An Appraisal of International Trade Issues in Lesotho

Being a Technical Report of the Data Collection Exercise on International Trade Issues in Lesotho carried out by the Research Pillar of the National University of Lesotho, World Trade Organisation (NUL-WTO) Research Chair.

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January 2024

Acknowledgements

This report is based on data that was collected for the National University of Lesotho, World Trade Organisation (NUL-WTO) Research Chair. This data brings light to the very obscure data space on international trade in Lesotho. We therefore extend our appreciation to the World Trade Organisation Chairs' program that provided the funding for this exercise. We equally appreciate our advisers from the World Chairs Programme (WCP) – Prof Clemens Boonekamp and Prof Stephen Karingi for the inputs that were given at the conceptualisation stage and for their advisory role. We equally thank the government officials who assisted with key information and/or participated in the survey. In the same spirit, we thank all firm heads who devoted time from their busy schedules to respond to the questions, the enumerators who carried out the survey, the technical experts who reviewed the instruments as well as the draft report and every other person who participated in one way or the other.

Cite as:

Yuni, D. N., & Machema, R. (2024). An appraisal of international trade issues in Lesotho: Being a technical report of the data collection exercise on international trade issues in Lesotho carried out by the Research Pillar of the National University of Lesotho, World Trade Organisation (NUL-WTO) Research Chair. Retrieved from https://nulwtochair.org.ls/.

EXECUTIVE SUMMARY

"In times of increasing populism and contestation in politics, reliable information plays a vital role in well-informed policy-making based on evidence and not only on emotions and values, let alone disinformation and fake news"[1]. Policies founded on evidence consistently demonstrate greater efficacy compared to those lacking evidence-based foundations, owing to their reliance on scientific methodologies supported by pertinent data and statistics. This approach significantly decreases the likelihood of errors, lowers planning and implementation costs, saves time, and substantially enhances the likelihood of achieving intended goals and objectives. While this practice is commonplace in many developed nations, evidenced by significant investments in data management and analysis, it remains an area of lesser focus in developing countries, particularly in Sub-Saharan Africa (SSA), where the collection and management of data to inform policy decisions have yet to become a priority.

Lesotho, relative to other countries in the SSA, seem to have a more precarious situation when it concerns data availability. Overall, there seem to be very limited primary or cross sectional data. There seem to be no known institutionally published comprehensive cross-sectional data on firms in the last 5 years for Lesotho. Even the older ones that are focused on firms such as the 2016 Enterprise Survey, are often constrained by its design to capture so much information concerning the firms such that the focus on specific areas such as international trade becomes very limited. International trade is key to the growth and development of any economy. Meanwhile, the importance of international trade cannot be overemphasised.

The World Trade Organization posits that international trade offers a significant vector for economic expansion, employment generation, and poverty alleviation, particularly within developing economies; however, the realization of these advantages is contingent upon meticulously formulated policies grounded in empirical analysis. The imperative to enhance Lesotho's international trade performance is underscored by its protracted negative balance of payments, a situation exacerbated by limited arable land constraining agricultural output and its geographically disadvantaged landlocked position within South Africa. This unique spatial confinement engenders specific trade-related challenges warranting systematic longitudinal monitoring. It is upon this analytical foundation that the NUL-WTO Research Chair undertook a cross-sectional survey investigating international trade dynamics within Lesotho.

The data collection initiative was undertaken to establish a robust and granular database on trade-related activities, thereby facilitating evidence-driven policy formulation by

[1] Umbach, Guidi and Russo (2018). Evidence-Based Policy Making: From Data To Decision-Making. PB_2018_15.pdf (eui.eu)

researchers and students. Data acquisition employed two principal instruments: the Firms Survey Instrument (FSI) and the Key Informant Interview (KII) instruments. The FSI administration utilized a multi-stage sampling methodology, employing purposive selection of firms stratified by gender, size, location, and international trade involvement, followed by simple random sampling of specific entities meeting the defined criteria. A sample size of 150 firms was surveyed across five distinct districts within Lesotho. The KII data were elicited from ten purposefully selected key stakeholders representing governmental and non-governmental organizations.

The characteristics of the firms surveyed show that out of all the surveyed firms, 90.8% were registered, implying only 9.2% were not registered. Among the visited firms, retailers were the most common, accounting for 50.7%, and the remaining categories were producers (36%) and wholesalers (13.3%). 57.6% of the visited firms were insured, while 42.38% of the firms were not insured. Regarding electricity sources, 91% of the firms rely on the National Grid, and only 12.5% of the firms indicated reliance on electricity generated through personal means. At least half (51.3%) of the sampled firms hold the perception that electricity is available at all times, 43.4% of the firms believe that electricity is available most of the time, 4.61% of the firms posit that electricity supply is occasional and only 0.66% of the visited firms reported not having electricity.

On the question of the primary economic sector of the firms, the study finds that wholesale, retail and distribution is the most common sector, accounting for 36.18%, followed by agriculture with 11.18% of the firms and the manufacturing of apparel and garments sector with 10.3% of the firms. The study further shows that 64% of the firms had access to ICT and 36% of the firms did not. The most common source of internet connectivity among these firms is fibre, followed by fixed wireless sources, then cable internet, satellite and mobile sources as the least common. Regarding internet plan usage, almost seven of ten (69.7%) firms opt for prepaid internet plans, the remaining firms use post-paid internet plans. In addition, only about 30.46% of the sampled firms owned websites. And more than half of the sampled firms indicated that the Internet has a significant effect in improving communication both internally, among staff, and externally, with customers and suppliers.

On the analysis of Information on Markets and Competition, about 48% of the visited firms are importers. In contrast, a relatively small proportion (5.3%) of the firms are engaged in exporting activities. This suggests that exporting is less prevalent among the surveyed firms. At least one-fifth (19.74%) of the firms are both exporters and importers. A notable share (27%) of the firms only operate within the domestic markets, meaning they are neither exporting nor importing (see panel (a) Figure 6). Out of all the firms surveyed, only 19.7% have branches located outside Lesotho, and approximately 20% of them are part of a global or regional value chain and have trade union membership. The evidence also shows that

Lesotho imports most from South Africa, China, Japan and it mostly exports to South Africa, USA and Botswana.

The financial statistics provides that, the average operating cost for the sampled firms is M69.9 million per annum, with a range of M600 to M3 billion and a standard deviation of M322 million, indicating a significant inequality among the surveyed firms. In the same year, the total sales of the same firms ranged from a minimum of M2500 to a maximum of M253 billion, with an average of M1.84 billion in 2022. On average, the firms reported spending M10.9 million on customs and border procedures, with the highest cost on these procedures around M450 million. In addition, the firms indicated that they export an average of 26.4% of their sales. The distribution of firms based on access to credit reveals that slightly more than half of the surveyed firms had no access to credit (53.96%). For firms with access to credit (46%), 76% of the firms sourced the credit from commercial banks, 13% from family, 5% from friends, 3% from Microfinances and the remaining 3% from other sources. Meanwhile, only 15% of the firms reported having had access to grants, and a majority of them had no access to grants.

In terms of challenges, about four out of five of the sampled firms (78.5%) find exportation to be either extremely difficult or fairly difficult, and only a small proportion view exportation as fairly easy. Conversely, about 66.9% find importation to be either fairly easy or extremely easy. Factors such as insufficient information on foreign markets, standards compliance, competitiveness, cost of export customs, border procedures, limited access to trade finance, poor Infrastructure and insecurity and inadequate transport links tend to have a moderate to significant impact on export activities in Lesotho. With regard to imports, customs and border procedures, cost of import, standards compliance (legal requirements) and limited access to trade finance have a moderate effect on the ability of firms to import.

The recommendations suggested by the sampled firms abound. Some of the key recommendations highlighted include the need to reduce cross-border bureaucracy, attract foreign direct investment, and eliminate corruption. There seem to be a policy disconnect in trade (custom duty in particular) issues between the Lesotho and South African government. It was highly recommended that these policies be synthesised and regularised to avoid frequent changes and enhance compliance. There was also the suggestion to have an international airport that is directly accessible to the rest of Africa and the world. The need for financial assistance was also critical given that the majority lacked access to credit and grants; therefore improving the conditions that facilitate credit and grants for private firms will significantly boost firms. Firms need to be encouraged to create websites and employ internet facilities to improve visibility and facilitate trade. Similarly, the government can employ electronic clearing facilities to reduce border control delays.

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Abbreviations

ADB	African Development Bank
AGOA	African and Growth and Opportunity Act
BEDCO	Basotho Enterprise Development Corporation
BoP	Balance of Payments
FSI	Firm Survey Instrument
ICT	Information and Communications Technology
IFAD	International Fund for Agricultural Development
KII	Key Informant Interviews
LCCI	Lesotho Chamber of Commerce and Industry
LEAP	Lesotho Enterprise Assistant Programme
LMDA	Lesotho Millennium Development Agency
LNDC	Lesotho National Development Corporation
M	Maloti
NUL	National University of Lesotho,
PSC	Private Sector Competitiveness
RSL	Revenue Services Lesotho
SADP	Smallholder Agriculture Development Project
SPSS	Statistical Package for the Social Sciences
SSA	Sub Saharan Africa
UNDP	United Nations Development Program
WCP	World Trade Organisation Chairs' program
WTO	World Trade Organisation

1. INTRODUCTION

1.1 Rationale

"In times of increasing populism and contestation in politics, reliable information plays a vital role in well-informed policy-making based on evidence and not only on emotions and values, let alone disinformation and fake news"[2]. Evidenced based policies have been proven to be more efficient in the literature relative to non-evidence based policies. This is obviously because of its ability to be driven by scientific approaches based on relevant statistics or information. Evidence based policies therefore minimises the margin of error, reduces cost of planning and implementation, saves time and ultimately improves the probability of attaining desired goals and objectives. While this is a regular practice in most developed countries, and explains the investments around data management and analysis, developing countries especially in Sub Saharan Africa (SSA) are yet to prioritise collecting and managing data to drive policy.

Lesotho, relative to other countries in the SSA, seem to have a more precarious situation when it concerns data availability. Overall, there seem to be very limited primary or cross sectional data. There seem to be no known institutionally published comprehensive cross-sectional data on firms in the last 5 years for Lesotho. Even the older ones that are focused on firms such as the 2016 Enterprise Survey, are often constrained by its design to capture so much information concerning the firms such that the focus on specific areas such as international trade becomes very limited. International trade is key to the growth and development of any economy.

