

E-commerce and Financial Architecture of Trade in Services in Lesotho

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1. Abstract

This policy paper explores the crucial intersection of e-commerce and financial architecture in the context of trade in services in Lesotho. According to the World Bank, the services sector accounted for 49.17% of Lesotho's GDP in 2021, followed by the industry sector (34.23%) and the agriculture sector (4.95%). The services sector includes a wide range of activities, such as tourism, transportation, financial services, and government services. As such, Lesotho's economy heavily relies on services, making it imperative to understand the role of e-commerce and the financial infrastructure supporting the trade in services. This paper assesses the current state of e-commerce, identifies challenges, and offers policy recommendations to enhance the e-commerce ecosystem and financial architecture in Lesotho for the benefit of both the services sector and the broader economy.

2. Introduction

Lesotho's unique geographic position within South Africa has placed the country's tourism sector in the forefront of priorities for economic development with a vibrant services sector growth rate averaging around 4% per year over the past 10 years. Balchin et al (2016), notes the potential of trade in electricity between South Africa and Lesotho occurring through direct bilateral relationship as a potential key contributor to trade in services, more importantly due to Lesotho's membership of Southern African Power Pool, a regional energy organization established in 1995 to promote cross-border energy (electricity) trade by integrating regional national utilities.

In the digital age, e-commerce has become a critical component of trade in services, necessitating a robust financial architecture to facilitate transactions. This paper aims to shed light on the e-commerce landscape and the financial infrastructure supporting trade in services in Lesotho.

3. E-commerce in Lesotho

3.1. Current State of E-commerce

Lesotho's e-commerce is still in its early stage of development; therefore, it is important to evaluate its role in facilitating trade in services. As Balchin et al (2016) puts it "Low-cost and high-quality telecommunications will generate economy-wide benefits, as the communications network is a transport mechanism for information services and other products that can be digitised." Assessing the penetration of e-commerce, identifying key players and sectors, and highlighting growth trends and potential areas of development provide valuable insights into the country's digital landscape.

3.2. Penetration of E-commerce

E-commerce penetration in Lesotho is still relatively low compared to more developed economies or its peers. According to the World Bank data (2021), this can be attributed to several factors, including limited internet access which is currently at 48% (compared to South Africa at 72%, Botswana at 74%, and Eswatini at 59%), low digital literacy rates, and challenges related to infrastructure development. Access to the internet, is considered a fundamental requirement for participating in e-commerce activities.

3.3. Key Players and Sectors

The e-commerce landscape in Lesotho is characterized by both local and international players. Local businesses, particularly in urban areas, have started to establish an online presence through websites and social media platforms. Additionally, international e-commerce giants like Amazon and eBay are also playing a role in connecting Lesotho consumers to global markets. E-commerce is relevant across various sectors in Lesotho, including but not limited to retail, tourism, education, agriculture and financial sector.

3.4. Growth Trends and Potential

Despite the challenges, there are several growth trends and potential areas for e-commerce development in Lesotho:

- a) **Mobile Commerce:** The increasing penetration of mobile phones presents an opportunity for mobile commerce (m-commerce) to thrive, allowing users to access e-commerce platforms via their smartphones.
- b) **Cross-Border Trade:** Lesotho can leverage e-commerce to engage in cross-border trade, tapping into regional and international markets. This can be particularly beneficial for services such as tourism and education.
- c) **Digital Payments:** The growth of digital payment solutions and mobile money services can facilitate e-commerce transactions, making it easier for consumers to make online purchases.
- d) **Government Initiatives:** Government support and initiatives to promote e-commerce adoption, digital literacy, and infrastructure development can catalyze growth in the sector.

E-commerce Potential for Job Creation: E-commerce has the potential to create jobs, especially in areas like logistics, digital marketing, and website development, which can contribute to employment opportunities and economic growth.

To put it briefly, while e-commerce in Lesotho faces challenges related to limited internet access and digital literacy, there are clear signs of growth and potential. To harness these opportunities fully, it is crucial for the government, businesses, and stakeholders to work together to address infrastructure limitations, promote digital literacy, and create a conducive environment for e-commerce growth.

4. Challenges in E-commerce

The development of e-commerce in Lesotho faces several significant challenges, ranging from infrastructure limitations to digital literacy and regulatory barriers. These obstacles not only impede the growth of e-commerce within the country but also have a direct impact on the services sector's ability to engage in international trade (Mapeshoane and Pather, 2016).

4.1. Infrastructure Limitations

Internet Access: Limited access to reliable and high-speed internet is a significant barrier. Rural areas, in particular, often lack the necessary infrastructure for consistent internet connectivity. This hampers the ability of both businesses and consumers to engage in online activities.

