho is working on new roads in the rural areas. The roads in urban areas are good.

In urban areas electricity is available. The Lesotho Electricity Corporation is working on introducing group schemes in the rural areas.

Table 1
Basic statistical data

	1992	1993	1994	1995	1996
Population (millions)	1.89	1.95	2.00	2.06	2.11
GDP (millions of Maloti)	1.89	2.29	2.69	3.05	3.60
GDP per capita (thousands of Maloti)	241	244	267	284	312
Exchange rate (domestic vis-à-vis US\$)					
<i>year-end</i>	3.053	3.397	3.543	3.647	4.683
<i>average</i>	2.847	3.252	3.552	4.550	4.271

Table 2
Settlement media used by banks
 (in billions of Maloti)

	1992	1993	1994	1995	1996
Reserve balances held at central bank	19.29	24.63	3.57	4.91	5.64
Transferable deposits at other institutions	-	-	-	-	-
Accounts at the Post Office	-	-	-	-	-
Accounts at the Treasury	-	-	-	-	-
Required reserves	34.74	41.39	6.65	8.39	9.73
Institutions' borrowing from central bank	-	-	-	-	-

Table 3
Banknotes and coin

	1992	1993	1994	1995	1996
Denomination of banknotes:					
200 notes	-	-	-	6,355,800	3,651,600
100 notes	-	-	-	23,694,500	39,053,500
50 notes	14,550,250	24,602,950	31,104,350	36,957,750	40,826,150
20 notes	19,320,600	19,761,900	25,081,940	18,360,560	12,470,840
10 notes	8,383,070	6,905,770	12,427,390	6,824,780	5,610,790
Denomination of coin:					
100 coins					
50 coins	993,400	1,100,400	1,215,400	1,243,900	1,410,400
25 coins	538,300	627,350	668,050	674,650	780,900
20 coins	297,550	404,375	345,025	339,900	373,825
5 coins	397,389	461,789	499,589	533,689	589,889
2 coins	103,019	120,944	137,694	157,044	184,369
1 coins	92,097	1,030,770	119,817	139,737	160,317
½ coins	155,361	166,841	197,261	228,991	239,681

Table 4
Institutional framework

Categories	Number of institutions	Number of branches	Number of accounts (thousands)	Value of accounts (millions of Maloti)
Central bank	1	-	-	-
Commercial banks	3	16	372	151
Public credit institutions	1	8	-	-
Post Office	1	47	-	-