

**THE INFORMAL CROSS-BORDER TRADE**  
**THE CASE OF INFORMAL CROSS-BORDER TRADE BETWEEN**  
**LESOTHO AND DURBAN – SOUTH AFRICA**

**BY**

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**A dissertation submitted to the School of Development Studies at the University  
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Studies**

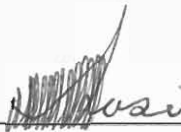
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**DECLARATION**

I , the undersigned, hereby declare that the work contained in this dissertation, is my original work and has not previously in its entirety or in parts been submitted at any university for any degree.



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Mokone Musi

02/12/2002

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Date

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## **ABSTRACT**

The processes of globalisation and trade liberalisation promote formal international trade world-wide. The processes have been accompanied by the renewed vigour to improve international competitiveness of the formal enterprises. Amidst these changes, there is a growing interest in the extent of informal sector activity as a form of income generating or subsistence activity within the developed and developing countries. However, little agreement exists in the literature as to what constitutes the informal economy, what activities in addition to monetary exchange make up the informal economy and where these activities are located. The lack of consensus on the proper definition is reflected in the lack of systematic information about all the caveats of this sector. As a result, the informal cross-border trade has failed to attract attention of the academic researchers. Little is known about whether the benefits of globalisation and trade liberalisation trickle down to the lower end of the informal sector.

This study explores and describes the problems faced by the Lesotho informal cross-border traders operating between Lesotho and Durban. It provides a profile of their experiences and problems along different stages of their journey. That is between their homes and the border gates, at the border gates on the their way to Durban, on their journey to Durban, in Durban, and the border gates on their return journey to Lesotho. This study examines the relationships between these traders and the traders in Durban. It tracts what happens to their goods once they are imported into Lesotho. The study concludes that trade and non-trade barriers pose a number of serious problems for the informal traders, and therefore hinder the development of international trade in the informal sector.

## **LIST OF ABBRIVIATIONS AND CRONYMS**

BEDCO	Basotho Enterprise Development Corporation
COSATU	Congress of South African Trade Unions
GEAR	Growth, Employment and Redistribution
GST	General Sales Tax
ILO	International Labour Office
IMF	International Monetary Fund
JIT	Just-In-Time
LNDC	Lesotho National Development Corporation
MCC	Maseru City Council
PREAC	Programme Para el Empleo de American Latina y el Caribe
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Policy
SAPS	South Africa Police Service
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
VAT	Value Added Tax
WIEGO	Women in Informal Employment Globalising and Organising

## TABLE OF CONTENTS

Acknowledgements	i
Abstract	ii
List of abbreviations and acronyms	iii
Table of contents	iv
List of tables	vi
<b>CHAPTER ONE</b>	<b>1</b>
<b>1.1.1 INTRODUCTION</b>	<b>1</b>
1.1.2 Statement of the problem	6
1.1.3 The aims of the Study	7
1.1.4 Research Questions	7
1.1.5 The Significance of the Study	8
1.1.6 Ethical Considerations	9
1.1.7 Problems and Limitations of the Study	10
1.1.8 Definition of Terms and Concepts	12
1.1.9 Organisation of the Study	13
<b>CHAPTER TWO</b>	<b>15</b>
<b>2.1.0 Methodology</b>	<b>15</b>
2.1.1 Research design	15
2.1.2 Population	15
2.1.3 Sample	16
2.1.4 Questionnaires	18
2.1.5 Interviews	20
2.1.6 Observations	20
2.1.7 Data analysis	20
<b>CHAPTER THREE</b>	<b>22</b>
<b>3.1.0The Review of Literature</b>	<b>22</b>
3.1.1 Introduction	22
3.1.2 Definition of the Informal Sector	23
3.1.3 Theoretical Underpinnings of the Informal Sector	25
3.1.4 Globalisation and Informalisatio	25
3.1.5 Theories of the Informal Sector	30
3.1.6 Approaches to the Informal Sector	31

3.1.7 The Informal Sector in Lesotho:	43
3.1.8 The Relationship between the Informal Sector, the Formal Sector and the state in Lesotho	50
3.1.9 The Informal Sector in South Africa	53
3.2.0 Conclusion	54
<b>CHAPTER FOUR</b>	<b>55</b>
<b>4.1.0 Data Analysis and Discussion</b>	<b>55</b>
4.1.1 Introduction	55
4.1.2 The profile of the informal cross-border traders	56
4.1.3 From Home to Lesotho Borders	59
4.1.4 On the Lesotho Side of Border posts to Durban	62
4.1.5 On the South African Side of the Border to Durban	63
4.1.6 Transport and Purchasing of Goods	65
4.1.7 Purchasing Goods in Durban	66
4.1.8 Lodging in Durban	72
4.1.9 At the South African Border From Durban	73
4.2.1 At the Lesotho Border from Durban	77
4.2.2 What Happens to the Goods Once in Lesotho	84
4.2.3 conclusion	91
<b>CHAPTER FIVE</b>	<b>93</b>
<b>5.1.0 Summary, Policy Conclusion and Recommendations</b>	<b>93</b>
5.1.1 Summary of the main findings	93
5.1.2 Policy Conclusions and Recommendations	99
<b>REFERENCES</b>	<b>102</b>
<b>APPENDICES</b>	
Appendix A	The Main Questionnaire for the fifty-eighty informal traders
Appendix B	A Questionnaire for the Immigration's and Sales tax officials At the Lesotho border Posts
Appendix C	A Questionnaire for the Immigration's and VAT official at At South African border Posts
Appendix D	A Sample of a Proof for Payment of VAT to the Exporter

## LIST OF TABLES

Table 1.1.1-1 Direction of exports by regions and SACU	2
Table 1.1.1-2 Direction of Imports by regions and SACU	3
Table 2.1.3-1 Sample, Methods and Places of Data Collection	17
Table 4.1.2-1 Gender in the focus-group discussions	56
Table 4.1.2-2 Age of the respondents	57
Table 4.1.2-3 Educational background of the respondents	58
Table 4.1.2-4 Commodities traded	59
Table 4.1.3-1 Problems encountered between homes and Lesotho border posts	60
Table 4.1.3-2 Do you carry goods to sell in South Africa?	61
Table 4.1.4-1 Do you pay unofficial costs at the Lesotho border gates?	62
Table 4.1.5-1 Permits/visa status	64
Table 4.1.7-1 Buying from Informal traders in Durban	67
Table 4.1.7-2 Buying from the formal traders in Durban	68
Table 4.1.7-3 Do you use tax invoice, receipts or both?	69
Table 4.1.7-4 Problems encountered during shopping in Durban	70
Table 4.1.7-5 Sources of information about where and when goods are cheap	71
Table 4.1.8-1 Types of lodging in Durban	72
Table 4.1.9-1 Do you claim for VAT refund at the South African border post?	74
Table 4.1.9-2 Reasons for not claiming VAT	74
Table 4.1.9-3 Problems experienced when claiming for VAT refund	76
Table 4.1.9-4 New Problems encountered at South African border post	77
Table 4.2.1-1 Do you pay unofficial tax to avoid paying GST?	79
Table 4.2.1-2 Who hands bribe to the border officials?	81
Table 4.2.1-3 Impact of taxes on the informal sector cross-border trade	82
Table 4.2.1-4 Methods used to avoid the GST	83
Table 4.2.2-1 Places where goods are sold in Lesotho	84
Table 4.2.2-2 Traders who had problems with workplaces	85
Table 4.2.2-3 Kinds of problems experienced	86
Table 4.2.2-4 Solution to problems at workplace	87
Table 4.2.2-5 To whom do you sell the goods?	88
Table 4.2.2-6 Stock, Mark-ups and Profits	90
Table 4.2.2-7 Methods used to sell the goods	91

## **CHAPTER ONE**

### **1.1.1 Introduction**

The informal sector describes economic activity that takes place outside the formal norms of economic transactions established by the state and formal business practices. However, it is not illegal by itself. The term applies to small or micro-businesses that are the result of individual or family self-employment. The concept includes the production and exchange of legal goods and services that lack appropriate legal permits, violation of zoning codes, failure to report tax liability, and non-compliance with labour regulations (Cross, 1988). The concept of the informal sector is defined more precisely later in this study. The study provides different definitions from different scholars. It includes the widely used ILO's definition of the informal sector.

The informal cross-border trade exhibits the above features of the informal sector. In addition to these, the operators in the latter trade buy and sell their merchandise in different countries. Their activities facilitate trade among the countries involved. Their consignments increase the volume of exports and imports in these countries and thus facilitate economic links among the countries.

This chapter gives an overview of trade relations between Lesotho and South Africa; discusses how the informal cross-border traders contribute to the relationship; provides the statement of the problem that this dissertation examines; and outlines related research issues.

Trade relations between Lesotho and South Africa have a very long history. Lesotho began to send migrant labourers into South Africa with the discovery of gold and other precious minerals over one hundred and fifty years ago. The remittances from the mines provided a major source of income for Lesotho. Although they have been seriously affected by massive retrenchments, the Lesotho Official Yearbook (1996) indicates that these remittances from the South African mines contribute 30% to the GNP of the country.

Trade-by-partner statistics are useful in comparing the economic relations among countries. Exports and imports statistics show that Lesotho and South Africa have strong economic links within the Southern African Development Community (SADC) region and internationally. The following tables show the dominant position held by South Africa in relation to exports and imports:

Table 1.1.1-1 below shows the direction of exports from Lesotho to SADC countries and other regions in the world.

**Table 1.1.1-1 Direction of exports by regions and SACU – Million Maluti**

<b>Region</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
America	219.6	192.4	178.5	388.4	516.8
Middle East	0	0	0.2	0.1	0
Asia	1.4	0.7	0	0	0.5
Botswana	0	2.7	0.4	1.1	1.1
Europe	54.3	49.5	5.6	6.4	3.6
Namibia	0	0	0	0	0
Oceania	0	0	0	0.1	0
Other Africa	7.0	4.8	0	0.4	0.6
South Africa	298.3	351.7	696.9	509.6	523.7
Swaziland	0	0	0	0	0.6
<b>Totals</b>	<b>580.6</b>	<b>601.8</b>	<b>881.6</b>	<b>906.1</b>	<b>1046.9</b>

**Source: Bureau of Statistics 1999**

It is apparent from the above table that exports destined to South Africa have been increasing at the higher rate than other countries and regions throughout the period 1995 - 1999. America closed the gap in 1999 by absorbing about 49.4% of the total merchandise exports while South Africa absorbed 50% during the same period.

The Bureau of Statistics 1999 shows further that Lesotho's imports come mainly from South Africa. Table 1.1.1-2 below shows Lesotho's total imports by region and SACU countries.

**Table 1.1.1-2 Direction of imports by regions and SACU – Million Maluti**

Region	1995	1996	1997	1998	1999
Botswana	0	0	-	0	0
Namibia	0	0	-	0	0
South Africa	4.4	3.1	-	3.3	3.6
Swaziland	0	0	-	0	0
Other Africa	0	0	-	0	0
America	0	0	-	0	0
Arabia	0	0	-	0	0
Asia	0.2	0.1	-	0.1	0.2
Europe	0.2	0.1	-	0.1	0.1
Oceanic	0	0	-	0	0
<b>Total</b>	<b>4.8</b>	<b>3.3</b>	<b>-</b>	<b>3.5</b>	<b>3.9</b>

**Source: Bureau of Statistics 1999**

It is clear from table 1.1.1-2 that almost all imports are consigned from South Africa. Throughout the period, 1995–1999 imports from South Africa amounted to about 90% on average. This substantiates the point made earlier that South Africa has strong economic links with Lesotho.

The table shows that the import share of some of the SACU countries remained zero for the same period. However, the data should be read with caution because Lesotho shares its entire border with South Africa. This suggests that some imports coming through South Africa from other SACU member states may be misclassified as consignment from South Africa. However, based on statistics from the above tables, one is forced to conclude that South Africa is the major trade partner with Lesotho.

A number of recent developments at the regional and international level have created the conditions for further growth in trade between Lesotho and South Africa. The birth of SADC, which South Africa has recently joined; the reform and renewed vigour in the long established trade relations that have forged the South African Custom Union (SACU) of which other members are Botswana, Swaziland and Namibia; the SADC Trade Protocol; and the forthcoming initiatives to create a common currency area are some of the regional changes that have drawn these countries together. Goods and services circulate freely within the SACU area with minimum restrictions (Lesotho Official Yearbook 1996). The end of apartheid in South Africa and infrastructure development in Lesotho led to stronger economic ties between these countries. The end of apartheid facilitated free movement of people and goods between the two countries. Some South African construction companies participated in the construction of roads and dams in Lesotho. Most of the consignments for the infrastructure development came from and through South Africa. International changes that have taken place within this period have had an impact on the voluminous increase in trade between Lesotho and South Africa. The processes of globalisation and trade liberalisation have had an impact on the economies of both Lesotho and South Africa.

Like in many developed and developing countries, there has been an increase in the informal sector activities in Lesotho. This phenomenon has accelerated dramatically in the 1990s; a period of increased globalisation and liberalisation. In 1991 there were about 103 000 small-scale businesses in Lesotho that employed about 161 000 people. This figure constituted about 20% of the whole labour force in Lesotho. From this figure, the Sechaba Consultants (1994) estimated that the size of the informal sector has become twice as large as the formal sector. This underlines the importance of the informal sector/economy in Lesotho. The Sechaba Consultants' Livelihood Analysis clearly shows that small businesses, particularly informal businesses, are critical to the survival of the poor in Lesotho. It shows that those who cannot find formal employment and are unable to make a living out of agriculture turn to a host of informal income generating activities (Sechaba Consultants 2000). However, it should be clear that small business does not

necessarily mean informal business. Chapter 3 tackles the definitional issues. It discusses in some detail issues of the informal sector in Lesotho.

The international and regional changes that have taken place have affected the informal sector in Lesotho. One important development has been the increase in informal cross-border trade between Lesotho and major cities of South Africa especially Durban, Cape Town and Johannesburg. A large volume of the Lesotho informal cross-border traders operates between Lesotho and Durban. Recently, there are organised buses, mini-buses and taxis that leave Lesotho every Sunday and return every Tuesday transporting informal traders to the major cities of South Africa for their shopping expeditions. These informal sector activities are an important, but neglected dimension of trade relations between Lesotho and South Africa. It contributes to the volume of exports and imports between these countries.

An important theoretical issue in the informal sector literature is the impact of trade and financial liberalisation, or globalisation more generally, in informal sector activity. The theoretical debates on this issue are diverse. As it will be seen later in this study (chapter 3), these writers argue that liberalisation and globalisation have impoverished the majority of people in developing countries especially women and children to the extent that they have been forced into the informal activities for livelihood. The other side of the debate maintains that globalisation and liberalisation have opened opportunities for the hitherto excluded majority. This dissertation contributes to this literature by examining whether the supposed benefits of globalisation and trade liberalisation are filtering down to those at the lower end of the informal sector. Whereas the process of trade liberalisation has aimed to promote formal sector international trade in Lesotho, this dissertation examines whether or not this extends to those engaged in informal cross-border trade between Lesotho and South Africa. The study traces the patterns and dynamics of the informal cross-border trade and explores the problems encountered by operators in this trade. It uses these as the criteria to measure whether the benefits of globalisation extend to the informal sector. However, this study does not merely outline

the nature, extent and characteristics of the informal economy between Lesotho and South Africa. Nonetheless, a short profile of this trade and of the informal cross-border traders is presented in order to draw a base line for this study.

### **1.1.2 The statement of the problem.**

This study is exploratory and descriptive in nature. The contention of this study as suggested in the previous section is that the benefits of global and regional changes have not trickled down to the informal sector operators. Using the informal cross-border traders in clothing and other household accessories, this study demonstrates that the informal cross-border traders face many trade and non-trade restrictions that could have vanished because of global and regional changes. The study therefore investigates trade and non-trade barriers that impede on the informal cross-border trade.

The problems that the researcher has identified as having detrimental effect on these traders include the followings:

- a) The traders are particularly targeted by criminals
- b) Official and unofficial taxes at the border posts hamper the trade
- c) Issues relating to passports restrict movement across the borders posts
- d) Trade relationships between these traders and the traders in Durban have negative effects on this trade.
- e) The relationships between these traders, the state and the formal businesses that are mainly owned and run by the Indians and Chinese hamper the informal cross-border trade
- f) Unlike the formal businesses, informal cross-border traders do not have support of information relating to their merchandise ✓

These problems and other issues relating to the informal cross-border trade are examined in this study.

### **1.1.3 The aim of the study.**

The main aim of the study is to show that informal cross-border traders face substantial trade and non-trade problems that impede on international informal sector trade. In the process of achieving the stated aim, this study does the followings:

- Highlights major problems encountered and the ways of overcoming such constraints. The problems that are explored included problems encountered between their home villages and the border gates, at the border gates to and from their shopping, on the way between the South African border gates and Durban, in Durban and in Lesotho back from Durban.
- Provides a profile of the relationships between these traders and the traders in Durban and the effects of the relations on the informal cross-border trade.
- Provides an overview of what happens to the goods when they get into Lesotho and the impact on this trade. Here the study provides a profile of whom the goods are sold to, who sell them, what are the expenditure, mark-ups and profits and why they are not sold to small, big shops and wholesales.
- Suggests policy implications and recommendations on the step that could be taken to enhance the informal cross-border trade.

### **1.1.4 Research questions**

Vithal and Jansen (1997) maintain that it is possible to formulate any number of critical research questions. In this study, on the contrary a limited number of the critical research questions is formulated to retain the focus of the study. The following questions guide this study:

- How do trade and non-trade problems affect the informal cross-border trader?
- How do the relationships between the informal cross-border traders and the traders from whom they purchase their goods affect the informal cross-border trade?
- What happens to the goods once they are in Lesotho and how does it affect the informal cross-border trade?
- What is the impact of the relationships between the informal sector, the state and the formal sector on the cross-border trade?

### **1.1.5 The significance of the study**

Poverty, unemployment and underemployment have contributed significantly to the increase of the informal activities in Lesotho. In the 1990s, the informal sector activities turned to cross-border trade in a way that had never been experienced before. An increasing number of people from Lesotho come to buy in South Africa. This has raised concerns in both countries. In Lesotho, the cross-border trade may threaten formal businesses, which is a great concern to the economy as a whole. This study therefore, tries to clarify some of these concerns.

A significant volume of literature on the informal sector suggests in a number of incidences that this sector is capable to contribute significantly to employment creation and thus reduce poverty (Bangasser, 2000). This argument and some disagreements with this view will be discussed in detail in chapter 3, which reviews the literature on the informal sector. However, the impact of the regional and global changes on the informal sector has not been comprehensively investigated. Whilst some studies have looked at the impact of globalisation, they have tended to be largely theoretical, too generalised and mainly quantitative (Carr, Chen and Tate, 2000). This study tries to bridge the gap by combining the qualitative and quantitative methodologies to investigate the experiences of the informal cross-border traders in order to establish whether the benefits of globalisation trickle down to them. As a result, the study will assist policy-makers and program administrators in fields such as small and medium size enterprises, the municipality and other stakeholders to understand better the informal cross-border trade.

The overview of trade between Lesotho and South Africa in the introduction shows that these two countries have strong economic ties. The overview above shows that other SACU member states play an insignificant role in Lesotho's imports and exports. The findings of this study deal with imports and exports since the purchases of the informal cross-border traders constitute imports into Lesotho and exports from South Africa. Imports and exports play crucial role in trade relations among countries. Exploring these dynamics will help in understanding trade relations between Lesotho and South Africa

and this can be used to improve economic ties between Lesotho, South Africa and other SACU member states.

The study is a contribution to the academic research in the field of informal sector in general but particularly in relation to informal cross-border trade. Peberdy (1997) has acknowledged that there has been little academic research in the field of informal sector especially in relation to cross-border trading. Within the informal sector an important area that has been under-researched is the impact of globalisation and liberalisation on the informal cross-border traders. Therefore, this study is structured in a way that it contributes to the scarce knowledge about the informal sector in general and the informal cross-border trade in particular. The review of literature traces the origin of the concept of the informal sector from different approaches and theories of development. In this way, it locates this sector into the mainstream development thinking. The review of literature explores the historical background to the informal sector activities in Lesotho. This exposes possible reasons that have constrained this sector hence why knowledge is limited. This study therefore tries to break grounds where much of the current discussion on the informal sector has been handicapped.

#### **1.1.6 Ethical considerations**

Those engaged in informal sector activities are often prone to harassment from officials. As this study will show, this is particularly the case for informal cross-border traders. Therefore, important ethical considerations are worth noting. The study ensures that the identity of the respondents and their activities are anonymous and confidential. This would spare them further harassment from the police, border officials and any other regulatory institution. The results of the study are presented in such a way that the lives and freedom of the respondents will not be threatened. The names are not mentioned in this study. The institutions that form the basis of this study such as the border gates, the hotels and the owners of transports and other officials have been given due respect in this study. The right to participate was observed in conducting the research. Respondents were asked to participate freely after the purpose of the study had been explained.

### **1.1.7 Problems and limitations of the study**

This section explores problems that were encountered in conducting the study. It shows how the problems affected the study and how they were tackled.

From the various studies of informal sector, especially those trying to define the sector the question of illegal operations appears frequently. It is possible that in the cross-border trade there are illegal activities. In many encounters with the interviewees, the researcher was not well received by the interviewees. They suspected that the researcher was spying for the governments and border officials. Therefore, it was difficult to collect data. The interviewees were given assurance that the researcher was not a spy. Since the drivers and the conductors were the essential facilitators in this trade and were familiar with the traders, entry to the interviewees was negotiated through them. This abated their fear. Nonetheless, these operators reluctantly reported illegal activities despite the fact that I witnessed them. It is arguable therefore that this study did not record a large proportion of these activities. Dewar and Watson (1981) encountered similar problems in their study of the informal sector in Cape Town.