International trade flow is a key deciding factor on all the major macroeconomic goals that exists: striving toward full employment, income equality, price stability, balance of payment equilibrium and ultimately economic growth. International trade provide greater access to markets, improves the quality of goods, reduces prices, promotes peaceful cooperation across borders, improves innovation and technological advancement and technology transfer etc. According to the World Trade Organisation (WTO), international trade has the potential to create new opportunities for economic growth, job creation, and poverty reduction, especially in developing countries[3]. However, the benefits of international trade is driven by carefully designed policies based on empirical evidence. It is on this premise that the NUL-WTO research chair carried out a cross sectional survey on international trade issues in Lesotho.

[2] Umbach, Guidi and Russo (2018). Evidence-Based Policy Making: From Data To Decision-Making. PB_2018_15.pdf (eui.eu)

[3] WTO (2023). The WTO. https://www.wto.org/english/thewto_e/thewto_e.htm

1.2 Objectives

The primary purpose of the data collection is to construct a comprehensive repository of information pertaining to trade-related activities, thus empowering researchers and students to engage in evidence-based policy formulation. More specifically, the objectives of the data collection was to:

i. Generate international trade data in Stata, SPSS and Excel formats that will be published and act as a resource for students and researchers for further investigations
ii. Develop a preliminary report that highlights the key descriptive analysis of the state of international trade in Lesotho.
iii. Employ the dataset to launch a call for researchers to use the data and generate research that will be published and will attract awards. This will increase research on international trade and attract more researchers under the umbrella of international trade research.

2. THE LESOTHO CONTEXT

The need to improve international trade in Lesotho in particular, is motivated by the negative balance of payments it has recorded for over a decade. According to the World Bank (2023), Lesotho has had a balance of payment deficit between 2010 and 2022[4]. Lesotho is a large importer of food, clothing, automobile, etc. This is in part due to the minimal arable land that limits agricultural production and its landlocked condition – being completely surrounded by South Africa. This geographical confinement within South Africa, implies that Lesotho faces unique trade related issues that will be worth tracking periodically.

The over reliance on imports for basic amenities exposes the economy to external shocks such as the disruptions in global value chains as recently witnessed with the Russian-Ukraine war. Consistently recording a balance of payment deficit implies that the foreign reserves will be depleting, jobs are being exported, unemployment is increasing, food insecurity is on the rise, and economic growth is stifled. The need to improve exports is therefore imperative in Lesotho. Several policies, programs and bilateral agreements that directly or indirectly aimed to improve international trade in Lesotho has been instituted over the years. For example, becoming a beneficiary of the African and Growth and Opportunity Act (AGOA) improved the export of textile, garments and other apparels to the United States by about $350 million in 2022 alone[5]. In addition, the National Strategic Development Plan I and II all have policy instruments that are targeted at improving international competitiveness, upgrading the international airport and improving productivity, all in an

[4] World Bank (2023). Current account balance (BoP, current US$) - Lesotho
[5] United State Trade Representative (2023). Lesotho. https://ustr.gov/countries-regions/africa/southern-africa/lesotho

effort to improve exports of goods and services. The prevailing statistics of BoP deficits show that these efforts have not been sufficient.

3. METHODOLOGY OF DATA COLLECTION AND ANALYSIS

The section documents the approach that was used to collect the trade-related information from a sample of firms in Lesotho and from key stakeholders.

3.1 Instrument Design

Two instruments were developed for the data collection; the Firm Survey Instruments (FSI) and the Key Informant Interviews (KII) instruments. The initial draft instruments were shared in a validation workshop that brought together 10 experts from economics, measurement and evaluation, agricultural economics, statistics and law. These experts interrogated the instruments from the lens of their different disciplines in an effort to make it as comprehensive and trans-disciplinary as possible. The instruments were amended in line with the recommendations of the technical workshop and was further tested in a pilot survey.

The target for the FSIs were firms that trade in both goods and services. The firm survey covered firms involved in international trade as well as those who did not, such that there could be room for control observations. The KIIs included high profile representatives (mostly at decision-making level). They include:

- Two government Officials at the Ministry of Trade
- One export-benefit official of the Lesotho National Development Corporation (LNDC)
- One official of Export promotion committee of the LNDC
- Two custom officials of the Revenue Services Lesotho (RSL) Officials at Maseru and Leribe border controls.
- Two representatives from the Textile Association and the Farmer association
- The police commander at the Maseru border control.

3.2 Pilot Survey

The pilot survey was done to verify the reliability and validity of the instruments as well as to get a sense of the distribution across different criteria. A sample of 15 instruments were surveyed for the pilot survey in Roma valley of Maseru district. The preliminary analysis of the pilot survey showed that the instruments yields the same results over multiple trials hence the instruments were largely reliable. The instrument to a large extent ensured validity of the instruments by making sure that what the instrument measures is what it was designed to measure. Identified questions that needed editing were properly edited to ensure validity. The pilot also showed the need to set out a certain criteria for sampling (as discussed in the next session), which was the purposive sampling, as the pilot sample that was randomly determined was highly skewed in several aspects, for example mostly very low income firms.

3.3 Sample Selection and scope

The study adopted a multi-stage sampling technique for the FSIs. Based on the intention to have a broad-based depository of information in Lesotho as a whole, but subject to the constraint of funding, the study purposefully identified five districts to sample. The states were chosen based on the level of economic activity that obtains in them as well as the diversity of businesses that truly represents Lesotho's economy.

Informed by the skewed nature of the respondents from the pilot survey, the study also purposely had restrictions on the number of respondents across these categories:

- The first is involvement in international trade. It was important to have firms that are involved in Imports, exports, neither export nor import or involved in both export and import. The different perspectives are important for robust econometric or statistical analysis
- The second is the geographical distribution, meaning firms based in Maseru, Leribe, Butha-Buthe, Mohlotong and Mafiteng, and there was a distinction between firms based in urban and rural areas. Given that most economic activities are located within the lowlands ecological zones, a consideration was made also to include firms based in highlands or mountains.
- The third criterion used was the gender of the firm head. The need for a fair representative of the major gender types is imperative for gender analysis.
- The fourth was the size of the firms' capital and labor. Consideration was made to include small and medium-sized firms as well as those based in the informal sector.

This was aimed at improving diversity in the respondents and types of firms.

Beyond these purposeful conditions, the firms were selected at random on the second stage for the interviews by the enumerators across different regions of the selected districts. The enumerators were expected to interview firms that produce/supply goods and services, to cover a range of sectors, including retail, agriculture, mining, textile, and construction, among others.

3.4 Sample Size

A sample of 150 firms were surveyed across five districts of Lesotho. Based on the distribution of firms from the Ministry of trade, majority of the firms are domiciled in Maseru district. This informed the allocation of 75 firms to be surveyed from Maseru. In similar light, 30 firms were surveyed in Leribe, 15 in Butha-Buthe, 15 in Mohlotong and 15 in Mafiteng.

As for the KII, a total of 10 interviews were conducted with key stakeholders to gather additional and complementary information.

The two questionnaires were administered by a team of research assistants (RAs) who were recruited from Masters Students of the Department of Economics at the National University of Lesotho. Senior researcher under the NUL-WTO research chair trained the RAs.

The selection of 150 firms strategically aimed for representativeness across Lesotho's key trading sectors, encompassing varying sizes and levels of international trade engagement within five significant districts. This sample size allows for a nuanced understanding of diverse firm experiences and challenges in international trade, providing sufficient breadth for meaningful analysis and identification of key trends. Coupled with qualitative insights from key informants, this quantitative data offers a robust foundation for evidence-based policy recommendations relevant to Lesotho's trade landscape.

3.5 Data Collection

The data was collected by a team of 10 enumerators who were spread across the five districts of interest. Most enumerators had some level of experience in data collection for prominent development aid agencies such as the World Bank. The enumerators were further trained in a one-day workshop on the specific FSI and KII instruments of the study, best practices in data collection as well as the survey design and category of instruments to be interviewed. The instruments were administered physically (face-to-face) and the respondents were not allowed to fill in the instruments themselves. The enumerators were sent to their districts of origin to minimise cost and the survey covered about 3 weeks.

3.6 Data Codding, Entry and Cleaning

An experienced technical expert in measurement and evaluation prepared the coding templates for both instruments in SPSS. This template was equally tested in the pilot survey. The codded templates were then revised in line with the recommendations from the pilot survey. The data entry process was adequately supervised and the data underwent a thorough cleaning process.

3.7 Data Analysis

The data collected is meant to be published for postgraduate students and other researchers to use for the development of their research and other related empirical research as may appeal to researchers. This report therefore used descriptive statistics to give a snapshot of what the data looks like. The descriptive techniques used are simply the means, standard deviations, and cross tabulations, etc. The study also employed pie and bar charts to illustrate some of the preliminary findings of the data collected.

4. DESCRIPTIVE ANALYSIS OF THE INTERNATIONAL TRADE DATA COLLECTED

This chapter offers a brief overview of the data collected through the Firm survey in Lesotho. It is important to note that this chapter only provides a basic description of the information.

It does not offer an analysis of the observed patterns or trends. The objective is to provide a glimpse of firms engaged in international trade in Lesotho.

The chapter is divided into four sections, each dedicated to a specific aspect of the Firm questionnaire. Section 4.1 provides a profile of all the firms visited during the survey, and Section 4.2 characterises the information and communications technology (ICT) infrastructure employed by the surveyed firms. Section 4.3 describes the market conditions and competition attributes of the firms, while section 4.4 concludes the chapter by exploring the financial statistics of the firms.

4.1 Firm Characteristics

Table 1 shows that the largest share of the surveyed firms come from Maseru (50%), followed by Leribe (19.7%), then Mafeteng (10.5%) and lastly Butha-Bothe and Mokhotlong. A larger share of the sampled firms (59.2%) are headed by males.

Out of all the surveyed firms, 90.8% were registered. Retailers were the most common category of firms accounting for 50.7%, and the remaining categories were producers (36%) and wholesalers (13.3%).

