SMALL SCALE CROSS BORDER TRADE STUDY
LESOTHO REPORT
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1. INTRODUCTION

Project overview

The ratification of the SADC Free Trade Protocol and movement towards a common market for Eastern and Southern Africa (COMESA) indicate the commitment of regional governments to promoting intra-regional trade. However, the focus of moves to liberalise trade and to promote development through trade in COMESA and the SADC has been on formal sector trade and not cross border trade undertaken by small entrepreneurs, or informal sector cross border trade. Yet, these traders are responsible for the movement of considerable quantities of goods through the region.

The goals of the Small Scale Cross Border Trade Project of the Southern African Migration Project (SAMP) are fourfold. First, this research will increase the knowledge and understanding of the dimensions of informal sector cross border trade between selected countries and through selected border posts. Second, this research will allow invested parties and individuals to better understand the types and volumes of trade. Building upon this is an effort to gain a better understanding of the contribution of small scale cross border trade to formal trade and tariff and tax collection. Finally, this research strives to provide an increased understanding of the gender dimensions of informal sector cross border trade. It is hoped that the data generated will enable policy makers to make policy which encourages the positive and deals with the negative aspects of such trade, assists with the development of improved border management systems and encourages women's economic empowerment.

It is envisaged that the impact of this work will be the development of a policy and programme framework which promotes the positive aspects of cross border trade with the aim of reducing poverty and inequality, incorporates a better understanding of the gender dimensions of cross-border trade and deals with gendered obstacles to trade and enables women's economic empowerment.

Specifically the study is designed to generate the following outcomes:

1. Greater knowledge and improved understanding by policy makers of cross border trade and its gender dimensions.
2. Greater knowledge and improved understanding by policy makers of the developmental impact of trade on a national/regional as well as a household level.
3. Strengthened regional capacity to research and communicate the economic, gender and developmental aspects of cross border trade.
4. Enhanced regional policy harmonisation and effective management of cross border trade.
5. Greater government and agency awareness of the role of cross border trade in regional trade, poverty alleviation and household dynamics.
6. Identified where capacity building in the area of cross border trade is required for implementers of policy, e.g. customs and excise.
7. Provision of information in a format that will enable public education to reduce public intolerance towards cross border traders where it exists.
8. Greater understanding of the economic benefits and negative aspects of cross border trade.
9. Identification of future research needs.
10. Changes proposed to the policy environment to enable entrepreneurs to maximise economic benefit.

To generate these outcomes the research team recorded information on a wide variety of aspects of cross-border trade. Information was gathered on the type, volume and value of trade carried across border points and the amount of duty paid on these goods. The sex and destination of traders, along with the type of transport they utilized was also recorded. This information will allow for a better estimate to be made of the contribution of informal trade to the regional economy. Further, possibilities for policy change, streamlining and harmonisation at border posts may be identified to ease congestion and promote managed movement.

The study was carried out at selected border posts of the following SADC countries; Lesotho, Botswana, Namibia, Malawi, Zimbabwe, Zambia and Swaziland. The Lesotho leg of the work was conducted at Maseru Bridge, the busiest border post of Lesotho, over a period of ten days in July 2006.

2. LITERATURE REVIEW AND KEY INFORMANT INTERVIEWS

The key document relating to small scale businesses in Lesotho is the White Paper on the Development and Promotion of Small Business of November 2002. The White Paper is a set of policies that are meant to enable small and medium scale businesses in Lesotho and establish linkages between them. The main emphasis of the White Paper is to address deregulation and private sector development which are key to small business growth and development. The forward by the Minister of Trade in the White Paper notes that "*The Government of Lesotho believes that if tackled with energy and determination and with support of all stakeholders, the policies on small and medium business development, set out in this White Paper, can make a major contribution to economic growth in Lesotho and thus to the well being of all its people.*" The White Paper indicates that "*almost all Basotho-owned enterprises do appear to be located near the smaller end of the enterprise size continuum.*"

The White Paper defines small businesses as follows:

> A small business is a firm that is independently owned and owner-managed and has a small (national) market share. Within this description, in Lesotho:
> - A micro-enterprise is one that employs fewer than 3 people
> - A small enterprise is one that employs 3 to 9 people
> - A medium enterprise is one that employs 10 to 49 people.
>
> The number of employees has been used as the determining benchmark rather than the firm's turnover or assets because this allows for easier information gathering and is unaffected by changes in the value of money over time.