In research, sampling procedures form crucial components of the whole exercise. A sample should be a representative of the whole population otherwise it will be worthless to generalise about population based on a biased sample (Hinton, 1995). However, as the researcher had anticipated it became difficult to select a truly representative sample. Information about these operators was sketchy. It was not easy to know the total number of the informal cross-border operators that would be crucial in selecting a big and balanced sample. It was also difficult to select from all the sections of the population, as it was not clear as to how many females, males, and youths participated in the cross-border trade. The issue of classifying these operators by these categories was difficult. However, more females than males were interviewed. Literature on informal sector shows that more women than men participate in this sector. The observation made confirmed that more women than men participated in the informal cross-border trade.

The study relied mainly on the claims made by the operators. Given their level of education, which was low; many operators did not keep financial records. Those who kept records often kept very basic accounting system. Accurate information on profits, turnovers, mark-ups and expenditures was extremely difficult to obtain. It was therefore difficult to verify claims of financial problems, losses and profits in this trade from their record books. It was also too difficult to verify many of their claims because most of the interviews were carried in Durban far from their businesses. Generally, this study has relied on the most recent experiences of the traders since respondents more easily recall recent financial and related information. Therefore, the results of this study should not be treated as final and absolute but rather as indicative of the experiences of the informal cross-border traders.

The scope of the study was limited by financial constraints. The research loan for this study, given by the Lesotho government was modest. In addition to financial constraints, there are many border posts between Lesotho and South Africa. They include fourteen official border posts (Lesotho 1990) and numerous illegal entries. This study was not in a position to monitor informal cross-border trade in all these border posts. Generalisation in this study should therefore be treated with caution.

Some problems were not anticipated at the beginning of the study. These problems had some negative impact on the study. Firstly, though the questionnaire was piloted and revised, the revision was not sufficient. The length of the questionnaire remained too cumbersome for the respondents' patience. This meant that the targeted sample was not achieved. As it is explained in the next chapter fewer traders participated in this study contrary to the original plan. Secondly, the period of the study coincided with the time when the government of Lesotho was imposing strict and effective measures to collect different taxes both in the country and at the border gates. Many informal sector operators were affected by these measures and the number that came to buy fell drastically within a short time. Within a short time, the researcher encountered people who were interviewed on previous occasions. Some of them were complaining that they were no longer coming as frequently as they used to because of the payments they made

at the Lesotho border gates. The number of buses and taxis that conveyed the traders diminished quickly. When the buses did not have enough passengers, only one bus could go leaving the rest behind. In the last focus-group discussions, this issue became clear. It became apparent that unofficial taxes at the Lesotho border gates were increasing from time to time given the higher risks involved when the government was introducing the new measures. Many traders were demoralised by the taxes and they stopped their cross-border trade.

This study was too ambitious. To explore the experiences of the informal cross-border traders from Lesotho to Durban and back to Lesotho was just too much for the available time and resources. The negative effects of this were that the questionnaire became too thick and some of the interviewees refused to answer the whole questionnaire while other could not answer some of the questions. Therefore, the study did not achieve the targeted sample size.

The study failed to interview directly the owners of the hotels, the informal street vendors, the formal businesses and any official from trade department in Durban. These sections could have been invaluable for this study. Therefore, the study present a highly one-sided picture of the problems encountered in Durban. At least at the border gates, the responsible officials were included in the study because getting access to them was relatively easy.

The questionnaire was not pre-coded properly. This is evident in the sample of the main questionnaire attached to this study. However, before the data was analysed, re-coding in some sections of the questionnaire was done.

### **1.1.8 Definition of terms and concepts**

Border officials: refer to different government officials at border posts. In this study they include the immigrations, sales tax and customs officials. The study deals mainly with immigrations and sales tax officials. Where they are referred to simply as officials, it is because the respondents refer to them indiscriminately as border officials.

Dual economy: an economy in which the traditional sector exists side by side with the modern sector

Descriptive statistics: refers to a procedure for organising, summarising and describing quantitative information or data (McCall, 1975)

Multiple response analysis: a procedure used to analyse more than one responses in a questionnaire.

Informal sector: economic activities that take place outside formal norms of economic transactions established by the state and formal business practices. In this study, the concepts informal sector and informal economy are used interchangeably without going into their definitional distinctions and debates.

Informal cross-border traders: business operators in the informal sector who buy and sell their merchandises across the international borders.

Maleni: a Zulu word for money

Official taxes: lawful charges/payments on goods and services

Unofficial taxes: unlawful payments made on goods and services

Sekwama: a Zulu word for a purse.

Trade: refers to buying and selling of goods and services. It includes retailers and wholesalers.

Trade-related problems: these are problems related to buying and selling of goods such as VAT, GST, discounts and credit.

Non-trade problems: in this study refer to problems that are not directly related to buying and selling of goods such as crime, long journey, bribe and other unofficial costs.

Maluti: a name for Lesotho's currency. One Loti is equivalent to one South African Rand (M1 = R1)

### **1.1.9 Organisation of the study**

Chapter 1 gives the background of the study, against which the problem of the study and the research questions are related. The significance of the study, ethical considerations and problems and limitations of the study are presented in this chapter. In order to fully communicate the research findings to the readership, the key concepts and terms in this study have been given operational exposition befitting the context of the study. Chapter 2

is the description of the methods that were used to collect the data. Chapter 3 is the review of literature that discusses issues of the informal sector from different theories and approaches. Chapter 4 presents data analysis and interpretation. Chapter 5 provides the synthesis of the issues presented in chapter four, and it provides the summary of the main findings, policy conclusions and recommendations.

## **CHAPTER TWO**

### **2.1.0 Research methodology**

#### **2.1.1 Research design**

This study is descriptive and exploratory in nature. As a result, different methods were used in the study to collect the data. Qualitative and quantitative methods were employed in this study. Research supports the idea that these two approaches can complement each other. Vulliamy, Leivin and Stephens (1990) suggest that there are some research questions that can only be usefully carried out by combining qualitative and quantitative methods such combination enriches the study and allows a sense of reliability. According to Marshall (1997), quantitative research helps the research to test the data precisely in order to obtain results that will help to explain and predict. In the same manner, qualitative methods help in getting the results that will assist in understanding why people do things the way they do. In this study therefore, these two methods provided data, which explained the experiences of the informal cross-border traders. The data collected through these methods established an understanding of the behaviour of these traders within the context of their challenges and experiences. In both qualitative and quantitative approaches, a researcher uses interviews and questionnaires as instruments of collecting data. This study used these instruments. However, it is important to note that this study is more of a qualitative nature than quantitative, as its aim is to provide a better understanding of the problems experienced by the informal cross-border traders within a wider economic context.

#### **2.1.2 Population**

To use probability-sampling methods was problematic for this study. Probability sampling is based on the availability of a complete list of the population. However, studies dealing with the informal sector have found it harder to get complete lists of the populations. As Leggett (1999) points out, it is difficult to get the gross number and demographic particulars of the operators. The informal cross-border trader and prostitution present serious problems when it comes to demographic particulars. This section describes how the total population for this study was estimated. The next section deals with issues relating to the sample that was based on the estimated population.

In this study, it was not clear how many traders were involved in this trade as numbers changed from trip to trip. It is true that operators registered their names with transport owners on each trip. However, these figures were unreliable and they varied from trip to trip. The drivers and conductors who kept the lists did not keep records of the previous trips. To get a rough estimate of the total number of the traders, the study relied on the buses, mini-buses and taxis that came to Durban regularly. Four buses, three mini-buses and three taxis came to Durban weekly. The preliminary discussion with the owners of transport revealed that buses never came with less than fifty traders. Mini-buses never came with less than forty while taxis came only when they were full. Using the minimum number that could have been an underestimation, roughly over one thousand three hundred and sixty traders came monthly to buy in Durban. It should be clear that these estimates were based on two official border gates, which are Maseru, and Ficksburg gates.

### **2.1.3 Sample**

From the estimated total, the study planned to take 1/10 as a sample. Therefore, one hundred and thirty-six individuals were eligible to participate in this study. This estimation was thought important so that at least the size of the sample, though not based on probability sampling, could not be too small.

Based on the estimations, this study used quota sampling. Quota sampling is based on the known characteristics of the population (Weisberg and Bowen, 1977). From the estimations, what was known about this population was the capacity each mode of transport, buses, min-buses and taxis would handle each month. Therefore, to get a sample of 136, interviewees the total estimation was split in a proportion of 74: 45: 17 respectively. The figures were rounded up to avoid working with fractions.

The problems mentioned in the previous chapter made it impossible for the researcher to follow the proportion proposed at the initial stages of the study. More interviewees were drawn from the buses because they came to Durban more regularly than mini-buses and

taxis. In addition to that, the proportion was not followed as laid down because the study relied heavily on convenient methods of interviewing. That is, only those traders who had time and were willing were interviewed. Therefore, data were collected from eighty-four respondents using different methods. The table below shows different categories of the sample in this study, methods used to collect data and places where the data were collected.

**Table 2.1.3-1 Sample, method and places of data collection**

Respondents	Size	Method	Place administered
Informal cross-border traders	58	Questionnaire	-Maseru -Durban
Informal cross-border traders	18	Interviews (focus-group discussions)	-Durban
Border officials	8	Questionnaires	-Maseru -Ficksburg
Informal sector cross-border traders	All traders crossing on Wednesdays	Observation	-Maseru -Ficksburg -Durban -On way to and from Durban

From the table above, seventy-six informal cross-border traders participated in the study. A semi-structured questionnaire was administered to fifty-eight traders in question. In addition to these, questionnaires were administered to different border officials in Maseru and Ficksburg border gates. The officials included one official from Immigration Department and one from Sales Tax Department in Lesotho. On the South African side, questionnaires were given to one immigrations official and one official from the Value Added Tax (VAT) office.

Like Pinder (1995), this study did not plan to make claim based on numbers but to use the richness of the interview material to trace connections between individual experiences and wider economic institutions. For this reason, the study used semi-structured questionnaire. Furthermore, a smaller sample 13% (eighteen interviewees) was selected from one hundred and thirty-six eligible respondents. Qualitative focus-group discussions were held with this group. The purpose of the bigger sample was to map certain characteristics that could be quantified about this trade. This information would be a snapshot of characteristics and dynamics of this trade. Using descriptive statistics to capture, interpret and summarise frequency and percentage distributions the bigger sample would be invaluable. The focus-group discussions with the eighteen members would add to the richness of the information gathered from the whole sample.

#### **2.1.4 Questionnaires**

The main questionnaire, administered to the informal cross-border traders, had different sections. Section A dealt with the information concerning the traders and the trade itself. Section B addressed problems that these traders encountered from their different homes to the Lesotho border posts on their way to Durban. Section C of the questionnaire sought information about the problems that these traders faced at the border gates on the Lesotho and South African's sides. The information needed here was related to taxes if the traders carried goods with them to sell in South Africa. Problems related to passports were also investigated. Section D included questions about transport from the border gates to Durban and the problems they faced on the way. Since these traders started to purchase goods on their first day of arrival, this section sought information of their purchases. Section E consisted of questions about lodging in Durban and the problems they experienced thereof as well as the way in which they solved them. Sections F and G respectively dealt with the experiences of these informal cross-border traders at the border gates on the South Africa and Lesotho sides back from Durban. The final section – H asked questions that traced what happened to the goods when they were in Lesotho. The purpose was to find out whom they were sold to and whether they created some jobs and other problems these traders encountered in relation to these goods.

The area that remained problematic was how to get to the sampled individuals. Therefore, this suggests that convenient sampling procedures were used. In Maseru, buses waited from two o'clock in the afternoon. The trip started around eight o'clock in the evening. The researcher met the respondents from two o'clock till eight o'clock when the trip started. The questionnaires were administered as these traders came to register their names because they usually waited in the bus. The whole process took a period of one month. Since different operators cross the border posts at different weekends, it was necessary to spread the process of collecting data over different weeks of the month in order to get information from a wide range of respondents. The interviews that were conducted in Maseru were done with the help of four Third-year Development Studies students from the National Teacher Training College (NTTC) in Lesotho. These students were earlier trained to administer questionnaire and to conduct interviews in their research methods class. They were familiarised with the questionnaire for this study. They later participated in piloting the questionnaire for this study and they made useful comments for the revision of the questionnaire.

The respondents were also given questionnaires in Durban. Here they were met where their buses waited as they were in town purchasing. In both cases, the point of entry was negotiated from the conductors and the drivers. Traders were given questionnaires immediately when they reached the bus. Given the length and thickness of the questionnaire, the process of filling it continued until very late at night. At this time the respondent were visited at their hotels where focus-group discussions were carried out.

Two separate questionnaires were administered to officials at border posts in Lesotho and South Africa. The samples of all the questionnaires are attached in the appendix (appendix A, B and C). In each country, a single questionnaire had two sections – A and B. Section A was completed by immigration officials in both countries. Section B was filled by sales tax officials in Lesotho and by VAT officials in South Africa.

As mentioned earlier, the study used a combination of structured and unstructured questions. Although structured or closed questions limit the number of possible answers,

their analysis was quicker and cheaper. In keeping with the objectives of the study, close questions catered for variety of options. They permitted comparability. They assisted in assigning numerical codes in advance to the range of possible answers (Rose and Sullivan 1996). Therefore, pre-coding in some sections simplified much of the work in relation to data analysis.

### **2.1.5 Interviews**

The focus-group discussions were arranged with the respondents. The discussions were conducted along the structure of the main questionnaire. To save their time, the interviews were tape-recorded for later transcription. Each interview session was planned to take less than one hour. In the focus-group discussions, arrangements were made to meet the respondents at their convenient places preferable at their hotels where it was quieter to cater for tape-recording of the discussion. However, it was not possible to conduct all the group discussions in the hotels. The first focus-group discussion session was held in a taxi. The second was held in a bus and the third was held in one of the hotels in Durban.

### **2.1.6 Observations**

The study was the result of the researcher's long observation of the traders throughout the years 2000 and 2001. The observation of these traders was done in three ways. The first one involved travelling with these traders to and from Durban during the mentioned period. Secondly, four formal observations were made at Maseru border gate during the winter season in 2001. The researcher went to the border gate on different Wednesday mornings when the traders were crossing from Durban. The third way was during interviews in Durban. Here it was possible to observe their experiences about lodging and as they bought their goods.

### **2.1.7 Data analysis**

From the research instruments above, it is clear that the study would use a combination of quantitative and qualitative methods of data analysis. Descriptive statistics as suggested earlier were used to interpret and summarise data from the main questionnaire. Much of

the analysis here is presented in percentage and frequency distributions. Tables and percentages are used to present the data from the sample of the fifty-eight respondents. The data that were collected from the focus-group discussions and some open-ended questions from the main questionnaire were subjected to qualitative method of analysis (Pinder, 1995).

Interpretation and discussions in chapter 4 are based on the sample population. That is, the chapter reports what was found from the traders and the officials in question. Chapter 5 makes generalisation of the information presented in chapter 4. It draws conclusions about the current problems facing the informal cross-border traders in general and relates these problems to the research questions and the literature reviewed.

## **CHAPTER THREE**

### **3.1.0 The review of literature**

#### **3.1.1 Introduction**

Many studies on the informal sector define the concept, the informal sector. Many suggest that it is not easy to define as it lacks clarity (Peattie 1989). This complexity has produced much confusion about what constitutes the informal sector and thus derailed fruitful debates on this issue (Sethuraman 1981 and Maasdorp 1983). However, many studies have shown the significance of this sector and there is widespread agreement that the sector represents a growing proportion of the economic activities particularly in developing countries (Cross, 1988). Given the confusion in the definition, categorisation and probably in the discussion, some of the avenues of the informal sectors have been given scant attention. The informal cross-border trade is one of those areas that have received little attention in academic research (Peberdy, 1997). Moreover, within this sector, the impact of recent global and regional changes on the informal cross-border traders has not been fully explored.

This chapter explores what academic researchers have already uncovered about the informal sector with particular interest in the informal cross-border trade. Like many other studies, this study examines various definitions of the informal sector with the view of highlighting the confusion and omission thereof. As indicated in the introduction, this chapter discusses the impact of globalisation on the informal sector. It also explores the mainstream theories and approaches towards the informal sector. Modernisation, dependency and worldwide systems are some of the theories that are discussed here.

Approaches that are given particular interest are the structuralist approach represented by researchers within the International Labour Organisation (ILO); the neo-liberal approach represented by the De Soto's legalist group. Women in Informal Employment Globalizing and Organising (WIEGO) approach is discussed. The different neo-Marxist approaches are examined in details. The last approach in this discussion is the underground economy. This review explores issues related to the informal sector in Lesotho and South Africa. It traces the historical background to the informal sector in

Lesotho and highlights major constraints that have hampered full-fledged development of this sector. Furthermore, this chapter tries to capture recent development and attitudes towards the informal cross-border trade and whether the recent macroeconomic policies have increased the informal activities as well as whether they are likely to improve the informal sector. These issues are explored in both Lesotho and South Africa, the countries on which the study concentrates.

### **3.1.2 Definition of the informal sector**

Defining the informal sector has become pivotal in many research works. A large volume of literature argues that the informal sector describes economic activities that take place outside the formal economy (Matsebula, 1996; Cross 1988). In some cases the concept refers to small, medium and micro-enterprises of which majority depend on family labour. Goods and services, which are exchanged, are diverse. They range from legal goods and services (shoemakers, tailors and street vendors) but which cannot be granted legal permit. Some goods and services are illegal or immoral (usurers, drug dealers, prostitution and smugglers) (Ellis and MacGaffey 1996). As it can be seen from this categorisation, it becomes conceptually, methodologically and theoretically difficult to define the informal sector. It is therefore difficult to estimate the nature of this sector, size, and significance and to explore all its avenues. It is on this basis that the informal sector is criticised that it lacks clarity. For these reasons, it has acquired different names. It is sometimes referred to as the second, hidden, or parallel economy (Ellis and MacGaffey, 1996). The concept “informal sector” has increasingly replaced these references. Other scholars feel that even the latter concept is confusing and they prefer to call it the informal economy not the informal sector (Skinner 2000). The argument is that to call it the informal sector connotes that it is a separate and an independent sector from the rest of the economy. In this study, the concepts “the informal sector” and “the informal economy” are used interchangeably without much emphasis on their definitional debates.

The definitions of the informal sector could be based on different aspects of the sector. They could be based on the labour-force status found in this sector. These include the use

of domestic servants, casual workers, self-employed and persons working in the enterprises of less than five persons. Other definitions use an income criterion to define the informal sector. People, who earn less than certain income, usually less than the minimum legal wage are seen as the participants in the informal sector.

The above paragraphs show that there are definitional problems of what is meant by the informal sector. However, important definitional distinctions within the dualistic framework are easily discernible and these include definitions by Hart, Mazumdar, Weeks, the ILO Kenya Report and Sethuraman (Moser, 1994). These definitional distinctions are reviewed briefly in this section. The sections on the theories and approaches of the informal sector give a feel of some of the ways in which various approaches and theories have actually used the concept of the informal sector/economy.

Hart (1973) defines the informal sector on the basis of the characteristics of the enterprises within this sector. The informal sector is defined as an unremunerated, unorganised and characterised by self-employment with the essential variable being the degree of rationalisation of work.

According to Moser (1994), Mazumdar and Weeks, unlike Hart who bases his definition of the informal sector on characteristics of the enterprises, explores the nature and the dynamics of the labour market and formed the basis for their definition. For Mazumdar, the distinctions and characteristics of the informal sector are based on protection in the labour markets. Government and trade unions protect the formal sector employment. This according to this scholar makes wage levels and working conditions inaccessible to job seekers unless they manage to cross the barriers created by the government and the trade unions. According to Weeks (1975), the formal sector enjoys official recognition and protection by the state. According to Weeks, the state uses mechanisms such as tariffs and quota protection, import tax rebates, selective monetary controls, and licensing measures to protect the formal sector. The informal sector therefore is defined, as that sector which does not enjoy these benefits.

The ILO's definition of the informal sector, which is widely used, is based on the characteristics of the enterprises. These characteristics distinguish the formal sector from the informal one. According to the ILO, informal activities are not confined to employment but rather these activities are perceived as a way of doing things. ILO's defining characteristics of the informal sector include the followings: ease of entry, reliance on indigenous resources, family ownership of enterprises, small-scale operation, labour intensive and adapted technology, skills acquired outside the formal school system, and unregulated and competitive markets (Bangasser, 2000).

As it will be evident in latter sections, leading theories of economic development emphasise different aspects of this sector, which largely determine the approaches and attitude towards the informal sector. Given this diversity, it becomes apparent why some aspects of the informal sector are not given full attention. The informal cross-border trade and others have therefore failed to attract much attention from academic research to date. Various definitions, as discussed above, are silent about the informal cross-border trade.

### **3.1.3 Theoretical underpinnings of the informal sector**

Literature on the informal sector can be categorised into different theories and approaches. The main theories that could be associated with attempts to explain the existence of the informal sector are the dependency theory, modernisation theory and the worldwide systems. Five of the main approaches are the structuralist, the neo-liberal approach, WEIGO's approach, Neo-Marxist, and underground economy. The subsequent sections of this chapter discuss these theories and approaches and try to locate the informal cross-border traders in the debate. However, before the discussion, this chapter explores the impact of globalisation on the informal sector.

### **3.1.4 Globalisation and informalisation**

Economic globalisation refers to the integration of local and national economies into the increasingly interlinked world economy. The roots of economic globalisation as they are known today can be traced as far back as the post World War II. Since then, a number of

different processes and mechanisms fostered the integration of smaller economies. Imperative among them is the expanding role of the International Financial Institutions such as the World Bank, International Monetary Fund (IMF), African Development Bank, the World Trade Organisation and the imposition of the Structural Adjustment Policies (SAP). The neo-liberal economic and political reforms that began with the creation of the Bretton Woods institutions played a pivotal role in intensifying the process of globalisation (Guttal, 2000).

