



Lesotho Special Economic Zones Policy:

2024-2029

List of abbreviations and acronyms

AfCFTA African Continental Free Trade Area AGOA

Africa Growth and Opportunity Act

AU African Union

CBL Central Bank of Lesotho

COVID-19 Corona Virus Disease

DFI Foreign Direct Investment

GoL Government of Lesotho

KPI key performance indicator

LAA Land Administration Authority

LCA Lesotho Communications Authority

LEC Lesotho Electricity Company

LEWA Lesotho Electricity and Water Authority Management Company

Lesotho National Development Corporation LTDC Lesotho Tourism

Development Corporation Management Company Ministry of Trade,

Industry and Business Development NSDP National Strategic

Development Plan PPP Public Private Partnership

R&D Research and Development

RSL Revenue Services Lesotho

SACU Southern African Customs Union

SADC Southern African Development Community SDGs

Sustainable Development Goals

SEZ Special Economic Zone

SLAs Service Level Agreements

SOP standard operating procedure

WASCO Water and Sewerage Company

Foreword

The Government of Lesotho received financing from the African Development Bank towards the implementation of the Economic Diversification Support Programme (EDSP) to conduct a Special Economic Zones (SEZs) feasibility study. The study indicated that the country has a potential to diversify industrialization through SEZ. Hence the development of SEZs Policy to facilitate the establishment of the Special Economic Zones.

The National Special Economic Zones Policy is aligned to the second National Strategic Development Plan (NSDP II) goals which aim to foster efforts to create employment and economic growth by establishing a strong industrial base in Lesotho. It is a long-term policy commitment to attract high quality foreign investment supported through consistent and current government policies; develop an internationally competitive incentive offering that reduces the cost of capital investment in an SEZ; and facilitate expedient and effective regulatory support for investors operating in an SEZ.

It is gratifying to note that the outcome of the SEZ will contribute meaningfully to the national development objectives of the government, mainly to attract both domestic and foreign investment to promote exports, generate employment opportunities and develop the infrastructure facilities. You will agree with me that COVID-19 pandemic has done a lot of damage to our economy; therefore, this is one of the efforts by the government to boost the economy. The most pertinent outcome envisaged by the SEZ programme is the expansion of the manufacturing sector and the creation of additional industrial hubs to regionally diversify the national industrial base.

I wish to register sincere gratitude to African Development Bank for its consistent support to the country's development efforts, as well as EDSP for its valuable technical support.

I wish to thank all those, whose hard work has contributed to the challenging task of ensuring and securing the progress registered over time particularly for the development of the SEZ Policy. Most importantly, I encourage all concerned to redouble their efforts in the implementation of the Policy and continue to work together until the realisation of the country's industrial development agenda.

Executive Summary

Regional economic integration through SACU provides Lesotho with the opportunity to capitalise on a new wave of investment. However, its potential depends in part on it making improvements to key challenges in the national investment climate, in terms of both serviced industrial real estate and regulatory restrictions. The SEZ Policy presented in the following pages aims to address these challenges head on.

Because successful zones rely upon long-term, high-level political will, the SEZ Policy's strategic objectives are set for a longer-term timeframe, and are to:

- Enable Lesotho to become a hub for foreign investment, and integration with regional and global value chains, through reforms aligned with the Kingdom's trade obligations;
- Encourage integrated development in industries grounded in Lesotho's comparative advantages and strategic opportunities, including those leveraging the country's natural resource endowments;
- Create an attractive investment climate, by sparking and incubating reforms in key areas constraining growth, and liberalising the economy within zones, creating new possibilities not available in the rest of the economy; and
- Generate economic growth and job opportunities, particularly for people in the SEZs' hosting local areas.

The SEZ programme proposed herein is furthermore based on clear and measurable targets that deliver net benefits and enable easy verification of its performance. Moreover, the *Outcomes and Key Performance Indicators (KPIs)* pursued through this SEZ Policy will ensure that the SEZ programme's focus remains squarely on economic competitiveness and value addition.

The proposed legal and regulatory framework of the SEZ programme will provide a consistent and transparent mandate for the SEZs' regulators, while also helping to ensure that SEZs attract the right investments, established in line with sound business, social and environmental standards. The combined use of various legal instruments will ensure that the framework is at once practical, flexible, and responsive to the needs of investors and the public good, but also sufficiently *permanent* to ensure consistent, transparent and predictable implementation.

SEZ designation will be strictly limited to sites where there is a strong, proven market demand. All SEZ designation proposals will undergo a rigorous evaluation process, for compliance with a minimum set of qualifying characteristics. Rigorous designation criteria and procedures will limit SEZ designations to only those locations well positioned for success, and which will boost economic performance, mitigating risk of programme failure.

SEZ Enterprise licensing, as important to trigger access to SEZ policy benefits, will be designed to ensure compliance with SEZ rules and standards. At the same time, the SEZ programme will eliminate unnecessary approvals and procedures to start and operate a

business. Through the combination of SEZ Enterprise licensing and construction permitting, the SEZ regime will guarantee that effective measures are in place to protect against risks to public welfare.

Fiscal incentives under the SEZ policy will primarily be aimed at not losing investment to neighbouring SEZ competitors, with otherwise comparable characteristics. Most importantly, Income Tax and Value Added Tax will be administered efficiently, through streamlined submission and approval of documents, clear rules for calculating assessable income, efficient refund processes and limited post-assessment audits.

In line with emerging trends, a range of cutting-edge, *PPP-based asset development and management models* relevant to SEZs are also specified in this SEZ Policy.

Furthermore, *SEZs will be tailored to the specific sectoral investment priorities* of the country, so as to achieve its most critical economic objectives, and overcome its specific market failures and economic constraints, notably in the agro-processing sector.

In order to ensure sound overall SEZ Policy and programme governance, the *SEZ Regulator* will consult all Government entities with responsibilities impacting SEZ users. The strengthened Management Company will act as a Regulatory Board and secretariat implementing the programme on a day-to-day basis by a strengthened and restructured Management Company. The SEZ regulator will have the power and resources to perform most Government actions on its own, including business licensing and registration, labour regulation, building permitting and inspections, monitoring of compliance with SEZ rules and complaints resolution. They will wield required influence over other Government entities to be able to unify, simplify and streamline SEZ governance, minimising burdensome regulation, as well as concentrating public service talent and knowhow regarding SEZs, and building up the knowhow to ensure effective SEZ programme oversight.

Local SEZ service delivery offices under the aegis of the Management Company will be located within each SEZ. These offices will take the form of *SEZ One-Stop Shop (OSS)* centres. SEZ Developer and Operator agreements will require such facilities to be built and maintained at the formers' expense. The OSS will be fully empowered to independently handle SEZ users' compliance requirements, consolidating and replacing the functions of other Government entities at the national and local levels through the SEZ Act, which will also provide the Management Company, with the authority to re-engineer procedures for issuance of associated authorisations, with a view to streamlining them. *Interagency Service Level Agreements (SLAs)* between the Management Company and a variety of regulatory bodies will serve to coordinate the activities of the OSS. All activities not performed by the Management Company directly will be simplified, made less costly and faster, on the basis of enhanced performance standards.

1. Introduction

In recent years, Lesotho's economic performance has been negatively affected by sluggish global economic growth amid a major downturn in both emerging markets and advanced economies, as well as natural disasters. Slow economic growth in the South African economy and vulnerability to COVID-19 from South Africa (one of the most affected countries on the African continent) have had knock-on economic impacts in Lesotho, given Lesotho's porous borders and close economic ties to the country, from which more than 60% of Basotho households receive remittances.

The main opportunity for Lesotho's economic future is to be found in moving from a predominantly subsistence-oriented economy to a diversified, private sector economy, exporting natural resources and manufacturing goods alike, bringing higher, more secure income to the population. The need to generate new investment, especially in peri-urban areas, along with the associated employment it creates, is clear. SEZs can contribute to these objectives.

Given that SEZs have played an integral part in expansion and diversification of various countries' manufacturing and other sectors, Lesotho too now plans to follow this route, and to use SEZs to diversify into new products and access to new markets. Indeed, a robust SEZ Policy can help the Kingdom in the following manners:

- The proposed SEZ Policy can help to address and mitigate significant identified problems in Lesotho's economy, and generate greater employment, poverty reduction and income equality.
- SEZs can significantly help Lesotho to transition to outward, export-oriented development strategies.
- SEZs can help spark business climate reforms in a country's key economic growth nodes.
- SEZs can help with technological catch-up by attracting more advanced industries to facilitate knowledge transfer and greater productivity and efficiency. There is potential to augment the Kingdom's industrialisation through SEZs in the agro-processing, automotive, leather and pharmaceuticals sectors, and in particular focused on agro industry and non-apparel light manufacturing. The development of SEZs is also envisioned as one of the attraction strategies in the 2019 National Tourism Development Master Plan.

To this end, the present SEZ Policy focuses on the following:

- Setting the objectives for SEZ development, process, and criteria for taking the decision to design specific areas as SEZs;
- Reviewing Lesotho's domestic policies and strategies that will be relevant for the SEZs and for investor attraction;

- Proposing an SEZ incentive package, as well as various types of SEZ ownership structures and financing models;
- Outlining the standards SEZs must meet in terms of economic environmental, social, health and safety, and labour performance;
- Presenting criteria for approving SEZ Developers and SEZ tenant companies;
- Proposing a legal, regulatory and institutional framework for the SEZs; and
- Providing a roadmap for the implementation of the SEZ programme.

However, it should also be noted that, despite all the benefits of SEZs, they cannot address all economic problems, nor enable Lesotho to seize on all possible economic opportunities. Seeing SEZs as a panacea to development challenges can lead to programme political failure.

Having said this, since Lesotho is adopting a brand new SEZ policy, it remains possible to incorporate the lessons of international experience.

1.1 Statement of SEZ Policy purpose and scope

The present SEZ Policy's focus is on the development of a national SEZ policy by the Government in order to address issues of critical importance. Indeed, given that SEZs have played an integral part in expansion and diversification of countries manufacturing and other sectors, Lesotho plans to follow this route, and use SEZs to diversify into new products and access markets. Internationally, SEZs can be defined as a geographically delimited area that offer distinct laws, regulations, administration, and/or procedures, as well as infrastructure, facilities, and services, from the rest of the country so as to promote economic development. The focus is typically on offering a superior business environment in the SEZs so as to attract businesses to the area and catalyse structural reforms to the broader economy. More specifically, SEZs are geographical regions that has business laws which are different from a country's ordinary national business laws. SEZs are, above all else, a policy tool designed to reduce regulatory "frictions" to production and enterprises' operations, and act as a "laboratory" for economic policy innovation.

1.2 SEZ Policy Overview

This SEZ Policy focusses on the following key areas:

- Objectives of SEZ development, process, and criteria for taking the decision to design specific areas as SEZs;
- Lesotho's domestic policies and strategies that will be relevant for the SEZ and investor attraction;
- SEZs' incentive package;
- Types of SEZ ownership structure and financing models;
- Standards SEZs must meet – in terms of economic performance (export orientation,

etc.), environmental, social and health safety, labour standards and possibility of importing talent, etc.;

- Criteria for approving SEZ developers and SEZ tenant companies;
- Land and infrastructure in SEZs;
- Legal, regulatory, and institutional framework for SEZs, including the establishment and role of the SEZ Regulator at the Management Company; and
- Roadmap for the design and implementation of the SEZ programme.

1.3 SEZ Policy linkage to the general developmental thrust of the Government

The Government of Lesotho (GoL) is committed to fighting poverty, accelerating economic growth and improve the welfare of the Basotho. Lesotho's industrialisation programme has had enormous successes since 2000. The Government has invested heavily in the development of industrial estates and in introducing incentives packages to attract foreign direct investment (FDI). This resulted in the country becoming one of the biggest beneficiaries of the Africa Growth and Opportunity Act (AGOA). Multinational corporations injected millions of US dollars in Lesotho, thereby creating in excess of 40,000 new jobs in textiles and clothing industries.

In this context, in 2004, the Government launched the National Vision 2020, which outlined the overall national development framework that defines the aspirations of the people of Lesotho. These broad national development goals were later translated into actions which would potentially enable the economy to develop rapidly, through two national planning documents; namely, the 2005-2008 Poverty Reduction Strategy Paper (PRSP) and the National Strategic Development Plan (NSDP) 2012/13–2016/17 (which was extended to 2018). The two strategic documents embraced Private Sector development as one of the key strategies which could lead to equitable economic growth and rapid employment creation. The Government is currently implementing the second National Strategic Development Plan (NSDP II) 2018/19 – 2022/23. NSDP II is aligned with the African Union (AU) Agenda 2063 and the South African Development Community (SADC) Regional Indicative Strategic Development Plan. The Sustainable Development Goals (SDGs) reflect the aspirations of Basotho articulated in National Vision 2020: “living in a country of stable democracy, united and prosperous nation at peace with itself and its neighbours, with a healthy and educated human resource base.”¹

Lesotho recognises the interrelatedness and indivisibility nature of SDGs. For example, with effective implementation of programmes on climate change mitigation and adaptation, Lesotho has committed to reduce poverty and hunger and create decent jobs, and reduce inequalities and gender- based violence. With reduced poverty, hunger and increased decent jobs, Basotho will have access to universal health and education

¹ <https://lesotho.un.org/en/36193-kingdom-lesotho-voluntary-national-review-implementation-2030-agenda-report-2019>

services, clean water and sanitation and affordable energy. Addressing the indivisibility nature of SDGs requires effective institutions and access to justice (SDG 16) and effective partnerships, including adequate financial resources. It is from this understanding that Lesotho developed the second National Strategic Development Plan (NSDP II), which is human development oriented and an instrument for prioritisation, implementation, monitoring and reporting on SDGs. Some of the main developmental goals of NSDP II are to:

- resolve binding constraints;
- promote new products;
- establish new market channels;
- promote the supply side of the economy;
- facilitate linkages; and
- provide an enabling environment for private SEZs.