Regarding the type of business, the survey found that approximately 36% of the surveyed firms operate as sole proprietorships, while Limited liability companies account for a slightly larger share at 38%. The remaining categories of firms were corporations (4,6%), franchises (4%), and partnerships (17.2%). The survey also investigated the insurance status of the firms and found that 57.6% of them were insured, while 42.38% of the firms were not insured.

Table 1: Characteristics of the Firms

Description	Sub-groups	Frequency	Proportion (%)
District of Respondent	Maseru	76	50
	Butha-Buthe	15	9.87
	Leribe	30	19.74
	Mafeteng	16	10.53
	Mokhotlong	15	9.87
Gender of the Respondent	Male	90	59.21
	Female	62	40.79
Registration status	Registered	134	90.79
	Non Registered	14	9.21
Class of Business	Production	54	36
	Wholesale Supplier	20	13.33
	Retail Supplier	76	50.67
Type of Business	Sole Proprietorship	54	35.76

	Limited Liability Company	58	38.41
	Corporation	7	4.64
	Franchise	6	3.97
	Partnership	26	17.22
Insurance Status of the Firm	Insured	87	57.62
	Not Insured	64	42.38

Source: Authors' analysis of data collected

Table 2 provides additional characteristics of the firms and the heads of the firms. Regarding the age and experience of the heads of the firms, the youngest is 17 years, and the eldest is 75 years old, with an average age of 45.5 years. The heads of the firms had varying levels of experience, ranging from zero to 70 years, with an average of 11.2 years.

In terms of the existence of the firms, the average number of years they have existed is 14.3 years, with the maximum being 66 years and some firms being in existence for only a year. On the number of employees, full-time staff averaged 202 with a maximum of 10,000 staff per firm, while part-time staff averaged 6.8 with a maximum of 225.

Table 2: Summary Statistics of Firm Characteristics

Description	Mean	Std Deviation	Minimum	Maximum
Age of firm head	45.58	11.69	17	75
Experience of Firm Head	11.2	11.26	0	70
Number of years firm has existed	14.27	12.69	1	66
Number of full time staff	202.6	1067.22	1	10,000
Number of part time staff	6.77	6.77	0	225
Share of foreign ownership of firm	27.27	42.82	0	100
House hold size of firm head for sole proprietors	5.78	5.05	3	40
House hold Expenditure of firm head for sole proprietors	19002	42010	1500	250000
Proportion of Electricity gotten from the national grid	91.96	17.61	0	100
Proportion of Electricity from personal generation	12.48	20.48	0	100

Source: Authors' analysis of data collected

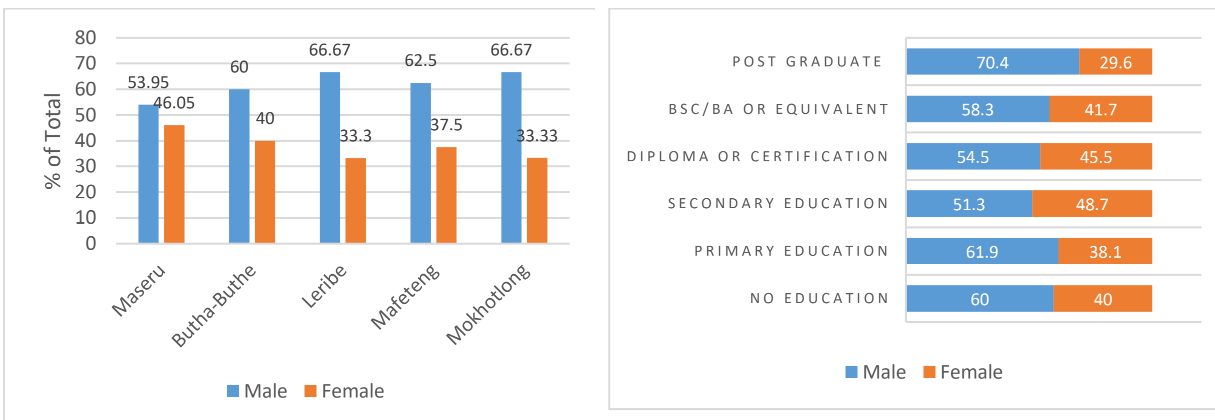
On the household characteristics of the sole proprietors, the average household size is 5.7 members, with a range from a minimum of three to a maximum of 40 household members. Their average household expenditure is reported as M19,000 per month, ranging from a minimum of M1,500 to a maximum of M250,000.

Regarding electricity sources, 91% of the firms rely on the National Grid, and only 12.5% of the firms indicated reliance on electricity generated through personal means.

The gender gap in the headship of the firms is lowest in Maseru and highest in Leribe and Mokhotlong *(See **Error! Reference source not found.**).* Panel (b) shows that men consistently hold a larger share across all levels of education, including those with no education. The gender gap ranges from 40.8 percentage points at the postgraduate level to 2.6 percentage points at the secondary level. The gender gap spikes to 20 percentage points for firm heads with no education.

Figure 1: Gender of firm head by district and education

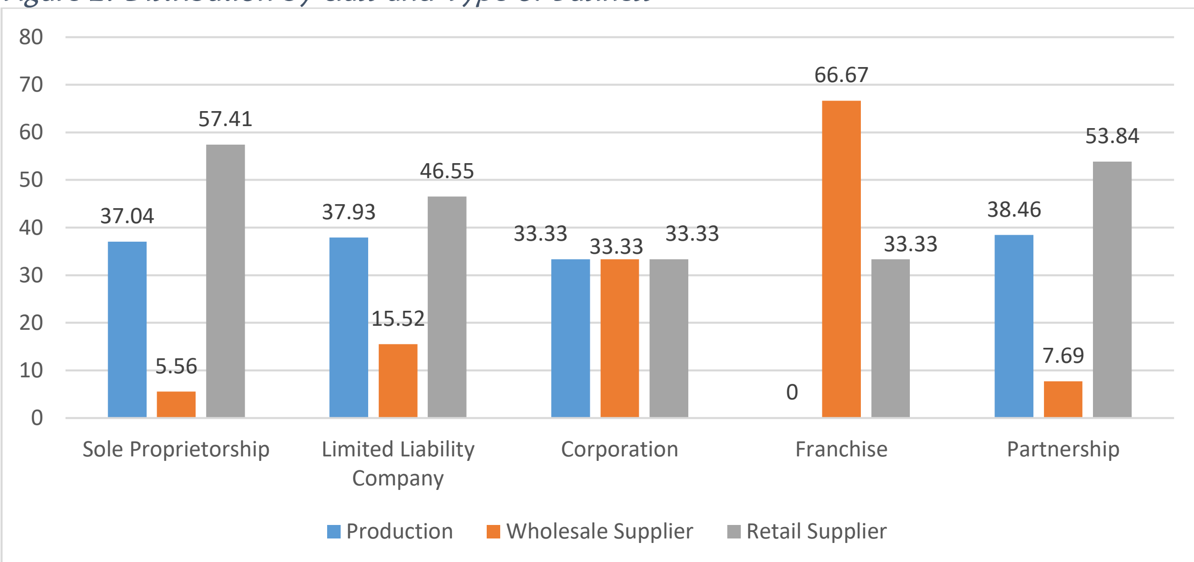
(a) Distribution by District of residence *(b) Distribution by Education*



Source: Authors' analysis of data collected

Figure 2 presents the distribution of business types based on the respective business structures or classes. Among sole proprietors, limited liability companies, and partnerships, retailing emerges as the predominant business class, followed by production, with wholesaling as the least common class. In corporations, all three business classes—retailing, production, and wholesaling—occupy an equal share each, while in franchises, there is only two business classes; wholesaling (67.7%) and retailing (33.3%). There are no production businesses within the franchise category.

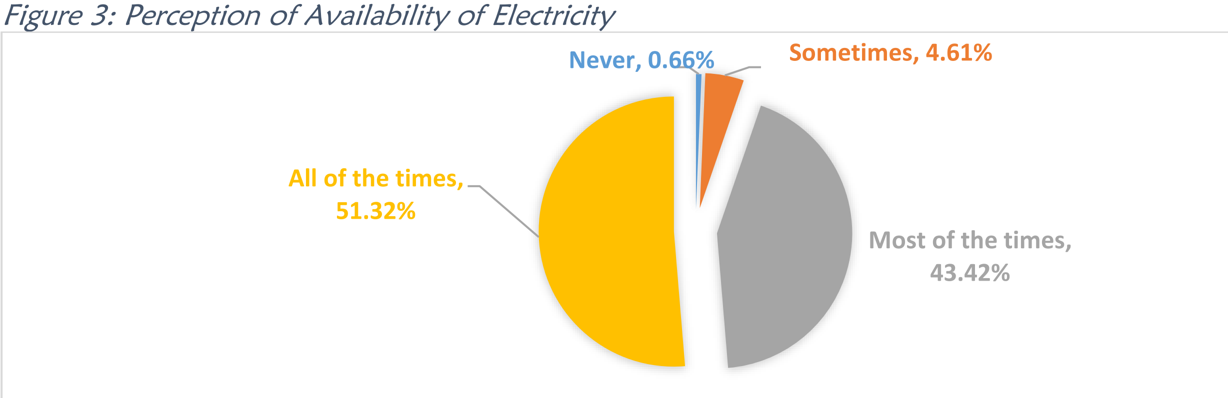
Figure 2: Distribution by class and Type of Business



Source: Authors' analysis of data collected

At least half (51.3%) of the sampled firms hold the perception that electricity is available at all times, reflecting uninterrupted electricity supply (*See **Figure 3***). Another notable share (43.4%) of the firms believe that electricity is available most of the time, whereas a smaller segment, comprising 4.61% of the firms, is of the opinion that electricity supply is occasional. A small fraction (0.66%) of the visited firms reported not having electricity.