Economic globalisation is manifested today through three main neo-liberal policy prescriptions. Firstly, there is massive deregulation of the economies, which is characterised by the general withdrawal of the state from providing control over economic and financial transactions, the removal of all government intervention that might bring distortions in market operations. Secondly, economic globalisation encourages privatisation of economic activities that entails the transfer of ownership and management of public enterprises to private companies. Finally, and important for this study, globalisation entails liberalisation of economic activities. Here the neo-liberal economic policy encourages that the state should give up domestic control over essential sectors such as trade and finance. These initiatives are expected to improve national and small businesses operation and their level of international competitiveness

However, the implications of these processes and mechanisms have had tremendous impact on employment relations and other market transactions. The three peculiar transformations that have occurred include the following: firstly, there is a tendency of transnational mobility of capital and immobility of labour. The second is the transnational mobility of large companies and relative immobility of small and micro-businesses. The third is the restructuring of production and distribution into the global value chain (Carr, Chen and Tate, 2000). The subsequent paragraphs discuss these dimensions of global integration and competition particularly their role in restructuring of an increasing disparity in the labour markets, restructuring of production and distribution into the global value chain and their impact on the informal economy.

There is a widespread theoretical fear that globalisation has impinged on the labour standards. This has triggered different emotions in the developed and developing countries particularly its impact on employment and informalisation of the economies. In fact, since the establishment of the ILO, there has been a functioning global system of international labour standards. However, the late 1970s witnessed a shift towards the neo-liberal views in economic and social policy. This shift has led to the questioning of the labour standards.

In South Africa with the new political dispensation, issues of labour market regulations have caused heated debates. Some sections feel that the macro economic policy that has been followed since 1994 is in line with the process of globalisation especially the Growth, Employment and Redistribution strategy. However, some sections feel that the macroeconomic policy is not in keeping with the labour markets needs of South Africa. Three divergent positions on the issue of labour market flexibility prevail in South Africa. The South African Foundation (SAF) holds one position. In its report the SAF shows that the labour market rigidity and the excessive union wage demands have increased the level of unemployment in this country. According to SAF, the minimum labour standards that hurt the poor such as minimum wages and minimum hour legislation should be abolished. There should be reduction in employment costs that should include low wages and non-wage costs such as compulsory provident fund and medical cover should be abandoned (Baskin, 1998).

The union movements in South Africa hold different opinions from those of SAF on the issue of labour market rigidity. Unions oppose flexibility and call for increase labour market regulation (Baskin, 1998). The Congress of South African Trade Unions (COSATU) as one of the influential unions in this country opposes labour market flexibility. However, as some scholars have noted, in practice COSATU and other union movements are not so adamant about issues relating to flexibility (Baskin, 1998). This has resulted in varying wages in different provinces in South Africa, to which the unions have concerted.

The government deals with labour market issues in a slightly different way from SAF and the trade unions. It has tried to increase flexibility in the labour market without undermining labour security. It has extended labour rights to almost all workers including the farm workers.

The nature of the labour markets plays a pivotal role in the global economy. In situations where labour markets are flexible, the bargaining power of the employers is strengthened and that of the employees is weakened. When the labour markets are regulated, large companies regularly close down production in one country and move to another where labour standards are relaxed. In the process of globalisation, the economic competition exerts pressure on companies to reduce total production costs by lowering labour costs. The net effect of the nature of the labour market is decline in labour standards and or an increase in the levels of informalisation especially in countries that have embraced the neo-liberal economic policies.

As has been pointed out above, the restructuring of production and distribution into higher value chains is one of the phenomena that have accompanied the process of globalisation. The value chain describes a full range of activities, which are required to bring a product or service from conception, through various stages of production, delivery to final consumer and final disposal after use (Kaplinsky et al, 2001). As it can be seen, the global value chains represent essential dynamics of global integration. Two of the most common forms of the value chains are buyer driven value chains common in the footwear and garment industries and supply driven values chains that characterise the automotive and computer industries. Powerful buyers or producers control important links in the chains. The value chains have been very instrumental in restructuring production. The development of bar code system has had impact on the size of retailers' inventories. They change orders more frequently depending on the changes in the demands. This has led to what is called "just-in-time" (JIT) inventory systems. The development of computers has had big impact on the nature of production. Retailers are able to monitor sales on daily basis and thus able to order only popular items since they no longer need large inventories.

In different parts of the world, the change in production has had different impacts. In Europe and North America, the subcontractors were located near the main market to respond quickly to the demands of the retailers. In some parts of Europe, Africa and the Latin America, the JIT system has led to the phenomenal increasing in home working. The overall impact of the value chain has been an increase in informalisation. Many scholars have found out that informalisation in its different forms has not been unique to developing countries but it is taking place in the industrialised countries as well (Castells and Portes, 1989). The most common forms are self-employment, casual labour markets, and sub-contracting.

As can be seen from the above discussions, globalisation has different impacts on nations, individuals and productive activities. This means that capital benefits to the disadvantage of labour. Similarly, global integration benefits large transnational companies that can move quickly and easily across the borders to the disadvantage of national, small and micro-businesses. Within the countries and societies, those who are economically and politically privileged and have access to capital, higher education, and productive assets are the ones who usually benefit from these economic changes (Carr, Chen and Tate 2000). In the face of this competitive environment, little attention has been paid to the competitiveness (or the lack thereof) of the informal businesses. The neo-liberal approaches to the informal sector as per the legalists and the neo-liberal financial institutions share common features. They both advocate for the limited role of the state in market because it increases transaction costs. However, literature has shown that the ideas of the legalists and the neo-liberal macro economic policies that have forced themselves into some economies have had negative impact on the labour markets. The net effect of globalisation and liberalisation has been an ever-increasing informalisation that has hard hit the informal sector participants especially women and children.

It is not surprising therefore, that many studies have recently focused attention to the informal sector. In these studies women have been singled out as a group that has experienced the negative impacts of economic globalisation. Studies in the 1980s and 1990s have shown that structural adjustment policies promoted by the World Bank and

IMF affected women far more than men (Carr, Chen and Tate, 2000; Brand, Mapedziswa and Gumbo, 1995). The elimination of the public subsidies on education, health and other social services are cited in many studies as having inharmonious impact on women. Brand, Mupedziswa and Gumbo (1995) in their study of the impact of structural adjustment in Harare have shown how women have been affected by SAP policies. They devoted a section on the informal cross-border trade. The findings of this study have been informative for the present study. One of the outstanding sections of their study documents the problems these traders encounter. Financial problems include the devaluation of the Zimbabwean dollar, currency restrictions, difficulties and costs involved in acquiring the foreign exchange. These financial problems had negative impact on the cross-border traders. They were forced to take goods to sell in other countries without bringing goods to sell in Zimbabwe. The study presents other problems experienced by these traders. They include transport costs and official and unofficial costs at the border gates. Issues relating to passports and what happens to the goods once they are in the country are not explored in their study. The present study, therefore, takes a step further to explore these issues.

### **3.1.5 Theories of the informal sector**

There are theories that strive to explain the existence of the informal economy especially in developing countries. Some of the approaches discussed below base much of their discussions from these theories. This section deals with these theories not at length, as it will do with the approaches. The three theories discussed are the modernisation theory, dependency theory, and the worldwide system theory.

Modernisation refers to the total transformation which takes place when the so-called traditional or pre-modern society changes and new forms of technology, organisational or social characteristics of the so-called advanced society appear (Coetzee, 1996). Modernisation theory associates the existence of the informal sector with the traditional pre-capitalist economy that exists side by side with modern economic organisation. Within the modernisation theory, the economy is perceived as dual, with the traditional sector having no links with the modern sector. Those who work in the informal sector

are conceived as lacking appropriate skills and education to participate in the modern capitalist sector.

The dependency theory explains the existence of the informal sector in developing countries in relation to the historical relationship these countries had with the core capitalist countries. Dependency theorists feel that the relationship led to the uneven development in the developing countries through trade (Frank 1967), production (Amin, 1982), and power domination (Rodney 1972 and 1975). They maintain that capitalist countries siphoned the surplus from the developing countries through chain-like structures that connect the periphery with the core capitalist countries. According to this theory, the way toward eliminating the informal economy is to cut the links with the core capitalist countries

The third theory that attempts to explain the existence of the informal sector is the worldwide systems. The theorists who work within this conceptual framework blame the current global economic restructuring as the causes of informality (Wilson, 1998). They point out that the informal sector is also growing in the core capitalist countries because it is able to keep wages low and to ensure a labour force that could be hired at peak periods and retrenched when there is recession. As it will be clear, the approaches discussed below borrow much from these theories.

### **3.1.6 Approaches to the informal sector**

#### *Structuralist approach*

The structuralist approach has evolved over time but it has retained much of its original essence. The proponents of this approach deal with the informal sector as a labour force phenomenon. They focus on the markets and argue that the informal sector results from the excess supply of labour caused by the nature of industrialisation, characteristics of the workers, rural urban migration, and the rapid growth in the urban labour force (Rakowski, 1994). Labour market segmentation has become more important than human capital models as a tool for analysing labour markets. Case studies and analyses of productive units have been used to complement census and survey. The cost of legalising,

the content of laws and regulations are accepted in this approach as important variables that affect informality but not as the causes of informality (Rakowski, 1994).

According to this approach, many poor people in developing countries are employed outside the regular formal sector jobs that carry with them access to social security and other fringe benefits. Studies that were carried out in both Africa and Latin America were concerned with identifying the working poor, to legitimise informal sector activities and to set a framework for macroeconomic policies. These studies could be associated with the ILO Kenya mission 1972 and the ILO's PREAC 1979 to 1982 in Latin America particularly in Colombia. The Kenya Mission Report forms the basis of the structuralist approach to the informal sector and worth more discussion.

The report of the ILO Kenya Mission on "employment, incomes and equality" is one of the first country reports that portray the informal sector as profitable, efficient and likely to offer great development potential. The report shows that simple technology; small-scale operations, capital shortages and lack of links with the formal sector have handicapped this sector (Bangasser, 2000). Based on this report, the ILO advances a series of policy recommendations. Primarily, the ILO's studies recognise that developing countries are faced with a host of economic problems. Among them unemployment ranges highest and creates a series of other problems. The ILO further recognises that developing countries cannot overcome these problems only through the expansion and innovations in the formal sector. It recommends for the recognition and contribution of the informal sector in providing employment and income for a significantly big proportion of the population in developing countries.

The terms of reference for the Kenya Mission Report was to recommend full employment strategy. The two mission reports that were completed earlier than this report clearly spell out the full employment strategy. These are the Colombia mission completed in 1970 and the Sri Lanka Mission completed in 1971. The Kenya Mission Report however, is an advanced and the redefinition of the previous reports. The report recognises that rapid economic growth is not an adequate solution to unemployment and income problems in

developing countries. In this report unemployment is described as the consequence of structural imbalances in the economic system (Moser, 1978). Among the recommendations made by this report as they are discussed in the subsequent paragraphs, is a need to go beyond job creation into rectifying the structural imbalance. The four main strategies towards rectifying the structural imbalances include firstly the expansion of the annual economic growth rate. Secondly, there is supposed to be wider sharing of the benefits of economic growth. Thirdly, the report feels that there is a need for national integration of the economy and finally, it recommends strategies to attack the imbalances (Moser, 1978).

The ILO report criticises the traditional attitudes towards the informal sector which views this sector as comprising of workers who are not organised and whose activities are only marginally productive (Bangasser, 2000). On the contrary, as the report points out, the informal sector is able to produce “the bulk of employment, far from being marginally productive, is economically efficient and profit making... offering virtually the full range of basic skills needed to provide goods and services for a large though often poor section of the population”(Bangasser, 2000: 9). Because of this, the ILO feels that the capacity of the informal sector to provide productive employment could be enhanced if governments encourage and support rather than harass this sector.

The ILO outlines the causes of bottlenecks in the informal sector. Government policies are singled out as major causes of the bottlenecks. Several restrictive licensing, regulations and standards imposed by the governments on this sector have a tendency to deny the legitimacy to the informal sector operators. According to ILO these policies put the sector at a competitive disadvantage against similar formal operators (Maasdorp, 1983). Because of such disadvantage, risks and uncertainty increase in this sector and the ability to withstand them decrease and thus innovation in the informal sector is hampered.

From this perspective, ILO warns that official restriction and harassment condemn the informal sector to involutory growth. This means that output growth is curtailed and a slowly growing total income is being spread widely and thinly across rapidly increasing

number of operators. Therefore, the ILO recommends supportive official measures towards the informal sector. It is hoped that such measures will raise income and employment generation capabilities; encourage its role in providing low cost goods and services and low training in practical and entrepreneurial skills; exploit its potential in developing a vitally important, indigenous, capital good industry (Bangasser, 2000). Therefore, the structuralist approach recommends that a viable way towards development and poverty reduction is a macroeconomic policy, which emphasises expanding the modern sector employment and income. Nevertheless, the proponents of this approach recommend supportive official measures towards this sector that go beyond mere job creation.

#### *Neo-liberal/legalist approach*

The neo-liberal/legalist approach defines and discusses the informal sector in terms of the absence of legal documentation and legal requirements on the part of the enterprises that compose this sector. The group that is dominated by Hernando de Soto and his legalist group define the informal sector in terms of regulation. But for this group, the informal sector is conceptualised as a refuge of the individuals who have found the cost of conforming to regulations and the existing laws of legitimate economic objectives is far more than the benefits (Swaminathan, 1991). The de Soto group argues that the defining characteristics of informality are illegality. However, it should be noted that illegality in this group does not necessarily imply criminality but non-conformity with the bureaucratic rules and regulations. The neo-liberals represented by the de Soto's group differ from the structuralist scholars of the ILO Kenya mission, ILO-PREAC and the underground approach in their assessment of the causes of informality and policy recommendation. The structuralists focus on cleavage between the informal and formal sectors between these sectors. The neo-liberal/legalists approach on the contrary recommends that the state should get out of the market in order to eliminate the bureaucratic confusion and the costs associated with legalising business operations (Rakowski, 1994). Similarly, the structuralists seek to improve the working conditions of the operators in the informal sector. The legalists argue that workers' protection will lead to loss of jobs. This approach differs considerably from WIEGO's approach, which is

concerned with improving the working conditions in the informal sector particularly for women operators. This approach is discussed later in this review.

The neo-liberal (legalist) approach has not been accepted without questions. Critics feel that arguments raised by the legalists hide some economic causes of informality such as limited demand for labour, lack of access to capital and markets. These issues are raised by the structuralist approach discussed in this chapter. Other issues that form the major concerns for other approaches – the neo-Marxists in particular are not taken seriously within the legalist perspective. The argument advanced by the legalist approach hide issues of exploitation of the operators in the informal sector by large-scale capitalist firms.

#### *WIEGO approach*

The WIEGO approach to the issues of the informal sector tries to improve the conditions and advance the status of women in the informal economy. It tries to achieve this through better statistics, research, programmes and policies. WIEGO has identified five major programme themes towards enhancing protection of workers in the informal sector. These are the protection for the informal workforce; urban policies as they affect these operators particularly women; global changes with particular interest to home-based workers; organisation of the street vendors and their representation in different policy making bodies (Lund and Srinivas, 2000).

The social protection of the urban poor, which include the informal sector operators, is not a new phenomenon in development discourse. However, there have been different forms of social protection that have been used in the past. These forms have been used differently in different parts of the world. The most common categories of social protections that have been used in one way or the other is social security, social insurance, social assistance, social safety net that included the social funds, and social protection (Lund and Srinivas, 2000). Since 1919 in different conventions and conferences, the ILO has been passing resolutions on these different forms of social protection whose intention has been to improve labour conditions world wide.

In different parts of the world where social insurance and protection did not exist for the urban poor, governments have implemented various programmes. One of the programmes that have been adopted advocates for subsidisation of the consumer items for the urban poor. Basic items such as bread, rice and fuel have been subsidised. The main objective of such programmes has been to avoid social unrest since the poor live in cities where it is also the seat of government and administration. However, the World Bank and the IMF have criticised such subsidies on the ground that wealthy people who can afford high price of such items can take advantage of them. These institutions also pose that such subsidises lead to distortion in the prices of agricultural products. The distortion can lower the income of local and rural peasant farmers who are as poor or poorer than the urban poor. The governments that have been receiving assistance from these institutions have been forced to discontinue the subsidies. After some international organisations had made publicity about the high costs of the structural adjustment, the World Bank and the IMF softened their position over the problems of poverty. However, they have remained adamant in their opposition of general subsidies, but have become positive towards programmes that target and screening the poor. Nonetheless, targeting and screening are difficult to practice. Despite all the endeavour by the ILO to foster issues of social protection since its inception and policy of the IMF and the World Bank some scholars within the WIEGO approach feel that improving the conditions of the workers especially women in the informal sector has all the impetus.

In a series of these endeavours, Lund and Srinivas (2000) have considered specific risks that women workers face, which need specific forms of intervention. In their analysis, they argue that many experience the present era as of insecurity and uncertainty. They maintain that few people are able to benefit from long-term or comprehensive coverage against contingencies in the work place. As a result they have developed a conceptual framework that tries to assess conditions and kinds of works in the informal economy, which can get access to core measures of provision that, can be incrementally improved (Lund and Srinivas, 2000). Similarly, Lund and Skinner (1999) have explored various barriers faced by organisations in the informal sector. They have argued that it is

necessary to have such organisations because if poorer people are not organised, the opportunities in this sector could easily be monopolised by better-resourced individuals and organisation. Their comparative study brought them to the conclusion that it is possible to organise and to sustain formal organisations in the informal sector. These attempts, unlike the legalist approach work towards a comprehensive social protection of the informal workers, which the legalists consider futile.

### *Neo-Marxist approach*

The neo-Marxist approach emphasises the exploitation of the informal-sector workers by the capitalist producers of the formal sector. There are two positions within the neo-Marxist. There are the marginality and the petty commodity production theorists. Though these groups do not differ much, it is necessary to discuss briefly their basic principles in relation to the informal sector that make them different. The marginality theorists see the informal sector as a distinct marginal pole that facilitates capital accumulation in the formal sector (Tokman, 1978). The traders in the informal economy benefit the capitalist system by both supplying cheap commodities to the workforce employed in the formal sector and by their presence as an industrial reserve army. Income earned in the informal sector supplements wages earned in the formal sector and thus subsidises the capitalist wage employment. These scholars have found mechanisms through which the subordination is maintained. Firstly, they see labour market segmentation as the cause. Institutional factors, mainly trade unions but also government interventions determine labour segmentation where labour mobility is restricted. Secondly, mechanism of subordination is the lack of access to certain inputs and to product markets. They do not have stable access to basic resources of production because they are monopolised by the formal sector (Tokman, 1978).

The petty commodity production theorists argue that the informal sector exists at the margin of capitalist mode of production. Nevertheless, it is subordinated to the formal sector through links that enable the formal sector to extract surplus from the informal sector (Moser, 1994). This shows that the petty commodity approach conceptualise economic activities in terms of a continuum of productive activities. This view places the

essence of analysis in the identification of complex linkages and dependent relationships that exist between and within production and distribution system (Moser, 1994). This approach allows for the more accurate identification of illusionary self-employment and the disguised wage employment. It further helps in the examination of the complexities of linkages between small-scale enterprises and the large capitalist sector.

Tokman (1978) outlines at the conceptual level two approaches that can be associated with both the marginality and the petty commodity perspectives. The first approach outlined by Tokman assumes that benign relationships prevail between the formal and the informal sectors. This approach is relevant to some of the approaches discussed in this section. The second approach assumes that subordination is the main characteristic of the informal activities (Moser, 1994). This approach pertains well with marginality and petty commodity production perspectives though each perspective emphasises different aspects.

To the petty commodity production theorists, market subordination and lack of access to basic resources are reinforced by several mechanisms when the informal sector is integrated into the whole capitalist economy. The surplus produced is extracted from the informal sector through different mechanisms. These mechanisms are related to the higher prices for its purchases, and lower prices paid for its output. According to this approach the difference is reaped by the large-scale capitalist sector. Another subordination link is conceptualised through purchases the informal sector makes from the formal sector. It is argued that the informal activities are dependent for their supplies on the formal sector. Usually they have to pay high prices and without being able to transfer these costs to the consumers because of the market constraint (Tokman, 1978). In this sense, they serve as a cheap labour outlet for the formal sector. Finally, subordination of the informal sector when it is integrated into the formal sector appears in the sale of personal services in which labour surplus, lack of alternative job opportunities and low-income elasticity result in small and stagnant returns to the informal sector workers (Tokman, 1978).

There are weaknesses and strengths in both the marginality and commodity production theorists. Natrass (1984) points out that not all the marginal pole fits in the informal sector, that the industrial reserve army may or may not participate in the informal activities and that people who are not part of the marginal pole can form part of the informal sector.

There are some weaknesses within the petty commodity perspective. In the first place, this concept covers a wide range of productive activities. Many critics feel that the greatest weakness of this approach is that it includes far too much. Since it explores the linkages between the formal and informal sectors, it has a tendency to include all the enterprises that have to operate in an environment dominated by the large-scale capitalist enterprises in terms of supplies, prices, wages and market conditions. The weakness of this approach is that in this categorisation, a legal storekeeper with two or three cafes would be classified as an informal trader along with a poor hawker (Natrass, 1984). This according to Natrass has broadened the definition of the informal sector but towards the absurd.

Notwithstanding the above weaknesses of the neo-Marxist approach, its major contribution has been its focus on the ability of the large-scale capitalist sector to exploit the informal sector via the control over the market. This happens because most of the informal sector has a direct backward linkage with the formal sectors in terms of inputs. In the same manner, the formal sector has the forward linkage with the informal sector. For instance, Natrass, (1984) points out that the informal sector lacks access to credit as a result it is forced to buy from the retailers rather than wholesalers. This means additional profits accrues to the formal sector and losses to the informal sector with consequence of poor growth for the latter.

#### *Underground economy approach*

The underground economy approach to the informal sector rejects economic dualism and reveals how the local, regional and international economies have become integrated through forms of production, productive units, technologies, and workers. This approach has introduced new terminology within the sphere of the informal sector. Its discourse

includes terms such as industrial restructuring, the internationalisation of capital, flexible specialisation and the informal economy. These words have tended to replace the informal sector (Rakowski, 1994). The proponents of this approach emphasise that informality is growing in both the peripheral and advanced economies. This approach point out that different participants use informalisation as weapon in a class struggle and the outcome is to alter class structure and privilege (Rakowski, 1994). In short, the informal sector is seen in this approach as a result of the pressures of increased competition on an international scale, which have led to the development of a new type of manufacturing based on sub-contracting and piecework. This approach maintains that employers have greater flexibility in hiring and firing the employees, in changing the tasks that workers do, and in changing the styles and components of their products. Employers are able to respond more quickly to the pace of changing tastes and patterns of consumption in the internationally competitive world.