There is a clear linkage between the developmental dimensions of NSDP II, and the focus areas of this SEZ Policy, as related to the aforementioned six-pronged thrust of the NSDP II.

As regards national industrial policy, Lesotho is interested in assuming a leadership position in Africa and in the subregion as an investment destination of choice, which is competitive in the multilateral trading system. It is proposed that this be achieved, amongst other measures, through development of policies conducive to the transfer and application of cutting-edge technology, as well as through smart partnership of the public and private sectors.² Again, the notions of excellence of the investment location and of smart Public-Private Partnerships (PPPs) for their delivery are core to the SEZ Policy detailed herein.

Moreover, the long-term mission is: *“To create and maintain a more equitable and enabling environment for industrial, agri-business and commercial development.”* To achieve its long-term mission, we, amongst others, set the following goals:

- Formulating and monitoring the implementation of appropriate commercial and industrial development policies, institutional frameworks and supporting legislation, in order to promote the development of trade and industry in Lesotho;
- Attracting foreign investment and domestic participation in order to broaden the country’s industrial base and improve employment opportunities for the Basotho;
- Assisting local entrepreneurs and the farming community to utilise export opportunities in order to improve the country’s foreign exchange earnings and create growth in the industrial, commercial, and agricultural sectors;
- Increasing producers’ market share, profit margins and on-farm income;

² <https://www.gov.ls/ministry-of-trade-and-industry/>

³ *Ibid.*

- Enhancing Lesotho’s competitive position in the liberalised global economy;
- Producing value-added goods for export markets;

- Fostering smart partnerships between government and the private sector in order to promote development and employment creation;
- Promoting the transfer of appropriate skills and technology between foreign investors and local entrepreneurs in order to enhance sustainable agro-processing and industrial development; and
- Promoting and facilitating development of both international and local markets.⁴

These too are well aligned with the aim of the SEZ Policy, as SEZs aim to support both domestic and international commerce, investment, industry, trade and economic development in the liberalized global economy, through appropriate legislative and institutional frameworks and partnerships, resulting in expanded markets, export earnings, profits, employment and sustainable development.

⁴*Ibid.*

2. Background and overview of policy issues: Situation Analysis and Problem Statement

2.1 Economy of Lesotho and of the Southern African region in a global context

The Government of Lesotho is committed to fighting poverty, accelerating economic growth and improve the welfare of Basotho.

Lesotho's industrialisation programme has had enormous successes since 2000. The Government has invested heavily in the development of industrial estates and in introducing incentives packages to attract foreign direct investment (FDI). This resulted in the country becoming one of the biggest beneficiaries of the Africa Growth and Opportunity Act (AGO). Multinational corporations have injected millions of US dollars in Lesotho, creating in excess of 40,000 new jobs in textiles and clothing industries.

The Government is currently implementing the second National Strategic Development Plan (NSDP II) 2018/19 – 2022/23. Some of the main developmental goals of NSDP II are to: resolve binding constraints; promote new products; establish new market channels; promote the supply side of the economy; facilitate linkages; and provide enabling environment for private Special Economic Zones (SEZs). Lesotho seeks a leadership position in Africa and in the subregion as an investment destination of choice. It is proposed that this be achieved, amongst other measures, through development of policies conducive to the transfer and application of cutting-edge technology, as well as through smart partnership of the public and private sectors.⁵

Unfortunately, in recent years, Lesotho's economic performance has been negatively affected by sluggish global and regional economic growth. More than 60% of Basotho households receive remittances from South Africa — which place them at particular risk. Slow growth, sustained political instability and the rampant COVID-19 pandemic in the South African economy have contributed to slow economic performance in Lesotho. In the first quarter of 2020, before any positive COVID-19 case was recorded, economic growth contracted by 1.8%. It contracted by 15.7% in the second quarter of 2020 as the impact of the pandemic started to be felt in the country, and it is projected to average 0.6% between 2019–2023, largely due to the continued projected negative impact of the pandemic. Lesotho continues to remain one of the 20% most unequal countries in the world. While urban areas registered poverty reduction of 13% between 2002 and 2017, rural areas poverty rates levels decreased only marginally by 0.6%, leading to wider urban-rural inequality. Poverty is estimated as being of 58%.⁶ The COVID-19 pandemic led to a continued significant increase in poverty and to a setback in human capital accumulation. The World

⁵ <https://www.gov.ls/ministry-of-trade-and-industry/>

⁶ <https://www.worldbank.org/en/country/lesotho/overview#1> (29 April 2021)

Bank's macro-poverty outlook projections estimate that an additional 3.2% of the population has already been pushed into extreme poverty as a result of the pandemic.

There is a need for Lesotho to generate new investment, especially in peri-urban areas, along with the associated employment and revenues it creates, is clear. Financing future investments in manufacturing and agro-processing hinges on private capital and FDI inflows. Apart from the capital constraint, some of the other main factors inhibiting returns to labour, jobs and economic growth in Lesotho are an insufficient level of skills for today's global economy, an insufficiently competitive investment climate and as yet inadequate infrastructure within the country. These are key root causes for national economic inefficiencies.

The main opportunity for Lesotho's economic future lies in moving from a predominantly subsistence-oriented economy to a lower middle income, diversified, private sector economy, exporting both natural resources and manufacturing goods alike, bringing higher, more secure incomes to a significant portion of the population.

2.2 International and regional comparative policy context 2.2.1.

General investment climate

There are undoubtedly already a certain number of strengths in Lesotho's general investment climate, internationally and regional. The Kingdom, for instance, is in the top quintile of countries in the world, as ranked by the World Bank in 2020, as regards the ease of *Trading across borders*.⁷ Similarly, the LAA, has adopted a Geographical Information System (GIS) with boundary indications for all of the Kingdom's urban areas. All deeds are now registered by the LAA within four (4) days and leases within three (3). Furthermore, a title complaint

lodging and conflict resolution mechanism was instituted under Section 9 of the *Land Act (2010)*. As regards utilities, companies may, in rural areas, to cater to their own electricity, potable water and sewerage management, free from any LEC and WASCO generation or distribution monopolies respectively.

However, as correctly assessed in NSDP II, Lesotho remains a laggard across various other investment parameters. Notably for example, according to the World Bank, *Starting a Business* in Lesotho requires 7 days for name verification and a further 7 days for an Management Company "Operational Licence"⁸, *Dealing with Construction* permits 183 days⁹, *Getting Electricity* 5

⁷ World Bank, *Doing Business in Lesotho in 2020* (2020). Retrievable at:

<https://www.doingbusiness.org/content/dam/doingBusiness/country/l/lesotho/LSO.pdf>

⁸In Rwanda and Uganda, in contrast, starting a business can be done, respectively, in 4 and 6 days, in total. ⁹ Lesotho ranks behind South Africa (at 155 days), Namibia (160 days) and Botswana (102 days) in this regard. In Rwanda and in Niger, these figures respectively stand at 97 and 98 days.

steps and 114 days¹⁰, *Paying Taxes* 32 payments and 327 hours, and *Enforcing Contracts* 615 days¹¹.

Specific criteria also need to be met for foreign ownership of land; while Basotho can own or lease land, foreigners can only lease it. Basotho-majority companies with greater than 20% Basotho equity, and no foreign directors can also own land purchased on the secondary market. Any Developer company's foreign shareholders would need to appoint Basotho company directors to represent them, under agency contracts to meet these criteria. In theory, a company which is 80% owned by a foreign corporate entity is therefore able to acquire land but, so far, difficulties in interpretation of the law have resulted in refusal of requests for foreign ownership.

Approval of foreign work visas is also an onerous and time-consuming process, requiring proof by a company that it was both unable to hire a Basotho worker and is providing a skills training programme for a national.

Moreover, Lesotho has not, as yet, contemplated "no-duty, no drawback" arrangements for exporters, nor delegating any aspect of customs management to industrial estate operator Management Company, in order to ensure a more integrated and facilitative regulatory oversight package for industrial estate investors.

2.2.2. Tax incentives

Within the industrial estate development space, Management Company is in direct competition with a number of programmes in the region. Each has been assessed in terms of their incentives package in manufacturing and agro-processing, and most provide far better packages than Lesotho, posing a threat in the attraction of targeted investments.¹² Furthermore, the incentives regime which Management Company has adopted has not been reviewed to cater for the latest developments in various industries. Other competitors in the global market have reformed their packages and hence have become more competitive as investment and sourcing locations. Moreover, the majority of incentives currently on offer in Lesotho are not 'special' to geographic areas and lack the spatial focus common for SEZ regimes. In addition, Lesotho's current incentive regime does not have any fiscal incentives that are specific to the industrial estates.

In contrast, many other countries in the region offer significant enhanced tax allowances and accelerated depreciation which reduce effective tax rates. **Management Company has advocated for a review of its incentive regime in line with its intended strategic direction going forward¹³**, since most of the neighbouring country equivalent agencies have moved towards SEZs and/or free zones.

¹⁰ Obtaining an LEC inspection requires 11 days, obtaining their estimate 21 more, and installation a further 79. Lesotho ranks behind Angola (at 97 total days), Botswana (77 days), South Africa (109 days) and Namibia (37 days) on this front. In Rwanda, electricity connections take just 30 days.

¹¹ Lesotho has no statutory time limits for case management and lags regionally relative, for instance, to Namibia, with its 460-day timeframe for resolving commercial disputes. In Rwanda, dispute resolution is resolved within 230 days. ¹²

[https://www.lndc.org.ls/sites/default/files/docs/presentations/Management Company.STRATEGIC.PLAN_.2018-2023.pdf](https://www.lndc.org.ls/sites/default/files/docs/presentations/Management%20Company.STRATEGIC.PLAN_.2018-2023.pdf) ¹³

Ibid.

2.2.3. Industrial estates programme

The current Lesotho institutional framework for industrial zones is managed by Management Company, under the following framework:

- Across current industrial estates, Management Company takes the responsibilities as developer, operator and investment promotion office.
- The core incentive offering of the current programme is the provision of land, and subsidised land and factory shell rental rates.
- Management Company also provides investors funding under a Project Preparation Facility, which can help to fund feasibility studies and project-structuring activities.
- Lastly, a partial credit guarantee scheme is provided by Management Company.

As compared with international best practices, the Management Company industrial estates programme model however also presents a series of areas of weakness relative to an SEZ model, including the following:

- Management Company is interested in increasing private sector participation in the development of new industrial sites, but no competitive tendering process has been put in place for land developers nor, as yet, for the development of such sites.
- Management Company does not currently have the authority to expedite regulatory approvals, all of which are vested with other Government ministries and agencies.

3. Strategic Direction of the SEZ Policy

3.1 Definition of SEZs

An SEZ is a:

- spatially delimited area, with:
 - dedicated physical infrastructure and value-added services – such as factory shells, office space, integrated facilities management and operations, as well as utilities, etc.;
 - a dedicated legal regime, with investment, trade and operating rules that are more enabling and streamlined than in the rest of the host economy; and
 - a dedicated governance structure to ensure efficient management of its sites, infrastructure and facilities on the one hand, and regulation of the regime on the other.

3.2 Importance and significance of SEZs

According to World Bank data, SEZs' share of total national FDI is of 65% across the Asia Pacific, 44% in Central and Eastern Europe, and 27% in the Middle East and North Africa. SEZs are also an even more important destination of FDI in some countries. In the Philippines, for example, the share of FDI flows going to the country's eco-zones increased from 30% in 1997 to over 81% in 2000. In Mexico, the share of annual FDI accounted for by maquiladora operations increased from 6% in 1994 to 23% in 2000. And in China, SEZs account for over 80% of cumulative FDI. In Africa, they account for 88% of FDI in Mozambique, 76% in Tunisia, 73% in Egypt.

According to the ILO, SEZs directly employ some 68 million persons worldwide. In total, including indirect employment, they however account for an estimated 135 million further jobs worldwide, about 1% of total global employment. They can however account for a substantial share of national total employment in certain countries -e.g.: 30% of industrial employment in the Dominican Republic and in Honduras; 25% of employment in the UAE; 24% in Mauritius; 19% of industrial employment in Vietnam; 8% of employment in Tunisia; and 7% in Jordan.

Again, according to the World Bank, SEZs in emerging and developing countries exported approximately US\$ 850 billion of goods and services annually in the mid-2000s. This would correspond to approximately 7.5% percent of total global exports, and almost 20% of exports from emerging and developing economies. SEZs thus play a crucial role in boosting exports from emerging and developing countries. Exports can, for some countries, represent an even greater share of total national totals: 90% in the Philippines; 81% in the Dominican Republic; 77% in Mauritius; 51% in Costa Rica; 45% in Turkey; 37% in Sri Lanka; and 25% in Bangladesh. According to the World Free Zone Organisation, they are now an essential policy tool in almost every country's economic toolkit, used by 170 countries, and channelling 30% of world trade in 2019.