Figure 3: Perception of Availability of Electricity

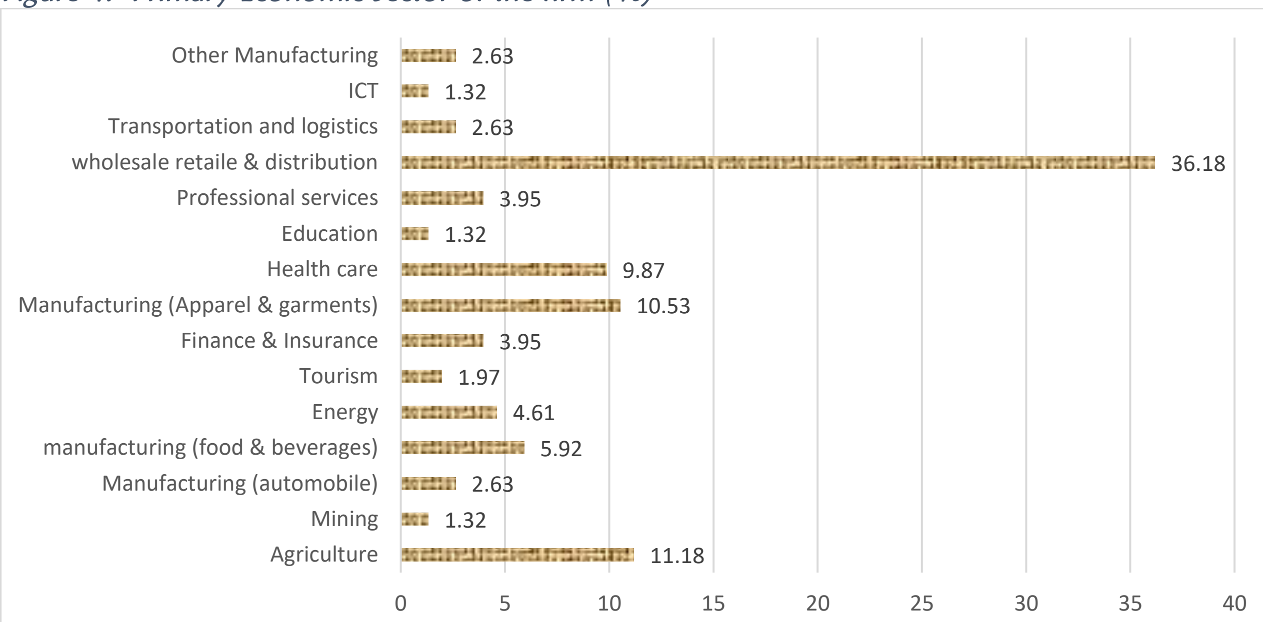


Source: Authors' analysis of data collected

On the question of the primary economic sector of the firms,

Figure 4 reveals that wholesale, retail and distribution is the most common sector, accounting for 36.18%. Agriculture follows with 11.18% of the firms. The third most common sector is the manufacturing of apparel and garments, with 10.3% of the firms, followed by healthcare, with 9.87% of the firms. Besides the top four sectors, other notable sectors include the manufacturing of food and beverages (5.92%), professional services (3.95%), and energy (4.61%). The remaining firms operate in sectors such as ICT, education, tourism, and mining.

Figure 4: Primary Economic Sector of the firm (%)



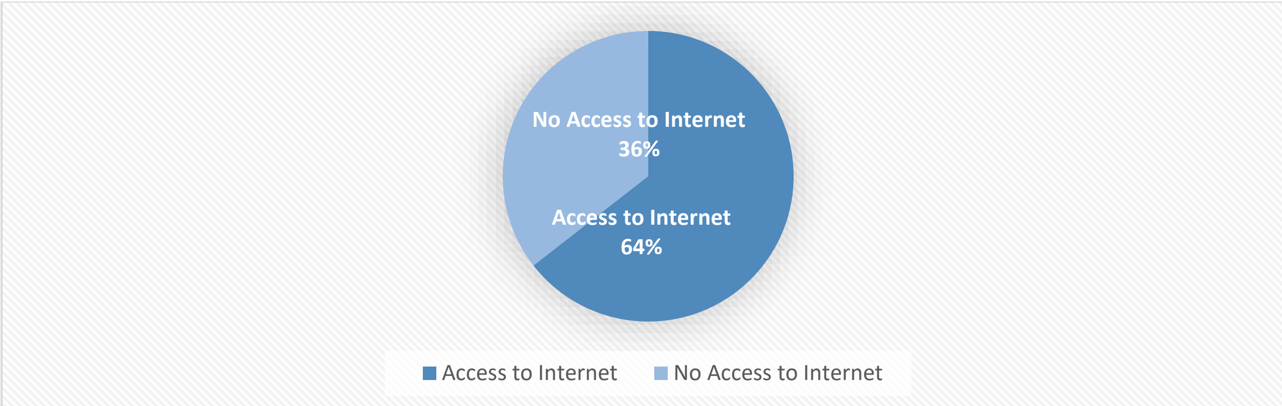
Source: Authors' analysis of data collected

4.2 Internet and Communication Technology

Figure 5, **Table 3,** and **Table 4** provide insights into the ICT profile of the firms surveyed, providing valuable insights into their connectivity, internet usage, and online presence.

Many of the visited firms reported having access to Internet services (See **Figure 5)**.

Figure 5: Access to Internet



Source: Authors' analysis of data collected

The most common source of internet connectivity among these firms is fibre, followed by fixed wireless sources, then cable internet, satellite and mobile sources as the least common. Regarding the internet plan usage, almost seven of ten (69.7%) firms opt for prepaid internet plans, the remaining firms use post-paid internet plans. When it comes to website ownership, 30.46% of firms reported having a functional website, whereas 69.4% acknowledged not having one (see **Table 3**).

Table 3: Firm Characteristics of Use of Internet

Description	Sub-groups	Frequency	Proportion (%)
Package of Internet being used	Fibre Internet	34	34
	Cable Internet	16	16
	Fixed Wireless	32	32
	Satellite	11	11
	Mobile	7	7
Internet Plan Used	Prepaid	69	69.7
	Post paid	30	30.3
Ownership of a functional website	Available	46	30.46
	Not Available	105	69.54

Source: Authors' analysis of data collected

The firms were asked to indicate how the Internet or other digital networks affected various dimensions of their businesses. Many of the firms believe internet has a strong effect on processing data and information. More than half of the sampled firms indicated that the Internet has a significant effect in improving communication both internally, among staff, and externally, with customers and suppliers. A notable share of the firms acknowledge the role of the Internet in facilitating them to enter new markets or business areas and expand the existing ones. The mean scale for the role of internet in cost reduction ranges from 2.76 to 3.17, which suggests that the firms believe internet or digital platforms play a moderating role in reducing their costs.

Table 4: Perception of Internet on the organisation

Description	No Effect %	Small Effect %	Average Effect %	Above Av. Effect %	Significant Effect %	Mean Scale (1-5)
Process data or information	17.59	12.04	11.11	13.89	45.37	3.57
Enter new businesses or markets	29.63	12.04	14.81	11.11	32.41	3.05
Expand market for existing products or services	28.7	12.96	16.67	13.89	27.78	2.99
Improve communication among staff	27.78	5.56	3.7	14.81	48.15	3.5
Improve communication with customers	24.07	6.48	11.11	8.33	50	3.54
Improve communication with suppliers	22.22	6.48	2.78	13.89	54.63	3.72
Reduce operational costs	26.85	9.26	14.81	18.52	30.56	3.17
Reduce other costs (other than operational cost)	37.38	12.15	14.95	8.41	27.1	2.76

Source: Authors' analysis of data collected

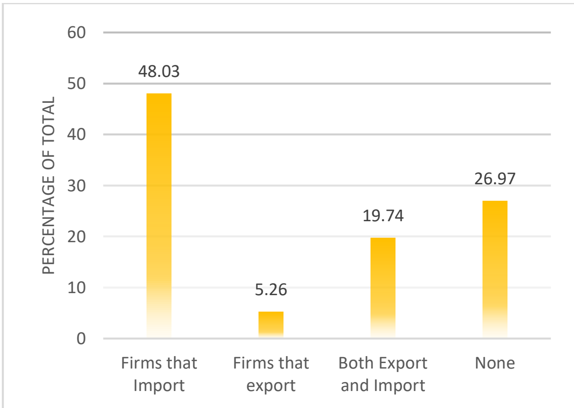
4.3 Information on Markets and Competition

A considerable share (48%) of the visited firms are importers. In contrast, a relatively small proportion (5.3%) of the firms are engaged in exporting activities. This suggests that exporting is less prevalent among the surveyed firms. At least one-fifth (19.74%) of the firms are both exporters and importers. A notable share (27%) of the firms only operate within the domestic markets, meaning they are neither exporting nor importing (see panel (a) Figure 6).

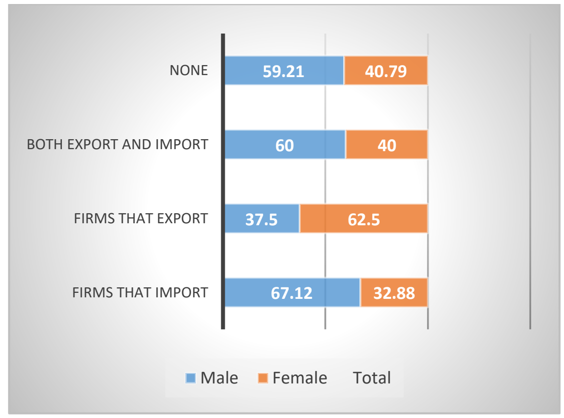
Panel (b) of Figure 6 shows that a larger share of female-headed firms are exporters, while male-headed firms dominate in the other three categories.

