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COMMON MARKET FOR EASTERN AND  
SOUTHERN AFRICA



**Workshop on the updated and new recommendations  
for International Merchandise Trade Statistics (IMTS 2010)  
and their implementation in countries of the Sub-Saharan region,  
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Country Note

**Lesotho**

# 1. INTRODUCTION

## 1.1 Background

Lesotho is a landlocked country, covering an area of about 30,355 sq km lying inside Republic of South Africa. Lesotho has traditional trade ties with neighbouring RSA since pre-colonial era. Because of its geographical location, and its membership in the Southern African Customs Union (SACU) and the Common Monetary Area (CMA), by the former arrangement, it loses some sovereignty in fiscal control through the common tariff while the latter renders very limited monetary policy options. However, membership to SACU is crucial for the economy of Lesotho as it derives a substantial part of its revenue from this source. SACU revenues accounted for over half of Lesotho's budget revenues (excluding grants). Customs revenue constitutes more than half of total government receipts. The peculiar structural aspects surrounding the Lesotho economy are that more than 80 percent of imports originate from South Africa and are consistently in excess of domestic output. South African investment also accounts for a substantial share of foreign direct investment (FDI). In this context, the price levels of goods and services in Lesotho are generally influenced by those prevailing in South Africa.

From the above it is worth noting that the importance of recording merchandise trade for Lesotho cannot be over emphasized. It has become necessary to formalise the procedures relating to the flow of accurate and timely external trade data which form a vital element in the measurement of both the current account of the balance of payments and the expenditure on gross domestic product (in current and constant prices) in order to monitor developments in the economy of Lesotho and also to monitor the planned Free Trade Area and Customs Union in the Region.

The system by which International Merchandise Trade Statistics (IMTS) are compiled in Lesotho is General trade system; under which imports includes all goods entering the economic territory of Lesotho and exports includes all goods leaving the economic territory of Lesotho. For this to be true statistical territory should coincide with economic territory as well as customs territory.

Customs territory does not coincide more closely with statistical territory, which reflects the fact that there are goods that make some inroad into Lesotho and those that leave unrecorded. This speaks to the fact that not all formal ports of entry/exit are manned meaning that there are no relevant officials who are deployed along those ports. While it is true that department of Customs is the main source of trade statistics in Lesotho there are however, gaps emanating from geographical and transactional coverage in the merchandise data that the Bureau of Statistics (BOS) receives from this department. Having mentioned this it is also important to note that the merchandise data suffers a lot from other data quality criteria:

Reliable, up-to-date, and disaggregated import data for Lesotho are not available, owing to the free flow of goods from South Africa into Lesotho and the collection of import duties at the South African border. Over 90 percent of imports are recorded as coming from SACU, principally from South Africa. Balance-of-payments data suggest that the merchandise trade gap increased from M2.1 billion (US\$760 million) to M3.4 billion (US\$790 million) between 1991 and 1996. In recent years, the current account deficit has been more than covered by long-term financing, much of this in the form of special financing for the Lesotho Highlands Water Project (LHWP).

There exists a lot of cross border trade between Lesotho and South Africa, which remains largely unrecorded. Goods cross international boundaries both in bulk and small quantities without being recorded and included in the official foreign trade statistics. This leads to under estimation of the magnitude of intra-regional trade and balance of payments current account (especially the goods account), and national accounts statistics, which are key to compiling Gross domestic Product (GDP) of Lesotho. The other problem is explained by the misreporting of product codes.

It is in this sense that Bureau of Statistics (BOS) has undertaken a survey on Informal Cross Boarder Trade (this will be analysed in due time) to generate information on informal trade transactions. Informal Cross Border Trade (ICBT) refers to trade transactions that involve residents and non-residents across the economic boundaries of two or more countries, and, are largely not recorded by customs authorities. This will bridge data gaps, and hence, improve on the coverage and completeness of foreign trade statistics.

## **1.2 Using Secondary Data**

The use of data recorded by the customs officials reveals the extent of unofficial trade between Lesotho and South Africa. For a given commodity, the official trade figures of the two countries hardly tally. For instance any particular good that is worth less than M5, 000 may not be recorded on the side of South Africa by virtue of the policy. This speaks to the fact that more often than not goods below the stipulated threshold are not recorded on a declaration form as per agreement between South Africa Revenue Service (SARS) and Lesotho Revenue Authority (LRA). This translates to some kind of under-coverage, as a huge amount of flows into Lesotho are transactions below the threshold which is influenced mainly by a massive flow of private shoppers.

Even where both countries record trade flows, the values may not tally as some traders have a tendency to deliberately under-report their purchases to manipulate taxes.

The collection of trade statistics through customs records does not conform strictly to the concepts and definitions outlined in the 1993 SNA, BPM5 and ITMS. Nevertheless statistician take advantage of this source and supplement custom data with information obtained from other sources, as necessary, to provide full coverage of international merchandise trade statistics and to help produce the data required for national accounts (NA) and balance of payments purposes (BOP)

BOS holds overall responsibility for the compilation, including editing, database maintenance and dissemination, and the issuance of methodological guidelines. Customs (LRA) is responsible for collection of the basic records and for supplying BOS with those records on a regular basis; normally customs carry out some editing of records before passing them on. BOS further edits the customs records and merges them with information received from other (non-customs) sources. In a growing number of cases, full coverage of international merchandise trade statistics cannot be achieved by use of customs records only, either because the relevant transactions are no longer subject to customs controls or customs surveillance, or because the record keeping may not be adequate from the statistical point of view. There are other governments department whose main responsibility is centred in the collection of cross border movements of certain products e.g Department of Energy (Petroleum products) Department of mines and Geology (Diamonds), Ministry of Agriculture (Wool and Mohair), Lesotho Electricity Cooperation (Electricity) and Lesotho Highlands Development Authority (piped water to RSA)

### **1.3 Data Processing and Dissemination**

LRA custom system is not yet automated, however, initiatives have started already. The automation process is now on implementation stage and the system to be adopted is the South African Revenue service trade system called CCA1 system. Since LRA passes hard copies of declaration documents to BOS there are 14 data entry operators whose task is to key in the records. Data is computerized through use of the Trade Software called Eurotrace. The software is used to capture and to process the data. The processed data is analyzed by country of origin and country of destination. The report is published yearly.

### **1.4 DATA RECONCILIATION**

Reconciliation provides an explanation of the discrepancy between the import and export statistics of trading partners (SACU) by identifying conceptual reasons for them and explaining differences in data collection and processing. A short-term aim of reconciliation may be limited to the identification of major differences in the statistics of the two countries or agencies. The process may reveal a systematic measurement errors and gaps, which should be corrected immediately. On a larger scale, the aim may include assessing the cause of differences and making adjustments to various data components.

If there are known areas of under coverage, such as goods entering or leaving the country illegally, compilers of NA and BOP statistics need to make estimates to fill the gaps. Normally such estimates are made at a quite aggregated level and their reliability could be questionable. Such estimates are not recommended for inclusion in trade statistics; however, their use in NA and BOP statistics is justified, as they help to obtain a more complete picture of trade flows. Customs do not have a detailed trade flows and that is the main block of the reconciliation exercise as it is difficult to better understand the data. SACU member states do this exercise annually preceding calculation of revenue shares  
**Customs data is inclusive of VAT whereas BOS strips out VAT.**