Logistics and Delivery: E-commerce relies heavily on efficient logistics and delivery networks. Inadequate infrastructure for last-mile delivery and transportation can lead to delayed or unreliable delivery services, affecting the overall customer experience and trust in e-commerce.

Payment Systems: E-commerce requires secure and convenient digital payment options. In Lesotho, access to digital payment systems can be limited, hindering the ability of consumers to make online transactions and businesses to receive payments. However, there are efforts by CBL to modernize payments systems through the introductions of the National SWITCH, which has integrated existing payments platforms.

4.2. Digital Literacy

A study on “The Adoption of E-Commerce in the Lesotho Tourism Industry” revealed that the majority of tourism businesses in the Lesotho tourism industry were unaware of potential benefits to be gained by e-commerce. Although there was little awareness among tourism SMME’s, the study established that e-commerce was regarded as a possibility in the future, even if currently not applied by businesses and the tourism industry (Mapeshoane and Pather, 2016).

Many people in Lesotho may not be sufficiently skilled in using digital devices and navigating online platforms. This lack of digital literacy can limit participation in e-commerce activities, as potential users may find it challenging to understand and utilize online marketplaces effectively.

Limited digital literacy can also result in a lack of awareness about the benefits of e-commerce and concerns about online security and privacy. These issues can deter consumers from engaging in online transactions.

4.3. Regulatory Barriers

Lack of E-commerce Regulations: Lesotho lacks comprehensive focused e-commerce strategy and regulations. The absence of a legal framework can create uncertainty for businesses and consumers regarding their rights and responsibilities when engaging in online transactions.

Cross-Border Trade: International e-commerce often involves cross-border transactions. Complex customs procedures, import/export regulations, and currency exchange challenges can make cross-border e-commerce more difficult and less attractive for Lesotho-based businesses.

Data Privacy and Security: Ensuring data privacy and security is vital for e-commerce. The absence of robust data protection laws and enforcement mechanisms can raise concerns among consumers and limit their willingness to share personal and financial information online.

4.4. Impact on Services Sector's Ability to Engage in International Trade

Reduced Competitiveness: The challenges mentioned above can reduce the competitiveness of Lesotho's services sector in the international market. When local service providers struggle with digital limitations, they may lose opportunities to reach a global audience and compete with businesses from countries with more advanced e-commerce ecosystems.

Market Access: Regulatory barriers and limitations in e-commerce infrastructure can impede the ability of Lesotho's service providers to access international markets. This can be particularly detrimental to sectors like tourism, education, and consulting services, which have significant export potential.

Consumer Confidence: Without robust regulatory frameworks and secure online platforms, consumers, especially those from other countries, may hesitate to engage with Lesotho-based service providers. Building trust and confidence is essential for attracting international customers.

5. Opportunities for E-commerce

Fostering e-commerce growth in Lesotho presents numerous opportunities for economic development, including cross-border trade in digital services and the establishment of online marketplaces. To gain insights into how this can be achieved, we can look at successful case studies from other countries that have effectively leveraged e-commerce for economic growth.

5.1. Opportunities for Fostering E-commerce Growth in Lesotho

5.1.1. Cross-Border Trade in Digital Services

Export of Education Services: Lesotho can promote its educational institutions by offering online courses and degree programs to international students. This approach has been successfully adopted by countries like the United States (through universities offering online courses) and India (through massive open online course platforms like edX and Coursera).

Remote Work and Freelancing: Encouraging local talent to provide digital services, such as software development, graphic design, and content writing, to international clients can stimulate cross-border trade. Online marketplaces like Upwork and Fiverr facilitate such freelance opportunities.

5.1.2. Online Marketplaces

Agricultural Products: Lesotho can establish an online marketplace for agricultural products, allowing local farmers to sell their goods to a wider audience. India's "e-NAM" (National Agriculture Market) platform is an example of how a centralized online marketplace can benefit farmers by connecting them to buyers across the country.

Crafts and Artisans: Online marketplaces can empower local artisans and craftsmen to showcase and sell their products globally. Etsy, an e-commerce platform for handmade and vintage items, is an excellent example of how this can be achieved.

5.1.3. Digital Payments and Financial Inclusion

Mobile Money Services: Promoting the use of mobile money services can make digital transactions more accessible. Eco-cash and M-Pesa, are renowned success stories in Lesotho, where mobile money has transformed financial inclusion and e-commerce.