The White Paper identifies the following as the key constraints of small businesses in Lesotho:

- Limited access to finance
- Gender inequality
- Human capital development costs
- High business-related costs
- Burdensome tax and customs administration
- Difficulties in assuming land ownership
- Bureaucratic licensing procedures
- Difficulties in public procurement and
- Limited sectoral integration

The White Paper indicates that "*The GoL sees its role as a matter of facilitation with actual growth being driven by private sector investment and entrepreneurial energies…An enabling environment for private sector and especially small business growth requires a reduction of the regulatory, policy and legislative obstacles that currently inhibit the private sector and raise domestic cost of doing business*".

The strategy for support of the Small Medium Business sector envisages the following:

- Creating an enabling regulatory environment (licensing and taxation)
- Creating an enabling policy environment
- Creating an enabling legislative environment
- Creating an enabling institutional support environment

THIS SECTION NEEDS SOME REVIEW (SEE ALSO GENERAL NOTES AS IT IS A LITTLE CONFUSING FOR THE IGNORANT – SOME QUESTIONS ARE IN COMMENTS BOXES IN THE MARGIN

A reform that is relevant to the current study was the launch of the Lesotho Revenue Authority (LRA) in 2002 with the aim of reforming and improving revenue and customs administration. The LRA has developed a working relationship with the South African Revenue Services (SARS) and this has resulted in relatively easier cross border movement of goods. A set of new challenges have emerged as a result of the new modus operandi of the LRA.

Information from the Ministry of Trade, Marketing and Cooperatives indicates that there is no discrimination in terms of licensing between small, medium and big businesses. Even hawkers are supposed to have licenses to trade in Lesotho. The requirements for hawkers are only a valid passport and payment of an application fee. There are a large variety of licenses that can be offered to small and medium business. The Ministry also indicated that at the border posts quotas are used to assess whether goods bought can be classified as small trade and thus not attract duties.

The LRA (headquarters and Maseru bridge) indicates that there is an agreement with SARS that goods valued at M150 or less should not be taxed at the borders.[1] For goods valued at M5,000 or above, the owner should declare the goods on the South African side first and then on the Lesotho side using the Common Custom Area[2] (CCA1) Forms. SARS has appointed a South African company that does VAT refund administration. Interviews with the LRA indicated the following problems at the borders:

- People do not understand the procedures
- People deliberately do not declare the goods in order to avoid paying tax
- Traders offer bribes to customs officials in order to avoid paying tax
- Most people try and cross at night when they know that there are no senior customs officials on duty

The LRA indicated that to try and make it easy for hawkers travelling by bus or taxi, customs charge M150 per person irrespective of the value of goods brought in. The system was supposed to be on trial for a year but has become common practice.

The LRA indicated that when a trader does not have enough money to pay the VAT their goods are detained at the border and the trader is given 3 months to pay, failing which the goods are sold. The same applies for goods without VAT invoices; the trader is expected to produce the invoices within 3 months.

If goods are brought from outside the SACU area, duties are paid at the port of first entry to SACU and then again at the Lesotho Border. The duty paid at the port of first entry is a provisional payment which the trader leaves at the Lesotho border when paying VAT. The trader is supposed to be repaid the provisional payment by SARS when the goods are imported into Lesotho.

3. METHODOLOGY AND EXPERIENCES

The Lesotho study followed the standard methodology developed for all the participating countries. A total of eight Research Assistants (RAs) were involved in the study; they

[1] M1.00:ZAR1.00
[2] Botswana, Lesotho, Swaziland, Namibia and South Africa.

comprised 2 counters, 2 monitors and 3 Origin and Destination interviewers. The work was done over a 10 day period. Although at the start most of the work was done between 07h00 hrs and 16h00hrs, it became obvious that most of the small traders and hawkers were arriving at night and most of them were not being captured by the survey. The team went to the border post at night but this was not very successful. In an attempt to gain better knowledge of the dynamics of small trade, a research assistant undertook interviews among street sellers and other small businesses in Maseru Central Business District (CBD). This provided some insight into cross border trade.