There are important differences between the underground approach and the structuralist approach of the ILO PREAC. To the scholars of the underground approach, the informal sector represents not the segment of the labour market but the segment of the economy. The underground theorists are also critical of the ILO definition of the informal sector as small scale, ease entry, or a way of doing things. This approach, on the contrary, poses that the informality should be visualised as a status of labour, which is undeclared and non-contractual, lacking benefits, and paid less than minimum wage. The conditions of work in the informal sector are hazardous and not protected (Rakowski, 1994).

It is evident therefore from the above discussions that the informal sector is not a self-contained unit but it is linked to the socio-economic infrastructure of the rest of the urban environment (May and Stavrou 1989). Furthermore, it is difficult to draw a dividing line between the two sectors and to identify who are actually the members of the informal sector. As many critics argue, to identify who and what constitute the informal sector depends on the definition (Sethuraman, 1981; May and Stavrou, 1989). It is important, therefore to discuss some of linkages between these two sectors.

There are potential areas that form the basis for linkage between the formal and informal sectors. These include capital, labour, intermediate product and business progression. However, as Matsebula (1996) points out there has not been empirical evidence to support these linkages. A few examples from the above points will suffice to illustrate the linkages between these sectors. Investment funds can move from one sector to another. Taking capital generated in the formal sector, for example, it can find its way into financing activities in the informal sector. Similarly, funds generated in the informal sector in theory can move through the capital markets into productive investment in the formal sector. However, this is unlikely on the basis of the assumptions that profits are too small in the informal sector and they end up financing household consumption (Matsebula 1996).

May and Stavrou (1989) outline how both backward and forward linkages integrate the informal sector into the national economy and particularly its relationship to the formal sector. They outline four major direct linkages that exist between the formal and the informal sectors. Firstly, they point out that the informal sector traders become integrated into the formal sector-marketing network as dependent or commission sellers of a range of commodities. Secondly, the linkage exists where the marginal workers scavenge for paper, glass and plastics. These products go straight to the formal sector for recycling and thus the fortune of the informal traders depends on the demand for these waste products in the formal sector. The third form of linkage occurs commonly in the construction where the formal sector sub-contracts to the informal sector. Fourth, this phenomenon has spread into manufacturing especially the textile industry that need labour intensive skills.

This section has explored the different competing theories and approaches on the issue of informal sector. Two important issues have emerged out of this exploration. Firstly, these approaches do not say anything about the informal cross-border trade, which is the focus of the present study. This supports Peberdy's point that the informal cross-border trade has not been fully researched. Secondly, it becomes evident from the preceding discussion that these theories and approaches represent competing views about the

informal sector. The ILO Kenya Mission could be said to represent the complementary views between the informal and the formal sectors. The Neo-Marxists, on the other hand especially the petty commodity production theorists, espouse exploitative relations between these sectors.

In concluding this section, it can be stated that the above discussion has shown the linkages that exist between the formal and the informal sector. Despite the different approaches and theories discussed, the fact remains that these sectors are linked to each other. The linkages underline that it would be an error to conceptualise the informal sector as an independent sector from the rest of the economy. Therefore, this chapter concludes that an integrated approach to the question of the informal sector would be the best one. In relation to the informal cross-border traders, this study supports the approaches that treat the informal sector not as a separate sub-sector of the economy, but as integrated to it.

The study concludes that the approaches and theories to the informal sector are relevant to the issues of the informal cross-border traders but at differing degrees. The neo-liberal approach, which maintains that informality is caused by the costs of legality, may be appropriate to these traders. The purpose of this study is to show the problems these traders encountered. The state's regulations through various taxes constitute bureaucratic control over these traders. As the study points out later, these traders use different methods to avoid state control. The Neo-Marxist approach that maintains exploitative relations between the formal and the informal sector is quite relevant to the issues of the informal cross-border traders. As it will be shown in the next chapter, some of the traders do not buy on credit, do not get discount and do not buy straight from the wholesalers which means that some profits are reaped by the retailers. The question of exploitation could be relevant at the border post where the informal sector cross-border traders find themselves having to pay official and unofficial taxes.

My submission is also that the informal cross-border traders are heterogeneous just like any other informal sector participants. Their turnovers, mark-up and profits differ just like other characteristics.

### **3.1.7 The informal sector in Lesotho**

#### *Historical perspective*

As has been argued earlier, little is known about the informal sector in Lesotho. Since this study sets out to contribute to this knowledge, it is necessary to explore the historical background to the informal sector in this country. This will contribute in explaining why the informal cross-border trade has never been explored in this country. This historical exploration looks at prospects and constraints to the development of the informal sector during the colonial and the postcolonial rule in Lesotho. This section explores the current macroeconomic policies in Lesotho and assesses their effects on the development of the informal sector.

#### *Colonial informal sector*

There is nothing written about the development of the informal sector during the colonial era in Lesotho. This sector posed no threat and did not prove any significance to the economy of the country at the time. It seems that the development of this sector was impeded by various factors. Rural-urban migration was discouraged by colonial policies. Towns in Lesotho up to independence were not attractive to rural residents since there were hardly any social facilities that would attract rural migrants. Towns were designed mainly as administrative not industrial centres. There were no industries at all in Lesotho up to independence except two printing works that employed less than one hundred workers (Lesotho 1990). The infrastructure was not developed. Roads were not constructed. At independence, Maseru, the capital town, had only one road of less than six kilometres linking Lesotho with South Africa.

It is arguable that the arrival of the European Missionaries contributed significantly towards reducing rural-urban migration hence reduced prospects for the development of informal sector. The first missionaries came into Lesotho in 1833 (Paris Evangelical

Missionary Society (PMES) and followed by the Roman Catholic (RCM) and Anglican missionaries (ACL) in less than five decades. These missionaries spread mission stations all over the country. Just like in Swaziland and other African countries, they provided social services in the rural areas (Matsebula 1996). Education and health services were provided in these mission stations. To date, mission stations in Lesotho still provide the majority of the aforementioned social services as 95% of the rural schools and clinics are owned and run by the various church denominations in Lesotho. Education that was provided by the government and the mission schools did not train students to be self-employed. It is true that practical subjects such as handicrafts, embroidery, knitting and cooking were part of the curriculum but they were meant to improve women's domestic skills. The whole education system trained students to enter the formal sector mainly as clerks and secretaries in government offices and the plethora of colleges that existed then trained students mainly as teachers.

The migrant labour system that developed during the colonial period did not encourage rural-urban migration either (Setai, nd). Through direct and indirect means, Basotho men were forced to seek paying jobs in the mining industries in South Africa. They had to pay hut tax which was payable in cash only. However, through the pass laws in South Africa only men were allowed to seek jobs. Women who form the majority in the informal sector were excluded from moving into the urban centres. The remittances from the miners supplemented agricultural income and therefore women were discouraged to enter the informal sector.

Gender issues play a considerable part on the development of the informal sector. In almost all the studies of the informal sector, women constitute majority participants in the informal economy. It is important to critically assess gender issues in the development of the informal sector in Lesotho given the laws that were prevailing. The laws that prevailed in this country retarded the development of the informal sector. Under the customary law in Lesotho, all women are considered as minors whose guardianship is passed from father to husband or male relative and later to the son of the same woman. Under common law a married women needs permission from the male guardian in order

to enter any contractual obligation. It is arguable that under such laws, freedom of women who would participate in the informal sector was highly restricted during the colonial period. It is clear that for women to enter the informal economy would need permission from the husband or any male guardian and such permission was unlikely forthcoming. The Sechaba Consultants Report (2000) has shown that to date little has changed for women in Lesotho. It shows that the Law Reform Commission that was established in 1997 to work on the laws that discriminate against women had not completed its task. As a result, there was no national policy on gender issues and women were poorly represented in the National Assembly.

Another factor that has discouraged the development of the informal sector in Lesotho has been the fact that Basotho are traditionally agricultural people. Therefore, informal employment in agricultural activities has dominated employment in other activities. As will be shown in the next section agriculture has received far more attention than any other sector in this country even after independence.

#### *Informal sector in Lesotho in the postcolonial period*

It has been argued earlier that agriculture receives much attention than any other sector. The existence of this sector has also put constraints and limitation to the development of the informal sector. However, it has become clear that the agricultural sector has become incapable of absorbing the increasing numbers of under and unemployed labour force in Lesotho. The important issue is what has been happening to the informal sector in Lesotho since independence and what has been the attitude of the government towards this sector. Since there is not much researched information about this sector in this country, a perusal through the Five-Year Development Plans and other official documents may shed some light on these issues.

Reading the Five-Year Development Plans in Lesotho, it becomes clear that the informal sector has been treated residually and it is largely anecdotal. While its existence is acknowledged (explicitly or implicitly), its potential for being an effective means of development (that is, reducing unemployment, poverty, income inequalities and choice

restriction), it has not been fully exploited. The First Five-Year Development Plan covering 1970/71- 1974/75 acknowledges that agricultural development alone could not be the total solution to employment problems. It stresses that non-agricultural activities, which were then at an embryonic stage, would form a major path towards economic development. This development plan stresses industrialisation through the development of the Lesotho National Development Corporation (LNDC). The subsequent paragraphs implicitly suggest the promotion of small- scale enterprises but there is no direct reference to the informal sector.

The second Five-Year Development Plan and the subsequent plans like the first fail to take full appreciation of the informal sector. This plan outline sectoral employment in Lesotho but even in the table of contents where other sectors are outlined the informal sector does not exist.

The Five-Year Development Plans support the agriculture sector more than any other sector in Lesotho. The argument made is that this sector employs the majority of the nation. The Second Five-Year Development Plan covering 1975/76 – 1979/80 is one of the earliest post colonial and official documents that clearly show the importance accorded to agriculture to the disadvantage of all other sectors. This development plan shows the allocation of funds to different economic sectors and agriculture receives the highest share of 39.4 million followed by social infrastructure 35.3 million, economic infrastructure 33.3 million and by water and minerals with 28.3 million (the Second Five-Year Development Plan 1975/76 – 1979/80). This clearly shows the limitations and constraints this sector has placed on the development of other sectors. Similarly, industry, commerce and tourism under which the small-scale businesses were supposed to be funded received only 20.6 million for the same period. The subsequent development plans show continued government support of agriculture despite the repeated calls that it has become incapable of absorbing the whole labour force in Lesotho (Sechaba Consultants 1995; and Budget speeches for 1999/2000 and 2000/2001).

Another recent and important document produced by the government of Lesotho besides the Five-Year Development Plans is The Lesotho Review of Commerce and Industry (1990). However, most of the information in this review is similar to that of the Five-Year Development Plans. The 1990 review acknowledges that the agriculture sector cannot absorb all the labour force and that the industrialisation through the Lesotho National Development Corporation (LNDC) and the Basotho Enterprises Development Corporation (BEDCO) would be the main bodies stimulating the manufacturing sector. While LNDC would be responsible for large industries, BEDCO would cater for small-scale industries. This document and the Official Yearbook 1996 make almost the same argument about the small-scale industries in Lesotho. They trace the origin of BEDCO, the objectives of this institution, the training that it offers and the financial assistance that it provides to small-scale entrepreneurs. It shows that BEDCO was formed in 1975 to assist Basotho-owned small businesses in the manufacturing and commercial sector and to generate local employment opportunities. Since then, there have been many changes that have rendered this institution almost impotent

A perusal through these government documents raises some interesting concerns. Firstly, there is neither an attempt to refer directly to the concept of the informal sector nor any attempt to define the informal sector. Secondly, there is no direct reference to the informal cross-border trade that form the basis of the present study. Thirdly, there is no attempt in any of these documents to define what is meant by small-scale businesses. The term has been used too loosely and generally. The pitfall of this generalisation as has been pointed out earlier is that it makes the whole issue confusing and absurd (Nattrass 1984).

The above argument highlights the following implications. Firstly, the government has not committed itself seriously to the issue of the informal sector. This sentiment is echoed seriously in Sechaba Consultants Report (2000) where it becomes clear that the government up to the year 2000 had not released the policy and strategies document that was developed for the Small and Medium enterprises (SMEs), which was developed by

key stakeholders in 1997. These issues are taken up in the latter paragraphs of this section.

The second implication detected from these official documents is that various caveats of the informal sector cannot be fully recognised since the government lumps them together as SMEs hence there is nothing on the informal cross-border trade in all these official documents. It seems that to the government SMEs refer to those businesses initiated by BEDCO. Other forms of informal sector activities receive very little or no attention at all.

Since the official documents do not say much about the informal sector, it was interesting to explore other documents in the country that are independent of the government. Some of the important documents that have recognised the informal sector come from the Sechaba Consultants. The consultants have conducted a series of studies on the economy of Lesotho and the informal sector is given special place within the economy. The consultants have shown that as recent as 1993, 68% of the labour force in Lesotho was employed in the informal sector (Sechaba Consultants 1995).

The Consultants have also explored one of the challenging spheres of the informal sector. They reveal income disparities among the informal sector operators in the streets of Maseru. Some workers were able to generate income of about M1 600 a month while on the other extreme others could hardly make more than M50 per month. Interesting still is the findings on the turnover per month for the informal traders. It is revealed that over a half of the street traders had a turnover of M500 or less per month and about twenty percent of the traders was able to make monthly turnover of more than M1 000. These findings are highly informative for the present study. It becomes clear that informal sector operators in Lesotho just like anywhere in the world are different. There are those who work in this sector and have prospect to progress. Similarly, there are those who could be classified as the survivalists.

The Sechaba Consultants Report (2000) on Poverty and Livelihoods in Lesotho like its predecessor and unlike the official documents directly addresses the issue of the informal

sector. It shows that small businesses, particularly the informal sector businesses, are critical to the survival of the poor in Lesotho. This report compiles recommendations of workshops that it has been following. Many of the recommendations as stated above show the lag in government involvement into the issues of the informal sector. It shows that the government has not addressed recommendations by important stakeholders within the informal sector made in 1997 and 1999 respectfully. In 1999 representatives of many small businesses held a workshop to discuss the ways in which they could improve their success in the business world. According to the Sechaba Consultant Report (2000), many suggestions showed that with the outside help, small businesses could provide a real boost, not only to the small businesses themselves, but also to the whole economy of Lesotho. The following is the summary of the major suggestions made at the workshops:

- Government should release the SME policy and strategies document, which was developed by all stakeholders in 1997. Where the document had shortcomings, it should be improved and the policy implemented.
- Government together with relevant stakeholders should develop a regulatory framework for SMEs in the country. Such a framework would include the laws and tax structures, as well as the subsidies and supports provided by government, that could help revive the sector.
- The government, NGOs and donor communities that support SMEs, must have regular planning meetings to share and discuss their approaches so that they are complementary. They noted that too often concerned people contradict and impeded each other, even when they have best intentions.
- Those who wished to support the sector should provide training to SMEs according to the needs that have been identified by the participants themselves.
- Government should encourage and assist in the development of Micro Financing Schemes that would provide credit; it should give tax break to small producers, and should allow the SMEs to participate in tendering for government jobs (Sechaba Consultants Report, 2000).

The suggestions were not only directed to the government and the donors, the stakeholders made suggestions that would improve the performance of the informal economy. These suggestions included the following:

- The SMEs should broaden their products and should meet real needs and demands, that is, they should sell what is relevant and of good quality.
- There should be a SME stakeholder committee that would meet regularly to address issues related to this sector.
- When the Micro Finance Schemes are implemented, the SME participants should pay back the loans taken so that the funds could revolve to other members. There were suggestions to look into who was currently providing loans and at what interest rate, why entrepreneurs failed to pay back, what were the arrangements like and what methods were used to make follow up of the loans (Sechaba Consultants Reports, 2000).

These suggestions show the role the different stakeholders including the state should play in the development of small businesses as envisaged by different stakeholders in the informal economy. As the next section does, it is important to assess the relationship between the state, the formal and the informal sector in Lesotho in order to see whether prospects are there for speedy implementation of recommendations and reform that will promote the informal economy.

### **3.1.8 The relationships between the informal sector, formal sector and state in Lesotho**

The government of Lesotho has been committed to a process of restructuring the economy along the ideas of the neo-liberal policies since the second half of the 1980s. The government started implementing the IMF's structural adjustment policies in 1988. Throughout the 1990s, the government has been busy implementing some of the neo-liberal policies (Sechaba Consultants, 1995). Privatisation of the hitherto government owned enterprises has gone swiftly in Lesotho. The 1995 Privatisation Act and other subsequent policy measures have called for extensive sale of state-ran enterprises, which

constitute almost all the modern economic sector. This has resulted in the privatisation of some of the biggest state owned companies that include the Lesotho Telecommunication Corporation, the Lesotho Electricity Corporation and the Lesotho Bank. There has also been the closure of the seemingly unprofitable businesses such as the Agricultural Development Bank. In 1999 the government of Lesotho went deeper into implementing the neo-liberal economic policies and programmes. Some of these programmes emphasised growth-oriented policies, fiscal restraint, core reforms in tax policy and tax administration, which had impact on, the informal cross-border traders as noted in the methodology section (<http://.imf.org/external/np/loi/2001/lso/01/index.htm>).

The above changes in the country's macro-economic policies have brought tension between the state, the formal sector and the informal sector. This has happened regardless of the observation by some scholars that there are reasons for collaboration between the formal and the informal sectors. As has been argued earlier, the change in policy stance and the embracing of the neo-liberal policies is a disadvantage to the informal sector operators and an advantage to established formal enterprises. Since the late 1980s when the government began with the neo-liberal policies, the period was marked with tension between the formal businesses, the state and the informal sector traders. This tension exploded into violence and looting in 1991 when most of the formal businesses owned by the Chinese and Indians were looted and burned down (Moeletsi oa Basotho 1991). Again in 1998 during the political violence, Chinese and Indian businesses were burned and looted. Some social and political commentators have seen this as a sign of dissatisfaction of Basotho especially street traders towards the established formal businesses that belong mainly to the Chinese and Indians. For instance, the 1991 violence was sparked by the murder of a Mosotho woman whose child was suspected of stealing a shirt in a store owned by a South African. However, the violence and looting spread quickly to Chinese and India shops in Maseru and neighbouring towns. Similarly, in 1998 Chinese and the Indians had had nothing to do with the South African army entering Lesotho, but the looting and violence were mainly directed to them and their businesses (Moeletsi oa Basotho 1998). These incidences mark the tension that exists between the established formal businesses and the informal sector.

Studies show that government officials consider the informal sector operators as a nuisance, making the city look untidy and ugly by their very presence. They are accused of causing traffic congestion, dropping litter, molesting passer-by, depriving the law abiding and tax paying shops of trade and spreading diseases by physical contact and the sale of contaminated or rotting food (Bromley, 1978). The same attitude towards the informal sector traders has been documented in Natrass' study of the street vendors in the Transkei. The urban authorities in Lesotho have not been exceptions in this regard. The officials have constantly removed the street vendors from the town centre and the main road sidewalks on the pretext that they obstruct traffic and they make the central city unattractive to tourists and foreign dignitaries visiting the country. The same attitude has relegated these traders into backyard markets, which are hidden from the customers. A quotation from *The Public Eye* (2001) succinctly captures the tension and the struggle between the informal sector operators, the state and municipal authorities in Maseru:

The court has stamped on Maseru City Council's (MCC) right to evict street vendors from the Kingsway Street of Maseru and relocate them to the new market. The decision was delivered on Wednesday last week following a long confrontational and legal battle between MCC officials, the police and the street vendors (*Public Eye*, 2001: 10)

Although there are few studies on the informal cross-border traders, the existing evidence shows that like their counterparts street vendors, government officials constantly harass these traders. Recently, there has been an outcry over the radio that the government border officials and the police subject the informal sector cross-border traders to various forms of harassment (MOAFRICA FM, 13 June 2001). Even when they are already in the country, there are allegations that police and the MCC officials harass them. Most of the goods bought from Durban are sold in the streets where there is already tension between them and the established formal traders who sell similar goods and the government that seems to support the formal businesses.

The discussion on the informal sector in Lesotho reveals important points. It is important to note that the informal sector has been under-researched in Lesotho. It is also important to note that the Lesotho government and the Sechaba Consultants have addressed the issue of the informal sector. However, both do not define the concept, the informal sector. In their discussions, it seems that small businesses are taken as proxy for the informal sector. My submission, therefore, is that to date there is no clear definition of the informal sector in Lesotho. Therefore, this study contributes in addressing issues relating to the informal sector especially those, which retard its full-fledged development.

### **3.1.9 The Informal sector in South Africa**

Since the study explores issues relating to informal sector activities between Lesotho and South Africa, it is important to explore the informal sector in South Africa. The focus is placed on Durban because it forms the basis for this study.

South Africa has embraced globalisation. The macro economic policies since 1994 have demonstrated the stance of South Africa in the global economy. The shift from the RDP to GEAR has shown in clear terms that South Africa is committed to enter the global economy. However, the self-imposed structural adjustment policies have brought new challenges to the economy of South Africa. One of the prominent challenges is that the economy has failed to create enough jobs in the formal sector because of global competition. Tariffs and other forms of protection that had insulated the South African economy for so long have declined substantially. The textile industry that has been one of the largest employers in this country has shed many jobs and has been unable to create new ones.

In South Africa, like in many other countries (developed and developing), the informal sector has been growing in size and significance. The failure of the economy to absorb the new entrants into the labour markets has markedly increased the size and the significance of this sector. Durban Economic Review (2001) gives reasons why many poor people and some wealthy ones turn to informal self-employment. They make it as an opportunity to obtain additional income. Some enter this part of the economy because

they have lost their job in the formal sector while others as a result of inability to find employment and in desperation, are trying to do something (Durban Economic Review, 2001). Women in particular are thrown into the informal activities when they are hit by economic shocks that cut off previous sources of income.

Studies show that the informal sector plays a vital role in providing income and employment for the impoverished section of the population in South Africa. In Durban, the size of the informal sector is big and increasing. It is estimated that between 180 000 and 300 000 people are involved in informal activities (Durban Economic review 2001).