Digital Wallets and Payment Gateways: Facilitating secure online transactions through digital wallets and payment gateways is essential. Chaperone in Lesotho and other fintech players PayPal and Stripe, widely used in international e-commerce, can serve as models for Lesotho.

By leveraging these opportunities and drawing inspiration from successful e-commerce models, Lesotho can foster economic growth, create job opportunities, and position itself as a competitive player in the global digital economy.

6. Financial Architecture for Trade in Services

As David (2022) puts it, in his book “The Transition from an Informal Financial Money Market to a Formal Financial System Through Digital Financial Inclusion”, “the connection between digital finance and financial inclusion is based on the idea that a sizeable portion of the population that is excluded has access to a mobile phone, and that the delivery of financial services via mobile phones and other related digital devices is enhancing access to finance for people who were previously excluded, such as the underprivileged, women, and youth. This enables these individuals to move from an unregulated money market to a regulated financial market, which in turn allow them to transition from being financially excluded to being financially included.”

6.1. Payment Systems

Assessing the efficiency and accessibility of payment systems for facilitating international trade in services is crucial for Lesotho's ability to engage in global commerce. Here, we will evaluate the current state, limitations, and barriers related to cross-border financial transactions in Lesotho.

Limited Access to Digital Payment Solutions: While Lesotho has made progress in digital payment infrastructure, there is still room for improvement. Accessibility to digital payment solutions, such as credit card processing and mobile money services, may be limited, particularly in rural areas.

Cross-Border Transactions: The efficiency of cross-border transactions depends on the ease with which businesses and individuals can transfer funds internationally. Lesotho's financial institutions should offer convenient and cost-effective mechanisms for cross-border payments.

Banking Infrastructure: The availability of banking services and access to bank accounts play a significant role in facilitating international trade. Rural areas might have limited access to traditional banking infrastructure, which can hinder cross-border financial transactions.

Foreign Exchange Services: Access to foreign exchange services is crucial for converting local currency into foreign currencies, essential for international trade. Lesotho should ensure that there are accessible and competitive foreign exchange platforms.

Digital Currency Integration: Exploring the integration of digital currencies, such as cryptocurrencies, into the payment ecosystem can enhance the efficiency of cross-border transactions. However, it also comes with regulatory challenges that need to be addressed.

6.2. Limitations and Barriers

Regulatory Hurdles: Complex and inconsistent regulatory frameworks related to cross-border transactions can be a significant barrier. Stringent anti-money laundering (AML) and know-your-customer (KYC) requirements can create obstacles for businesses and individuals.

Exchange Rate Volatility: Fluctuations in exchange rates can pose risks for cross-border transactions. Businesses may face unpredictability in the costs of goods and services when engaging in international trade.

Low Level of Financial Inclusion: Financial inclusion, ensuring that all individuals and businesses have access to affordable financial services, is essential. A lack of financial inclusion can exclude many potential participants in international trade.

High Transaction Costs: Cross-border transactions often come with higher transaction costs compared to domestic transactions. These costs can include currency conversion fees, international wire transfer fees, and intermediary bank charges.

Cybersecurity Concerns: The digital nature of cross-border transactions makes them susceptible to cyberattacks and fraud. Ensuring robust cybersecurity measures is critical for safeguarding financial transactions.

Infrastructure Gaps: Inadequate telecommunications infrastructure can lead to interruptions in cross-border transactions, affecting the reliability and efficiency of payment systems.

Foreign Exchange Controls: Some countries have strict foreign exchange controls that limit the flow of funds across borders. Businesses must navigate these regulations when engaging in international trade.

6.3. Regulatory Framework

Evaluating the adequacy of the regulatory framework governing financial transactions related to trade in services in Lesotho is crucial for ensuring the security, transparency, and smooth flow of funds in international trade. Here, we will discuss the importance of three key aspects within the regulatory framework: consumer protection, data security, and adherence to international standards.

6.3.1. Consumer Protection

Consumer protection is essential to instill trust in financial transactions. It ensures that consumers are treated fairly, have access to recourse mechanisms, and are protected against fraud or unfair practices. Lesotho should have clear regulations that protect consumers engaged in financial transactions related to trade in services. These regulations should include dispute resolution mechanisms, disclosure requirements, and penalties for fraudulent activities. An adequate consumer protection framework enhances consumer confidence in cross-border transactions, encouraging more individuals and businesses to engage in international trade in services.

6.3.2. Data Security

Data security is critical in the digital age, especially for financial transactions. Protecting sensitive financial information is essential to prevent data breaches, fraud, and cyberattacks. Lesotho should establish and enforce regulations that require businesses involved in international trade in services to implement strong data security measures. This includes encryption, secure storage, and compliance with international data protection standards. Robust data security measures instill confidence in international partners and customers, facilitating cross-border transactions and the exchange of sensitive financial information.