Counters

The large volume of people crossing Maseru Border proved to be a huge challenge for the counters. Indicating the challenge, some 88,670 people crossed the border during the period of the study. Counting people who cross the border to South Africa proved very difficult and was compounded by the fact that many people were also crossing to the South African side for Six month concessions. The counters took time to count people on the Six month concession lines and there were about 170 people each of the days that counts were made. Also, the large number of people who go shopping in Ladybrand made it difficult to spot traders from ordinary shoppers.

The Six month concessions made it difficult to spot small traders who use vehicles because they hardly stop unless they decide to stop and declare goods. People on Six month concessions can drive or walk through the border and may only wave their passports at officials.

Border monitors

Monitors had a difficult time working at Maseru Bridge where they worked from 6 am to 6 pm. They had problems getting information from the traders due to the problems that people were experiencing with payment as most had bought goods from informal sources which do not provide proper invoices. In addition, while they sat with customs officers inside the building, some traders were checked outside in the cubicles intended for checking vehicles. So, one person had to be outside at the cubicles and the other inside the customs building.

The main problem still was that most people do not have to queue for passport control and this makes for swift movement though customs and so people were found to be reluctant to wait to be interviewed. Because some of the people crossed several times a week, they were unhappy at being asked to be interviewed repeatedly.

The declared quantities were not easy to record due to mixed loads carried by traders. For example, a trader with a vehicle load of cabbages, potatoes, oranges would provide a challenge and the whole load would have to be assessed together. Hence a category of van load was added to the SPSS variable list.

Origin and destination survey

The team administering the Origin and Destination (O&D) questionnaire also worked from 6am to 6pm, although on some days they had to work all night because they were informed that some of the traders arrived at night in buses and taxis. But even working at night did not yield good results because the traders did not alight but just collected the amount to be paid and invoices and handed them to the customs official without getting receipts and entered Lesotho. Thus they were not willing to stop to be interviewed, but just wanted to continue with their journey

There were other refusals by some of the traders to participate. Zimbabwean traders posed the biggest problem because they brought in huge amounts of luggage but they claimed that it was their clothes and not goods for resale and indicated that they were coming to Lesotho to collect their money from old customers. In one case it was observed that a customs officer bought goods from Zimbabweans at very low prices and this accounted for the low VAT charged for goods brought in.

Because of these difficulties, supplementary interviews were undertaken with traders in Maseru where they were selling.

Other limitations

Some of the customs officials noted that cross border trade was seasonal and that winter was the low season compared to summer. And, some of the traders noted that many small traders prefer to go to Ficksburg as the Maseru border post customs officers demand too many things, or are more stringent, and they end up paying higher VAT at Maseru.

4. RESULTS

The report is based on a total count of 1,922 people crossing the border from South Africa to Lesotho and 201 potential traders captured by the border monitors and 67 interviews with those who agreed to be interviewed using the Origin and Destination instrument.

4.1 Border Counting

The border count comprised 1,922 people out of which 317 were female traders and 343 were male traders. So, of the people counted at the border post, over a third (34.3%) were identified as small scale cross border traders. Of these traders, 81 were leaving Lesotho and 579 were coming into Lesotho. A total of 781 female non-traders were identified and 935 male non-traders. Among the non-traders 867 were leaving Lesotho and 860 were coming into Lesotho.

4.2 Types and Values of Goods and Taxes Paid

The sex ratio between the people interviewed was 53:47 in favour of males. The data on the nationality of trader shows that 87.6% of those monitored were Basotho, 1% were South African and 11.4% were Zimbabwean.

Types of goods carried

The majority of the traders monitored brought fruits and vegetables into Lesotho, since there were 107 (53%) who brought in bags, boxes and van loads of such goods. None of the traders interviewed reported bringing in meat/fish or eggs. This is possibly because there are restrictions on some meats and one needs a permit to bring meat items into the country. Some 24 traders brought in new clothes and shoes. These were carried in bags, boxes, crates. Six traders brought in old clothes using boxes, bags and crates. Some fourteen traders were carrying textiles in boxes. None of the traders monitored were carrying electrical goods or furniture. However, seven traders brought other household items through the border. Three traders carried cosmetics in boxes. Only two brought curios/handicrafts in boxes. Finally, some 38 brought in other items in bags, boxes and packs.