In Southern Africa, SEZ programmes are in place in South Africa, Botswana, Mozambique, Mauritius, Madagascar, Zambia and Angola. Namibia, Zimbabwe and Eswatini are actively in the process of establishing them at this very moment.

3.3 Need for the SEZ Policy in Lesotho

A better domestic infrastructure and investment climate offering in Lesotho, through SEZs, would contribute to increases in investment, skills, and economic efficiency and development. Indeed, Lesotho requires an alternative regime to the current industrial estates and other investment policies in place at this time, in order to achieve the objectives of NSDP II and the industrial policy that it is committed to. To this end, SEZs will:

- act as an important element in the overall government strategy to push the country into higher stages of development. Lesotho, which relies primarily on natural resources and low-cost labour for competitiveness, will leverage SEZs to address barriers to greater efficiency and to boost productivity, which comes from higher value added industries like manufacturing, raising economic performance.
- help Lesotho transition to outward, export-oriented development strategies. They do this by easing restraints on trade, suspending customs duties on imported goods used as inputs to manufacturing activities, and eliminating various non-tariff barriers.
- be leveraged to open up restrictions on foreign investment, helping Lesotho to transition from resource dependency to secondary-sector activities, including manufacturing and other higher-value-added industries, in order to support economic growth.
- serve to introduce a broad range of reforms and structural changes, addressing constraints in the business environment, including burdensome and unnecessary regulations, gaps in services, facilities and infrastructure, and access to needed production inputs, through business climate reforms in key economic growth nodes.
- help with technological catch-up by attracting more advanced industries to facilitate knowledge transfer and greater productivity and efficiency, as a component of the broader national strategy to diversify and industrialise the economy.

In all of these various respects, the SEZ Policy will address and mitigate significant challenges in Lesotho's economy, delivering both greater economic efficiency, as well as employment, poverty reduction and greater income equality.

3.4 SEZ Policy priorities

The following three pillars will provide the foundation for Lesotho's SEZ regime:

- **A long-term policy commitment to attracting high quality foreign investment** set out in an SEZ Act and supported through consistent and current government policies;
- **An internationally competitive incentive offering** that reduces the cost of capital in a Special Economic Zone (SEZ) and facilitates expedient and effective regulatory support

for foreign investors operating in an SEZ; and

- **A specified SEZ regulator that is housed outside of ministry silos** and empowered with the ability to expedite necessary regulatory processes to meet investor requirements, preferably through direct agreements with relevant ministries.

Investors, in order to run their businesses today, require:

- Competitive locational advantages, including reliable infrastructure, utilities, and multi modal transportation links;
- Flexibility in terms of resource allocation and related investment decisions, including for: labour, capital, equipment and production inputs.
- Global supply and logistics chain competitiveness, predicated upon:
 - Input and consumer market access, providing scalable economies, as well as access to all elements of their cluster of vendors and market intermediaries; and
 - Rapid physical transfer of merchandise; and
- Streamlined regulatory interface with Government.

SEZ regimes require: a clear institutional and regulatory framework, with a dedicated SEZ regulator, developer and a competitive incentive offering, including a mixture of physical infrastructure, tax relief and business facilitation services. Lesotho's SEZ will therefore also:

- offer proper planning and zoning, and efficient and effective physical development control and infrastructure services, for investment;
- ensure legal parity and clarity in terms of private infrastructure developer rights; • facilitate market entry, business start-up and FDI Management oversight; • develop an internationally competitive incentive offering that reduces the cost of capital investment, operations and cashflow, across the full spectrum of the fiscal space;
- strengthen its agricultural sector policy support and incentives offering; • enable speedy and efficient regulatory support for foreign investors' operations; • develop an approach to investment regulation that avoids ministry silos and is empowered to expedite necessary regulatory processes to meet investor requirements; and
- offer a mechanism for streamlined investor dispute resolution.

Any effective national SEZ policy must be designed to address the constraints in the business environment. To be competitive on this front, the following measures will be adopted, amongst others:

- Same-day name verification and business start-up;
- Institution of single-step, same-day title transfer registration in SEZs; • Reduction of the time to issue a construction permit to one working week; • Ensure electrical power connections for SEZ companies within three calendar weeks, under 3 simple steps (inspection, estimate and installation);
- Reduction of the time to secure an occupancy permit to one working week;

- Require that automated tools be put in place in all SEZs to monitor power outages; • Reduction of border export and import compliance time from 4-5 hours to one hour or less, for SEZ companies;
- Reduction of VAT Refund processing time for SEZ companies to 2 months; and • Reduction of time for enforcement of most contracts for SEZ enterprises to a period of less than 120 overall days, through a dedicated Administrative Appeals mechanism and Alternative Dispute Resolution mechanism.¹⁴

3.5 SEZ Policy Vision

Through SEZs, Lesotho shall be known for the good economic and industrial policy that will exploit the potential for locally available natural resources, and help to render the country prosperous in a socially responsible and sustainable manner. Productivity in the SEZs will be to world standards. The exported products of the country's SEZs will compete well in international markets. The SEZs will generate opportunities for employment, and be a magnet retaining jobs in Lesotho. Proper infrastructure, utilities and facilities will be established.

The SEZ Policy Mission will build on this Vision, through world-class SEZ investment facilities, amenities and services, delivered through public-private partnerships, leading to investor and stakeholder satisfaction with Lesotho's SEZs on par or greater than any other SEZ programme in Southern Africa.

3.6 SEZ Policy Principles

The SEZ Policy herein is:

- **Based on integrated objectives** – Lesotho's SEZ programme must not be hampered by Strategic Objectives that are too wide and varied. Political pressures – which can lead to complex, competing SEZ objectives, such as employment, regional development, and innovation - cannot be the basis for SEZ policy. In addition, investors will be drawn to clear goals consistent with their core business. It is therefore necessary to aim for a narrow set of objectives in order to avoid policy incoherence, which may diminish the chances of programme success.
- **Forward looking** – i.e., geared toward results based on current social, political, economic, and cultural trends; modernising existing policies and processes; innovative and creative in terms of ways of solving the identified problems; through the “value add” services that their operators can provide to their occupants, designed so that SEZs might contribute positively to innovation dynamics,¹⁵ and building in

¹⁴ Including filing and servicing within two working weeks, decisions rendered within three months of filing, and automatic enforcement of administrative and arbitral decisions and awards within two working weeks.

¹⁵ SEZs are not truly a policy tool aiming to produce innovation and can never be viewed as the primary instrument to achieve this goal. Some of the value-add SEZ “innovation oriented” characteristics that can nevertheless aid in this respect include:

avenues for Improvement, through M&E of the effectiveness of the policy on the basis of reviews.

- **Outward looking, inclusive and coordinated** – i.e., built on the experiences of other countries and regions, encompassing the strategic objectives of the Government as a whole, and including appropriate management and operational structures needed to deliver cross-cutting strategic objectives, as well the role various Government agencies will play.
- **Sustainable** – SEZs' sustainability and long-term viability are, first, a financial question. Therefore, the cardinal rules regarding SEZ feasibility are to ensure, through credible market engagement, that they are truly market responsive in terms of (initially latent) investor demand, location, size, infrastructure and services - all of which must be real and robustly confirmed on a case-by-case basis. SEZs must thus focus on: market demand fundamentals, rather than on SEZ operational questions; the relationship between industrial development and Investment Climate issues; and the encouragement of entrepreneurship, rather than bureaucratic interests.¹⁶
- **Focused on new activities and investment.** It is only new activities that will help to diversify, transform, and upgrade the economy, as well as justify the investment in SEZs and their opportunity costs as mega-projects.¹⁷ Furthermore, investors in activities that have not previously been undertaken primarily face costs SEZs can help with through their agglomeration effects: market discovery costs and coordination costs. New activities are thus particularly costly but also particularly beneficial – and SEZs, as platforms for clustering with demonstration effects, can be a conduit for targeted support of activities with high potential socio-economic return.
- **Focused on specific clusters and Value Chains** – The general trajectory of any proposed SEZ programme will be directed towards sectors representing strategic priorities for economic growth (such as value-added manufacturing) and comparative advantages (such as agro-processing), so as to avoid the waste of public resources, ensure that resources are available for SEZs likely to deliver the most positive impact,

Dedicated SEZ Business Support, Business Association Support, Incubation, Innovation, and Competitiveness programmes; SEZ user enterprise access to dedicated Seed Capital or Venture Capital funding, as well as R&D subsidies and finance; Presence of manpower training services, in coordination with recognized specialized technical training institutions in various fields; Presence of dedicated onsite R&D, patenting, and product commercialization services, in conjunction with recognized universities and/or legal services providers; and Presence of Quality and Company, Product, Process, Standards, and/or Trade Certification services; and Quality working conditions and greenspace conducive to creativity, access to high-speed Wi-Fi and operator "Internet of Things" technologies by SEZ occupants.

¹⁶ The SEZs' focus will be squarely on the market. In assessing whether or not to include a potential SEZ opportunity on the list of priority projects, the approach must ensure economically (and ecologically and sociologically) promising opportunities are correctly identified and pursued, through well-informed opportunity assessments, based on international good practice criteria. This shall notably involve conducting demand assessments, through greater interaction and dialogue with the private sector stakeholders of SEZ projects, in order to ensure more appropriate SEZ location, scope, scale, timing, financial and governance modelling.

¹⁷ In this regard, "new activities" can be defined in many different ways – in terms of products, markets, production processes, or even financing sources.

preserve the value proposition of each SEZ, and establish growth poles and supply serviced land in areas where it is most in demand.

3.7 SEZ Policy Strategic Objectives

Successful SEZs rely upon long-term, high-level political will. Most SEZs take 5-10 years to begin bearing fruit, and it sometimes takes multiple attempts before a success story is created. As a result, SEZ strategic objectives herein are set for a longer-term timeframe to properly measure whether they are being effectively achieved. These Strategic Objectives of the SEZ Policy will shape the SEZs' design, policies and implementation. They also provide guidance on which strategies are to be pursued and how to prioritise them, as well as determine whether the SEZs are successful. The Strategic Objectives of the Government under the proposed SEZ Policy are to:

- Sustainably increase Lesotho's GDP;
- Enable Lesotho to become a hub for foreign investment;
- Generate job opportunities, particularly for people in the SEZs' hosting local areas; • Encourage integrated development in industries that leverage Lesotho's comparative advantages and strategic opportunities, including those leveraging the country's natural resource endowments;
- Increase Lesotho's trade openness and integration with regional and global value chains through trade facilitation reforms and export -all of this in alignment with Lesotho's trade obligations;
- Create an attractive investment climate, by sparking and incubating reforms in key areas constraining growth, and liberalising the economy within SEZs to create new possibilities not available in the rest of the economy;¹⁸
- Increase labour productivity through the creation of attractive industrial jobs and good working conditions that motivate Basotho to work in these fields, so as to address Lesotho's need to develop skilled workers for higher-value-added industries; and • Fully respect social, health, safety and labour standards in SEZs.

3.8 Intermediate targets to be met in pursuit of the Strategic Objectives The SEZ programme contained in the present policy is also based clear and measurable targets that allow continuous Monitoring and Evaluation; indeed, to ensure SEZs are delivering net benefits, the SEZ policy's targets allow for easy verification of performance. Within the context of the aforementioned Strategic Objectives, Lesotho's SEZ programme therefore, endeavour to achieve the following targets, by 2027, with 2023 being used as a base:

- Develop a strong SEZ legal framework, as well as a stronger management and administrative regime;

¹⁸ By: introducing specialized policy reforms, high-capacity and efficient institutions, and streamlined regulatory procedures; encouraging private-sector development and operation of infrastructure, including in the development and supply of utilities, in order to ensure high-quality, cost-effective facilities and services; and channeling development and investments toward enabling locations, selected based on their potential to attract investment in critical economic growth sectors.

- Implement and monitor a functioning SEZ tax and customs administration system that ensures accountability and transparency;
- Increase the employment in industrial and service-sector industries in the SEZs by

- 100%, relative to current industrial estates;
- Increase the value of investment in industries in the SEZs by 100%, relative to current industrial estates;
- Increase economic value-added¹⁹ of the SEZs by 100%, relative to current industrial estates;
- Increase the value of exports through the SEZs by 100%, relative to current industrial estates;
- Reduce the total time of documentary requirements for importing and exporting by 50%; and
- Reduce the average time and cost to start a business in the SEZs by 50%.

3.8.1. Enabling legal framework

A key aspect of SEZs' "enabling ecosystem" is whether they are properly supported by the national legal and regulatory framework, or indeed whether this framework works against SEZs' chance for success. The development of SEZs must therefore be preceded by an enabling policy and legislative framework addressing at least some normative investment policy constraints through the SEZ programme. For Lesotho's SEZ policy too, it is thus crucial to establish robust legal and regulatory frameworks, grounded in strong, long-term and well coordinated Government commitment. A predictable, and transparent legal and regulatory framework is needed to ensure the clarity of roles and responsibilities of various SEZ stakeholders and regulatory bodies, as well as to provide protection and certainty to developers and investors. Such a framework will also help to ensure that SEZs attract the right investments, and are established in line with sound business, social and environmental standards. Last but not least, the legal and regulatory framework of the SEZ programme must provide a consistent and transparent mandate for the key SEZ institutions.