### **3.2.0 Conclusion**

The discussions in this chapter have shown that the informal sector is a diverse area and that many studies have not reached a consensus about what it consists of as well as who are the members of this sector. It has been clear from the discussion that it is difficult to draw a dividing line between the informal and the formal sectors. For these reasons, this chapter like others has recommended an integrated approach to the issues of the informal sector. The chapter has also argued that there is limited academic research on the informal cross-border trade. It has attributed this shortage to the fact that the concept is wide and that there is still a lot of confusion on the definition; there are divergent theoretical approaches and negative official attitudes towards the sector. The chapter has traced the historical development of the informal sector in Lesotho and has explored limitations and constraints towards this sector. It argues that both pre and post colonial state approaches to this sector have been responsible for slow development of this sector hence why issues relating to the informal cross-border trade have not been taken seriously. It has been argued that the informal cross-border traders are similar to the rest of informal operators; that they are heterogeneous in terms of profits, turnovers, purposes and many other aspects that have made them part of the informal economy.

## **CHAPTER FOUR**

### **4.1.0 Data analysis and interpretation**

#### **4.1.1 Introduction**

This chapter presents data on the problems of the informal cross-border traders between Lesotho and South Africa. It also deals with data interpretation. In order to provide answers to the research questions, the questionnaire was organised into sections that explored the research questions at different stages of the cross-border journey. Consequently, the analysis and interpretation explore these problems at different stages of the journey. The next chapter summarises and synthesises these issues in relations to the research questions advanced.

As noted earlier, a total of seventy-six informal cross-border traders participated in this study. Different research techniques were used to solicit information from these respondents. Three focus-group discussions were held with a total of eighteen participants. The questionnaire was given to fifty-eight participants to complete. All the copies were returned.

The raw data from the focus-group discussion was transcribed and categorised according to the problems encountered and the research questions advanced. In the same manner, the data from the questionnaire was recorded and analysed using the SPSS programme mentioned earlier in this study.

All the tables in this chapter present data from the questionnaire. The data from the questionnaire were categorised into groups. That is, similar responses were grouped together and given a code. Ambiguous responses and a response that appeared once were classified as miscellaneous and not entered into the computer. In close-ended questionnaires, the respondents were given an option to tick “others” when the alternative responses given were all not appropriate to them. In some cases, the respondents failed to respond because they did not have information or the issue at hand did not affect them or they did not want to give information. Such none-responses were classified as “No Response”.

#### 4.1.2 The profile of the informal cross-border traders

This section highlights the important features of the informal cross-border trade and provides the demographic profile of the traders as revealed by the study.

##### *Gender*

The data collected through the different techniques showed that there were more female than male participants in this trade. The questionnaire was administered to forty-six female and to twelve male respondents. Since convenient methods of administering the questionnaire were used, it was convenient to get more female than male participants because they were in majority.

In the focus-group discussion, an equal number of males and females was interviewed. This was done purposely to avoid biasness. Table 4.1.2-1 below shows the number of the focus-groups and gender represented in each group.

**Table 4.1.2-1 Gender in the Focus-group Discussion**

Group Number	Males	Females
1	6	0
2	0	6
3	3	3
<b>Total</b>	<b>9</b>	<b>9</b>

N = 18

Based on the questionnaire and the interview methods, fifty-five respondents out of the seventy-six were females while only twenty-one were males. The observations made at different stages of the study confirmed that there were more females than males in the informal cross-border trade. Hence 72% of the respondents in this study were females while only 28% were males.

### *Age*

The age composition of the informal cross-border traders showed that the majority of the traders were between the ages of thirty-one and fifty. There were very few participants who were under twenty and above sixty-one years. Table 4.1.2-2 below shows the age of the participants in the study.

**Table 4.1.2-2 Age of the respondents**

Age	No. of respondents	%
Under 20	3	5
21 – 30	7	12
31 – 40	23	40
41 –50	15	26
51 – 60	8	14
61 and above	2	3
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

### *Education and work experience*

The level of education varied among the traders but the majority fell in the categories of below standard seven and Junior Certificate. These are the primary and secondary levels of education in Lesotho. There were few traders in the categories of Cambridge Overseas Certificate and tertiary education. Those who were below standard seven included participants that had never attended school at all. The educational level of the participants is illustrated in table 4.1.2-3 below. The findings confirm the assertion of scholars working within the modernisation framework that participants in the informal trade are poorly educated and lack skills to participate in the formal sector.

Many operators in the informal cross-border traders (76%) had had no other employment than the informal trade. A smaller portion (14%) was employed in the formal sector and used the informal cross-border trade to supplement their incomes. The findings correspond with the findings in the Durban Economic Review (2001) and the Sechaba

Consultants (2000) that people work in the informal sector for various reasons. The study further revealed that all the traders (100%) were self-employed in the informal cross-border trade, which is consistent with Hart's definition of the informal sector. As a result, at the moment there is no evidence of subcontracting in the informal cross-border trade contrary to the assertions of the world systems theory and underground approach that informalisation manifests itself in different forms including the formal sector subcontracting to the informal sector (Rakowski, 1994; May and Stavrou 1989; Castells and Portes, 1989). This phenomenon could be explained in terms of the relationships that exist between the formal and the informal sectors. The formal sector operators take the informal ones as a threat to their businesses and thus fail to sub-contract to them. Similarly the informal sector operators are suspicious of the formal sector. The poor relationships between these sectors have been discussed in the review of literature and later the study presents the relationships as revealed by this study.

**Table 4.1.2-3 Educational background of the respondents**

Highest Qualification	No. of Responses	%
Below standard seven	25	43
Junior certificate	20	34
Cambridge overseas Certificate	8	14
Tertiary	5	9
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

#### *Commodities traded*

The study explored the commodities that were traded by the informal cross-border traders. It became clear that a variety of goods was exported out of South Africa. Table 4.1.2-4 below presents the total of the responses in relation to commodities traded. However, it should be noted that the traders were found to be trading in items that belong to more than one commodity group.

**Table 4.1.2-4 Commodities traded**

Commodity type	No. of respondents	%
Food	4	2
Clothes	53	28
Cosmetics/toiletries	35	18
Utensils/cutlery	49	25
Appliances	27	14
Furnishings/furnishers	18	9
Jewellery	11	5
<b>Total</b>	<b>193</b>	<b>100</b>

N=58

The above table shows that clothes and household utensils were the main goods traded by the participants. Clothes included a variety of items such as dresses, pair of trousers, shoes and hats. Cosmetics and toiletries also rank high in the trade. Food was the least commodity traded by the respondents in this study and it was confined to very few items such as peanut butter, rice and the spices.

#### **4.1.3 From home to the Lesotho border gates**

The first set of questions that were asked was related to the problems that the traders encountered from their different homes to the Lesotho border gates. The respondents reported that they encountered problems between their home and the border gates. It was interesting therefore, to find out what kind of problems they encountered and assess the extent to which they could be unique to the nature of their trade. Table 4.1.3-1 below shows their responses.

**Table 4.1.3-1 Problems faced between homes and the Lesotho border posts**

Responses	Frequency	%
No responses	24	42
I walk long distance	6	10
Buses are expensive	26	45
There are robbers on the way	2	3
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The above table shows that when asked to identify their problems, a large number of the respondents (42%) did not list them. A small number (10%) of the participants showed that they walked long distance on foot to the border posts or before they got buses and taxis that would take them to the Lesotho border gates. According to most of the respondents (45%) the main problems they encountered were related to the bus fares, which were considered expensive. It is important to note that these problems are not unique to the informal cross-border traders as stated earlier because only 3% reported crime as one of the problems and a big proportion (42%) did not mention any problem. This partial refutes the statement made earlier that criminals particularly target these traders.

The information given in table 4.1.3-1 leads one to believe that the participants were not confined to places that were close to the borders but came from different parts of the country because 45% showed that transport was expensive. The study found that the amount that they paid for transport to the border differs considerably. Some of them pay as little as two rands while others pay as high as two hundred rands per return trip. This explains why the majority (45%) reported that the main problem was the bus/taxi fares.

The study explored whether the participants carried goods to sell while in South Africa. This issue was explored in order to trace trade and non-trade problems they would encounter at the border posts because of the goods they carried. Table 4.1.3-2 shows their responses towards the question of carrying goods to sell in South Africa.

**Table 4.1.3-2 Do you carry goods to sell in South Africa?**

Responses	Frequency	%
Yes	1	1.7
No	54	93.1
No response	3	5.2
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

From the table, it is clear that the respondents did not take goods to sell in South Africa because 93% of these traders said that they did not take any goods to sell. Some respondents (5%) did not answer the questions while 2% reported that they took goods to sell in South Africa. The list of questions relating to trade and non-trade problems especially official taxes mentioned above, were not useful because the general pattern was that the respondents did not carry goods with them to sell while in South Africa.

It was interesting to find out why the interviewees did not carry goods to sell in South Africa. From the open-ended questions, the reasons they gave could be categorised into two groups. Firstly, they pointed out that they had no idea about what they could take to sell. Secondly, they did not have time to sell when they were in Durban because they spent only two days that were used for purchasing the goods. The reasons given here are different from the findings of Brand et al (1995) who found out that Zimbabwean informal cross-border traders take goods to sell in South Africa without bringing goods into Zimbabwe due to currency devaluation. However, the findings show that the informal cross-border trade between Zimbabwe and South Africa and between Lesotho and South Africa are similar in that it is a one directional trade though the directions themselves differ.

#### 4.1.4 On the Lesotho side of the border gates to Durban

The researcher had anticipated that these traders paid unofficial taxes at the Lesotho border posts. However, as the table below shows these traders did not pay unofficial taxes at Lesotho border gates on their way to Durban.

**Table 4.1.4-1 Do you pay unofficial costs at the Lesotho border gates?**

Reponses	Frequency	%
Yes	3	5
No	50	86
No response	5	9
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

From the responses, it is clear that few traders paid unofficial taxes at the Lesotho border gates on their way to shopping in Durban. Only 5% agreed that they paid unofficial tax at the border gates while 9% did not answer this question. The majority of the respondents (86%) said they did not pay anything. According to those who paid, the money was for missing passports. It became clear that the money paid was not official because none of those who paid ever got receipts. However, the general pattern here is that the traders did not incur unofficial costs.

The study stated earlier that passports restrict movements across the border gates. However, the data showed that on the Lesotho side of the border posts, passports were needed but did not restrict movements across the border gates. A large number of the participants (76%) showed that they needed passport to cross this border. However, it was clear that the Immigrations Department was not very strict about passports because 24% said that there was no need for a passport to cross the Lesotho border gates into South Africa.

The interview with the immigration officers on the Lesotho sides revealed that passports were needed but immigrations officials were not so strict for three reasons. Firstly, they

said that there were informal traders who carried their business between the Lesotho and the South African border gates selling fruits and carrying luggage. This made them lax about passports. The second reason was that they knew that on the South African side of the border posts people who had crossed the Lesotho side without passports would not cross. Thirdly, they maintained that they did not have sufficient immigration officials to deal with issues of passports.

#### **4.1.5 On the South African side of the border posts to Durban**

The participants in this study did not pay any tax on the South African side. This issue was explored because the expectation was that the traders carried goods to sell in South Africa. As indicated in the previous section, the traders did not carry any goods with them. Consequently, at the South African border gates, on their way to Durban, they did not encounter any tax-related problems.

Just like on the Lesotho side of the border posts, issues of passports were explored at the South African border posts. The data showed that passports were needed to cross these border posts. However, just like on the Lesotho border posts, they did not restrict movement across the border posts. The majority (97%) of the respondents showed that they needed passport to cross the South African border gates. A small percentage (2%) did not give the response and another 2% reported that passports were not needed at the South African border posts.

The issue of passports as the above data show could not be taken to hinder trade for the informal cross-border traders because interviews with the South African immigration officials showed that these traders were not discriminated against any other person crossing the border posts. According to them, anybody crossing at border gates should produce a valid passport. Based on the data from the Lesotho and the South African sides of the border gates on issues of passports, it could be concluded that passports did not restrict movement across the border gates. Therefore, issues relating to passports had insignificant impact on the informal cross-border trade.

However, the traders were issued a variety of permits upon entering South Africa and many of them did not have access to business permits. It was interesting to inquire into the nature of these permits and assess the impact they had on the informal cross-border trade. Table 4.1.5-1 below shows the permits that were issued to the respondents by the South African border officials.

**Table 4.1.5-1 Permit/visa status**

Responses	Frequency	%
No response	3	5.2
Visitor's permit	38	65.5
Medical permit	1	1.7
Temporary permit	4	6.9
Business permit	12	20.7
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

As the above table shows majority of the respondents (66%) reported that they were issued a visitor's permit upon entering South Africa. Only 21% said that they were given business permit. The table shows that all the categories of the permits were issued to the respondents in this study.

The respondents reported that they had never encountered any problem related to the nature of permit they held. However, the implication given by the above trend is that the informal cross-border traders were not treated in the same way as the formal business entrepreneurs. Although they pointed out that they had never encountered any problem, it could be argued that the permits they held would make them vulnerable to corrupt officials in South Africa. Peberdy (2000) supports the argument that a visitor's visa does not technically allow the cross-border traders to participate in street trade. The visas according to Peberdy are granted to people who are known to be entering South Africa to buy and sell goods. Such permits, therefore, leaves them vulnerable to arrest by the South African Police Service (SAPS) and Home Affairs officials. This trend showed that the

permits that were given to these informal cross-border traders could encourage corrupt SAPS and Home Affairs officials to take bribes rather than arrest the traders. In other Southern African countries the issue of crossing the border is serious. The Zimbabweans in particular experience problems related to visas. The visas are obtainable in Harare. The traders should provide the letter of invitation and a proof of financial resources ([http://www.zimtrade.co.zw/quartely/trate/trade\\_body.htm](http://www.zimtrade.co.zw/quartely/trate/trade_body.htm)).

#### **4.1.6 Transport and problems on the way to Durban**

Many informal cross-border traders operating between Lesotho and Durban did not have problems with transport. Many of them (60%) reported that they did not have problems with transport. The rest of the traders 40% showed that they had problems with the transport they used.

Traders who had problems with transport experienced different problems. From the main questionnaire, 60% reported that fares for transport were serious problems they encountered. Lack of trailers was considered by 40% as a major problem. The impact was that when trailers were not there, the quantity that they could buy was limited and they argued that goods were packed in the bus/taxi so they could not sit comfortably.

The traders paid different fares for transport. The data showed that 41% used buses and paid R170 for a return trip while 48% used mini-buses and taxis. They paid R200 per return trip. The rest of percentages came from the buses. However, they were too small to worth commenting on.

In South Africa, unlike in Lesotho, criminals targeted the informal cross-border traders. The information from the different data collected confirmed this point. From the main questionnaire, majority of these traders (62%) reported that they had problems on the way while 38% of them said they never had problems.

The study inquired about problems encountered. It became clear from the responses that most of the traders had once experienced robbery as 64% pointed out that they were

robbed on the way. The place, which came out to be notoriously known for this experience was Pietermaritzburg. The focus-group discussions that were held with these traders confirmed that robbers waited for them there and when they stopped to buy, they robbed them at gunpoint. One trader who was involved twice in the armed robbery described what happened “ In the first incidence, when the bus stopped, three gunmen entered the bus. One started shooting at the roof of the bus. The two other men shouted at us, *Maleni! Maleni!* They were taking money from each one of us... on the second occasion; we had just jumped off the bus when a group of gunmen surrounded us. They shouted in Zulu *Sekwama! Sekwama!* We handed all our monies to them...”. The traders explained that those traders who were robbed could not buy any goods. The armed robbery increases risks and uncertainty in the informal cross-border trade. As Maasdorp (1983) points out such risks put this sector at a competitive disadvantage against similar formal operators.

#### **4.1.7 Purchasing goods in Durban**

The general trend about these traders purchasing goods in Durban was that they bought from both formal and informal businesses. Out of all the traders interviewed, 95% of them admitted that they bought their goods from the informal traders in Durban. All the traders said that they bought their goods from the formal businesses. The study explored their purchasing patterns from both formal and the informal sectors. It investigated whether they had long-standing relationships with the traders from whom they bought their goods and the impact of their relations on their trade. This would be shown among other things by whether they bought from the same traders each time they went for shopping. Buying from the same traders would enable them to get discount and to buy on credit. The following table shows these patterns and other related issues between informal cross-border traders and the informal traders in Durban.

**Table 4.1.7-1 Buying from informal traders in Durban**

Responses	Do you buy from the same traders?	Do you buy in bulk?	Do You Get discount?	Do you Get credit?	Do you get a receipt?
Yes	26%	10%	33%	3%	3%
No	72%	86%	66%	95%	95%

N=58

From the above table, it is clear that these traders did not have long-standing relationships with the traders from whom they bought their goods. Very few bought from the same traders because 26% reported that they bought from the same traders each time they went for shopping as opposed to 72% who did not. The net effect of this trend as can be seen from the table is that these traders did not get discounts and credit from the informal sector traders in Durban. Other patterns that could be noticed from the table are that they did not buy in bulk and they did not get receipts. The negative effect of this trend will be examined later when the study deals with issues of taxes at the border posts.

It was important to find why they did not get them. It appears from the study that these traders did not trust each other. "They don't trust us. They think we cannot pay their goods if they sell on credit." One trader said. This could be attributed to the fact that they did not buy from the same traders each time they came to Durban.

The explanation for not getting credit showed that the informal traders in Durban did not have long-established relationships with the informal cross-border traders, as they did not buy from the same people. Many respondents (49%) explained why they were not given credit they pointed out that they were not familiar with the informal sector operators in Durban, as they did not always buy from the same people. Some of the traders (41%) maintained that they had thought foreigners were not given credit. From the focus-group discussions, it became clear that being a foreigner had nothing to do with selling on

credit. According to the focus-group discussions, they thought that they were not granted credit because it would be difficult to follow them up once they were in Lesotho.

Table 4.1.7-2 below shows similar trends as the above, but this one explores relationships between the informal cross-border traders and the formal businesses in Durban. The table is structured just like the previous one, but the issues of receipts and tax invoice are dealt with in a separate table.

The data on the table below show that the respondents did not have long-standing relationships with the formal businesses from whom they purchased the goods. It shows that few interviewees got discount and credit. They did not buy in bulk. Only 21% reported to have bought in bulk from these businesses. This explains why they did not get credit and discount. Usually formal businesses give these services to buyers who purchase in bulk and who are familiar to them. However, the data showed that these characteristics did not exist.

**Table 4.1.7-2 Buying from the formal businesses in Durban**

Reponses	Do you buy from the same traders?	Do you buy in bulk	Do you get discount?	Do you get credit
Yes	24%	21%	21%	3%
No	76%	78%	74%	97%

N=58

The respondents explained why they did not buy in bulk. From the options given, they reported that they took different orders from their customers and it was difficult to buy in bulk when the orders were different. They also pointed out that as traders they were not organised to buy in bulk.

The study assessed the level of business professionalism between the informal cross-border traders and the formal businesses in Durban. It explored this issue by examining

whether they used receipts, tax invoices or both. Table 4.1.7-3 below shows these patterns.

**Table 4.1.7-3 Do you use receipts, tax invoices or both?**

Responses	Frequency	%
Both	30	51.7
Receipts only	26	44.8
Tax invoice only	2	3.4
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

There was a high level of business professionalism when these traders dealt with formal businesses. The data showed that over half of the respondents (52%) used both receipts and tax invoices. A large number of the participants (45%) used receipts only. Only 3% used tax invoices only. The implication from the data is that many formal businesses in Durban did not collect VAT if 45% of the respondents were using receipts only. The information from the VAT offices in South Africa indicated that not all business charged VAT because only those businesses that met the target of R300, 000 turnover per annum could charge VAT. However, the information from the above table suggests that the traders would have problems when claiming VAT refund at South African border gates. The VAT offices accepted tax invoice only not receipts.

The respondents in this study encountered different problems when they bought goods in Durban. The data from the main questionnaire and the focus-group discussion confirmed that they encounter problems. From the questionnaire, 64% pointed out that they had problems when they bought goods in Durban. However, 36% indicated that they did not have any problem. Since the aims of the study were to provide the profile of these problems and to make some recommendations, the respondents were asked to mention some of the problems they encountered.

As it can be seen from table 4.1.7-4 below, the Lesotho informal cross-border traders experienced different problems while in Durban. However, the Lesotho currency was considered a serious problem facing these traders. The majority (46%) of these traders complained that the Lesotho's currency was not accepted in Durban and it was difficult to make transactions when they had this currency. From the focus-group discussion, it became clear again that it was difficult to get South African currency in Lesotho. The respondents reported that there were no informal moneychangers at the border gates and in Durban. To get the South African currency, they had to move from shop to shop and individuals a few days before the commencement of the trip, trying to change the Lesotho currency.

The South African currency circulates freely in Lesotho and it is equivalent to the Lesotho's Loti. The informal cross-border traders manage to get the South African currency from shops and from the migrant labourers from South Africa. However, many interviewees described this as a cumbersome process.

Language was a problem for the traders. The majority said they could speak neither English nor Zulu, therefore, it was difficult to bargain for lower prices. The question on security received 11%. These respondents said that it was not safe to move around in Durban buying goods.

**Table 4.1.7-4 Problems encountered during shopping in Durban**

Responses	Frequency	%
Lesotho currency is not accepted as a medium of exchange in Durban	27	46
The traders could speak neither Zulu nor English	25	43
It was not safe to walk along the streets in Durban	6	11
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The respondents had information about when and where goods were cheap. Many participants (90%) said that they knew where to buy goods and 86% knew when goods were cheap in Durban. Investigating about the source of information, it became apparent that the drivers and conductors were instrumental in the activities involved in this trade. This point will be clearer when dealing with the problems encountered at the border gates. However, the table below shows that these traders had different sources of information.

**Table 4.1.7-5 Source of information about where and when goods are cheap**

Responses	Frequency	%
Drivers and conductors	26	44
Department of Trade in Lesotho	0	-
Department of Trade in Durban	1	1
Fellow Informal cross-border traders	20	34
Informal traders in Durban	9	16
Others	3	5
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

As the table above shows 44% of the respondents reported that they depended on the drivers and conductors for information. Some traders (35%) got information from their fellow informal traders and 15% from other informal sector traders in Durban. The Department of Trade in Durban provided information to only 1% while the Department of Trade in Lesotho did not feature at all among the responses. Only 5% got information from other sources other than the options that were given. These findings suggest that the informal cross-border traders are neglected when it comes to information related to their trade.