The Origin and Destination (O&D) survey provides further information on the kinds of goods carried by traders into Lesotho (Table 1). It provides a similar profile to that recorded by border monitors, but with minor variations.

Table 1: Types of goods carried by traders in O&D survey

Goods carried	Frequency carrying	Percentage
Fresh Fruit & vegetables	21	31.3
Other goods	16	23.9
New clothes	9	13.5
Groceries	7	10.4
Handicrafts	7	10.4
Household goods	4	6.0
Second hand clothes	3	4.5
Meat/Fish/egg, etc.	1	1.5
Electrical goods	0	0
Furniture	0	0

In the majority of cases (69%), interviewees in the O&D survey indicated that the goods they carried were made or grown in South Africa. Some respondents carried goods made in other SADC countries (18%). In only a few cases (5) were the goods said to be made in China. A few respondents did not know where the goods were made.

Value of goods carried and taxes paid

The value of goods declared by each trader recorded by border monitors varied from M27 to M 11,600. Table 2 presents the mean and range of declared values based on the different products recorded by border monitors. The estimated value of goods carried by the 67 traders interviewed in the origin and destination survey varied from M40.00 to M11,616.00 with a mean of M800.53, a median of M407.36 a mode of M500.00 and a sum of M53,635.00.

Table 2: Type, mean value and range of value of goods carried

Type of Goods	Mean Value (M)	Range of value (M)
Groceries	235.00	170-300
Fruits and vegetables	446.39	28.00 – 2600.00
Meat/Fish/eggs	0	0
Electrical goods	0	0
Furniture	0	0
Household goods	292.18	67.89 – 407.36
New clothes/shoe	979.68	115.00 – 11,600.00

Old clothes	365.00	120.00 – 700.00
Handicrafts	54.32	27.00 – 81.48
Fabrics/textiles	604.65	135.79 – 1300.00
Cosmetics	700.27	250.00 – 1,200.00
Other	824.02	40.00 – 5301.00

It should be noted that the amount of duties paid by traders was not recorded by border monitors because interviews were conducted before traders declared their goods. This was because once they had finished declaring their goods or finished completing formalities they were not keen to be interviewed.

This was not a disaster for the survey, but indicates one of the difficulties of undertaking the survey at the Maseru Bridge border post. So, in all cases where the trader had Tax Invoices for the goods they were carrying into Lesotho, they were not required to pay any tax since this had already been paid on the South African side. In those cases where the trader did not have a Tax Invoice for their goods, the traders are made to pay a standard M150. This is equivalent to paying 14% on M1,071 worth of goods. When the mean or median value of goods traders in the O&D survey said they carried is considered, this means most traders were overpaying as the mean and median values of goods carried fell below M1,071.

Claiming VAT and information about taxes and duties

Almost all respondents in the O&D survey (94%) noted that they never claim VAT and they did not know why not. This may be because a new system has been introduced whereby there is a reciprocal VAT system between South Africa and Lesotho (under SACU) where VAT paid in one country is allowable/deductible in the other. And, for those without Tax Invoices, the flat rate fee of M150 is levied.

Close to half of respondents in the O&D survey (46%) said that they get information about taxes/duties that they have to pay at customs. Most of those who said they got information said that they got the information from Customs (73%), other traders (20%), friends (3.3%) and the radio (3.3%).

4.3 Origins and destinations

The data in this section is based on the the 67 Origin and Destination survey interviews with traders. Of these, 51% were female and the remaining 49% were male. The nationality of most (83.6%) of the people interviewed was Basotho while ten were Zimbabwean and one was South African. It is significant to note that none of the people interviewed carried goods to sell when they left Lesotho. In 81% of cases, the purpose of their journey was to purchase goods for their own business while 19% of traders said they were carrying goods for resale in the informal market. More than half (64%) travelled by bus/taxi while about a quarter (25.4%) travelled in private salon cars and some (7) travelled in vans/bakkies.

Origins and destinations of journeys and sources of goods carried

In 78% of cases, the traders started their journey in Lesotho.

Just over a quarter (25.4%) of the goods carried into Lesotho were bought in Ladybrand followed by other South African towns (19.4%) and Harare (13.4%). In only 16% of cases were the goods bought from a wholesaler. The largest proportion of people (42%) bought their goods from retailers while a quarter bought their merchandise from commercial farms (25%). Others sourced their goods in informal markets (3%), factories (9%) and from small-holder farms (1.5%).