Following international best practices, the SEZ legal and regulatory framework will therefore consist of the following six types of legal instruments of different levels:

- ***An SEZ Act that, in certain stipulated areas, takes precedence over existing legislation***, through a "legal primacy" or "Act to supersede" clause;
- ***SEZ Regulations*** issued by the Management Company;
- ***SEZ Directives or "Administrative Orders,"*** issued by Management Company, as SEZ Regulator, to provide procedural details on SEZ Regulations;

¹⁹ The concept of Economic Value Added ("EVA") as used herein refers to the percentage of increased value of the final product sold to the end-consumer based on national inputs in terms of domestically produced raw materials, semi-finished products and parts, labour and services. The concept is related to those of domestic "beneficiation", local content and upward movement along the value chain, whereby greater revenues generated by the sale of the overall end-product to the final consumer is captured by Basotho stakeholders (companies and labour).

- ***SEZ Developer Agreements*** concluded with the SEZs' Developers; and
- ***SEZ Operating Procedures***, to be issued by Government in coordination with the SEZ developers.

These instruments are to be clearly separated to ensure that the framework is practical, flexible, and responsive to the needs of investors and the public good, but that it is also sufficiently permanent to ensure consistent, transparent, and predictable implementation.

In this respect, SEZ legislation and regulations' content will, in turn, be drafted in such a way as to provide for general and then more specific regulatory principles rather than procedure (i.e., anything that affects another institution or field of Law; broad statements), mechanics, timeframes, etc. Following best practices, the latter matters will be addressed with directives, administrative orders, operating procedures, agreements and SLAs. It is important for the regime to enable new sub-statutory legal instruments to be adopted or at least amended regularly, as economic, investment and programme circumstances change, or regulatory, investment and operational realities and issues, come to light.

The SEZ Act will provide for the Cabinet to issue *sub-statutory instruments* to set more detailed policies and procedures:

- A 1st set of regulations is necessary to administer the *internal support functions* of the agency. These regulations will include policies and procedures on personnel, finance, procurement, committee procedures, etc.; and
- A 2nd set of regulations will be required to deal with the *stakeholder-facing policies and procedures* of the regime relating to land use and environmental matters, building control, company registration and business licensing, taxation and customs, and labour regulation;

The SEZ regulations need to be comprehensive so as to avoid confusion and misinterpretation, and needs to be easy to understand. In addition to being comprehensive in terms of their investment ecosystem thematic coverage, in order to be truly “pro investment and pro-jobs,” SEZ regulations shall be drafted so as to be:

- **end-to-end**, in terms of their coverage of included SEZ subject matters;
- **pro market**, relevant today, and to do more economic good than harm;
- **transparent**, in order to reduce administrative discretion and increase business predictability for long-term investment planning;
- **efficient**, in that drafted so as to promote increased coordination;
- **decreasing of red tape**, including in terms of manual processing, number of steps, procedures, documentation, duplication, bureaucracy, and associated levels of business start-up and operational costs; and
- **pro-compliance**, in that they are be drafted for increased applicability and effectiveness.

International experience demonstrates that many of the key elements of a competitive and effective SEZ legal framework include:

- Broad investment policies;²⁰
- SEZ designation criteria;
- Rights and obligations of SEZ developers, operators, investors, labour and residents;²¹
- Developer and investor protections and investment guarantees;
- Clear, simple and effective land use, building and environmental rules and permitting, including all matters pertaining to planning, securing titles to land, and environmental regulation;
- Clearly defined qualifying activities, enterprise registration and licensing, including enabling corporate law and rules;
- Business-facilitative yet World Trade Organisation (WTO), World Customs Organisation (WCO, SADC, SACU and African Continental Free Trade Agreement (AfCFTA) compliant customs, income tax and other fiscal policy incentives and administrative procedures;
- Flexible and streamlined labour regulation;
- Penalties for non-compliance with the SEZ Act and regulations, ensuring its effectiveness; and
- World-class investment dispute resolution procedures.

3.8.1.1. Robust criteria for taking decisions to designate specific areas as SEZs, as well as for approving SEZ Developers

The SEZ regime will set out SEZ site designation criteria, keeping in mind that these criteria are designed to:

- provide public notification of the SEZ status; and
 - equip the Government with an enforcement mechanism to ensure that SEZ site landowners, Developers and Operators comply with SEZ programme rules.

SEZ designation will be strictly limited to sites where there is a strong, proven market demand. All SEZ designation proposals will undergo a rigorous evaluation process. Projects being considered for SEZ designation shall be rigorously screened for compliance with a minimum set of qualifying characteristics. Rigorous designation criteria and procedures are essential to limiting SEZ designations to only those locations well

²⁰ e.g., SEZ investor protection against eminent domain and/or nationalisation; Indemnity against changes in legislation that may negatively impact the integrity of the SEZ regime; the right of SEZ enterprises to long-term use of land and premises within an SEZ, protection from expropriation, freedom of capital transfers, repatriation of profits; etc.

²¹ e.g., The right of the public landowner or public SEZ sponsor to enter into a range of public-private partnerships with one or more private firms to finance, develop and operate an SEZ; the right of SEZ Enterprises to special investment incentives; the right of SEZ enterprises to conduct any form of activity within an SEZ subject to environmental, health and safety conditions; etc.

positioned for success, and which will in turn work toward the desired outcome of

boosting economic performance. Criteria for designation of specific SEZ sites will specifically include the following features:

- Rigorously transparent application, approval and public notification processes;
- Clearly determined SEZ area and limits;
- Harmony with national and local economic and environmental master-plans;
- Ideally industrial and, at a minimum, non-agricultural zoning, with certainty of land use (ideally without the requirement for any negotiation with municipalities);
- The presence of business activity and multiple enterprises engaged in formal, registered economic activity within a short distance of the proposed SEZ, in order to foster backward and forward linkages;
- Declared private-sector support for designating an SEZ in the area;
- Land availability, including: sufficient size of the proposed SEZ to support a diverse and competitive business environment; ease of identifying interests in the land in the proposed SEZ, and resolving any potential disputes and claims; and ability and space for expansion;
- Confirmation of the legal title of the SEZ Applicant to the land;
- Connectivity of the proposed SEZ site, including:
 - Appropriate infrastructure such as: roads, airports, railways and/or border posts; existing or reliably planned access to wastewater treatment and sewerage; and social infrastructure, including nurseries and schools, hospitals or clinics, hotels, retail businesses and places of worship;
 - High quality, reliable, and stable power and telecommunications;
 - Fresh surface water, aquifers or water-distribution networks; and
 - Adequate labour and/or consumption markets,²² upstream raw materials, and/or downstream processing or distribution points for SEZ outputs;
- Extension and revocation of designation processes;
- Appropriate environmental conditions;
- Appropriate topographical and construction conditions;
- Existing and/or reliably proposed systems for the treatment or management of used waters, solid waste and air emissions; and
- Appropriate human development conditions, including: suitability of proposed site in light of its cultural context and the perspectives and rights of local communities; security conditions; low health risks in the area; extent of population displacement and ability to relocate populations, as well agricultural, commercial or other industrial activities, in a cost-effective and socio-economically acceptable manner, if required.

Applicants will be required submit a conceptual master plan of development, incorporating good internal zoning forcing colocation of compatible industries, development phases, associated timeframes and project costing elements. Proposals must also be

²² This requires locations near towns of at least 100,000 in terms of population.

accompanied by a technical and economic pre-feasibility study that shows the criteria listed above are met. The pre-feasibility study shall also be required to include the

following information:

- At a minimum, co-ownership of a private Developer in the land;²³
- Proposed value proposition and competitive market positioning of the SEZ;
- Requirements and conditions for SEZ success;
- Quantitative evaluation of investor demand and potential investor market size over time, for at least the first 10 years of the SEZ's life, with sensitivity analysis, showing projected full occupancy within 25 years, with a project plots sales uptake after 5 years;²⁴
- Sufficient infrastructure and services to meet SEZ investors' and market demand;
- Private, integrated site management, well managed development processes, and internal SEZ rules;
- Evidence that the developer will meet minimum physical design standards for SEZ infrastructure and facilities as set out;
- Benefits of the development of the SEZ for the national economy, including quantitative economic rate of return or economic value addition modelling;
- Proposed participation of the local population in the area of the SEZ in its benefits, including through any planned linkage programmes;
- Financial rate of return of the SEZ project for the Developer; and
- the SEZ's Market Positioning, Branding, Investment Promotion and Marketing Plan.

As launching any national SEZ programme is an ambitious, complex and costly undertaking, for reasons relating to 'manageable interest,' portfolio management capacity, resource allocation and demonstration effects, the SEZ programme will initially focus on a limited number of 1-3 targeted, pilot and flagship SEZs. It is anticipated that this focused use of resources and these targeted pilot and flagship interventions will generate momentum, skills and replicable models for subsequent interventions.

Last but not least, SEZ Developers under the national SEZ programme will be rigorously evaluated to ensure they have the reputation, financial and technical wherewithal, as well as the proven track record, to successfully develop SEZs in a manner that fulfils the objectives of the programme. This shall include the following:

- Legal personality, including incorporation in Lesotho or a foreign country, and a business registration certificate issued by a public authority having verified the veracity of information submitted, and the financial probity of key company Shareholders, Directors and Management;

²³ This may be structured through Freehold, a Joint Venture SPV, a BOOT arrangement, a concession or a long-term usufructuary lease.

²⁴ Demonstrated market demand must dictate SEZ size. Having said that, SEZs must be of no less than 25 acres in size. The submitted analysis on current and expected pent-up demand for serviced industrial, logistics, and services land, and the expected growth of the producing sectors of the economy, must model future land demand. The minimum number of projected investors in the SEZ must also be high enough to facilitate intra-SEZ trade.

- A statement of technical capacity and list of senior management staff with previous experience with SEZs or other large-scale real estate projects and infrastructure,

including all relevant details, photographs, and website links;

If the company is a newly established subsidiary of an experienced international development company, the reputation of the parent company must be relied upon.

SEZ Developers will be required perform the following activities in accordance with their licenses and agreements with the Government, as well as international good practice standards:

- Develop robust feasibility studies and socio-environmental impact studies and mitigation plans;
- Execute approved master plans;
- Develop infrastructure and facilities within the SEZ according to the development plans and according to approved timelines;
- Develop and implement socio-environmental management systems, including for the treatment of used water, waste disposal, and air emissions, to ISO14001 Environmental Management Systems, Occupational Health and Safety Standards (OHSAS) 18001 Occupational Health and Safety, and SA8000 Social Accountability (humane workplace and worker human rights) standards, as well as to the standards of the United Nations Convention on the Rights of Persons with Disabilities;
- Mitigate or avoid any adverse impacts upon the environment, surrounding communities, economy, Basotho culture, public order, safety, public health, natural resources, livestock, or crops;
- Carry out management activities of the SEZ facilities, to ISO9001 standards;
- Design appropriate accommodations for workers or other residents of the SEZ if applicable;
 - Manage a transparent financial accounting system, to International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) standards;
 - Develop and implement a monitoring and evaluation mechanism under which progress toward the goals of the SEZ program and other indicators may be tracked, and to share data obtained with the Lesotho government for statistical purposes;
 - Pay all Customs duties, taxes, fees and other charges owed on time;
 - Monitor and track the entry and exit of all goods and people to and from any customs controlled area;
- Facilitate lawful activities of any trade union of SEZ workers or enterprises;
- Facilitate and/or ensure the enforcement of all applicable laws in the SEZs;
- Invest the resources planned for under the SEZ development agreement and to carry out all related activities;
- Avoid speculative behaviour;
- Bear ultimate legal responsibility at all times for all of its obligations under the SEZ developer agreement, the law, or other legally binding instruments, even where such responsibilities are delegated to other parties;
- Provide utility and other services to the SEZs as agreed;
- Protect the health, safety and wellbeing of all persons on the SEZs, including workers; and
- Develop and adhere to standard operating procedures to guide their actions; the standard operating procedures will include detailed provisions concerning: ▪ Human

resources;

- Service delivery;
- Customer service and customer relationship management procedures; ▪
- Corporate social responsibility;
- Safety;
- Gate passes and procedures;
- Leases to investors and their termination provisions;
- Investor clearances; and
- Environmental impact studies.