#### 4.1.8 Lodging in Durban

These traders used different forms of lodging while in Durban but many of them took up lodging in hotels. Table 4.1.8-1 below shows types of lodging used by the Lesotho informal cross-border traders.

**Table 4.1.8-1 Types of lodging in Durban**

Type of lodging	Frequency	%
Hotels	33	56
Buses/taxis	18	31
Friends/relatives	7	13
Others	0	-
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

From the main questionnaire 56% of the respondents indicated that they used hotels, 31% slept in buses or taxis and 13% took up lodging with friends and relatives.

The study found that the traders paid very low prices for the hotels. The payments in different hotels ranged from R15 to R170 per person per night. From the data most of the traders paid R150 for lodging. From observation and focus-group discussion, it became clear that prices ranged from R150 upward per night per person. However, the traders negotiated with the management of the hotels in order to reduce prices. They shared rooms in order to avoid price that they felt were too expensive. However, it appeared that conditions were not satisfactory in these hotels. They argued that one of the major problems was that they were overcrowded and in winter, such hotels did not have warm water. They maintained that some of the hotels were very dirty.

Lodging did not affect the business of the informal operators seriously. From the main questionnaire 45% reported, that it affected their trade especially when they failed to make arrangement mentioned in the above paragraph. Slightly more than half (53%) of the participants said that lodging did not affect their trade. The members of the focus-

group discussions showed that lodging had insignificant impact on their trade. In the same manner, they showed that they had to make special arrangements with the management of the hotels in order to reduce lodging costs.

#### **4.1.9 At the South African border posts from Durban**

At the South African border posts from Durban, the data showed that these traders were not paying anything in the form of tax for the goods they were exporting out of South Africa. Since the study aimed at compiling their problems, it was interesting to find out whether they were claiming the tax refund (VAT), the problems they encountered when lodging claims, and the reasons for not claiming if they were not. This section deals with these issues separately. But before that, this section shows under what conditions these traders would be entitled to claim VAT refund. According to the information provided by the South African Revenue Service (SARS) anybody exporting goods out of South Africa through a land border post, the following conditions must be met:

- The purchaser must obtain an original tax invoice from the supplier. The tax invoice must contain the following information: the word tax invoice, the seller's name, the seller's VAT registration number, the date of issue, the tax invoice number, a full description of the goods purchased, the cost of the goods, and the amount of VAT charged.
- The goods must be declared at the South African Customs on arrival.
- After the goods have been declared, the trader should proceed to the VAT office to lodge a claim.
- To qualify for the refund, the VAT inclusive total of all purchased exported at one time must exceed R250. 00 (SARS, 1998).

When the VAT officials are satisfied with all the information provided, the exporter is refunded and issued a document as prove of payment, (see the attachment in appendix D).

The argument that can be made from the different forms of data collected is that many of the Lesotho informal cross-border traders did not claim for VAT refund. The table below shows the data that were collected in the main questionnaire.

**Table 4.1.9-1 Do you claim for VAT refund at the South African border posts?**

Responses	Frequency	%
Yes	28	48
No	25	43
No response	5	9
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The table shows that 9% of the respondents did not answer the question on whether they claimed for VAT refund. Although 48% reported that they claimed the VAT, 43% did not claim. It is clear from these figures that, a large percent of these traders did not claim. This argument is supported by the information from the focus-group discussion. In all the focus group discussions, only two people maintained that they used to claim. The rest did not claim for VAT refund and some of them wanted clarification from the researcher about how they could claim the VAT.

The data collected explained the reasons that made these traders fail to claim and table 4.1.9-2 below shows these reasons

**Table 4.1.9-2 Reasons for failure to claim VAT refund**

Responses	Count	%
I did not know that I could claim	23	40
I did not pay official tax (VAT)	16	28
I did not have tax Invoice	14	24
Others	5	8
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

From the above table, it is clear that close to half of those people who did not claim VAT (40%) did not know that they could claim. It is clear from the table that many traders

(28%) did not pay official tax. Some did not claim the refund because they did not have tax invoices. Therefore, it can be concluded that 48% did not claim for VAT refund because they did not have tax invoice. From the data, it can be argued that two main reasons that led to the failure to claim for VAT refund were the lack of knowledge about the procedure and lack of tax invoices.

From the interviews with the VAT officials in Maseru and Ficksburg border gates, it became clear that these traders should have tax invoice in order to lodge claims for VAT refund and the tax invoice should bear the features mentioned above. From the focus-group discussion, this point was hotly debated. Nevertheless, what was gained from the debate was that since these traders bought their goods from both formal and informal businesses, they did not get tax invoice especially from the latter operators. The members of the focus-group discussions pointed out that there was no point to claim when the tax invoice did not exceed R250.00. They said that in most cases their total purchases exceeded R250.00. However, most of merchandise would not have tax invoices because they were bought from the informal operators in Durban.

The VAT officials had different explanations of why the Lesotho informal cross-border traders did not claim for VAT refund. For them, the major problem that faced these traders was that they crossed the border gates very late when the VAT offices have long closed. The office hours for the VAT office were then between 06h00 – 22h00. They said many of the traders did not come back to lodge claims the following day. However, from the table above the traders themselves did not mention time and office hours as some of the main reasons for not claiming. However, these officials raised a reasonable argument. The bus fares these traders paid in Lesotho were an indication that some of them came from the remote areas of the country. This meant that coming back to claim for VAT refund, which in most cases was small, was extremely difficult and not worth doing.

However, the different focus-group discussions showed that they crossed the bordered gates at night on purpose. They used this to avoid thorough scrutiny from the South African and Lesotho customs and immigration's officials. They pointed out that it was

easier to bribe the officials at that time. Therefore, the explanation showed that the level of claiming for VAT refund was very low. The explanation showed further that many goods were not declared when they come to the South African border posts contrary to the requirements stipulated earlier.

The informal cross-border traders experienced different problems when lodging claims for VAT refund. The table below summarises their problems.

**Table 4.1.9-3 Problems experienced when claiming for VAT refund**

Responses	Frequency	%
Officials were rude	29	50
I did not have passport to claim	0	-
I did not know the language to claim	12	20
I was told to pay bribe	5	10
I did not have receipts to lodge claim	12	20
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The main problem was that the officials at the VAT offices were rude. A half of those who responded mentioned this as the serious problem. Language and shortage of receipts were two other problems that received high percentages. Each received 20% from the respondents. They argued that they did not know the language so they could not lodge claims for VAT refund. However, from personal observation this point is disputed. At all the border gates that the researcher visited several times, there were VAT officials who could speak both English and Sesotho. The last problem that received 10% was that sometimes they were told to pay bribe in order to get refund. This figure is not too small to be ignored. It suggests that the issue of bribe is serious at the border posts

The respondents said that they faced new problems at the South African border posts. The table below shows the problems these traders felt were new.

**Table 4.1.9-4 New problems encountered at South African Border posts**

Responses	Frequency	%
Official are rude	12	20
Queues are long	37	64
The immigration's officials are strict with passports	8	13
Quantity of exports is restricted	0	-
Exports duties are too high	0	-
No response	1	3
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The data showed that two new major problems that had emerged at these border gates were that traders stood in a queue for a longer time. This was mentioned by 64% of the respondents. In the focus-group discussion, this point was stressed and according to the groups, they thought that the immigration officials did it deliberately to discourage them from buying in South Africa. The second problem (20%) was that the immigration officials were rude. The third new problem mentioned was that officials were strict about passports (13%). However, from the focus-group discussion it became clear that these traders were not particularly targeted because they were traders. The officials' rudeness and strictness affect everybody regardless of whether they were traders or not.

#### **4.2.1 At the Lesotho border posts from Durban**

At the Lesotho side of the border posts, the study found out that the informal cross-border traders paid ten percent as General Sale Tax (GST). However, these border posts appeared to be the most problematic areas for these traders. It has been mentioned earlier that some of these traders did not have tax invoices and receipts mainly because they bought goods from other informal traders in Durban. Therefore, the traders were unhappy about the way in which the GST was calculated. The interviewees reported that sometimes GST was calculated on the basis of receipts and tax invoices that the traders produced. Nevertheless, they said that at other times the receipts and the tax invoices

were ignored. They maintained that the officials at the border gates estimated the prices of all the goods regardless whether the traders had receipts or tax invoices. The data from the questionnaire filled by the sale tax officials confirmed this information. However, the officials reported that only goods that did not have receipts or tax invoices were subjected to their assessment. In their assessment, the officials reported that they took each item and estimated its purchase price. They added all the prices and then computed the 10% GST each trader had to pay.

This method of computing GST presented two major problems to these traders. They felt that they did not pay fair taxes. In the group discussion and from the questionnaire, they made it clear that the GST they were paying sometimes was high while at other times was low. Whether it was low or high, they felt that they were paying unfair tax. They reported that this method of calculating GST had serious drawback on their trade. It affected the quantity of the stock they could purchase at the time because they could not know beforehand how much GST they would pay when they came to the Lesotho border posts. When the GST was high, it reduced their profit margin.

The process of pricing the goods one by one at the border gates wasted a lot of time. The data showed that the time spent on the Lesotho side of the border gates ranged between one and eight hours. As the data showed 22% of the respondents said that they spent one hour, 21% said five hours and 10% said seven hours. Other small percentages pointed to different number of hours. However, the summary of the data showed one hour as the minimum time spent on the queue and eight hours the maximum. Although these figures differ so much, it was apparent that these traders spent a long time at the border gates because the data showed that four hours was an average time spent at the Lesotho border gates.

It is clear from the above discussion that the traders in this study faced problems at the Lesotho border posts. It was interesting to explore ways in which they solved them. The literature especially the legalist approach to the informal sector points out that informality is the result of high transaction cost of legality. The previous sections have identified the

problems of the informal cross-border traders. According to the focus-group discussion, the Lesotho border gates were areas where these traders reached the climax of their problems. Serious problems that were mentioned were the unfair GST tax and the time that they spent. It was pointed earlier that lack of receipts and tax invoice were the sources of these problems at these border gates. The subsequent paragraphs explore the ways in which these traders tried to avoid these problems.

It should be clear that at the beginning it was difficult to get illegal methods these traders used in order to avoid the problems they encounter at the Lesotho border gates. The questionnaire might have under-recorded these methods. The data from the questionnaire were supplemented with information from the focus-group discussions, which were quite informative. The observation that I made played a major role here. The table below shows the responses relating to whether the traders were paying bribes in order to avoid the official GST.

**Table 4.2.1-1 Do you pay unofficial tax to avoid paying GST?**

Responses	Frequency	%
No response	5	8.6
Yes	27	46.6
No	26	44.8
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The table above shows that 9% refused to answer a question that sought information on whether they were paying bribes to avoid the unfair General Sales Tax (GST) at the border gates. Close to half of the respondents (47%) reported that they sometimes paid bribe in order to avoid the official tax they considered unfair while 45% maintained that they did not pay bribe and it was not easy to avoid the GST.

There were two explanations for the latter group. Firstly, it might have been that they did not want to show that they were paying unofficial tax in order to avoid the official tax.

They might have thought that telling about this would jeopardise their channels of paying unofficial taxes. The second explanation is that as it was mentioned earlier in this study, the government of Lesotho had introduced harsh measures to collect revenue and it could be true that for some traders it was difficult to pay unofficial tax. The last explanation is supported later in the questionnaire where these traders were asked to give new problems they encountered at the Lesotho border gates. They pointed out that it had become difficult to pay bribe to the customs and immigrations officials.

However, from the above table it is clear that it was easy for the traders to avoid the official general sales tax at the border gates. The fact that 47% of the respondents reported that they paid bribe supports this conclusion. The group discussions showed that it was not difficult to avoid the official GST. According to the different groups, what was needed was to get a proper channel through which the unofficial tax could be paid.

From those who admitted that they were paying bribe to avoid mainly the official tax and to cross quickly at the border gate, the prices varied from R2 to R100. Nevertheless, the general conclusion based on the highest prices was that these traders paid between R30 and R70 at the border gates as unofficial tax. Two highest percentages recorded were 28% who said they paid R30 and 10% who said they paid R70.

The last focus-group discussion confirmed that these traders paid bribe at the Lesotho border gates. Instead of R30 shown in the data, the focus-group discussions pointed out that the price was then R50 per trader regardless of how much she or he had spent on the stock. From personal observation, I realised that the unofficial prices had gone up. During the year 2000 and the beginning of 2001, these traders used to pay R20. It was not surprising that it constituted 5% from the responses in the questionnaire. Towards the middle of 2001, the unofficial tax was R30. It was R50 during the last day of collecting the data for this study. The focus-group discussion showed that the prices had gone so high because the border officials maintained that since the government had become strict the risks of taking bribe were high.

The drivers and the conductors played an instrumental role at the border gates. The respondents indicated methods used to pay the unofficial taxes at the border posts. The table below shows people who handed the bribe to the officials at the border posts

**Table 4.2.1-2 Who hands bribe to the officials at Lesotho border posts?**

Responses	Frequency	%
Each trader pays for him/herself	7	12
We chose someone among the traders	26	45
The driver or conductor handed the bribe to the officials	25	43
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

As it can be seen from the table, 45% reported that they chose someone among themselves to collect the money as the vehicles approached the border posts and pay for the rest. They showed that another strategy was to give the bribe to the drivers and conductors who later handed it to the officials at the border posts. The last strategy mentioned by 12% of the respondents was that each trader paid the unofficial tax for him or herself. From personal observation, the traders collected money as their vehicle approached the border gates. The money was later given to either the driver or the conductor to hand to the officials at the border gates.

The traders paid unofficial tax for various reasons at border posts. From the data collected, the reasons that forced them to pay bribe were summarised as follows: they paid in order to avoid paying official tax they considered unfair; they did not have tax invoices and receipts as they bought most of their goods from the informal sector traders and they did not have enough money to pay the official GST. From the focus-group discussion and open-ended questionnaire, the traders stressed that they paid unofficial taxes because they wanted to cross the border gates quickly. This was reasonable given the length of time they spent at the border gates. The focus-group discussion emphasised the point that they paid unofficial taxes because pricing the items one by one meant that

they had to unload and reload the goods to the buses and taxis. Each process according to them took one to two hours. These processes were witnessed several times in Durban and at the border posts.

Just like the official taxes, unofficial taxes paid at the border posts had adverse impact on the informal cross-border trade. The majority of the respondents (78%) indicated that the unofficial and official payments they made at the border gates had negative impact on their trade. The table below shows ways in which they thought the taxes affected their trade.

**Table 4.2.1-3 Impact of the taxes on the informal cross-border trade**

Responses	Frequency	%
They reduce profits	32	55
They reduce quantity of stock	23	40
Others	3	5
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

Over half of the respondents (55%) complained about the impact of the GST on their profits. They said it reduced their profit so they had to pass on the costs to the customers who complained about high prices. Another big percentage (40) maintained that the GST had negative impact on their stock. They were unable to buy enough stock because they did not know in advance how much they would pay at the border gates as there was no clear formula for calculating the tax especially on goods that did not have tax invoice and receipts. The participants used different methods particularly to avoid GST, to pay as little as possible and to cross the border posts quickly. The table below captures some of the ways they used to avoid tax .

**Table 4.2.1-4 Method Used to Avoid the GST**

Responses	Frequency	%
We hide the goods	29	50
We enlist the help of friends	17	30
We do not disclose that goods came from Durban	6	10
Others	6	10
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

Originally, it was assumed that the informal sector traders buying from Durban were targets of the border officials. This was gathered by travelling with the traders and from their conversation. Nevertheless, from the data it was clear that buying from Durban or from any other place in South Africa was not a serious issue. Only 10% complained that knowing that the goods were bought from Durban encouraged the officials to demand unofficial tax as a result they did not disclose that they were from Durban when they came to these border gates. However, 10% is not just negligible. It suggests that there were some officials at the border gates that targeted informal traders buying from Durban. The majority of the traders (50%) avoided the tax by hiding some of their goods.

From observation and focus-group discussion, it became clear that with clothes, they wore as many as possible especially in winter when it was cold. Therefore, such goods would evade taxes. Many traders (30%) relied on friends who had connection with the border officials and those who had vehicles to help them hide some of the goods. Some traders (11%) used other means, which included hiring boys to take some goods and cross under the bridges. They admitted that employing these boys was risky because sometimes such boys just disappeared with the goods. This point emphasizes the level of risk in the informal cross-border trade.

In relation to recent changes that had taken place at the Lesotho border gates, the respondents strongly said that they were paying more than what they used to pay (37%). This complaint could be expected from these traders for two main reasons. One, what

they spent on stock was quite substantial and if they could pay strictly ten percent of these amounts, they could easily complain when tough measures were introduced. To illustrate this point, a trader who spent R2 000 on stock would pay R50 if he/she paid unofficial tax. But the same trader would pay R200 if he/she paid official tax. The second reason was that the manner in which GST was computed especially on goods that did not have receipts and tax invoices was haphazard. Some traders could understandably pay high taxes especially when the relationships between these traders and the border officials were poor. The review of literature earlier alluded to the hostile working relations between these groups.

The next big percentage (25%) maintained that they were getting receipts on these gates for whatever they paid. Other things were mentioned by 24%, which they said were new at the border gates. These included changes such as the officials were rude and some of their goods were confiscated if they did not have enough money to pay the GST. They complained that when they came later some of the goods were found to have disappeared.

#### 4.2.2 What happens to the goods when they get into Lesotho

This study inquired about what happened to the goods when they got into Lesotho. The study wanted to trace the gains and the problems as well as other patterns in this trade. This section deals with issues. The table shows where the goods were sold.

**Table 4.2.2-1 Places where goods were sold in Lesotho**

Place	Count	%
On the street	33	44.6
My shop in town	3	4.1
My shop in village	4	5.4
My house	24	32.4
Others	10	13.5
<b>Total</b>	<b>74</b>	<b>100</b>

N=58

The general pattern here showed that places for selling these goods bought in Durban differed. However, it is clear that most of the goods were sold along the streets (45%). The percentage of goods that were sold straight from the houses constituted the second biggest percent (32).

The above table further shows that very few traders bought goods to sell in shops in towns or in the villages. The patterns support the literature on the informal sector that some operators are survivalists in this trade. The pattern in the above table suggests that the respondents were not rich enough to own shops in villages or in towns. They participated in this trade as the literature shows to survive, earn additional income or do something out of desperation (Durban Economic Review, 2001).

Most of the traders had problems with the places where they sold the goods. Table 4.2.2-2 below shows the number of people who maintained that they had problems.

**Table 4.2.2-2 Traders who had problem with workplaces**

Responses	Frequency	%
No response	4	6.9
Yes	36	62.1
No	18	31.0
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

The table shows that 62% percent of the traders had problems with places that they used to sell their goods. The study explored the problems encountered in order to ascertain whether the problems were unique to the informal cross-border traders. Table 4.2.2-3 below maps out the range of problems these traders encountered.

**Table 4.2.2-3 Kinds of problems experienced**

Types of Problems	Frequency	%
No security for the Goods	30	34.1
Police/MCC harassment	24	27.3
No storage for Goods	30	34.1
Others	4	4.5
<b>Total</b>	<b>88</b>	<b>100</b>

N=58

It is clear from the table that there were traders who experience more than one category of the problems. The table above further shows that the two most experienced problems were poor security and lack of storage for the goods with 34% each. The second high percentage of problems recorded involved the harassment from police and the municipal authorities, which constitutes 27%. This figure show that even though these informal sector operators came all over Lesotho many of them sold their goods in the streets in towns. Therefore, they were not different from the street traders and the rest of the informal operators.

The data support the argument in the literature that the informal sector is neglected and sometimes faces hostile attitude from the government. The literature reviewed in the section on the relationship between the informal sector and the state above shows that the relations are poor. It shows that for a long time, the municipal authorities and the police were at loggerheads with the street vendors in Maseru and that period coincided with the time when data was collected for this study. The poor and hostile relationships between the informal sector and the state support the argument made in concluding the literature review that the cross-border traders are part of the informal sector and that they are part of the whole economy. The above table depicts clearly the hostile relationships between the informal sector operators and the state. It shows that 27% of the respondents in this study complained about harassment from the agents of the state – the police and the Maseru City Council’s officials.

The responses to the solution used to solve the above problems show that in Lesotho the relationship between the state and street vendors that include the traders under investigation were very bad. The solutions are presented in table 4.2.2-4 below.

**Table 4.2.2-4 Solution to problems at workplace**

Responses	Frequency	%
No response	31	53.4
Run away	24	41.4
Takes MCC to court	1	1.7
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

Many respondents did not show how they solve their problems at workplace. They did not show how they solved other problems indicated in table 4.2.2-3 above. Combination of factors might have contributed to the refusal to respond. Some did not want to answer because the issue was closely related to political arguments in Lesotho at the time about the relationships between the government and informal sector. The 1998 political violence had brought tension among people especially in relation to the government they supported. The literature section has shown that the relationships were stale. However, the table above illustrates that the common way to avoid harassment and other problems with the police and MCC official was simply to run away. This indicated a situation of hopelessness among the informal sector participants. It is apparent that a very small percentage (2%) was involved at some stage in court battle with these officials. The literature shows that those who participate in court battle with the MCC officials were members of the trade union (Public Eye, 2001). The above table therefore illustrates that the level of involvement in trade union among the informal cross-border traders was low. This confirms Lund and Skinner's (1999) point that it is difficult for informal sector operators to organise.

The study investigated the patterns in relation to the market for the goods bought in Durban. The ideas were to establish the range and the nature of the market. Table 4.2.2-5 below shows the patterns in relation to the market for these goods.