The goods brought into Lesotho were mainly destined to be sold in Maseru (70%) and other Lesotho towns (25.4%). Most of the goods carried in for sale by those interviewed in the O&D survey were destined for sale in the informal sector (Table 3). Almost a third sold their goods door-door (31%) and a further 22% sold to other networks of individuals. Only 18% said they sold their goods on their own stall in informal markets.

Table 3: Where goods were to be sold

Place where goods will be sold	**Frequency**	**Percent**
Town shop	1	1.5
Stall in informal market	12	17.9
To retailers/shops/restaurants	0	0
Sellers in informal market	18	26.9
Door to door	21	31.3
Friends/family/network of individuals	15	22.4
Marketing Board	0	0
Other	0	0

Frequency of travel and duration of stay

Asked how often traders travel to another country for business, 45% said that they travelled once a month, 22.4% that they travelled a couple of time a week and 18% travelled twice a month (Table 4).

Table 4. Frequency of travel for business purposes

How often	Frequency	Percent
Once a month	30	44.8
A couple of times a week	15	22.4
Twice a month	12	17.9
Once a week	4	6.0
Every day	2	3.0
A couple of time a year	2	3.0
More than twice a day	1	1.5
Once a year or less	1	1.5

More than half of respondents (61%) indicated that they spend a day or less in the country where they go to do business. This is consistent with the fact that the journeys of most of the people interviewed originated in Lesotho. The remainder said they usually spend 2-3 days doing business in another country and these mainly Zimbabweans who were talking of their stay in Lesotho.

Permits

Most respondents (82%) indicated that they travelled with passports/Six month border concession passes when travelling for business purposes. Others said they use visitors permits. The majority of respondents said they did not know of any restrictions on their permits that would affect their businesses or activities when outside Lesotho.

Experiences crossing the border

Asked about the length of time it takes to cross the border into Lesotho, about half (51%) indicated that it usually took less than 10 minutes while 43% indicated that it usually took 10-30 minutes. Thus, in 94% of the cases, traders spent less than 30 minutes to cross the border post into Lesotho. This indicates why it was very difficult to interview people as this would cause them delays in their crossing. Asked how long it usually takes to cross the border in the other direction, 81% said that it usually took less than 10 minutes. This reflects the fact that most traders are people holding Six month border concessions and so do not have to wait in queues to pass through immigration and customs. Close to a fifth (18%) indicated that it took 10 to 30 minutes.

It is significant to note that, although times taken to cross the border seem relatively quick, half of respondents (50%) indicated that there are points of delay in crossing the border. When asked where the biggest hold up was when crossing the border, over a third (35%) indicated that it was on the Lesotho side at Customs. Asked where the hold-up was when crossing the border into South Africa, the few who mentioned that there were delays noted that they occured at immigration on the South African side.

Treatment at the border post

Close to three quarters (72%) of respondents were of the opinion that the treatment they received at the Lesotho side of the border was good. A fifth said that the treatment was average, while less than a tenth said it was bad or very bad. A similar proportion indicated that the treatment on the South African Border was good. Fifteen percent noted that it was average and more than a tenth (12%) said it was bad.

More than half of respondents (60%) said they do not usually encounter major problems when crossing the border. Close to a quarter (24%) identified long queues as a major problem, while a small proportion said that either the duties paid are too high, staff are unfriendly time is wasted while their luggage is checked and searched, that Customs officials make their own estimates of the value of goods, and that traders are made to pay tax twice (in RSA and Lesotho).