In addition, Developers will, once again in accordance with their licenses and agreements with the Government, as applicable, as well as international good practice standards, pursue the following goals to the greatest extent possible:

- Development of programmes to attract and retain workers by improving living and working conditions;
- Professional development and worker training programs to improve the capacity and career development potential of workers within SEZs;
- Programmes to encourage technology and knowledge transfer to Basotho workers;
- Formation of supplier linkages with local businesses;
- Formation of links to universities and other training institutions to help train students in skills in demand in the SEZs and to foster connections with employers
- Development of pre-built standard factory buildings;
- Provision of power supply and distribution, potable and industrial water distribution, waste and effluent collection and treatment, high-speed telecommunications, voice and data transmission services, and trash pickup and recycling;
- Provision or facilitation of logistics facilities and services, such as storage, packaging and labelling facilities, common bonded warehouses, on-site customs clearance, container freight stations, supply-chain management, inventory management, third party logistics and transportation, and freight forwarding services;
 - Provision or facilitation of business facilities, such as incubator facilities for start-ups and SMEs, shared office space, temporary office services, conference centres, meeting rooms, exhibition centres, product display areas, communication centres, and production support facilities, such as repair and maintenance centres, training centres shared production facilities, common technical services for product testing, certification laboratories and tool rooms;
- Provision or facilitation of recreational and social facilities and services, such as fitness centres, recreational areas, childcare services, cafeterias, medical clinics, worker transportation, security, worker and management housing with associated maintenance and housekeeping services, shops, and supermarkets;
- Provision or facilitation of business support services, such as: reception services; ICT technical support; Engineering supervision and construction management; Financial services, including Banking and Insurance; Post and courier services; and Cleaning services; and
- Provision or facilitation of advisory and professional services, such as: feasibility study and market research support; business planning assistance; recruitment assistance;

information on production, marketing, recruitment, and training; Secretarial services; Accounting; Financial Management; Payroll; Tax planning; Marketing; Translation; and Legal services.

All of the above specified SEZ services shall henceforth, without fail, be considered, and negotiated by SEZ Regulator in the context of the issuance of licenses, and the conclusion of applicable SEZ Developer and Operator Agreements, and monitored as well.

As SEZ Policy results and protection of the public purpose alike are dependent upon such good corporate behaviour, SEZ Developers who fail to comply with the above standards will have their Developer licenses and SEZ development agreements revoked and cancelled.²⁵

3.8.1.2. Robust yet enabling criteria for approving SEZ tenants

One of the biggest hurdles facing entrepreneurs is to obtain the necessary Government approvals to build premises and commence operating. Complex rules, uncertainty and bureaucracy have developed so that licensing often serves to restrict competition and bureaucracy. **SEZ business and enterprise licensing** are also important to trigger access to SEZ policy benefits, ensure compliance with SEZ rules and standards, and for generation of revenue for the SEZ Regulator (Management Company).

The SEZ regime's provisions on business registration and licensing shall be designed to:

- cover the licensing of Developers, Operators and Enterprises (including any present in SEZs who do not qualify for incentives);
- facilitate declarative incorporation;
- clarify which companies are permitted and to do what;
- ensure the responsibility of the SEZ regulator and its One-Stop Shop (OSS) for registration and licensing;
- give rise to clear rights, as well as to clear obligations, sanctionable on a progressive basis;
- be neither overly burdensome nor bureaucratic in character, with minimal requirements;
- recognise eligibility of all non-prohibited activities; and
- eliminate foreign investment restrictions.

In line with global good practice, the licensing of tenants within an SEZ shall furthermore be determined on the basis of the following principles:

²⁵ In such instances, the Developer will be provided a warning and a reasonable period of time, normally of no longer than 90 days, to rectify any shortcomings. If good faith efforts have been made during the specified period, the period may be extended as appropriate.

- The SEZ regime will have its own licensing rules, simplifying existing processes as much as possible, ensuring OSS branches are present in or near all SEZs, and applying United Nations Commission on International Trade Law (UNCITRAL)

- compliant electronic signature rules;
- The legal framework will allow the broadest possible range of activities, subject to the type of SEZ being developed and the type of investors being targeted by the programme and specific SEZ;
- The SEZ Act will establish a negative list of prohibited activities and another list of restricted activities that require special approvals;
- All *a priori* restrictions imposed on SEZ activities will be based exclusively on conditions connected with sustainability or the public good;
- Most activities will be licensed by the Management Company, as SEZ Regulator, itself;
- Certain activities, such as pharmaceutical manufacturing, use of hazardous material, food processing, and certain types of transportation services, posing potential public health and safety risks, will need to demonstrate safety in activity;
- National public agencies will only be allowed to be present in SEZs when special expertise is required;
- Management Company, as an SEZ regulator, may approve and monitor special risks itself or by contracting specialists, or rely on national agencies to fulfil these roles;
- Enterprise licensing will be timebound, undertaken with a focus on risk mitigation, and respectful of potential tenant enterprises, with most licenses not requiring any special approvals be and issued in under three days; and
- Management Company, as an SEZ regulator, will not review the financial feasibility of applicant enterprises.

The license is the SEZ regime's most powerful tool to control the activities of SEZ enterprises. Non-compliance by an enterprise with SEZ rules will allow Management Company to cancel the enterprise's license. Licensing will moreover ensure that:

- An enterprise's proposed activity is suitable for the SEZ in which it is investing;
- Any attendant environmental, health and safety concerns are addressed;
- The enterprise is properly registered with the income tax, customs and labour authorities; and
- As long as it is approved and in compliance with SEZ and national law, the enterprise will enjoy the unimpeded right to operate within the SEZ, employ workers, and import and export.

Having said that, the SEZ programme provides a unique opportunity to eliminate unnecessary approvals and procedures to start and operate a business. National public agencies will therefore only become involved when special expertise is required to examine applications. Where the SEZ regime does not provide Management Company, as SEZ Regulator, with fully distinct licensing rules, the regime will at a minimum simplify existing processes as much as possible for SEZ Enterprises. Furthermore, all licensed SEZ Enterprises will have their licenses automatically renewed unless found by Management Company to be noncompliant with SEZ rules.

3.8.1.3. Investment guarantees and protections

The SEZ Law and regulations will set out the basic **rights and obligations of Developers and Operators**, to be further detailed in Developer Agreements, including:

Developer rights to:

- enter into a range of public-private partnerships with one or more private firms to finance, develop and operate an SEZ;
- build and lease land and buildings without government interference on prices;
- install on-site infrastructure following the requirements of local authorities; and
- provide ancillary services for SEZ users for a fee, e.g., worker recruitment, worker residences, worker cafeterias, medical centres, social centres, construction supervision, childcare centres, security, maintenance, etc.

Developer obligations to:

- provide public agencies with necessary facilities within the SEZ at the developer's cost;
- report regularly to Management Company on SEZ performance, including by providing details of each lease between the developer and SEZ enterprises;
- Exercise any compliance powers delegated by Management Company; and
- To ensure appropriate management of the SEZ physical environment.

In terms of the basic **rights of SEZ Enterprises**, the Act will, at a minimum, enshrine the following ones:

- the right to operate within the SEZ, employ workers there, and to import and export;
- the right to special investment incentives;
- the right to conduct any form of activity within an SEZ subject to environmental, health and safety conditions.

Furthermore, all SEZ Developers, Operators and Investor Enterprises will be granted the following **investment freedoms**:

- ***The right to be master in one's development and investment***, including the freedoms to:
 - Invest according to the business type, form and model of their choice;
 - Obtain approval for any legitimate change in their investment activities, including changes in their business type, form, and model, as well as in their investment activities, in accordance with applicable law;
 - Own their assets and to have rights in their assets protected to international standards;
 - Receive all incentives, facilities, and services provided for under Law in order to encourage investment and reinvestment;
 - Transfer to locals or foreigners leased premises or business activities upon the approval of the SEZ Regulator; and
 - Challenge any Government action that has adversely affected them in accordance with dispute settlement provisions in the SEZ Act, including but not limited to recourse to international arbitration.
- ***The right to manage one's investment activities***, including the freedom to:
 - Source and use inputs, materials, vehicles, machines, and technology from both international and domestic sources;

- Control the profits of their investments; and
 - Access domestic and foreign markets without restriction.
- ***The right to hire expatriate advisors, experts, and labour in accordance with liberalised rules***, including the freedom to:
 - Sign contracts with advisors, experts, and labour to work in their projects, according to their business and market needs;
 - Request that Management Company, as SEZ Regulator, allow foreign workers in excess of the ordinary limits set in the Labour Act, within stipulated levels for SEZs; and
 - Obtain residency for expatriate management personnel, their spouses and children.
 - ***The right to open and freely manage accounts in foreign currencies in commercial banks and other accredited financial institutions***, whether located inside or outside Lesotho, as well as to freely participate in international financial markets without any legal impediments or restrictions except as provided under Anti Money Laundering (AML) legislation and laws on combatting the financing of terrorism, and finally to transfer investment capital, assets, profits, salaries, royalties, dividends, interest payments and revenues out of the country.

3.8.1.4. Competitive fiscal incentives package

Fiscal incentives play a major role in enhancing the attractiveness of SEZ programmes worldwide. The recommended fiscal policy is to apply a competitive effective rate of income tax to a broad income tax base.

Based on international best practices, other SEZ tax administration principles the SEZ Act shall include are the following:

- a maximum of 4 low, flat taxes (i.e., Income Tax, VAT, Customs Duty and Excise), with the amalgamation of indirect taxes (e.g., Stamp Duty, etc.) into a single SEZ Surcharge, collected by Management Company as part of the SEZ Annual Maintenance & Operations Charge and thereafter apportioned to various concerned ministries, departments and agencies in accordance with agreed interdepartmental SLAs;
 - applicability of IASC and IFRS norms;
 - automatic, declarative incentives;
 - unified tax and social security filings, inspection and collection; •
- rates competitive within the region and nationally; and
- efficient administration of Income Tax and Value Added Tax will in SEZs, through streamlined submission and approval of documents, clear rules for calculating assessable income, efficient refund processes and limited post-assessment audits.

In its SEZ regime, Lesotho will follow the lead of the many countries in the region

offering significant enhanced tax allowances and accelerated depreciation which reduce effective tax rates, and notably the following policies:

- VAT and customs duty deferment;
- Exemption from customs duty and VAT for exports outside SACU;
- Relief on Customs duty on raw material imports, machinery and capital goods;
- 0% Corporate Income Tax rate, across all sectors;
- Accelerated depreciation of up to 100% on capital investments and machinery from the first year;
- Employment tax relief; and
- 200% tax allowance on staff training costs and R&D investments.

In line with international benchmarking highlighting that other successful SEZs have typically provided R&D grants and employment training subsidies, these too shall form part of the fiscal and financial incentives package.

3.8.1.5. Other SEZ regulatory offerings

Rigid legal requirements for hiring and dismissing workers, overly rigid limits on working hours and employment of foreign workers, raise costs to employers and have the adverse effect of discouraging them to hire more staff. While strengthening basic worker rights, SEZ regulations will therefore also seek to remove unnecessary labour market constraints to SEZ Enterprises. This will provide a powerful demonstration effect of the SEZ regimes – with simplified labour regulations increasing employment without compromising fundamental workers' rights. Flexible SEZ **labour regulation** will, wherever possible, include:

- Flexible employment and compensation measures (e.g., part-time, temporary, casual, on-call, fixed price, training, seasonal, and outsourced labour contracts);
- Freely negotiated productivity packages;
- Flexible and fair dismissal measures, without “prior administrative authorisation” or cumbersome tripartite procedures;
- Broadened and eased scope of fair dismissal, consistent with performance and market realities;
- a credible system for resolving employment disputes, enhancing the capacity of employers to sanction or dismiss unproductive workers while simultaneously expediting compensation for aggrieved workers;
- a Transparent foreign worker regime;
- Unified multiple-entry Visa / Work Permit / Long-term Residency / ID / Social Security Cards, for expatriate personnel of SEZs; and
 - Visa-free temporary entry, for expatriate personnel and customers of SEZs.

To provide SEZ Developers, Operators and Enterprises with a more efficient and

equitable mechanism for commercial and administrative legal **dispute resolution**, an internal dispute settlement procedure enabling SEZ Developers, Operators and Enterprises to bring disputes to Management Company. Management Company will have the discretion to convene a special panel of public and private sector representatives, including other enterprises, to hear evidence and adjudicate the disputes brought before it. Such decisions will be non binding, with either party free to refer the dispute to local or international arbitration. The Government will also submit in advance to binding international arbitration, as an ultimate measure, should a dispute remain unsettled through the administrative procedure outlined above.

3.8.1.6. Flexibility in types of SEZs, ownership structures and financing models

Around the world, private-sector driven SEZ programmes, with the Government acting in a limited regulatory oversight role, typically perform better than State-driven programmes. The last 50 years SEZ performance worldwide have amply demonstrated this point. It is therefore important to define the range in roles optimally played by the Government vis à-vis the private sector in terms of the development and operation of SEZs. The case for private SEZs is as follows:

- Private SEZs correspond to the reality of the global economy; by being concerned with the bottom line, cost-recovery and profits, they apply strict financial rules, maximising efficiency, innovation and flexibility, and maximise competitiveness;
- They are divorced from short-term electoral or other political goals and are, appropriately for the mega-infrastructure project nature of SEZs, focused on the long term;
- They are generally less expensive to develop and operate than public SEZs; • Private SEZs tend to provide better infrastructure, facilities and amenities; • Privately operated SEZs tend to attract “higher end” types of activities, and thereby command higher prices from tenants –ensuring greater financial viability and sustainable contributions to the economy;
- Available evidence suggests that they have better social and environmental track records than public SEZs; and
 - Investors generally prefer to deal with private companies than with the government in commercial real estate and facilities management matters.