6.3.3. Adherence to International Standards

Adhering to international standards is essential for harmonizing regulations with global practices. It ensures that Lesotho's financial transactions are compatible with international systems and reduces friction in cross-border trade. Lesotho should align its regulatory framework with relevant international standards and agreements, such as those set by the World Trade Organization (WTO) and international financial organizations like the Financial Action Task Force (FATF). Adherence to international standards promotes

interoperability and trust between Lesotho and its trading partners, making it easier to engage in international trade in services and attracting foreign investment.

6.3.4. Harmonization with Regional Bodies

Lesotho is part of regional economic communities, such as the Southern African Development Community (SADC). Harmonizing financial regulations with these regional bodies can facilitate trade with neighboring countries. Lesotho should actively participate in regional discussions and harmonize its regulatory framework with regional agreements to reduce trade barriers and enhance cooperation. Harmonization with regional bodies streamlines trade procedures, reduces costs, and expands market access for Lesotho's service providers.

7. Policy Recommendations

Based on the analysis of the challenges and opportunities related to e-commerce, financial transactions, and trade in services in Lesotho, here are some policy recommendations that can help enhance the country's position in the global services trade landscape and promote economic development:

1. **Enhance Digital Infrastructure:** Invest in expanding reliable and high-speed internet access, especially in rural areas, to ensure broader digital inclusion and support e-commerce growth.
2. **Promote Digital Literacy:** Launch digital literacy programs targeting citizens and businesses to enhance their ability to participate effectively in e-commerce and online financial transactions.
3. **Strengthen Financial Inclusion:** Develop policies and initiatives to improve access to financial services, particularly in underserved areas, to promote financial inclusion and support cross-border trade.
4. **Modernize Payment Systems:** Collaborate with financial institutions to modernize payment systems, making them more efficient, accessible, and cost-effective for international transactions.
5. **Regulatory Reforms:**
 - a. Establish clear and comprehensive focused e-commerce strategy and regulations that protect consumers and provide a legal framework for online transactions.
 - b. Ensure data protection laws are in place and enforced to enhance data security and privacy for e-commerce transactions.
 - c. Align regulatory frameworks with international standards and regional agreements to facilitate cross-border trade and harmonize regulations.
6. **Cross-Border Trade Facilitation:** Develop strategies and mechanisms to streamline customs procedures, reduce trade barriers, and simplify cross-border transactions, particularly for services with high export potential.
7. **Promote Cross-Border E-commerce:** Encourage local service providers to engage in cross-border e-commerce by providing training and support to help them access international markets.
8. **Support E-commerce Platforms and Marketplaces:** Foster the creation and growth of online marketplaces for various sectors, such as agriculture, crafts, and tourism, to enable local businesses to showcase and sell their products and services to a global audience.
9. **Collaborate Regionally:** Engage with regional economic communities, such as SADC, to harmonize regulations, reduce trade friction, and promote cross-border trade in services.

10. **Cybersecurity Measures:** Establish cybersecurity policies and standards to protect online financial transactions and sensitive data, promoting trust and confidence in digital trade.
11. **Promote Innovation:** Encourage innovation in financial technology (FinTech) to create innovative payment solutions and financial services that cater to the unique needs of Lesotho's economy and consumers.
12. **Government Support:** Provide incentives and support for businesses to adopt e-commerce practices and invest in digital infrastructure.
13. **Data-Driven Decision-Making:** Invest in data collection and analysis to understand e-commerce trends, consumer behavior, and trade patterns, enabling evidence-based policy formulation.
14. **Capacity Building:** Offer training programs and technical assistance to government officials, businesses, and individuals to build expertise in e-commerce, digital marketing, and online business management.

By implementing these policy recommendations, Lesotho can create an environment conducive to e-commerce growth, cross-border trade in services, and economic development. These measures will not only benefit the services sector but also contribute to the country's overall economic prosperity and global competitiveness.

To conclude it is imperative to note that the role of e-commerce and financial architecture in supporting trade in services in Lesotho is of paramount importance. To harness the full potential of the services sector and boost economic growth, it is imperative to address the challenges and capitalize on the opportunities presented by e-commerce. Strengthening the financial infrastructure and adopting a conducive regulatory framework will be pivotal in achieving these goals. By implementing the policy recommendations outlined in this paper, Lesotho can position itself as a competitive player in the global services trade landscape while ensuring the well-being of its citizens and businesses.

8. References

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