**Table 4.2.2-5 To whom do you sell the goods?**

Responses	Count	% Of response	% Of cases
To households and individuals who had placed orders	95	91.3	163
To wholesales	0	0	0
To small shops	2	1.9	3.4
Others	7	6.7	12.1
<b>Total</b>	<b>104</b>	<b>100</b>	<b>179.3</b>

N=58

The table above shows clearly that most of goods were sold directly to the individuals that placed orders. Out of one hundred and sixty-three counts of the responses, 91% said they sold them directly to the households and the people who had made orders. Most of the customers were the formal sector employees and the goods were sold to them on credit. The participants showed that they preferred such customers because they paid deposits and paid the credit regularly. The findings do not contradict the Marxist's views that the informal sector benefits the formal sector by selling cheap goods to the employees of this sector and usually on credit (Tokman, 1978).

The Small shops in Lesotho received very little of the goods (2%). The wholesalers did not receive any goods. They did not have any response on the data despite that they were included in the range of options in the questionnaire.

The informal cross-border traders had a strong feeling that the small shops and wholesales could not buy their goods. The respondents said they did not sell their goods to the small shops in towns because the Chinese and Indians owned such shops. They

maintained that those groups had their goods and they could not buy from the small traders. In the group discussions, the hostile relationships that were alluded to in the review of literature were made clear. The members of the group discussion said they could not sell to small shops because “the Indians and the Chinese hate us, they say we take their customers and they encourage the government to remove us from the streets.” They said.

On the basis of the information collected through the questionnaire, it was clear that the informal cross-border trade created employment other than self-employment. The information was not clear but out the fifty-eight respondents, 59% of them said they sold the goods by themselves and 34% said that they had employees to sell the goods for them. The figures presented here are slightly higher than 100% response rate. The explanation is that some of the traders might have had employees and they were selling goods themselves so they responded twice or more to the questions. These findings are in line with the ILO’s observation that the informal sector produces employment to a range of employees (Bangasser, 2000).

Employees in the informal cross-border trade earned different wages. However, the SPSS output showed that some of the workers were not paid because it showed the minimum wage to be zero. The explanation for this phenomenon is that some of the traders worked with relatives whom they paid only when they were not financially pressed. The maximum wage, which the data showed, was R220. The mean wage was R67.67 per month. The information showed that employees in the informal sector had very low wages. Many receive less than one hundred rand.

The study investigated into whether the goods were sold in bulk or small quantities and whether they were sold on cash or credit basis. The responses showed that these goods were mainly sold in small quantities (91%). Only 7% appeared to sell in bulk. There was only one missing case.

The informal cross-border traders between Lesotho and Durban kept financial records. The data showed that 83% of the respondents reported that they kept records while 17% of them reported that they did not keep any record book. The caution made earlier should be borne in mind when interpreting these statistics that these traders kept any kind of accounting system and the data were not verified against their books. The data were interpreted as they gave them.

This section gives the patterns in terms of how much was spent on stock, what were the mark-ups and how much profit were made. Table 4.2.2-6 below provides the output from the SPSS descriptive statistics on these issues.

**Table 4.2.2-6 Stock, Mark-ups and Profits**

Questions	No. Responses	Minimum	Maximum	Mean
How much do you spend on the stock on each trip?	58	R500	R8000	R2356.90
What is your mark-up?	58	40%	250%	144.48%
How much profit do you make per month	58	R100	R1500	R437.41

N=58

Table 4.2.2-6 illustrates that the informal cross-border traders between Lesotho and Durban are heterogeneous like the rest of other informal sector participants. The table shows that there were traders who spent small amounts of money on stock while others spent huge sums of money. From the main questionnaire, the table shows that the minimum amount spent per trip was R500 and the maximum was R8 000. The average

total expenditure among the trader was R2 356.90. The table shows further that profits differed considerably in this trade. Some interviewees made only R100 while others managed to make R1 500 per month. The table above shows that the mark-ups were diverse. They ranged between 40% and 250% of the total cost of the goods. These findings indicate as the literature has shown that the market in the informal cross-border trade is highly unregulated and competitive.

The study traced the patterns regarding the methods used to sell the goods. Table 4.2.2-7 below shows these methods.

**Table 4.2.2-7 Methods Used to Sell the Goods**

Methods of sale	Frequency	%
Both credit and cash	29	50
Credit only	15	25.5
Cash only	6	10.3
No responses	8	13.8
<b>Total</b>	<b>58</b>	<b>100</b>

N=58

From the table, it is clear that the traders used both cash and credit to sell their goods. However, it is clear from the table that many interviewees (26%) used credit to sell the goods. Only 10% of the respondents used cash only to sell their goods. It was of interest to explore from those who sold on credit the terms of agreement. This issue was raised in all the group discussions. The respondents reported that they gave their customers three months to pay if half of the price was paid immediately.

### **4.2.3 Conclusion**

This chapter has presented data analysis and interpretation. It has isolated the problems encountered by the informal cross-border traders between Lesotho and South Africa and has related the findings to the literature. It is clear from the analysis that these traders

encounter problems at different stages of their journey and that the problems have negative impact on the cross-border trade. The next chapter provides the summary of the findings and draw conclusions based on the literature reviewed and the research questions.

## CHAPTER FIVE

### 5.0.0 Policy conclusions and recommendations

#### 5.1.1 Summary of the main findings

This study was carried out to explore the problems faced by the Lesotho informal cross-border traders in order to make a general case that they face trade and non-trade barriers despite the process of globalisation. The previous chapter has isolated these problems. The present chapter provides a summary and synthesis of these problems. These are done with reference to the research questions advanced in chapter one and the literature reviewed in chapter three in order to show how the findings of this study are similar or different from other research findings. These are discussed in relation to the following research questions:

- a) How do trade and non-trade problems affect the informal cross-border trade?
- b) How do the relationships between the informal cross-border traders and the traders from whom they purchase their goods affect the informal trade?
- c) What happens to the goods once they are in Lesotho and how does it affect the informal cross-border trade?
- d) What is the impact of the relationships between formal, informal sectors and the state on the informal cross-border trade?

#### *How do trade and non-trade problems affect the informal cross-border trade?*

The results of this study suggest that the informal cross-border traders between Lesotho and South Africa encounter a series of problems. It is true that there are no problems encountered in some stages of their journey especially between their homes and the Lesotho border gates on their way to Durban. However, the study shows that on the South African side of the border post on the way to Durban, the traders are issued with ambiguous travelling documents. The study has shown the implications of such permits as presented by other scholars such as Peberdy (2000). These findings are not unique to these traders. Studies on the informal cross-border trade between Zimbabwe, Zambia and South Africa have shown that visa requirements for these traders are prohibitive ([http://www.zimtrade.co.zw/quartely/trade/trade\\_body.htm](http://www.zimtrade.co.zw/quartely/trade/trade_body.htm)).

It is true that the Lesotho informal traders do not require visas to enter South Africa but the permits could have serious legal implications on the part of the traders. They could retard movement across the borders, which could result in what Carr, Chen and Tate (2000) refer to as transnational mobility of large companies and relative immobility of small and micro-businesses as a result of the globalisation process.

The study shows that these traders encounter problems on the way between the South African borders posts and Durban. They travel long distance and the journey is very uncomfortable. Most of the traders experience armed robbery on the way. These problems are not directly related to buying and selling of goods. However, they have impact on the informal cross-border trade as they clearly affects the amount of stock that could be purchased and the profit to be earned.

It is clear from chapter 4 that in Durban, the traders are hassled by many problems not likely to be experienced by formal entrepreneurs. Some of the major problems are firstly that the Lesotho currency is not accepted as a medium of exchange in Durban. The data show that getting the South African currency is burdensome to these traders, as they have to look for it days before the journey starts. The study shows that there are no informal moneychangers in Lesotho, at the border gates and in Durban. Secondly, language has been shown in this study as a barrier to smooth trade. The traders cannot speak English or Zulu. Consequently, it is difficult to bargain for lower prices. Thirdly, the study shows that lodging is relatively cheap but not satisfactory. Some hotels do not provide warm water in winter while others are generally dirty. Fourthly, the study shows that security for the traders is poor especially on the way and as they are buying their goods. Finally, the study shows that the governments or related ministries in Lesotho and Durban do not take initiative to provide information to these traders. Consequently, these traders have to rely on drivers and conductors to provide them with information related to their trade. These problems imply that the international informal trade between Lesotho and South Africa is hampered. They indicate that the level of international competitiveness is not being initiated in the informal sector as it happens in the formal sector.

The above problems have been discussed in the literature reviewed. Among them Brand, Mupedziswa and Gumbo (1995) have shown that Zimbabwean informal cross-border traders are hassled by financial problems including the depreciation of the Zimbabwean dollar which has had negative impact on the informal cross-border trade. The literature shows that the depreciation of the dollar forced the Zimbabwean cross-border traders to take goods out of Zimbabwe to sell in other countries without bringing with them goods into Zimbabwe. Similarly, even though the Lesotho Loti is equivalent to the South African rand, it is not accepted in Durban. Some of these problems are directly related to the literature reviewed in chapter two. They suggest that there is not protection for workers in the informal cross-border trade. The WIEGO approach has emphasised lack of protection for the informal sector participants. Similarly, the underground approach has been sceptical about ILO's approach to the informal sector and points out that conditions of work are hazardous and workers are unprotected in the informal economy (Rakowski, 1994). Clearly, this study shows that a large number of the informal traders experienced armed robbery, which increases the level of risk in the informal cross-border trade.

The study shows that the informal traders face both trade and non-trade problems at the South African border posts back from Durban. This study has shown the conditions under which the traders could claim for VAT refund but the level of claiming VAT refund is low. It has shown that it is difficult to meet the condition for claiming VAT. It is particularly difficult to have tax invoice exceeding R250.00. The study further shows that for those who claim for the refund, the officials at the VAT offices are often rude. This implies that the traders involved in this study do not benefit from the removed trade restrictions within the SACU area. It is clear that the information on how to claim VAT is written in English and the traders in this study could not read English. Many of the traders do not know that they could claim. The profile of the traders has shown that they have low level of education. They do not have training and skills related to this trade. Just like the ILO's definition of the informal sector, these traders use skills and training acquired outside the formal school system (Bangasser, 2000).

On the Lesotho side of the border posts from Durban, the study shows that the traders encounter trade and non-trade problems that impact negatively on the informal cross-border trade. They pay 10% GST calculated on all the goods imported as long as their total cost exceeded R250. This should be taken as a trade related problem for two reasons. Firstly, the study shows that many traders do not claim VAT refund on the South African sides of the border gates. Consequently, paying the GST on the Lesotho side of the border gates means that the informal cross-border traders who do not claim VAT refund are paying double tax – VAT in South Africa and the GST in Lesotho. Secondly, the study shows that the methods used to calculate the GST at these border posts is very much unsystematic. The implication of this is that some traders could pay high taxes while others could pay very low. This is why some traders complain that they are paying unfair GST at the Lesotho border gates. The process of paying GST leads the informal cross-border traders to complain about the long time they spend at the border gates. This is one of the non-trade problems. They complain about unloading and loading of the goods at the borders. These problems have negative effects on this trade in that they reduce the quantity of goods that could be purchased. They narrow the profit margin and they waste time for the traders.

These findings show that the informal traders do not benefit from the partially removed trade restrictions on the border gates. The study has shown that globalisation has led to unilateral and multilateral agreements to reduce trade restrictions in order to improve international competitiveness of businesses. However, the informal cross-border traders fail to benefit from the changes. Commenting on the benefits of globalisation Carr, Chen and Tate (2000) have shown that better off traders are able to benefit from trade liberalisation at the disadvantage of the worse off traders. The profile of the traders has shown that these traders are worse off than the traders in the formal sector in terms of skills, previous training in this trade and level of education in general.

The findings support some of the issues discussed in the literature review. The different Marxist's approaches have shown different ways in which the formal sector exploits and subordinates the informal sector. Paying double taxes at the border gates is an example of

exploitation of the informal traders. The study has shown further that these traders do not buy straight from the wholesalers and as the Marxists argue the capitalists reap some profit when these traders buy from the retailers. Further than that, the failure to claim for VAT refund in South Africa and the problems related to GST in Lesotho suggest that the informal cross-border traders pay high prices for their goods. The Marxists argue that generally the informal traders pay high prices for their inputs without being able to transfer the costs to the consumers because of market constraints (Tokman, 1978). Table 4.2.1-3 in chapter four and the accompanying interpretation clearly show the effects of the GST on the informal trade.

The previous chapter has shown that in order to avoid problems related to VAT and GST, the traders resort to illegal means to avoid them. These include failure to declare the goods when they get to the South African border posts and hiding goods from the border officials in Lesotho. As a result, the traders are forced to operate informally. Commenting on the causes of informality, the legalist approach has shown that operating informally should be conceptualised as a refuge of the individuals who have found the costs of conforming to regulations and existing legitimate economic laws far more than the benefits to be accrued (Swaminathan, 1991).

The study has therefore answered the research question on how the trade and non-trade problems affect the informal cross-border trade. The problems adversely affect the quantity of goods to be purchased, the profit made in the informal cross-border trade and the time for the traders.

*How do the relationships between the informal cross-border traders and the traders from whom they purchase their goods affect the informal cross-border trade?*

The study has provided a profile of the relationships between the informal cross-border traders and the traders from whom they buy their goods in Durban. This has been explored by examining their transaction patterns. The study shows that these traders do not have long-standing relationships. They do not buy from the same people each time they go for shopping. Consequently, they do not enjoy some benefits that formal business

entrepreneurs enjoy. In most cases, they do not buy on credit and they are not offered any discount.

The study provides a profile of business professionalism between the Lesotho and the South African informal traders. This has been assessed through examination of whether they use receipts, tax invoices or both. The data show that the level of business professionalism between the informal cross-border traders and the informal sector operators in Durban is very poor. These traders use neither receipt nor tax invoices in their business transactions. On the contrary, the study shows that there is high level of business professionalism between the Lesotho informal cross-border traders and the formal businesses in Durban. However, the study shows that receipts are used far more than tax invoices in the transactions. The implications of the phenomenon have been discussed in the section on data analysis. Therefore, the relations among the traders have negative impact on the informal cross-border trade since the operators fail to enjoy the benefits of good relationships and operating informally imposes other problems which include inability to claim for VAT refund as well as paying exorbitant GST in Lesotho.

*What is the impact of the relationships between the formal, informal sectors and the state on the informal cross-border trade?*

The study shows that the traders in this study face problems when they are already in Lesotho. As table 4.2.2-3 shows the problems range from lack of security for the goods, harassment of the operators by the police and MCC officials to lack of storage for the goods.

It is clear from the study that the relationship between the informal cross-border traders, the formal traders and government are generally poor. Therefore, these traders do not sell their goods to these formal businesses. Table 4.2.2-5 shows clearly the patterns of whom the goods are sold to. The poor relationships among the different parties limit the scope of the market for the goods and thus reduce the profits. The hostile relationships revealed in this study are not new. They have been documented in various case studies. Bromley (1978) has explored such relationships in the streets of Cali in Colombia and Natrass

found similar attitudes in the Transkie. In Lesotho different newspapers have documented hostile relations among these different groups (Moeletsi oa Basotho, 1991, 1998; and Public Eye, 2001).

These findings highlight some of the issues raised in the literature review. It is clear from these relations that the informal sector participants are hardly protected. Under these conditions there is no way that the state can protect the interest of these operators. The WIEGO approach to the informal sector has shown that despite many endeavours these traders need protection and packages that will benefit them. These problems therefore increase the level of risk in the informal cross-border trade.

#### *What happens to the goods once they are imported into Lesotho?*

The study provides the profile of what happens to the goods when they get into Lesotho. The study shows that most of the goods are sold on the streets in towns and many are sold directly from the houses of the operators (table 4.2.2-1). The goods are sold directly to the households and individuals that placed orders. The data show that there are very few goods sold to small shops and none of the goods are sold to the wholesalers.

The study has explored the methods used to sell the goods. It is clear that they are sold on both cash and credit basis. However, the data show that credit is used far more than cash.

Finally, the study provides a profile of the expenditure, mark-ups and profits on the goods purchased from Durban. The data show that there are some traders who spend small amount on stock while others spend a lot of money. The difference in income has been explored in the literature review. The Sechaba Consultants Report (1995) provides similar findings in which some operators in the informal sector hardly earn M50 per months while other are able to make over M1 600.

#### **5.1.2 Policy conclusions and recommendations**

The study clearly shows that being informal prejudices the traders. Hence government policy aimed at integrating these traders into the mainstream of the economy would go a

long way to alleviating their plight. Once integrated in the mainstream of the economy, these traders will enjoy the benefits of globalisation and trade liberalisation enjoyed by traders in the formal sector. The state will see to it that like its formal counterpart, the informal sector international competitiveness is improved. Its relationship with the state and the formal sector will improve. Hence, harassment by police and the Maseru City Council officials will stop. Security will be provided to operators in the informal sector throughout the various stages of their journey.

The study shows that the Lesotho informal cross-border traders are seriously prejudiced by the border formalities. Some attention should be paid to streamlining these. The South African Immigration Department should introduce for the informal cross-border traders a new temporary permit category that befits the individual small, medium, and micro entrepreneurs. As suggested in the literature review, the permit should be a renewable multiple entry and valid for a period of six months. The permit will be invaluable to the cross-border traders, the SAPS and the South African Home Affairs. The following are some of the advantages of such a permit as it will:

1. Reduce the opportunities of corruption shown in the data analysis particularly at the border posts and in South Africa.
2. Reduce the administrative costs incurred at the border posts and in South Africa
3. Reduce the long time involved in processing the permits
4. Remove the ambiguous permit status of the informal cross-border traders, which is clearly shown in table 4.1.5-1
5. Reduce the transaction costs within the informal cross-border trade. The review of literature in this study supports this argument. The legalist approach headed by De Soto strongly recommends for the elimination of bureaucratic control associated with legalising business operations (Rakowski, 1994).

The study has shown that GST/VAT issue is very important and requires some attention on the part of the Lesotho and the South African governments. The study has shown that many Lesotho informal cross-border traders do not know that they are entitled to claim for VAT refund at the South African border posts. It is the responsibility of both

governments to make sure that information on how to claim is disseminated to these traders. The South African VAT offices have information on the procedure to be followed when lodging claims. However, the problem is that the information is only available in English. The study therefore recommends that the information be written in the languages these traders understand.

The Lesotho government should take an initiative to make sure that these traders know how to claim for VAT refund. There are two suggestions on how to do this. Firstly, the Department of Trade in conjunction with the Ministry of Finance should embark on a series of activities to educate the traders in question about VAT. The programmes should be broadcast over Radio Lesotho. They should explain VAT and the requirements needed to claim. Secondly, posters about VAT should be written in Sesotho and placed at designated places like the border posts. These initiatives will help the informal cross-border traders. They will benefit from the 4% bonus, which is the difference between the 14% that could be claimed in South Africa and 10% paid upon entering Lesotho. The bonus will discourage the traders from charging high prices on their customers. It will encourage them to pay GST willingly and hence improve the Lesotho's revenue collection system.

The Lesotho government should pay a particular attention to the process of collecting GST at its border posts. At the moment the process is unsatisfactory. It is lengthy and it can encourage corrupt border officials to take unofficial tax from the traders. It is clear that the informal cross-border traders employ illegal means in order to avoid the formalities at the border gates subjecting them to operate even more informally. The Lesotho government should improve the informal cross-border trade by introducing customs and tax rates that are lower than the costs of evasion including payments of unofficial taxes. Similar measures have been recommended for informal cross-border traders between South Africa and its neighbouring countries especially Zimbabwe and Zambia. ([http://www.zimtrade.co.zw/quarterly/trade/trade\\_body.htm](http://www.zimtrade.co.zw/quarterly/trade/trade_body.htm)).