Figure 6: Distribution of Firms by import/export category

(a) Import/export category



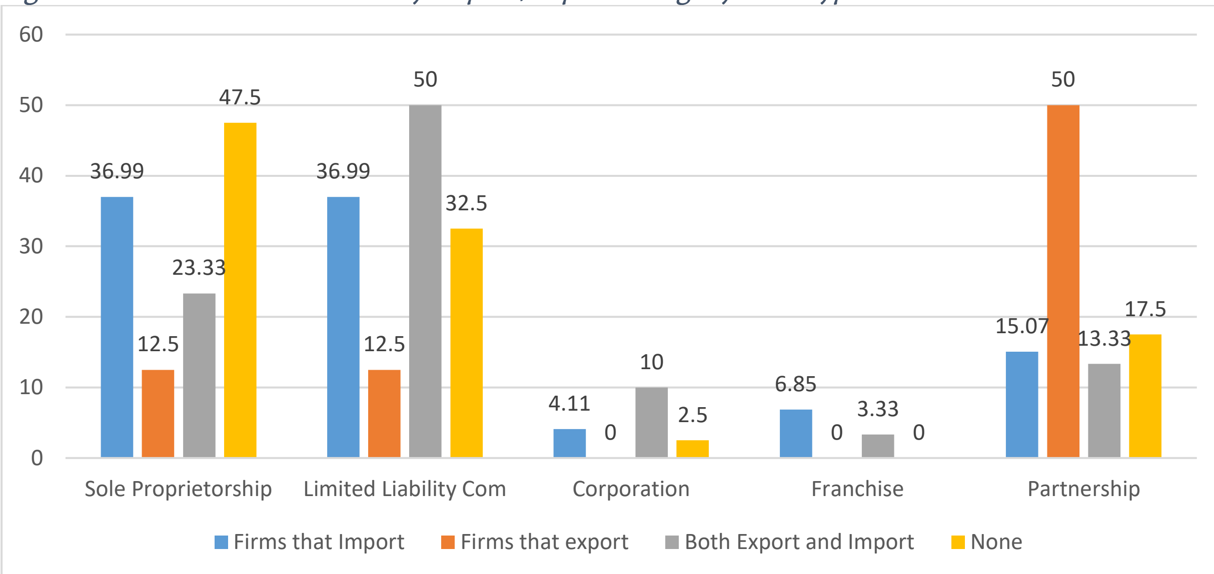
(b) Import/export category by Gender



Source: Authors' analysis of data collected

Figure 7 provides an overview of participation in international trade across various types of business. Sole proprietors, limited liability companies, and partnerships tend to participate in international markets. For instance, among sole proprietors, almost two-fifths (37%) exclusively engage in importing and a smaller proportion (12.5%) exclusively participate in exporting. A majority of them (52.5%) is engaged in both import and export activities, while 47.5% do not partake in any import or export activities. Half of the limited liability companies actively participate in both exporting and importing, with an additional 12.5% and 36.9% solely exporting and importing, respectively. One in three (32.5%) of the limited liability companies do not participate in any import or export activities, respectively. Among partnerships, half of them solely export and another 15.07% solely import. One-eighth of partnerships (13.3%) are engaged in both import and export activities.

Figure 7: Distribution of Firms by import/export category and Type of Business



Source: Authors' analysis of data collected

As for corporations and Franchise businesses, they tend not to partake in international markets. For instance, only 10% of corporations are involved in both import and export activities and 4.1% solely import. A small portion, 2.5% of corporations, do not engage in any import or export activities. Regarding Franchise businesses, 6.85% of them participate in both exporting and importing.

The wholesale/distributor channel is the most prevalent among exporters and importers, with 38% of exporting and importing firms choosing this channel. Among the exporting firms, the government channel followed by the direct/sales team are the top common channels. Regarding importing firms, other noteworthy channels include direct/Internet channels, dealers and direct/sales teams (see Table 5).

The majority of surveyed firms (65.52%) actively engage with external entities such as freights and customs for clearing processes. The rest of the firms (34.48%) do not engage external entities for clearing processes, suggesting reliance on in-house capabilities or other approaches for handling customs and freight activities.

Table 5: Distribution channels for imports and exports

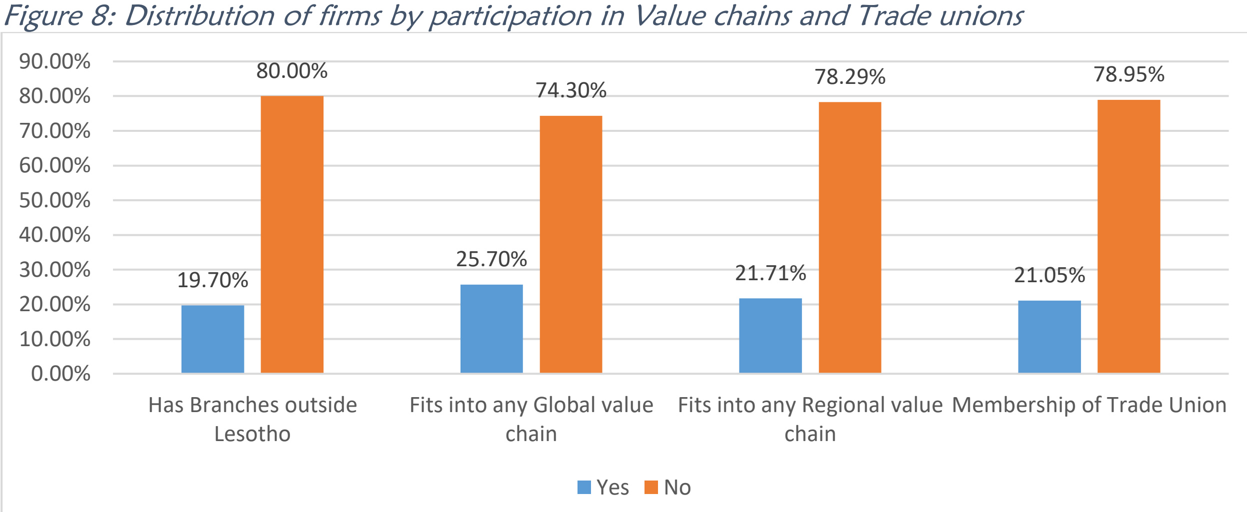
Description	Sub-groups	Frequency	Proportion (%)
Primary Channels of Distribution for exports	wholesale/distributor	14	37.84
	direct/internet	4	10.81
	direct/catalogue	2	5.41
	dealer	2	5.41
	direct/sales team	6	16.22
	sales agent/	2	5.41

	manufacturer's rep		
	government assisted	7	18.92
Primary Channels of Distribution for Imports	wholesale/distributor	37	37.76
	direct/internet	15	15.31
	direct/catalogue	9	9.18
	dealer	10	10.2
	direct/sales team	10	10.2
	consultant	3	3.06
	sales agent/manufacturer's rep	8	8.16
	government assisted	6	6.12
Engagement with outside entities such as freights and customs for clearing	Engages	76	65.52
	Does not Engage	40	34.48

Source: Authors' analysis of data collected

The majority of the surveyed firms have no branches outside the country, and they do not participate in any global or regional value chains. Additionally, they are not members of any trade unions. Out of all the firms surveyed, only 19.7% have branches located outside Lesotho, and approximately 20% of them are part of a global or regional value chain and have trade union membership.

Figure 8: Distribution of firms by participation in Value chains and Trade unions



Source: Authors' analysis of data collected

Information from the KIIs indicates that Lesotho's export profile is characterized by a diverse array of goods and services. These include diamonds, beauty products, black label, installation devices, branded clothing, Bricks, sand, maize, cabbage, Cannabis products, clothing (shoeshoe dresses, jeans, blankets, dolls, jackets, branded clothing, shoes, and tshirts), cold rooms equipment, cosmetics, eggs, electricity products, fast food, personal protective equipment(overall) Toyota Cars and Aluminium Doors, garments, textiles, stone, diamond, jean material, cannabis, wool (mohair) and trout fish.

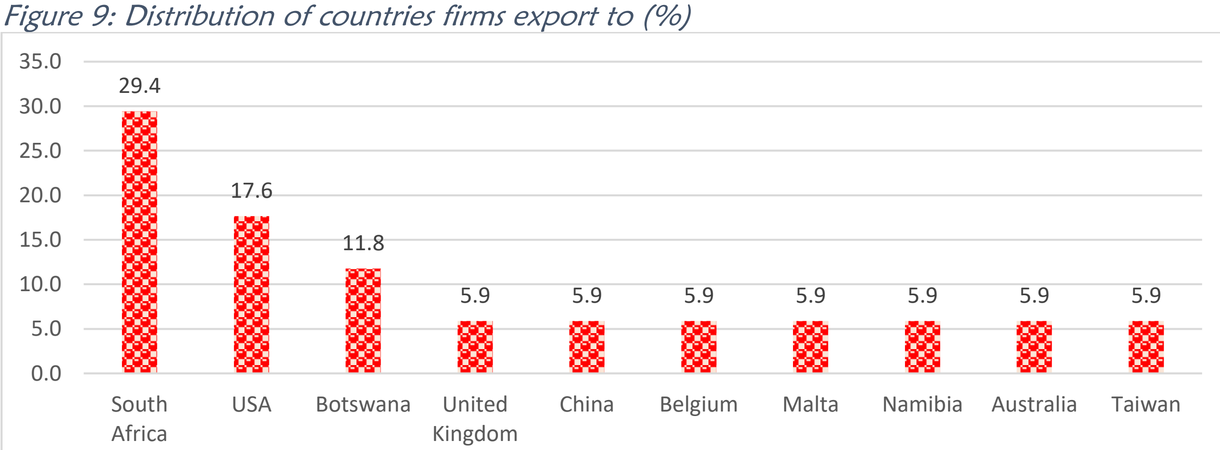
In addition to goods, qualitative data further shows that Lesotho also exports various services, such as construction services, installation services, furniture services, financial services, ICT consultancy, beauty make-up services, tourism services, health services, education services, transportation, and labour skills.

In terms of imports, the KIIs mentioned that the most commonly imported products include zips, vegetable seeds, tombstones, tiles, sanitary ware, stationery, spectacles/lenses, small chicks, seeds, raw materials, puma energy lubricants (car oils), potatoes, pharmaceutical products, petrol, electronics, medicine, meat, materials, masking tapes, machinery, information technology products, groceries (flour, oil, spices, etc), furniture, fuel, frozen meat, fridges, fabrics, electronics, electrical materials, eggs, detergents, dental equipment, dental consumables, cotton, cosmetics, construction materials, clothing, cash, cars, car parts, cannabis seeds, building materials, books & stationery, boards, blankets, beds, beauty products, and alcohol, Machinery & equipment, cars, food items, raw materials, alcohol, animals, textile, grocery, farmer's vehicles, seedling

The main services that are imported include engineering services, cannabis master-grower services, funeral services, delivery services, electrical services, financial services, ICT consultancy, laboratory services, machine maintenance services, banking services, health care services, and consultancy for heavy machinery used or general maintenance services.

The sampled firms have some degree of foreign ownership with representation from South Africa, China, Pakistan, United Kingdom, Switzerland, Belgium, USA, Singapore, Nigerians, Zimbabwe, Botswana, Indians, Cameroon, Namibians, Swaziland, Taiwan, Brazil, and Romans. In order of hierarchy, South Africa has the highest foreign ownership in the sampled firms.