Possible improvements to border management

Asked what should be done to improve cross border movement for traders, respondents gave the following suggestions:

- Employ more staff to expedite service
- Improve customer care
- Reduce duties paid
- Improve security
- Make separate queues for traders, non-trader locals
- Use pamphlets to inform people about customs procedures

- Upgrade computer systems
- Give people the opportunity to sell goods first and pay tax after
- Introduce separate gates for trucks and vans to speed up service
- Train customs officials for better assessment of goods
- Allow for traders who buy from commercials farms to not pay tax.
- Have a bigger building to accommodate the services rendered
- Build toilets
- Exclude small traders from paying VAT

5. LESOTHO CHALLENGES AND PROPOSAL FOR FUTURE WORK

The Lesotho work was less successful than had been hoped. There are a number of issues that have contributed to this state of play and they include, among others, the following:

1. Lesotho has one sided formal cross border trading at the point of observation (Maseru) bridge. This is even reflected at the official level where the arrangement between South African Revenue Services (SARS) and Lesotho Revenue Authority (LRA) is such that when goods go into Lesotho all that the trader has to do is produce valid Tax Invoices which the LRA takes and claims the VAT from SARS. But this does not happen in reverse when goods are taken into South Africa from Lesotho.

2. There is informal and unrecorded trade taking place at many points along the border between villages and farms. As an earlier report on the cross border movement of people (The Border Within) indicates, there are many points where people from Lesotho purchase goods and services from farms across the border in South Africa and carry them across informal crossing points. This business is not recorded and has a large seasonal variation.

3. The only known significant but illegal trade from Lesotho to South Africa is that of marijuana (*dagga*). The marijuana is traded through very many formal and informal crossing points. Although it is known that there is extensive trade of *dagga*, the full

magnitude of the trade is unknown. The trade is so extensive that there is even a known informal crossing point less than a kilometre from Maseru border where lots of such trade occurs.

4. Certain Zimbabwean and other traders are not easy to identify and stop at the border post. Although we are aware of the fact that there are many Zimbabwean traders in Lesotho, these did not come up in expected numbers at the border post. There are a couple of possible answers to this. First, it is possible that they do not use the Maseru Bridge due to its high profile and strict enforcement of regulations. Second, it is possible that they use the same strategy as the Basotho hawkers of arriving at night when there is less vigilance and when deals can be made with border officials.

5. The Lesotho hawkers and informal traders who go to distant places by organised transport pay a flat rate of M150 per person and do not stop at the border post to be inspected. They travel at night to avoid the corruption with Customs officials being detected. This is probably the biggest problem in terms of getting information on informal trade through the Maseru Bridge Border Post. The fact that there is a well oiled system of evasion that is practiced so blatantly means that it is not possible to get data on informal trade. It is clear that the best way to get to the traders and the relevant information is to find them through the Taxi and Bus owners and then interview them.

6. In hind-sight, the border work should have been supplemented with work in the towns and at points of sale. When we realised that very few informal traders were being picked up at the border post, we asked a Research Assistant to go around town and interview informal traders in the streets. This allowed us to understand a little bit more regarding the types of goods that are imported and those that are purchased locally by the informal sector. For example wooden goods are made from locally purchased materials while clothes and other goods are imported whole. The exercise also helped us identify the places in South Africa where certain goods are purchased. For example, second hand clothes are largely purchased in Welkom in the Free State while footwear and jeans are purchased in Gauteng. In addition, we found that the location in South Africa where goods are purchased also can provide an idea of whether the informal traders get official VAT invoices or not. For example, most traders who shop in Durban do not get VAT invoices and thus are charged a standard duty at the border.

7. It is not possible to adequately quantify the nature and scope of small scale cross border trade from this survey at the Maseru Bridge border post. The trade is too heterogeneous to try and work with, and the border post with its high rates of use of Six month concession permits with their influence on movement through the border makes it difficult to undertake research here. The assumption that we could figure out the scale of the informal trade through such small scale study in the Lesotho context is problematic. To be able to get to figures on the magnitude of informal trade one would have to mount a larger survey that would capture the many types of goods, the informal entry points, the corrupt means of importing the goods, etc. It is clear that future studies should take into account the many variables involved in the informal trade between borders.

8. A large number of people refused to be interviewed due to bad relationships between the traders and customs officials. The minimum acceptable amount for VAT is M21 which is based on a minimum of M150 cost of goods. People are made to pay the M21 irrespective of the cost of the goods purchased if there is no receipt for the goods. The LRA is not a popular institution and people are not very keen to be interviewed. While it is understandable that some people are ignorant of how the system works, it is possible that they are also being preyed upon by the officials and made to pay more that they should. In addition, there are cases where people claim ignorance to be able to cheat the system. People who know that they have under declared their goods or who feel that they are ever being cheated are less likely to agree to be interviewed.