On the whole, such SEZs are generally more responsive to tenant needs, offering a wider range of property management services and amenities, leading to increased demand from investors. SEZs operated by private companies have therefore tended to receive a better market response than public SEZs in numerous countries, including for instance in Thailand, the Philippines, Lithuania, Honduras, El Salvador, the Dominican Republic and Kenya, to name but a few countries.³¹

Some other reasons why private-sector SEZs are more likely to succeed include private Developers’ and Operators’:

- Greater experience providing high quality facilities and amenities in other real estate developments;
- Access to more sophisticated technology;
- Enhanced rent and service charge collection techniques; and
- Higher quality management equipment and methods.

The following SEZ roles are thus arguably best played by the private sector:

- Conducting of detailed feasibility analyses and developing detailed land use master plan proposal;
- Developing and operating of on-site infrastructure and utilities;
- Securing financing;
- Developing and implementing perimeter security measures and systems;
- Marketing the SEZ and leasing of SEZ plots to tenants;
- Maintenance of onsite infrastructure, utilities, shared services and common areas; and
- Performance of discreet “regulatory” functions when there is no conflict of interest (i.e., processing business licensing data, environmental management, customs and logistics facilitation services, one-stop shop management), under Delegation of Public Service contracts.

However, a major caveat is in order. While privately operated SEZs are currently the norm, internationally, innovative public-private partnership (PPP) mechanisms have blurred the line between the strictly public and the strictly private, and are on the ascendant. Indeed, PPPs seek to capitalise on the mutual strengths of each sector, through cooperation and division of labour, under which:

- The Government is responsible for SEZ policy formulation, legislation, regulation and enforcement, the provision of key public goods that the private sector cannot provide such as large land plots and up-to-the-gate infrastructure, and permit facilitation; and
- The private sector takes on the design, the bulk of the financing responsibilities, development and operation of SEZ projects and assets, including master planning, investment into core real estate infrastructure and services, promotion and so on.

Finally, provided they are “corporatized”, some highly successful SEZs, such as China’s thriving SEZs, Mauritius’ Freeport, most Emirati Free Zones including Djebel Ali, and a number of US Foreign Trade Zones, have been publicly run, and been more successful than other public SEZs.

³¹ In the Philippines, private SEZs have contributed to over 70% of the country’s exports. In El Salvador and Honduras, private SEZs are responsible for over 90% of exports and employment. Thailand’s private SEZs attract more foreign direct investment than its public SEZs and are responsible for the majority of exports.

The SEZ Act will therefore explicitly recognise the possibility for the following arrangements as regards SEZs and their various infrastructure assets:

- Publicly developed and operated SEZs, under the aegis of the Management Company; • Fully private SEZs;
- Management contracts, for publicly owned and developed industrial estates, where management is contracted out to a private company on a profit-sharing or fee basis;
 - Concessions, Asset-backed Leases, Lease-Develop-Operate (LDO) agreements, Design, Build, Finance and Operate (DBFO) agreements, Build Operate-Transfer (BOT) agreements and Build-Own-Operate-Transfer (BOOT) agreements, conferring the responsibility of general or specific SEZ capital investments and operations to the operator for a determined period; and
- Joint Venture (JV) and BOO contracts, under which the entire process of financing, construction, promotion and management is conferred to the developer, with the Government retaining a share of the SEZ in compensation for its own asset contributions.

Not limiting PPPs to overall SEZ site and facilities development and management, as regards energy for instance, the SEZ legal framework will ensure that: SEZ Developers have the option (but not obligation) to establish their own distribution networks and mini grids, allowing for energy storage, distributed generation and, if desired, the conclusion of Purchase-Power-Agreements (PPAs); and an Service Level Agreement (SLA) for guaranteed electricity supply be signed with LEC, which explicitly identifies SEZ operations as priority in terms of exemptions from load-shedding and other potential interruptions in electricity supply, where the SEZ does not elect to establish its own distribution network.

SEZ projects developed based on PPPs require significant public funding, typically including discounted land prices or free land, as well as connective external infrastructure. Within this context, the following focus must guide future SEZ development and operation:

- The private sector will be expected to lead the process of developing, operating and promoting all new SEZs;
- The private sector will be involved at every step of the SEZ identification and structuring process, with a focus on a PPP-based SEZ approach, involving the private sector in all of the highest-level decisions around changes to SEZ policy and norms, as well as at the project-specific operational level;
 - The Government will merely assist the private sector lead in this regard, including through Management Company participation in new PPP-based SEZ projects; and
- The Government will only involve itself in promoting specific new PPP-based SEZs where clear market gaps exists, and when there is a public purpose to be served which, the market cannot meet on its own under prevailing terms.

Focusing on privately developed and operated, as well as PPP-based, SEZs will reduce public financial outlays for the Government moving forward. The Government will, however, remain responsible for off-site infrastructure and facilities to connect the SEZs to the surrounding economy. Private SEZ operators will also be required to pay the overtime pay of customs officers and other officials to remain on-site 24 hours per day,

where required.

3.8.1.7. Standards as regards the development of SEZ land and infrastructure

Regardless of who owns and develops them, the SEZ legal framework's provisions on SEZ land use and development must be calibrated to:

- ensure “smooth sailing” for real estate development;
- be streamlined yet socio-environmentally responsible; and
- ensure full and proper coverage of the regulation of land use planning, development and socio-environmental issues.

To this end, the SEZ Act will establish broad land use and environmental regulation parameters for the SEZ site and empower Management Company and Developers to agree on the details of land use through master plans and developer agreements. These broad principles will include:

- Basic design guidelines and building standards within SEZs;
- Clear property rights and guarantees;
- Localised, integrated, flexible and streamlined planning and controls;
- Clear environmental guidelines;
- Fast-track environmental permitting for small projects;
- Permitting Desk Officers; and
- Management Company power to monitor compliance with construction norms and process requirements.

3.8.1.8. Sector-focused SEZs, with sectoral policies and incentives

Lesotho's SEZs will be tailored to the specific sectoral investment priorities of the country, so as to achieve its most critical economic objectives, and overcome its specific market failures and economic constraints. Supporting “strategic bets” is part and parcel of an SEZs strategy.

SEZs are a flexible and accommodating instrument, and an asset to enhancing the competitiveness of a wide variety of industry sectors. All high-potential sectors will be accommodated within them, through properly managed internal zoning. Such zoning is straightforward where the concerned activities are predominantly in light industry. Furthermore, even bulk, unprocessed agricultural and mineral commodities will benefit from the “logistics hub” dimension of SEZs, when designed to serve these industries as well, and located near the appropriate critical transport infrastructure assets.

Having said that, agglomeration in clusters is an engine of economic productivity, transformation, growth, and value chain development through the concentration of activity, resources and knowledge. Spatial concentration provides opportunities for economies of scale and ‘crowding in’ of successful innovations, through enhanced cluster and value-chain connectivity, cooperation, sharing and matching. Agglomeration acts as a driver of economic transformation to more productive activities, resulting in both increased business assets and in dynamic private sector job creation. This

proximity presents the Government with opportunities to support targeted SEZ interventions, to focus programmatic attention and resources, and to deliver impact on a meaningful scale. Support to light manufacturing,³² in particular, provides pathways to higher productivity and diversification into higher value products, stimulating further investment and productivity gains, creating high value jobs and social inclusion, and contributing towards economic transformation. The quality of infrastructure is also a factor of competitiveness. Armed with the correct sector-specific and other policy characteristics, SEZs will help to produce productive diversification and FDI attraction alike.

The sectors to be targeted most specifically by SEZs are those of agro-processing and of light manufacturing, which are both aligned to Lesotho's comparative advantages, development opportunities, and thus the feasibility of attracting significant investment. SEZ sector targeting will help the country to promote investment in industries identified as necessary to achieve broader national growth strategies. 'Off-the-shelf' or 'vanilla flavoured' SEZ legislation and regulations will be inadequate to position SEZs for success in these sectors. **To achieve specific outcomes, and to help Lesotho to overcome specific constraints, the SEZ Act must be tailored to the specific needs and sectoral focuses of the SEZs it will regulate.**

Sector-specific SEZ designations also have the advantage of focusing infrastructure, industries and services to optimal fit. This allows economies of agglomeration to form in which larger numbers of common suppliers can gather, with greater resulting specialisation and division of labour. Additionally, this approach serves another key desired outcome, namely added-value specialised SEZs' services, infrastructure and facilities (e.g., laboratories, research and development centres, high-tech infrastructure, joint or common facilities specific to the sector, etc.), when the targeted industries and investors benefiting from them are co-located.³³

Some of the international best practices in addressing agricultural policy gaps through agri focused SEZs that will be deployed in the Lesotho SEZ Policy context include:

- Introduction of legislative protections for plant variety protection;
- Harmonised domestic and regional (i.e., SADC) Sanitary and Phytosanitary (SPS) standards and associated measures;
- Equal policy treatment of agro-processors with non-processing activities (i.e., agricultural warehousing, transport and distribution, agri-machinery Maintenance, Repair and Operations (MRO), packing, transport, fertiliser and animal feed, agri-finance and insurance, commodities exchange, input supplier, agri-dealer, weeding/cutting/planting, tropical medicine research, and warehouse receipts centres);

³² Sector analysis also demonstrates strong linkages and value chain development from light manufacturing sub-sectors to sectors such as construction, retail and agribusiness.

³³ The following approaches and measures will, wherever possible, be leveraged in order to attempt more effectively to stimulate clusters and value-chains through SEZs: Locating SEZs where clusters and incipient clusters (or favourable exogenous economic phenomena, infrastructure, and institutions linked to them) already exist, in order to accentuate these trends; Targeting anchor investors with national tier-1 and tier-2 suppliers, and/or instituting vendor-linkage and buyer-matchmaking programmes; Putting in place efficient SEZ management units in order to stimulate interaction

- Agricultural Research and Development amenities and funding, including laboratories and product commercialisation services in conjunction with recognised universities; and
- Onsite SPS advisors.

However, the SEZ Policy's sectoral focus will not be overly rigid. Outright restrictions on the types of activities promoted in SEZs will be avoided and a flexible stance toward the types of activities prioritised taken. Indeed, sector-focused SEZs impose rigidities on the market, prohibiting the development of optimal industries out of sometimes overly narrow or misguided development plans. Companies from non-targeted sectors will therefore be allowed to invest if they want to, and services and incentives generally designed to be beneficial to many different industries, even if they are especially well suited for a particular sub-set of them.

between companies, including as regards shared facilities and value-add services, collective social interactions, resource-efficient and clean production programmes, waste exchange centres, and other collective cost-saving measures increasing firm productivity and competitiveness; Subsidising R&D and/or locating SEZs near sector-specific R&D centres, including specialised institutes and universities; and Promoting B2B events, platforms for collaboration, SEZ user associations, innovation conferences and competitions, and fairs. Such complementary measures will be leveraged to multiply the effects of SEZs as "clusterisation" and value-chain creation tools, with associated demonstration effects for the economy.

4. Implementation Plan

An SEZ Policy “Strategic implementation and risk management plan” is required in order to organise and control the workflow of the SEZ Policy, as well as manage its inherent risks. The following are the key elements of the plan set forth in these respects:

- An **Action Plan** - including, for each objective of the SEZ Policy: the associated strategies and key activities supporting implementation of the objective; their timelines; an indicative annual implementation budget; the stakeholders responsible for its implementation; and associated estimated costs; and
- A **Risk Mitigation Plan** – identifying and assessing SEZ Policy implementation risks and outlining the actions to be taken to mitigate them.

4.1 Action Plan for the development and implementation of the SEZ Policy

As already generally outlined, the SEZ Policy’s Action Plan presented herein, more specifically, includes:

- **Key Activities** -Actions to be taken to support the realization of Lesotho’s SEZ Policy objectives;
- **Timelines** -The period within which an action or activity is to be completed;
- **Responsible Parties** -The lead as well as supporting entities tasked with the completion of actions necessary for realization of the various SEZ Policy objectives; and
- **Costs** -The monetary valuation of effort, material, resources, time and utilities to be consumed in the completion of the outlined SEZ strategies and their key activities.

Lesotho’s current legislative framework for industrial estates is sub-optimal in terms of the nature and types of SEZs, their legal characteristics, designation and investment approval criteria, as well as in terms of broader national planning, zoning and physical development control, trade facilitation, fiscal and labor regulation and skills development policies.

A new SEZ Bill to address these issues, which will be shepherded through a multi-stage legislative, political and Parliamentary processes, will likely take at max 3 months to be fully approved. This timeframe is divisible into various milestones relating to the sub-steps to be taken along the way.

After the SEZ Bill is finalized and enters into the legislative circuit, work will immediately begin on preparing the draft SEZ Act implementing regulations and procedures (i.e., comprehensive, world-class SEZ Standard Operating Procedures), for sequenced adoption. These will be technically prepared and vetted, with targeted Cabinet adoption.