Figure 9: Distribution of countries firms export to (%)



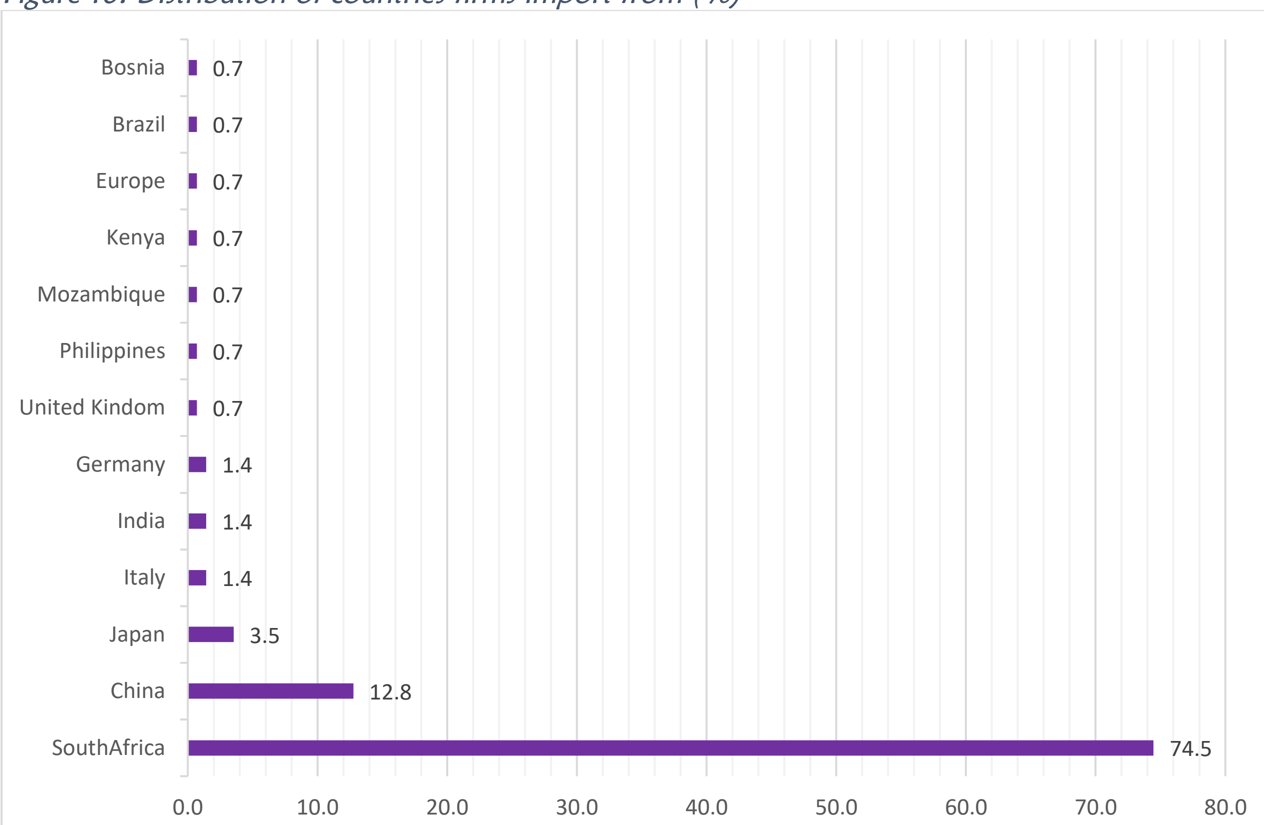
Source: Authors' analysis of data collected

Evidence from the KIIs confirms that these countries, particularly the first six on the list, are the major exporting countries.

According to the evidence from the KIIs, Lesotho imports from various countries, including South Africa, China, Japan, Italy, India, Germany, United Kingdom, Philippines, Mozambique, Kenya, Europe, Brazil, and Bosnia. South Africa emerges as the primary contributor, accounting for a significant 74.5% of Lesotho's imports. China follows closely with a share of 12.8%, and Japan constitutes 3.5% of the total imports. The other countries on the list make up the rest of the imports.

The KIIs validate the information and affirm the significance of the first three countries from the firm survey, South Africa, China, and Japan, as major contributors to Lesotho's imports. The KIIs further include countries such as Taiwan, Canada, Botswana, and Swaziland.

Figure 10: Distribution of countries firms import from (%)



Source: Authors' analysis of data collected

4.4 Financial Statistics

Table 6 provides an overview of financial information for the sampled firms in 2022, including annual operating costs, size of capital, expenditure on customs and border procedures, sales and the percentage of sales attributed to exports.

The average operating cost for the sampled firms is M69.9 million per annum, with a range of M600 to M3 billion and a standard deviation of M322 million, indicating a significant diversity among the surveyed firms. In the same year, the total sales of the same firms ranged from a minimum of M2,500 to a maximum of M253 billion, further underscoring the diversity of the firms. On average, the firms reported annual sales of M1.84 billion in 2022. The firms reported an average capital of M261 million in the year ending December 2022, with a range of M1,000 to M9.72 billion, which indicates the diversity of the financial strength and resources available to these entities. On average, the firms reported spending M10.9 million on customs and border procedures, with the highest cost on these procedures registered as M450 million. The firms indicated that they export an average of 26.4% of their sales.

Table 6: Summary of Financial Information of the firms

Description	Mean	Std Deviation	Minimum	Maximum
Total Operating Cost of Firms	65.9 million	322 million	600	3 billion
Total Sales of Firms	1.84 billion	20.8 billion	2500	253 billion
Total Capital of firms	261 million	1.28 billion	1000	9.72 billion
Cost of customs and border procedures	10.9 million	63.3 million	0	480 million
Proportion of Sales that are exported	26.54	32.9	0	100

Source: Authors' analysis of data collected

Note: *The figures for operating cost, capital, sales and cost of customs and border procedures of firms excludes an outlier that had a capital of M204 trillion, total operating cost of 90 million, total sales of 196 quadrillion (196,000,000,000,000,000) and 412.8 billion was spent on customs and border procedures.*

The distribution of firms based on access to credit reveals that slightly more than half the surveyed firms had no access to credit (see Figure 11). For firms with access to credit (46%), the 75% of them was sourced from commercial banks. While this pattern highlights the important role played by formal financial institutions, the share from family and friends, comprising 13% and 5.7%, respectively, also highlights the vital role of informal networks in the financial needs of the firms (see Figure 12).

Figure 11: Distribution of Firms by Access to Credit

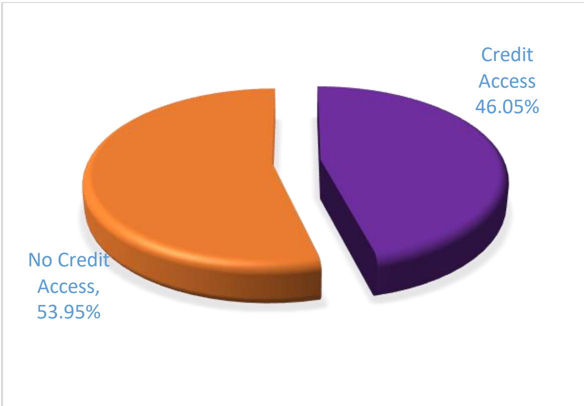
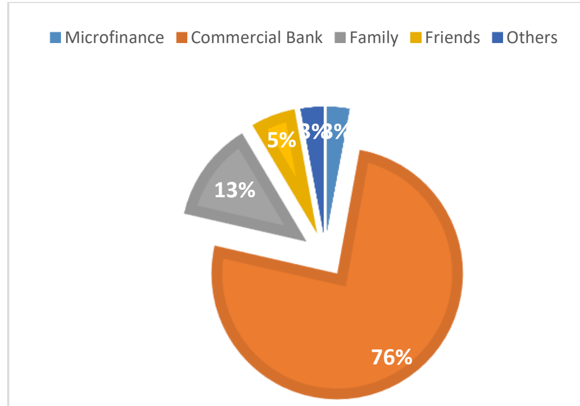


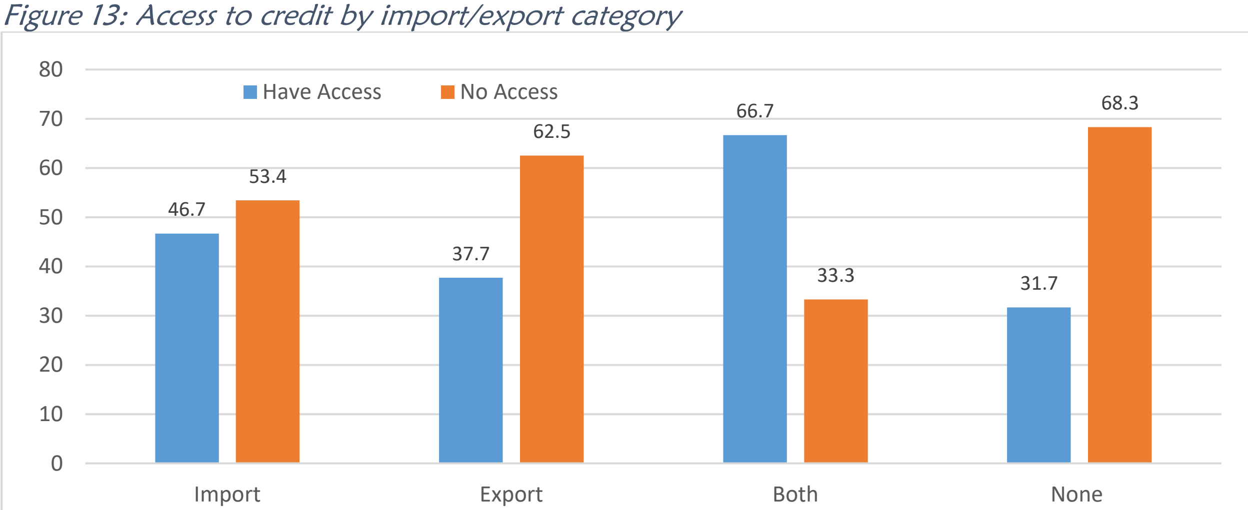
Figure 12: Distribution of Firms by Source of Credit



Source: Authors' analysis of data collected

Figure 11 illustrates access to credit based on the firms' engagement in import, export, or both. Among firms involved in import, nearly half the firms have access to credit and the other half have no access to credit. Five out of eight firms (62.5%) engaged in export do not have access to credit, while two-thirds (66.7%) of those involved in both import and export have access, and almost one-third of those with no import or export activities had access to credit

Figure 13: Access to credit by import/export category



Source: Authors' analysis of data collected

Regarding the firms' access to grants, only a small proportion of them (15%) reported having had access to grants, and a majority of them had no access to grants. Among firms engaged in import activities, there is limited utilisation of grants (at 6.85%), while those involved in export activities demonstrated slightly higher grant access, although the majority (75%) did not access grants. Firms engaged in both import and export activities as well as those with no import or export activities reported grant access of 23% and 22%, respectively.