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**APPENDIX A**

**UNIVERSITY OF NATAL: SCHOOL OF DEVELOPMENT STUDIES**  
**QUESTIONNAIRE: PROBLEMS OF THE INFORMAL SECTOR CROSS-BORDER**  
**TRADERS.**

SECTION A

(PLEASE ANSWER THE QUESTIONS IN THIS QUESTIONNAIRE BY MARKING THE APPROPRIATE BOX WITH AN "X")

**SECTION A**

**THE PROFILE OF THE TRADERS**

**1. GENDER**

- 1.1 Male
- 1.2 Female

	1
	2

**2. AGE**

- 1.1 Under 20
- 1.2 21-30
- 1.3 31-40
- 1.4 41-50
- 1.5 51-60
- 1.6 61 and above

	1
	2
	3
	4
	5
	6

**3. MARITAL STATUS**

- 1.1 Single
- 1.2 Married

	1
	2

**4. EDUCATIONAL BACKGROUND**

- 1.1 Below standard seven
- 1.2 Attended secondary school
- 1.3 Attended high school
- 1.4 Attended tertiary school

	1
	2
	3
	4

**6 EMPLOYMENT STATUS/SOURCE OF INCOME**

- 1.1 Currently not employed
- 1.2 Currently employed in the formal sector
- 1.3 Working in the informal sector only
- 1.4 others

	1
	2
	3
	4

7. Could you explain why are you working in the informal cross-border trade?

---



---

8. Do you have any other job beside the present occupation?

- 1.1 Yes
- 1.2 No

	1
	2

9. What kinds of commodities do you trade in? Please give examples

Commodities	examples

**SECTION B**

**PROBLEMS ENCOUNTERED ON THE WAY TO THE LESOTHO BORDERS AND AT THE BORDER ON THE WAY TO DURBAN**

1. Do you encounter problems on the way to the Lesotho border post?

- 1.1a Yes
- 1.2a No

	1
	2

**(b). If yes, which of the problems do you encounter?**

1.1b I walk long distance on foot

1.2b buses are expensive

1.3b there are robbers on the way

1.4b others (specify

	1
	2
	3

**(C). How much do you pay from home to the Lesotho border post?**

R \_\_\_\_\_

**2(a). Do you carry any goods to sell in South Africa?**

2.1a Yes

2.2a No

	1
	2

**(b) If yes, do you pay any tax on the Lesotho side of the border?**

2.2b Yes

2.2b No

	1
	2

**(c) If yes, what kind of tax do you pay?**

2.1c export duty

2.2c others (specify

	1
	2

**(d) How much is the tax?**

\_\_\_\_\_ %

**(e) Do you normally get a receipt for the tax you pay?**

2.1e Yes

2.2e No

	1
	2

**(f). If you do not take the goods to sell why do you not take them?**

**3(a). Besides taxes do you pay anything on crossing the Lesotho border gate into South Africa?**

3.1a Yes

3.2b No

	1
	2

**(b) If yes, how much do you pay?**

R \_\_\_\_\_

**(c). What is this money for?**

3.1c for a missing passport

3.2c so that I do not pay export duties

3.3c Other (specify

	1
	2

**(d). Do you get a receipt for this money?**

3.1d Yes

3.2d No

	1
	2

**4(a). Do you need a passport to cross the Lesotho border post?**

4.1a Yes

4.2a No

	1
	2

**(b). Do you have problems in relation to passport that hinder your trade?**

4.1b Yes

4.2b No

	1
	2

**(c). If yes, what problems do you have?**

**(d). How do they hinder your trade?**

**SECTION C**  
**PROBLEMS ENCOUNTERED WHEN CROSSING THE SOUTH AFRICAN**  
**BORDER GATE TO DURBAN**

**1(a). Do you pay tax at the South African border gate for goods you carry to sell in South Africa? (See question 2a in section A)**

3.1a Yes

	1
--	---

3.2b No

	2
--	---

**(b). If yes, how much tax do you pay?**

\_\_\_\_\_ %

**2(a). Besides official taxes, do you pay anything on this border gate?**

2.1a Yes

	1
--	---

2.2a No

	2
--	---

**(b) If yes, how much do you pay?**

R \_\_\_\_\_

**(c) What do you pay this money for?**

2.1c for a missing passport

	1
--	---

2.2c thank you for the official  
for not checking my bag

	2
--	---

2.3c unofficial tax for goods  
to be sold in Durban

	3
--	---

2.3c others (specify \_\_\_\_\_)

**(d) Have you ever got a receipt for whatever you pay?**

2.1d Yes

	1
--	---

2.2d No

	2
--	---

**3(a). Do you need passport to cross the South African border post?**

3.1a Yes

3.2a No

	1
	2

**(b). What kind of visa are you given when entering South Africa?**

3.1b Visitor's permit

3.2b Medical permit

3.3b Temporary permit

3.4b business permit

3.4b Others (specify \_\_\_\_\_)

	1
	2
	3
	4

**(c) Does the visa you are given pose problems on your trade?**

3.1c Yes

3.2c No

	1
	2

**(d) If yes, which of the following problem does it pose?**

3.1d I do not get benefits which other business people get

3.2d I cannot take things to sell in South Africa

3.3d Others (Specify \_\_\_\_\_)

	1
	2

**(e). Do you have any other problem in relations with passport at this border and what are those problems?**

**i) What happens when you do not have passport?**

**ii) What do the border officials do on you passport that may affect your trade?**

**4(a). Are there new problems that you encounter on the South African side of the border gates?**

4.1a Yes

4.2a No

	1
	2

**(b). If yes, which of the following are some of the new problems?**

4.1b border officials are rude

4.2b we stay too long on the queue

4.3b we pay even higher than what we used to

4.4b taxes are not calculated fairly

4.5b border officials are stricter about passports

4.6b others (specify) \_\_\_\_\_

	1
	2
	3
	4
	5

### SECTION D

#### TRANSPORT TO DURBAN AND PURCHASING GOODS IN DURBBAN

**1(a). Do you use Lesotho or South African buses/taxis to Durban?**

1.1a Lesotho

1.2a South African

	1
	2

**2(a). Do you have problems in relation to transport?**

2.1a Yes

2.2a No

	1
	2

**(b) If yes, which of the following problems do you have?**

2.1b The fares are too high

2.2b the bus/taxi is always too full

2.3b the drivers and their helpers are too rude

2.4b buses/taxis are not roadworthy

2.5b they have no trailers/trailers are small thus limit the quantity I buy

2.5b other (Specify \_\_\_\_\_)

	1
	2
	3
	4
	5

**(c) How much do you spend on transport on return trip?**

R \_\_\_\_\_

**(d) Do you encounter problems on the way?**

1.1d Yes

1.2d No

	1
	2

**(e) If yes, which of the following problems do you encounter?**

1.1e the journey is too long

1.2e we are sometimes robbed on the way

1.3e in winter is too cold

1.4e in summer Durban is too hot

1.5e others (Specify \_\_\_\_\_)

	1
	2
	3
	4

**2(a). Where do you buy your goods in Durban?**

2.1a from the informal traders in the streets

2.2a from the formal businesses in town

	1
	2

**(b). If you buy from the informal traders do you buy in bulk?**

2.1b Yes

2.2b No

	1
	2

**(c). Do you buy from the same people each time?**

2.1c Yes

2.2c No

	1
	2

**(d). Do you get some discount?**

2.1d Yes

2.2d No

	1
	2

**(e). Do you buy on credit?**

2.1e Yes

	1
	2

2.2e No

**If yes, what are the terms of the credit?** \_\_\_\_\_

**(f). If no, why do you not buy on credit?**

2.1f they do not know me as I do not buy from the same people

	1
	2

2.2f they do not give credit to foreigners

2.3f others (specify) \_\_\_\_\_

**3(a). Do you get receipts if you buy from the informal traders?**

3.1a yes

	1
	2

3.2a No

**(b) If no, how do you pay the import duties at the border?**

3.1b I estimate the costs and pay accordingly

	1
	2
	3

3.2b I pay the border officials something to let me go

3.3b border officials estimate the cost and make me pay whatever they wish.

3.4b others (Specify) \_\_\_\_\_

**(c). Do you encounter problems when you do not have receipts?**

3.1c Yes

	1
	2

3.2c No

**(d). If yes, which of the following problems do you encounter?**

3.1d the tax that I pay is unfair

3.2d I cannot claim the tax from the South African side

3.3d I have to keep a lot of money because I am not sure how much I will pay at the border

3.4d it takes too long to price items at border and and compute the taxes due from me

	1
	2
	3
	4

**2(a). If you buy from the formal businesses, do you buy from the same businesses each time?**

2.1a Yes

2.2b No

	1
	2

**(b). If yes, do you get discount for your purchases?**

2.1b Yes

2.2b No

	1
	2

**(c). Do you buy on credit?**

2.1c Yes

2.2c No

	1
	2

**If yes, on what terms** \_\_\_\_\_

**(d). If no, which of the following reasons make credit difficult to get**

2.1d I do not buy in bulk

2.2d I come from a foreign country

2.3d others (specify \_\_\_\_\_)

	1
	2

**(e). Have you ever-bought in bulks from the formal businesses?**

2.1e Yes

2.2e No

	1
	2

**(f). If no, which of the following reasons make it impossible to do so?**

2.1f I have no enough money to buy in bulks

2.2f as traders we are not organised to buy in bulks

	1
	2

2.3f others (specify \_\_\_\_\_)

**3(a). Do you get tax invoice or receipts when you buy from the formal businesses?**

3.1a tax invoice

	1
	2

3.2a receipts

**(b). If yes, do you use them to get VAT refund at the South African border post?**

3.1b Yes

	1
	2

3.2b No

**(c). If no, why do you do so?**

\_\_\_\_\_

**(d). If you do not get tax invoice or receipts, why do you not get them?**

\_\_\_\_\_

**4(a). Do you encounter any problems when you buy goods in Durban?**

4.1a Yes

	1
	2

4.2a No

**(b) If yes, which of the following problems do you encounter?**

4.1b Lesotho currency is not accepted in Durban

	1
	2
	3

4.2b I cannot speak the language of the sellers and is difficult to bargain for lower prices

4.4b others (Specify \_\_\_\_\_)

**5(a). Do have information about where to buy the goods?**

5.1a Yes

	1
	2

5.2a No

**(b). Do you have information about when goods are cheap?**

5.1b Yes

	1
	2

5.2b No

**(c). If you have information about where to buy and when goods are cheap how do you get that information?**

5.1c from the bus drivers/conductors

5.2c from the department of trade in Lesotho

5.3c from the department of trade in Durban

5.4c from my fellow informal traders

5.5c from the informal traders in Durban

5.6c Others (Specify \_\_\_\_\_)

	1
	2
	3
	4
	5

**SECTION E**  
**LODGING IN DURBAN**

**1(a). Where do you take up lodging during your trips?**

1.1a friends/relative

1.2a bus/taxi

1.3a hotels

1.4a others (Specify \_\_\_\_\_)

	1
	2
	3

**(b). Do you pay for lodging?**

1.1b Yes

1.2b No

	1
	2

**(c). If yes, how much do you pay?**

R \_\_\_\_\_

**2(a). Do have problems related to lodging?**

2.1a Yes

2.2a No

	1
	2

**(b). If yes, which of the following problems do you encounter?**

- 2.1b lodging is expensive
- 2.2b lodging excludes meals
- 2.3b lodging is crowded
- 2.4b lodging is unsatisfactory
- 2.5b Others (Specify \_\_\_\_\_)

	1
	2
	3
	4

**(c). Does lodging affect you trade?**

- 2.1c Yes
- 2.2c No

	1
	2

**(d). If yes, in which of the following ways does it affect it?**

- 2.1d most of money is spend on lodging not stock
- 2.2a there is no security for my goods
- 2.3d lodging is far from the business shopping centre
- 2.4d others (Specify \_\_\_\_\_)

	1
	2

### SECTION F

#### AT THE SOUTH AFRICAN BORDER POST FROM DURBAN

**1(a). Do you pay tax for goods bought in Durban at the South African border gate?**

- 1.1a Yes
- 1.2a No

	1
	2

**(b). If yes, how much tax do you pay for how much total cost of the purchases**

<b>Tax</b>	<b>total cost of the goods</b>
_____ %	R _____

**(c). What kind of tax is this?**

1.1c export duty

	1
--	---

1.2c others (specify \_\_\_\_\_)

**2(a). Do you claim VAT refund when you get to the South African border post?**

2.1b Yes

	1
--	---

2.2b No

	2
--	---

**(b). How much was the VAT refund and how much was the total cost of goods?**

VAT refund	TOTAL COST
_____ %	
R _____	_____

**(C) Did you encounter any problems when making a claim?**

2.1c Yes

	1
--	---

2.2c No

	2
--	---

**(d) If yes, which of the following problems did you encounter?**

2.1d officials were too rude

	1
--	---

2.2d I did not have passport to claim

	2
--	---

2.3d I did not know the language to talk to the officials

	3
--	---

2.4d I was told to pay the officials

	4
--	---

2.4d I did not have receipts to make a claim

--	--

**(e). If you have never claimed the VAT that you pay, why have you not done so?**

1.1e I did not know that I could claim

	1
--	---

1.2e I did not pay official tax so I could not claim

	2
--	---

1.3e it takes time to get paid

	3
--	---

1.4e I did not have tax invoice/receipts to lodge claims

--	--

1.5e Others \_\_\_\_\_

**(f). Is there any restriction on the quantity of goods that you can export?**

1.1f            yes

1.2f            No

	1
	2

**(g). Are there some goods that are not allowed into Lesotho by South African border officials?**

1.1g            Yes

1.2g            No

	1
	2

**(h). If yes, do you think you can make profit on such goods?**

1.1h            yes

1.2h            No

	1
	2

**2(a). Besides taxes, do you encounter any problems at this border post?**

2.1a            Yes

2.2a            No

	1
	2

**(b). If yes, which of the following problems do you encounter?**

2.1b    rude border officials

2.2b    long queue

2.3b    problems with the passport

2.4b    quantity of exports restricted

2.5b    export duties are too high

2.6b    others (Specify \_\_\_\_\_)

	1
	2
	3
	4
	5

## SECTION G

### AT THE LESOTHO BORDER POST BACK FROM DURBAN

**1(a). From Durban, do you pay tax on the Lesotho side of the border?**

1.1c            Yes

1.2c            No

	1
	2

**(b). If yes, how much do you pay?**

\_\_\_\_\_ %

**(c). How is the tax calculated?**

1.1c at the set price of each item/unit (specific duty)

1.2c as percentage of the value of the imports (ad valorem duty)

1.3c others (specify \_\_\_\_\_)

	1
	2

**(d). Is the tax calculated on basis of tax invoice and receipts that you have?**

**(e). How is the tax computed on goods that you do not have tax invoice/receipts?** \_\_\_\_\_

**(f). Do you think you pay fair tax on goods that have no tax invoices/price? Why?** \_\_\_\_\_

**3(a). How long do you stay on the queue when paying tax?** \_\_\_\_\_ hrs \_\_\_\_\_ min.

**(b). Do you know how to fill the forms for tax? who help you? do they fill them well?** \_\_\_\_\_

**(c). Do you think the process of paying tax affect you trade? If yes, how is it affecting it?** \_\_\_\_\_

**2(a). If you do not avoid taxes, do pay anything at the Lesotho border post?**

2.1a Yes

2.2a No

	1
	2

**(b). If yes, how much do you pay?**

R \_\_\_\_\_

**(c) Who pays?**

2.1c each trader pays for him/herself

2.2c we choose someone to collect and pay for us all

2.3c bus driver/conductor collects money and pay for us

2.4c Others (Specify \_\_\_\_\_)

	1
	2
	3

**(f) What do you pay this money for?**

2.1f thank you to border officials for overlooking anything wrong

2.2f for not having proper receipts to pay official taxes

2.3f for not having enough money to pay tax

2.4f others specify \_\_\_\_\_

	1
	2
	3

**(g) Do the payments you make at the border hinder your trade?**

2.1g Yes

2.2g No

	1
	2

**(h) If yes, how do they hinder it?**

2.1h My profit is reduced

2.2h my stock is reduced as I have to keep a lot of Money to pay at the border

2.3h Others (Specify \_\_\_\_\_)

	1
	2

**(i) How do you avoid these problems?**

2.1i I hide some of the goods

2.2i I call some friends who are familiar with some Border official to come and talk to them

2.3i I do not disclose that I have bought in Durban

2.3i Others (Specify \_\_\_\_\_)

	1
	2
	3

**(j). Has there been any changes on the border?**

2.1j Yes

2.2j No

	1
	2

**(k). If yes, which of the following changes have occurred?**

2.1k we pay less than what we used to

2.2k we pay more than what we used to

2.3k we pay officially only

2.4k we get receipts for what we pay

2.5k we pay fairly now

2.6k others (specify \_\_\_\_\_)

	1
	2
	3
	4
	5

## SECTION H

### WHAT HAPPENS WITH THE GOODS AFTER THEY GET BACK TO LESOTHO?

**1(a). In Lesotho, do you have a place to sell your goods?**

1.1a Yes

1.2a No

	1
	2

**(b). If yes, where do you sell them?**

1.1b on the street in my town

1.2b in my shop in town

1.3b in my shop in the village

1.4b in my house

1.5b others (specify \_\_\_\_\_)

	1
	2
	3
	4

**(c). Do you have problems with the place where you are selling these goods?**

1.1c Yes

1.2c No

	1
	2

**(d). If yes, which of the following problems do you have?**

1.1d there is no security for my goods

1.2d there is harassment from police and municipal Officials

1.3d there is no storage for my goods

1.4d others (specify \_\_\_\_\_)

	1
	2
	3

**(e). What do you do solve these problems** \_\_\_\_\_

**2(a). To whom do you sell your goods?**

2.1a directly to the households

2.2a to the wholesalers

2.3a to the small shops

2.4a only to individuals that have made order

2.5a others (specify \_\_\_\_\_)

	1
	2
	3
	4

**(b) Why do you not sell to others that you are not selling to?** \_\_\_\_\_

**(c). Who sells the goods?** \_\_\_\_\_

**(d). How much do you pay them per month, if is not you who sells the goods?**

2.1c R \_\_\_\_\_

**(e). Do you sell in bulks or in small quantities?**

1.1e in bulks

1.2e in small quantities

	1
	2

**(f). What problems do you have relating to the way you are selling goods?**

**(h). Do you sell on cash or credit basis?**

1.1h Cash

1.2h Credit

	1
	2

**(i). What problems do you encounter concerning the method of sale?**

- 1.1i it is difficult to realise profit
- 1.2i customers do not pay regularly  
hence stock turnover reduced
- 1.3i it raises unplanned costs
- 1.4i others (Specify \_\_\_\_\_)

	1
	2
	3

**(j). How do you solve these problems? \_\_\_\_\_**

**3(a). Do you keep record books for your trade?**

- 3.1a Yes
- 3.2a No

	1
	2

**(b). How much do you spend on stock in each trip?  
R \_\_\_\_\_**

**(c). What is your mark-up?**

\_\_\_\_\_ %

**(d). How much profit do you make per month?  
R \_\_\_\_\_**

**4(a). Are you required to have licence?**

- 4.1a Yes
- 4.2a No

	1
	2

**(b). If yes, do you have the license?**

- 4.1b Yes
- 4.2b No

	1
	2

**(c). If you do not have it, what problems do you encounter?**

- 4.1c Police and municipal officials harass me
- 4.2c My goods are taken by police and municipal officials
- 4.3c others (specify \_\_\_\_\_)

	1
	2

**5. Do you think there are other problems that you encounter in this trade, which have not been asked here? If yes what are those problems?**

**Thanks you very much for your time and for answering these questions.**

## APPENDIX B

### QUESTIONNAIRE FOR THE LESOTHO IMMIGRATIONS AND SALES TAX OFFICIALS AT THE BORDER POSTS

This questionnaire has two sections. Please answer questions in Section A if you are immigration's official at the border post. Answer questions in Section B if you are a Sale's Tax Official.

#### SECTION A

##### (FOR THE IMMIGRATIONS OFFICIALS)

1. Do the informal sector cross-border traders between Lesotho and Durban need passports to cross the border post? \_\_\_\_\_
2. Are they allowed to cross if they do not have passport? \_\_\_\_\_
3. Have you ever had cases where they want to cross without passport? \_\_\_\_\_
4. Do the traders ever tried to smuggle the goods into the country? \_\_\_\_\_
5. If they do, do you think taxes they at the border posts have impact on smuggling of the goods? \_\_\_\_\_
6. Do these traders ever complain to you about General Sales Tax? \_\_\_\_\_
7. What problems do they face the border posts? \_\_\_\_\_

#### SECTION B

##### (FOR SALE TAX OFFICIALS)

1. Do the informal sector cross-border traders between Lesotho and Durban:
  - a) take goods to sell in South Africa \_\_\_\_\_
  - b) If yes, do they pay tax for those goods? \_\_\_\_\_
  - c) What percentage do they pay? \_\_\_\_\_
  - d) What is the tax called? \_\_\_\_\_
  - e) How is tax calculated? \_\_\_\_\_
2. From Durban:
  - a) Do they pay tax for the goods they bring into Lesotho? \_\_\_\_\_
  - b) How much is the tax? \_\_\_\_\_
  - c) How is the tax calculated? \_\_\_\_\_
  - d) What is this tax called? \_\_\_\_\_

- e) Do they bring proper documents that will help compute the tax (receipts, tax invoices) \_\_\_\_\_
- f) If they do not have these documents how do you calculate the tax for them?  
\_\_\_\_\_
- g) Do they know how to fill the tax form? \_\_\_\_\_
- h) Is the process of paying tax a lengthy one? \_\_\_\_\_
- 3. A) Do these traders ever attempt to avoid taxes \_\_\_\_\_
- b) If they avoid, how they do it? \_\_\_\_\_
- C) What measures do you take to deal with tax avoidance?  
\_\_\_\_\_  
\_\_\_\_\_

d) What other problems do you experience with these traders in relations to paying taxes?

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- 4. Do these traders ever complained to you about taxes? \_\_\_\_\_
- 5. If yes, what are their complaints?  
\_\_\_\_\_  
\_\_\_\_\_
- 6. Have they ever complained about other things besides taxes \_\_\_\_\_
- 7. If yes, what do they complain about \_\_\_\_\_

Thank you very much for completing this questionnaire

## APPENDIX C

### QUESTIONNAIRE FOR THE SOUTH AFRICAN IMMIGRATION AND VALUE ADDED TAX (VAT) OFFICIALS AT THE BORDER POSTS

**This questionnaire has two sections. Please answer questions in section A if you are immigration official. Answer questions in section B if you are a VAT official.**

#### Section A

(For immigration's officials)

1. Do the Lesotho informal sector cross-border traders
  - a) need passports to cross this border gate \_\_\_\_\_
  - b) do they bring passports \_\_\_\_\_
  - c) If they do not have passport could they cross the border? \_\_\_\_\_
  - d) have they ever come without passport \_\_\_\_\_
2.
  - a) What kind of permits are they issued? \_\_\_\_\_
  - b) How many days are they given \_\_\_\_\_
  - c) Do they qualify for six-month permits \_\_\_\_\_?
  - d) Do they have six-month permits \_\_\_\_\_?
3. What problems have you ever experience because of these traders?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### SECTION B

(FOR OFFICIALS AT THE VAT OFFICES)

1. Do the informal sector cross-border traders between Lesotho and Durban:
  - a) Take goods to sell in South Africa? \_\_\_\_\_
  - b) Pay tax for such goods? \_\_\_\_\_
2.
  - a) How is the tax calculated? \_\_\_\_\_
  - b) What type of tax do they pay? \_\_\_\_\_
  - c) How much is the tax? \_\_\_\_\_
  - c) Do they bring proper documents for computation of the tax \_\_\_\_\_
3. When the come from Durban:
  - a) Do the have to pay tax for the goods they bought in South Africa \_\_\_\_\_
  - b) How much is the tax? \_\_\_\_\_

- c) How is the tax computed \_\_\_\_\_
- 4. a) Are they entitled for VAT refund? \_\_\_\_\_
- b) Do they make claims? \_\_\_\_\_
- d) What is required in order to make claims? \_\_\_\_\_
- e) Do they bring necessary requirements when they claim? \_\_\_\_\_
- f) When they do not claim, why do you think they do so \_\_\_\_\_
- g) Is the process of lodging claims a lengthy one? \_\_\_\_\_
- h) What problems do you experience as a result of these traders?

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- i) How do you deal with these problems?

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5. To your knowledge are all businesses in South Africa supposed to charge VAT

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5. If they do not charge VAT, how would that affect the informal sector cross-border traders?

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6. Does failure to claim VAT by Lesotho traders affect South Africa or Lesotho?

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