4.1.1.2. Developing a national “SEZ Masterplan” identifying strategic opportunities for pilot SEZs, based on best practice principles for site selection

Once a formal legal and institutional framework for the SEZ programme are in place, the first questions to answer, before designating any particular site as an initial SEZ pilot for programme implementation, will be the following ones:

- What are the **market signals** regarding specific sites and their positioning?
 - Is there an anticipated market for an SEZ in a given *prima facie* promising host region and, if so, why, for whom, where exactly and within what market time horizon?
 - Does the SEZ’s host region’s **connective transport infrastructure** truly and effectively support investors’ needs?
- Where exactly, on the map, are the host area’s key clusters’ main producers located, in terms of concentration of presence, and why does this trade occur here?
- To where and whom do the producers in the region sell, and by which modes of transport?
- Where does the host area’s agglomeration for storage and warehousing (whether outbound or inbound) and distribution take place?
- What are the key inputs and supplies in likely investment sectors, including machinery, raw materials, medium-tension power transmission lines, potable water and sewerage grids, telephone lines, public transportation, and business services, where are they located and how are they procured?
- What are the market signals regarding alternative real estate and corporate location options in the host area, what is their relative competitive positioning, and does the market truly want or need to be in the designated site?
- Where does the regional market’s labour come from?
- What are the most important and well-served national and international transport links in the host area, where do they serve, and how much cargo volume and value do they currently truly support?
- How is the access to and cost of land in the host area?
- Where does the market want to conduct its business in the host region?
- **How far is the proposed SEZ site from the nearest Central Business District, main consumer market, airport(s) and motorway(s)?**
- How do these factors compare with those of existing industrial estates. and what is their own occupancy like, and why?
- What are the current market offerings’ main challenges and disadvantages as corporate investment locations, and what is preventing them for being more utilised and more successful?
- Did a Chamber of Commerce or Trade Association request the development of an SEZ at this specific site?
- Is the site being developed by or with the private sector?
- Is there any commercial financing or private capital behind the proposed development?
- How enabling is the situation with respect to site access and egress?

Such guiding principles for site selection for pilot SEZs will form the backbone of SEZ masterplan articulation, with all of the attendant activities and steps masterplan preparation implies. The SEZ Policy's implementation's success however also depends on specific feasibility studies, as well as on the annual activity programmes of a variety of executing parties in Lesotho: **Full and final SEZ feasibility studies, involving economic, financial, transport and logistics, environmental and social, and investment marketing experts, will therefore need to be undertaken.**

Moving forward, the next activities for Government in implementing this strategy will be the following ones:

- Development, on the basis of the identified strategic sites, of a formal and dedicated **National SEZs Masterplan**, including international best practice project screening, designation, and transactional support criteria and procedures; and
- Conducting associated in-depth **Government capacity-building**, ideally initially at least in part through embedded international expertise.

Only once the indicated, consensus-based national "SEZ Masterplan" and set of Standard Operating Procedures around the above questions has been articulated, demonstrating where and how specific SEZ projects can provide the most value to the greatest possible constituency, will the Government begin to involve itself in any project-based promotion, approvals and/or transactional assistance regarding specific SEZ opportunities.

4.1.2. Timetable for SEZ Policy adoption and programme rollout

Over the next 3 Months, the following strategic measures will be implemented to roll out this SEZ Policy, assuming necessary resources are availed:

- SEZ programme planning:
Adoption of legal framework and refit of SEZ "fit to purpose" Management Company, following international best practices, with respect to its focus, mandate, degree of autonomy, reporting lines, attributed functions and authority, and organogram.
- Pilot SEZ site development:
Design, construction and launch of the first Pilot SEZ's first phase of development, including coordination of offsite infrastructure and onsite build-out to ensure proper linkage between the two.
- SEZ operations: This timetable is detailed in greater specificity below:

Table 1: Conceptual SEZ Policy, programme and pilot site implementation and resource plan

Activity	Responsible Party
<u>SEZ Programme Planning (Months 0 – 3)</u>	
Validate Lesotho SEZ Policy and policies	Government of Lesotho Management Company
Mandate the Management Company to lead programme implementation	Management Company
Outreach to national stakeholders explaining SEZ programme	Management Company and Management Company
Obtain funding from Government and donors	MoFDP and Management Company
Finalise legislation establishing SEZ programme	Management Company
Advocate approval of legislation by Parliament	Management Company
Contract consultants to build capacity and support initial project management of SEZ programme implementation	Management Company
Retrofit Management Company as SEZ Regulator, including OSS	Management Company
Prepare National SEZ Masterplan	Consultants
Approve SEZ Masterplan	Management Company
Approve budget for Management Company SEZ responsibilities	MoFDP
Management Company capacity building on SEZ SOPs	Consultants, Donor Community
Set regulatory authority and performance delivery standards of various public agencies through negotiation and conclusion of SLAs	Management Company
Recruit SEZ dedicated staff at Management Company	Management Company

Draft regulations and procedures to enable regulatory functions	Management Company
Review capacity of key public agencies to facilitate regulatory functions, set performance delivery standards, and sign SLAs with relevant agencies and contracts private parties	Management Company
Procure premises and equipment for regulatory functions	Management Company
Pilot SEZ Project Development (Months 0-3) ³⁹	
Contract SEZ PPP procurement advisor and appoint SEZ PPP tender committee	Management Company
Prepare PPP tender documentation and evaluation criteria	Management Company
Prepare draft PPP agreements	Management Company
Announce and conduct prequalification stage of the tender	Management Company
Tender committee prequalifies bidders and issues request for proposals	Management Company
Due diligence of SEZ site(s); proposals	Private developers
Tender committee receives and evaluates proposals	Management Company
Approval of winning bidder(s) and terms of agreement	Management Company
Negotiate co-development agreement with winning bidder(s)	Management Company
Establish PPP-based Pilot SEZ developer special purpose vehicle (SPV)	Management Company
Appoint Board of Directors and CEO to Developer SPV	Management Company; Private Developer
License SEZ Developer SPV	Management Company

³⁹Assumes investigation of two possible pilot SEZ sites studied and one 50-acre "Phase 1" Pilot SEZ site development.

⁴⁰ One consultant.

⁴¹ One consultant.

Conduct site assessments and develop conceptual master plan for pilot SEZ, including environmental and social impact analysis, consultations with affected local communities and other stakeholders, and site financial analysis	SPV
Approve conceptual land-use master plan	Management Company
Designate pilot site as SEZ	Management Company
Contract Project Manager and General Contractor	SPV
Develop detailed land-use masterplan, including on-site civil works, infrastructure and SFBs	SPV
Secure delivery commitments for off-site utilities, with existing utility providers, obtain their commitments of offsite utility loads and plans for supply of unmet SEZ utility requirements	Management Company
Design and construct any necessary additional capacity	Utility companies
Design other offsite connective infrastructure works	Management Company
Construct offsite last-mile and connective public works	Management Company; Contractors
Approve SEZ onsite engineering and construction plans, issue permits	Management Company
Prepare pilot site, construct onsite works, infrastructure facilities and other structures for SEZ, including any captive utility supply internal grids	SPV
Construct SFBs	SPV
Connect onsite facilities	Utility companies
Agree on SEZ rules for tenants/end-users, and develop a standard operating procedures manual and model forms	SPV and Management Company
Operations (Months 3 onward)	

⁴⁴ Total cost.

⁴⁵ Total cost.

⁴⁶ Annual cost.

Contract industrial marketing company to design and conduct marketing strategy to attract tenants, including Pilot SEZ launch events	SPV
License SEZ enterprises	Management Company
Issue necessary building and foreign work permits	Management Company
Facilitate entry into and exit of goods from Pilot SEZ	Management Company
Contract ancillary services, e.g., solid waste collection, etc.	SPV
Lease plots and SFBs to SEZ enterprises	SPV
Monitor and control SPV	Management Company
Develop and implement workforce training programme	Management Company
Coordinate marketing/promotion campaign	Management Company; SPV
Ensure the provision of business support services	Management Company

⁴⁷ First year budget.

⁴⁸ Continuous.

⁴⁹ Continuous.

⁵⁰ Continuous.

⁵¹ Continuous.

⁵² Annual costs.

⁵³ Continuous.

⁵⁴ Annual revenues.

⁵⁵ Continuous.

⁵⁶ Annual budget.

⁵⁷ Continuous.

4.2 SEZ Policy risk mitigation plan

In spite of all of their benefits, SEZs cannot address all of the nation's economic challenges, nor enable the materialisation of all of its possible economic opportunities. Seeing SEZs as a panacea to the Kingdom of Lesotho's development challenges would lead to SEZ programme political failure. Indeed, SEZs are not a "magic bullet". It is, therefore, critical to identify the key risks to the SEZ programme in the context of the SEZ Policy's stated Strategic Objectives.

Furthermore, SEZs are inherently complex systems comprising numerous users, all interacting with an operator, a host community, and various regulators, requiring compliance with a large number of protocols, rules and standards. These present a number of risks, whether in terms of their planning, development or operation, business interruption, the environment, or social impacts.

The following points bear particular note in this regard:

- SEZs are not well-suited to act as a stand-alone policy tool, nor as a programme that can succeed without a high level of Government commitment as a national priority. The Government must not only commit sufficient resources, but will also amend and reform laws, regulations and institutional frameworks, in order to make the SEZs truly "special."
- As SEZs are not well suited to address constraints relating to structural issues such as geography and topography, logistics, climate, labour productivity, social and environmental matters, or macroeconomic imbalances, these must continue to be addressed through public finance, and other education and training policies⁵⁸. While mechanisms can be developed within the SEZ programme to *help to* address these issues, they will therefore not be the primary focus of the SEZ programme. Secondary mechanisms for addressing these issues will however include worker training programmes, targeted fiscal and financial incentives, strong socio environmental management and enforcement, efficient location selection, and enabling land use frameworks.
- As SEZs have, around the world, proven notoriously ineffective at promoting development of socio-economically lagging areas, the success of SEZs will also depend on their strategic positioning through locations with a strong rationale for investment, based on connections to targeted consumption markets, infrastructure and right-skilled labour. SEZs will simply provide an added "nudge" by easing investment constraints imposed by unnecessary

regulations and administrative inefficiency **in otherwise well-suited areas**, thereby acting as competitiveness, efficiency and productivity accelerators.

- SEZs must be **designed to respond to the level or nature of the demand** for serviced industrial real estate, in order to avoid the following potential pitfalls:
 - over-scoped and unoccupied “white elephant” sites, without any investors or observable operational economic activities, let alone jobs or exports, to speak of;
 - unrecoverable public subsidies, deficits and debt; and
 - tenants and occupants locked into a “rent-seeking” logic that destroys rather than creates economic value or competitiveness.

With the understanding that one should not confuse SEZs and national competitiveness strategy, SEZs will thus be used as an infrastructure response to the absence of sufficient serviced industrial real estate.

⁵⁸ Labour issues can be alleviated to some extent, by forming supplier and labour-related links with the surrounding economy. Policy measures and matchmaking programmes should be strengthened to encourage SEZ-based firms to contract with local suppliers. Training of local workers should also be encouraged through worker databases, skills assessments and training programmes tailored to the activities carried out in the SEZs.

Other potential SEZ risks include the following:

- **Planning Risks**, including: Planning compliance; Surrounding population density; Traffic and congestion; Adjacent projects; Utilities capacity; Enterprise layout; and Land title.
- **Strategic Risks**, including: Construction issues; Supplier and non performance; and regional Policy instability (e.g., in South Africa).
- **Financial Risks**, including: Stock exchange/capital market fluctuations; Exchange and interest rate fluctuation; and Liquidity/cashflow.
- **Market and Commercial Risks**, including: Fraud; Competition/Market share; Reputation; and Business interruption.
- **Environmental and Hazmat Risks**, including: Storm flood; Fire/explosion; Hazardous materials; Waste and wastewater disposal; and Natural disasters.
- **Human Resource and Occupational Risks**, including: Accidents/health; Operational safety; Reduction and retention; Knowledge management; Emergency support; and Management.
- **Fixed Asset Risks**, including: Security; Energy supply; Property damage; and Machinery breakdown.

Some of the major SEZ planning risks relate to legal uncertainty in terms of *who has legal rights and interests in the land* (such as rights of way) and *what creditor liens or potential litigation may exist against it* (land title risk), around *whether there is land use compatibility for SEZ projects within the context of the existing masterplans, ecosystems and adjacent communities*, and *what sorts of negative externalities the SEZs may have on local utility capacity and traffic*. As

infrastructure and real estate projects that must ultimately always get built, an *SEZ's construction-related risks*, including as they relate to delivery, time, and costs, are the principal area of risk the project will face in its early, pre-occupancy and pre-operational years.

Furthermore, as an infrastructure mega-project, *the funding and financial risks of any SEZ are also considerable*. Changes in the availability or cost of financing due to exchange and interest rate fluctuations on borrowed debt financing for the project's funding, the impact of capital market shocks on the ability to raise capital for the project through equity mechanisms, and improper cashflow management, are key risks to be managed in this regard.

Moreover, given the difficulty in predicting market demand over the long term, *commercial and market risks* are best addressed to manage the risks through the involvement of expert transaction advisors in the financial structuring of the project, as well as through prudent project phasing.

In SEZ operations, *the principal potential incidents are of two main types: hazards from accidents and other extraordinary occurrences, and hazards from normal operations*. Some subcategories of these hazards include: fatalities, long term health effects, property damage, major economic damage, and biophysical damage through air, water or soil.

The various risks SEZs may present, as outlined above, will be managed using a systematic approach to identify, analyse, prioritise, and mitigate or prevent them. Specifically, once risk prioritisation has been completed among these various categories above, risk assessment will be conducted for all relevant risks.