Figure 14: Distribution of Firms by Access to Grant

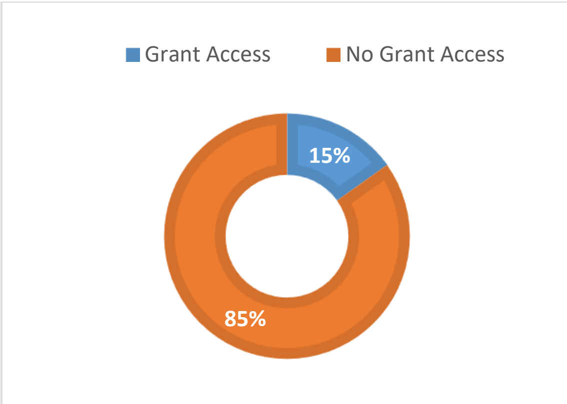
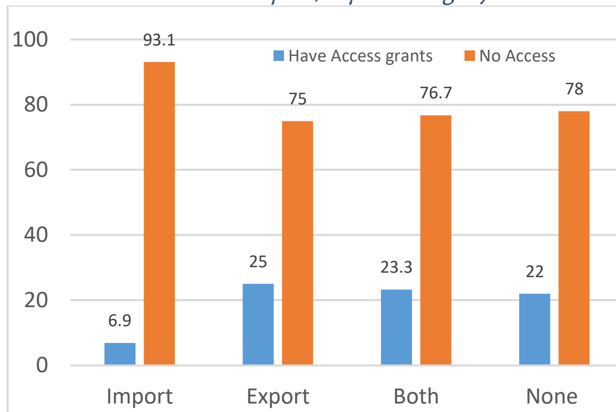


Figure 15: Distribution of Access to credit by import/export category



Source: Authors' analysis of data collected

Information from the KIIs and the firm surveys indicate diverse sources of grants for firms in the country. Some of the mentioned major sources include the USA (for AGOA firms), African Development Bank (ADB), International Fund for Agricultural Development (IFAD), UNDP, WTO, World Bank; Commercial banks, Private Sector Competitiveness (PSC), Lesotho Enterprise Assistant Programme (LEAP), Basotho Enterprise Development Corporation (BEDCO), LMDA, SADP, LNDC, LCCI, and from the Government of Lesotho.

5 CHALLENGES WITH INTERNATIONAL TRADE & RECOMMENDATIONS

5.1 Perception of Ease of Exportation and Importation

Figure 14 indicates that majority of the surveyed firms find international trade to be difficult. For example, about four out of five of the sampled firms (78.5%) find exportation to be either extremely difficult or fairly difficult, and only a small proportion view exportation as fairly easy. Consistent with the firms' responses, KIIs, on average, also believe that exporting is fairly difficult. For instance, 50% of them feel that it is fairly difficult to export, while another 10% feel it is extremely difficult to export. A small share of the KIIs (10%) find exportation to be extremely easy.

Several reasons ranging from logistical, economic, and regulatory dimensions, are given for the perceived difficulties in exporting. Table 7 provides a list of the reasons. In general, issues such as dependence on South Africa for transportation, delays caused by inspections, and the lack of buyers are cited key among important contributors. Apart from that, others indicate the lack of knowledge about foreign market requirements, export taxes, difficulty in standardising Lesotho products, and delays by the South African Revenue Services.

Figure 14: Perception of Ease of Exportation

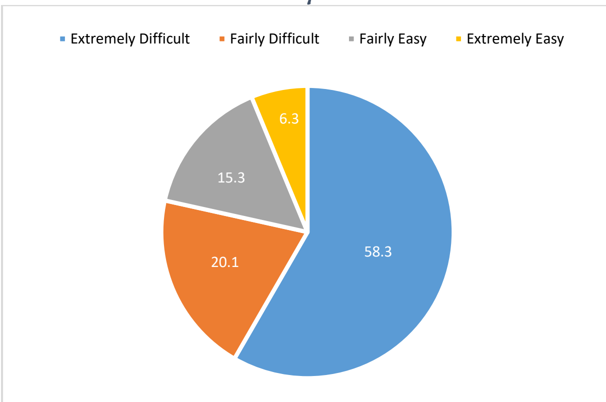
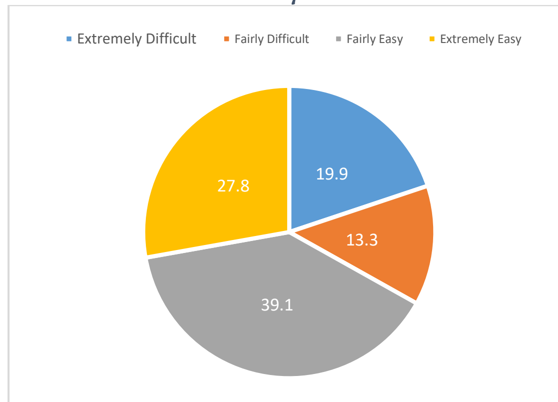


Figure 15: Perception of Ease of Importation



Regarding ease of importation, Figure 15 indicates many of the firms find importing to be either fairly easy or extremely easy, making up a total of 66.9% of the sampled firms. And one in three of the firms find importing to be somewhat difficult (i.e., fairly difficult and extremely difficult combined). Two-fifths of the KIIs participants find importing to be extremely easy while only one in ten believe importation is extremely difficult.

5.2 Challenges and negative shocks experienced by firms in Lesotho

The reasons for the challenges in importation as stated by the respondents are listed in Table 7. All in all, customs procedures, registration requirements and permits for different goods are the common reasons highlighted.

Table 7: List of reasons for the perceived challenges in exporting and importing

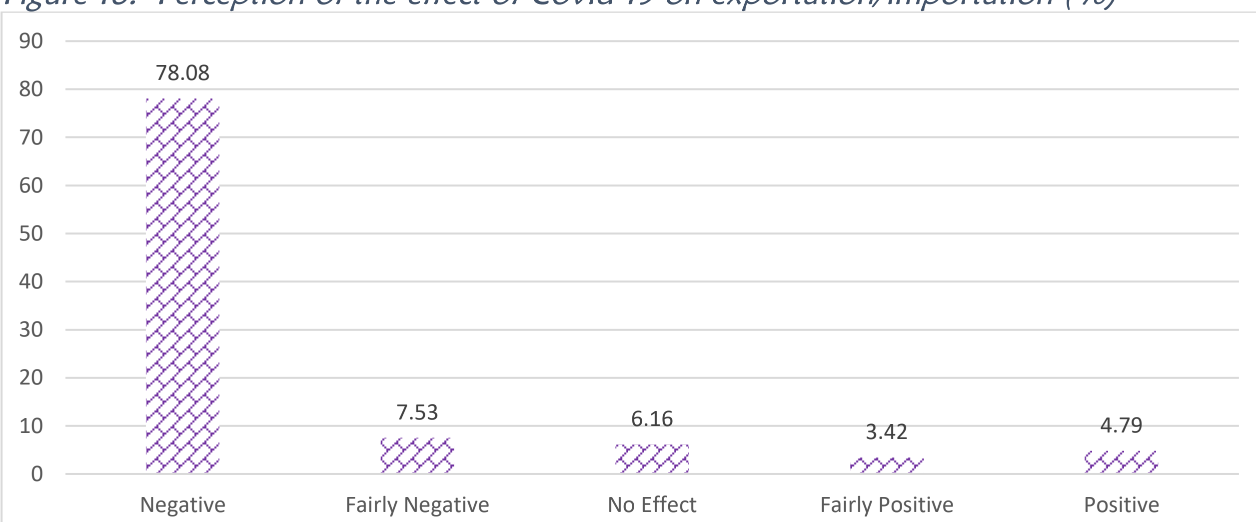
Reasons for the perceived challenges in exporting	Reasons for the perceived challenges in importing
• Lesotho's lack of independent free movement under South Africa and inspections hinder Basotho businesses with delivery delays. • Lesotho faces a decline in buyers and investors, leading to the closure of exporting firms. • Exporters in Lesotho lack official licenses/permits, market knowledge (quantity/quality), and face export taxes. • Basotho businesses lack marketing skills and sufficient finances.	• Exporting beyond SACU necessitates customs permits, self-generated invoices, authorized signatures, stamps, and movement certificates (F178), creating significant hurdles, especially for those far from the border. • Unregistered firms face extreme difficulties importing into Lesotho. • Lack of necessary permits legally prevents firms from importing goods into Lesotho. • Cross-border trade faces significant delays.

• High bureaucracy and difficulties in standardizing Basotho products impede trade. • Unnecessary stops by South African Revenue Services (SARS) delay Lesotho's goods in transit. • Landlocked status, high non-tariff barriers, and limited productive capacity/skills constrain Lesotho's market access.	• Strict South African laws pose challenges to Lesotho's trade. • High costs associated with non-tariff barriers impede trade. • Lesotho's landlocked status complicates the clearing process. • Border delays, high import costs, cumbersome procedures, and unclear requirements hinder cross-border trade.

Source: Authors' analysis of data collected

On the question of the extent to which COVID-19 impacted export/import activities, Figure 16 shows that most of the firms reported that the pandemic had an adverse influence on export/import operations. That is, six out of seven firms experienced a negative or fairly negative impact on their export/import activities due to the COVID-19 pandemic. Only a small percentage of firms (8.21%) perceived a positive or fairly positive effect, and 6.16% reported no discernible impact of the pandemic.

Figure 16: Perception of the effect of Covid-19 on exportation/importation (%)



Source: Authors' analysis of data collected

At least 34% of the firms reported that they faced no challenges with the registration process of their firms. Meanwhile the main challenges that the firms encountered include the lack of finances to cater for registration, long queues, difficulty in accessing information at the ministry of trade, stressful manual process, long time to complete registration, corruption (request for bribe by some officers), complicated process for foreign investors, complicated registration process. Other challenges mentioned include the need to provide legal documentation in cases of Change of ownership and transfer of assets and liabilities and poor services.

Table 8 shows factors such as insufficient information on foreign markets, standards compliance, and the cost of export higher mean scores (above 2.5), indicating they tend to have a moderate to significant impact on export activities. For instance, the cost of export was reported to have a significant effect by 32.17% of firms, while Standards Compliance encompassing legal requirements was reported by 30% of the firms.

Table 8: Main constraints to exports

Description	No Effect %	Small Effect %	Average Effect %	Above Av. Effect %	Significant Effect %	Mean Scale (1-5)
Insufficient information on foreign markets	25.69	16.67	13.89	14.58	29.17	3.05
Standards compliance (legal requirements)	25.87	10.49	16.78	16.78	30.07	3.14
Competitiveness	22.22	13.19	22.22	13.89	28.47	3.13
Cost of export	27.27	11.89	13.29	15.38	32.17	3.13
Customs and border procedures	29.37	13.29	11.89	18.88	26.57	3
Limited access to trade finance	29.37	18.18	20.28	11.19	20.98	2.76
Poor Infrastructure	33.57	18.18	9.09	18.88	20.28	2.74
Insecurity and lack of safety	36.36	13.29	18.18	13.29	18.88	2.65
Inadequate transport links	38.46	14.69	12.59	15.38	18.88	2.62
Informal restrictions	48.25	17.48	11.89	11.89	10.49	2.18

Source: Authors' analysis of data collected

The trends from the FSI align with those of the KII, who posit that Insecurity and lack of safety, Poor Infrastructure, Inadequate transport links, and Informal restrictions have a relatively lower impact than the rest.

With regards to imports, Table 9 shows that customs and border procedures emerge as a key factor, with 27% of firms reporting it as a significant constraint. In general, factors such as customs and border procedures, cost of imports, and standards compliance have a moderate to significant impact on import activities.

Table 9: Main constraints to imports

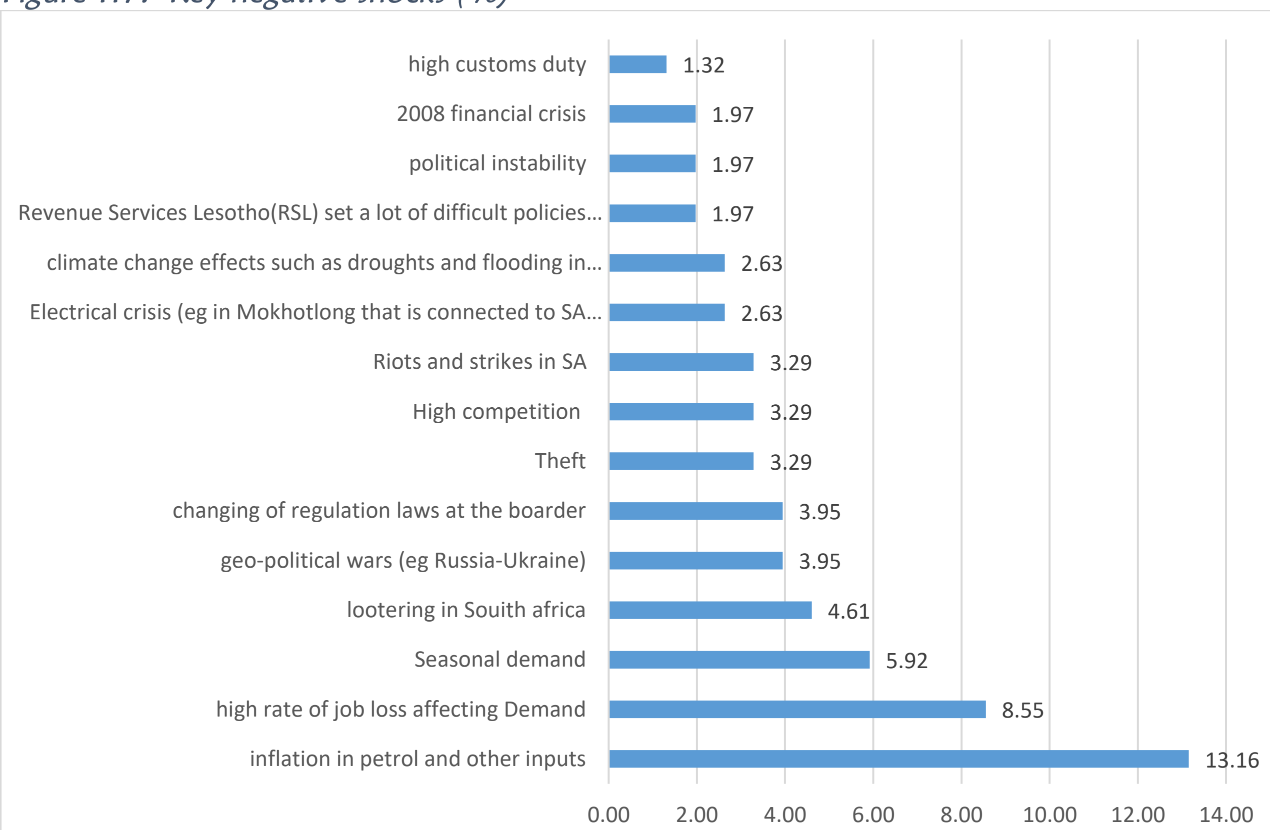
Description	No Effect %	Small Effect %	Average Effect %	Above Av. Effect %	Significant Effect %	Mean Scale (1-5)
Customs and border procedures	28	15.33	13.33	16.67	26.67	2.99
Cost of import	26	15.33	21.33	19.33	18	2.88
Standards compliance (legal requirements)	34	9.33	17.33	18	21.33	2.83

Limited access to trade finance	32.67	12.33	18.67	16.67	14.67	2.63
Poor Infrastructure	40	16.67	16.67	12.67	14	2.44
Inadequate transport links	38.67	19.33	16.67	13.33	12	2.41
Insufficient information on foreign markets	37.09	25.17	13.91	7.95	15.89	2.4
Competitiveness	37.75	22.52	17.22	13.25	9.27	2.34
Security and safety	41.06	22.52	17.22	5.96	13.25	2.28
Informal restrictions	48	26	10.67	6.67	8.67	2.02

Source: Authors' analysis of data collected

As we can see in Figure 9, many companies have faced setbacks in recent times. The data indicates that rising inflation rates of fuel and other raw materials have been identified as the leading negative shock by around 13% of firms. Following inflation, the most prevalent challenges include a high rate of job loss that impacts demand, seasonal fluctuations, civil unrest in South Africa, geopolitical conflicts such as the Russia-Ukraine war, and changes in border regulations or laws.

Figure 117: Key negative shocks (%)



Source: Authors' analysis of data collected

Note: *This represents the proportion of the sample that highlighted the above-listed indicators as possible negative shocks.*

Other challenges to import/export that was mentioned include the lack of experts, lack of availability of certain products, unnecessary delays at the border, double taxation experienced sometimes, depreciation of perishable goods due to delivery delays, poor internet strength and coverage, and poor access to information to provide services and also for research purposes.

Besides the COVID-19 pandemic, other negative shocks reported include climate changes such as increasing hail storms, pests & diseases, bad infrastructure causing sudden and frequent damage to transporting vehicles, erratic politics by the OPEC, delays in delivery may lead to huge losses in perishable goods, and the irregular supply of certain goods etc.

5.3 Positive shocks and Recommendations to improve International Trade in Lesotho

On the other hand, some positive shocks that led to a sudden increase in import/export include: accessibility of information to provide services and also for research purposes, a surge in demand during the winter season, construction of Pulihali Dam increased population hence increasing demand. In addition, family and friends support, favourable weather conditions, festive seasons like December increase sales. International treaties with Lesotho such as AGOA as well as government subsidies to businesses were also considered to serve as positive shocks.

The firms' representatives and key informants highlighted numerous recommendations. Most of the recommendations suggest ways to address some of the challenges mentioned above. For example, it was noted that, though all payments are made online (internet), trucks still take a lot of time at the border and cause unnecessarily delays. It was recommended that new staff be employed and be dedicated only to the invoices sent ahead of time. Another way to solve the delays as suggested was for the customs to create a good database of all trading firms using the border for easy and quick clearance (no rigorous strip searches before clearing), and a self-clearing option could be enacted. In addition, the clearing of perishable goods at the borders should be institutionalised and zero rated goods should not be charged customs duty.

There seem to be a policy disconnect in trade issues between the Lesotho and South African government. It was highly recommended that these policies be synthesised and regularised to avoid frequent changes and enhance compliance. From a more protective perspective, some recommendations were for government to enforce restrictions on the importation of locally produced goods and restrict foreigners like Chinese entering this market. Conversely, there was also the suggestion to have an international airport that is directly accessible to the rest of Africa and the world. Also, companies should improve networking with foreign companies to create partnerships and the establishment of more international treaties such as AGOA to generate more foreign markets outside Lesotho.

The need for financial assistance was also highlighted given that the majority lacked access to credit and grants; therefore improving the conditions that facilitate credit and grants for private firms will significantly boost firms. Furthermore, it was recommended that grants made for local firms be given directly to the firms and not via the government officials who have a tendency to tamper with such grants. Moreover, the security at the borders need to be cautioned to not give preferential treatment only to wealthy business men. The need to improve sensitisation about importing and exporting via seminars, workshops and via the main and social media, reduce cross-border bureaucracy, promote political stability, attract foreign direct investment, eliminate corruption.

In terms of ICT, firms need to be encouraged to create websites and employ internet facilities to improve visibility and facilitate trade. Similarly, the government can employ electronic clearing facilities to reduce border control delays. The government also needs to improve the creation of online platforms for proper documentation and increase synergy between the South African Revenue Service (SARS) and Revenue Services Lesotho (RSL). In terms of power, it was recommended that there should be power generators to facilitate operations in case of power shortage at the border. This will obviously redress the quagmire that exists when power suddenly goes off. Addressing these recommendations will go a long way to minimise the challenges faced by firms to engage in international trade from Lesotho.