A sound **risk mitigation plan** for Lesotho's SEZ programme will set forth risk prevention and limiting measures, actions in case of incidents, responsible partners and required communication actions,⁵⁹ and will define the responsibilities of all concerned stakeholders. Clear decision-making processes and protocols will be established. National occupational health and safety, environmental, accident and disaster compliance requirements will all be fulfilled, as well as compliance ensured with the safeguards of international parties that have made a financial contribution to the SEZ. Finally, SEZ Developer-Operators and the SEZs' resident enterprises will also ensure their employees are informed of their responsibilities before any incident occurs. The selection of the appropriate risk control strategy⁶⁰ will depend on the nature, type, and costs of the risk, as well as the available resources to take relevant actions.

SEZ planning risks will, in part, be mitigated through robust due diligence and through insurance mechanisms. A variety of mechanisms, including quantity surveying, subcontractor liability and (once again) insurance, amongst others, will be used to mitigate strategic construction risk. Commercial risk insurance, hedging instruments, concessional development finance, debt syndication, as well as a rental-based (as opposed to plot sales based) financial model are some of the strategies that will be employed to address financial risks. The provision of safety training and protective equipment, and adoption of adequate handling

protocols for dangerous substances and effective damage control systems, will be used to reduce risks related to production hazards in SEZs. Furthermore, the establishment of emergency response systems through proper risk reporting channels will be employed to work towards risk reduction, by instituting a continuous risk learning system enabling its users to anticipate similar risks based on past experience.

The following areas will also form part of the Lesotho SEZ risk management plan:

- **Energy supply risk management** - In order to avoid issues related to the disruption of operations due to energy supply cuts, Lesotho's SEZ developers will be required to thoroughly assess enterprises' total energy needs, as well as the supply capacity of the nearby energy grid and sources, and to plan to provide alternative energy sources, as well as emergency energy supply systems;
- **Land acquisition risk management** - Lesotho's SEZ developers will be required to thoroughly assess land ownership and use risks prior to starting construction, so as to avoid any delays or even termination of the project;
- **Human resource risk management** - To overcome associated risks related to the insufficient availability of an adequately skilled workforce and to inappropriate working conditions, Lesotho SEZ operators and residents shall be required to provide such facilities as cost-shared transportation services, training programmes, etc; and
- **Environmental risk management** – Hazards during SEZ operations will be reduced by implementing advanced monitoring and hazard source-tracing technologies, as well as by setting clear safety standards and operation guidelines, such as the use of real-time monitoring systems in SEZs to enable a timely collection of production safety data.

In addition, with respect to licensing risk, the Management Company, working with SEZ Developers and Operators, will ensure the protection of the public purposes in a number of respects even before a business applies to be licensed:

- SEZ Developers will be required to agree and set the exact zoning of each plot as part of their SEZ's land use master plan with all relevant authorities, including, as applicable, those responsible for civil aviation, railway rights-of way, utilities and the environment;
- SEZ Enterprises will be directed exclusively to land that has been pre-approved for a particular business use and form of building; and
 - SEZ Developers will be authorised and mandated to inspect and check SEZ Enterprise zoning compliance in a risk-based yet unintrusive manner.

Through the combination of SEZ Enterprise licensing, zoning and construction permitting, the SEZ regime will put effective measures in place to protect against risks to public welfare, ensuring that:

- Land is appropriately zoned for the intended business use;
- Premises are structurally sound and safe working environments;

- Activity-specific public health and safety risks are addressed;
- Registration with income tax, customs and labour authorities is undertaken;
- Environmental risks are properly mitigated; and
- SEZ Enterprises abide by normal public health and safety reporting obligations, in the context of their regularly report on levels of economic activity.

Activities posing particular public health and safety risks beyond those related to the environment will be carefully vetted, including through the following processes:

- Pharmaceutical manufacturers will need to ensure their manufacturing processes are safe;
- Users of hazardous material as well as food processors will need to demonstrate safe handling; and
- Transport firms will need to demonstrate safe vehicle maintenance.

Management Company will either develop the capacity to approve and monitor such special risks itself, by contracting specialists, or else rely on other national agencies to fulfil this role in the SEZs, at its discretion.

⁵⁹ See: <https://www.business.qld.gov.au/running-business/protecting-business/risk-management>

⁶⁰ These include: Risk avoidance (eliminating the cause of the risk); Risk reduction (reducing the probability or impact of the risk); Risk sharing (sharing the burden of the risk with another party); and Risk retention (having a contingency plan for the risk). One or more of these strategies may be used simultaneously

5. SEZ Policy governance, institutional framework and capacity plan

The internationally recognised best practice **roles of the Government** in the SEZ context are outlined below:

- Strategic planning and setting the priorities of the SEZ programme;
- Promotion of the public interest;
- Approval sites, and where necessary assembly of land for SEZs, ensuring current occupants are fully and fairly compensated;
- Selection of SEZ Developers;
- Coordinating the preparation and approval of land use masterplans with Developers;
- Approval of Developers' construction plans and monitoring of their progress;
- Development of off-site transportation infrastructure to connect the SEZs with international and regional markets;
- Provision of important public services when they will not be met by private sector companies operating under market mechanisms;
- Issuance of licenses and permits to SEZ End-Users;
- **Co-operation with Revenue Authority to administer SEZ customs and tax procedures;**
- Monitoring of SEZ operations and services to ensure compliance, including necessary investigations and enforcement of SEZ Developers' and End users' compliance;
- Workforce development and other social services, including the funding and coordination, as needed, of programmes for worker training not addressed through market mechanisms; and
- Funding of public services to ensure Law and Order and to settle disputes.

Over the following pages, this SEZ Policy will proceed to allocate these roles to the appropriate Government parties, best positioned to ensure SEZ programme success.

5.1 Responsibility for formally initiating, approving and implementing the SEZ Policy

The responsibility for formally initiating the SEZ Policy lies with Management Company, its approval with the Cabinet and Management Company acting as the day-to-day SEZ Regulator and overall lead for ensuring successful policy implementation and outcomes. The elected SEZ Policy regulatory framework will simultaneously both:

- Allow for flexible representation, building in the capacities to: ▪ Take binding decisions, resolve major interagency differences, educate responsible ministries and create ministerial commitment (First Tier: acting as the SEZ Regulatory Board for Management Company; and ▪ Meet as often

as is required, act in a functionally and technically specialised manner, and launch and implement the various initiatives falling under the overall SEZ Policy umbrella (Second Tier: Management Company Management); and

- Cultivate and concentrate public service talent and knowhow regarding SEZs -coordinating regulatory resources through a standing core team with a clear and comprehensive mandate, building up institutional knowhow to ensure effective SEZ programme oversight.

That said, various existing ministries, departments and agencies must act as supporting parties for the SEZ Policy. This issue is discussed in some detail under the topic of required SEZ Policy interagency Service Level Agreements (SLAs)and elsewhere.

5.1.1. The Management Company Board

The Management Company Board, will exercise oversight responsibilities over the actions of the SEZ Regulator, as well as decision-making authority on major policy proposals and overall SEZ programme budget, strategic plans, and proposals to designate new areas as SEZs.

The Management Company Board, as an SEZ Policy Technical Working Group (TWG) and SEZ programme steering committee, will act as the ultimate Regulatory Board for SEZs, assembling the required senior coalition to build the required commitment, on the part of all concerned Government officials, to critical SEZ-related policy reforms and delivery.

Specific underlying aspects of this approach to the delivery of the SEZ Policy will include the following ones:

- All Sub-committee members will be senior enough to be taken seriously, take binding decisions, and be accepted as each other's peers;
- The Management Company Board will meet regularly enough to catalyse and monitor progress, but not so often as to confuse its mandate as being a day-to-day one, meeting on a monthly basis regarding SEZ matters, in order to ensure pressing SEZ-related matters are tackled promptly and consistently;
- The Management Company Board procedures will be formalized through set regular meetings, pre-circulated agendas, conducive meeting logistics, formal meeting minutes and notes; and
 - Management Company Board composition will be designed to ensure private sector input and contributions at the policy and programme supervision levels.

Management Company, in line with best practices for SEZ regulatory boards, will undertake the following functions with respect to SEZ Policy development and implementation:

- Approval of the strategy and budget of the secretariat;
- Adopting of the SEZ Regulations and Standard Operating Procedures (SoPs), including as regarding the conditions and criteria relating to the:
 - planning and construction of SEZs, as well as to obtain associated environmental licenses;
 - granting, revocation and suspension of licenses for activities in the SEZs;
- Approval of SEZ developers and operators, as well as of the terms of the commercial agreements with them; and
- Supervision of activities, at a general non-executive level, and organising of appropriate activity audits.

5.1.2. SEZ Regulator: Management Company

The Management Company, a joint venture between iSwiss and the national government entity, will have the following action guidelines:

- act with sufficient independence, strength and effectiveness, on the basis of proper resources and enforcement authority, to see the SEZ Policy followed through;
- administer an effective SEZ OSS; and
- enable regulatory efficiency.

Under the elected SEZ programme governance model, the Management Company will, through a One-Stop Shop (OSS) to be established by itself and handle most regulatory matters for SEZ investors and residents, and be entrusted with a high level of autonomy to regulate the SEZs in an effective manner without undue administrative bureaucracy. The Management Company will therefore be granted the power and resources to perform most Government actions on its own within SEZs (through the discussed OSS), including business licensing and registration, labour regulation, building permitting and inspections, monitoring of compliance with SEZ rules, and SEZ-related administrative complaints resolution. Management Company will enjoy sufficient influence over other Government entities to achieve the SEZ's programmatic goals.

Management Company will furthermore lead the SEZ programme under an approach focused on SEZ programme administrative user-friendliness and transparency, notably by:

- making investment related laws and documents accessible online in a centralised SEZ OSS Web portal;
- ensuring the SEZ OSS adopts a consistent and market-friendly approach to interacting with the private sector; and
- establishing and publishing deadlines for processing approvals.

5.1.2.1. **Mandate**

Management Company, as day-to-day SEZ Regulator, must have the legal authority to ensure the effective delivery of a wide range of Government functions, **including the mandate to either perform or facilitate functions otherwise performed by other Government entities, where appropriate supplemented by interagency SLAs.**

As the SEZ Regulator and SEZ investment promotion agency, Management Company will expand its roles to include roles related to SEZ regulation, and investment promotion, in addition to collaborative SEZ development and operations with the private sector on a PPP basis. The private-sector developers will also be given an opportunity to develop and operate their own SEZs. Moreover, Management Company will:

- refine and adjust SEZ Policy roll-out action plans and implementation schedules, as well as performance benchmarks;
- identify SEZ programme resource needs;
- deploy specialists and external resources as needed;
- execute an SEZ communications strategy; and
- create SEZ programme reporting and monitoring mechanisms, measuring SEZ programme performance on an ongoing basis.

The key day-to-day managerial functions and responsibilities of Management Company, as SEZ Regulator, will be as follow:

- **Designation of SEZs**, including of public and private land as SEZs, and public or private landowners or their agents as SEZ Developer-operators, subject to the Management Company Board approval.
- **Facilitation of GoL regulatory services** (notably through the SEZ OSS, but also through a Points-of-Contact network, multi-stakeholder task forces, SLAs, and its general SEZ Policy execution roles, for licensing, permitting and regulatory services within SEZs, including with respect to:
 - Incorporating and registering companies, and maintaining a licenses register;
 - Issuing industrial, commercial and tourist licenses, and ensuring compliance with regulations and statutory reporting requirements;
 - Approval of master plans and construction permits, including issuing licenses for the construction of schools, nurseries, hospitals, cultural centres, as well as public utilities including roads, water, wastewater and industrial waste disposal, electricity, gas, communication, etc.;
 - **Granting visas for entry and residency permits, and monitoring compliance with labour legislation;**
 - Registering tenants and residents for taxes, ensuring their compliance with fiscal responsibilities, granting incentives, etc.;
 - Environmental permitting and monitoring;
 - Providing SEZ-related administrative and commercial dispute

- and complaint resolution services;
- Facilitating Customs clearance through the RSL Customs and Excise Division; and
- Setting and collecting fees and revenues from SEZ developers and end-users in the form of concession fees, royalties, dividends, rent and/or other revenue sharing schemes, commensurate with the cost-of-service delivery.
- **Coordination with other bodies**, interfacing with other public agencies to facilitate the day-to-day delivery of Government services.
- **Delegation of authority** for select regulatory functions to SEZ Operators (subject to “Delegation of Public Authority” contracts), or to any other GoL agency (subject to SLAs).
- **Monitoring Compliance** with the SEZ legal framework, including SEZ policies, standards and other requirements, through risk-based monitoring and inspection techniques, and enforcing compliance through appropriate penalties, independently from other public agencies.

Finally, as day-to-day SEZ Regulator, Management Company will also provide SEZ users with one stop access to all of the above Government services, as well as business support services (i.e., notary, legal services, accounting, financial advice, ICT support, etc.).

5.1.2.2. Characteristics, culture and structure

As SEZ Regulator, Management Company must, consistent with international best practices, be vested with both independence from any single Ministry as well as with considerable regulatory powers, and the legal and political clout required to apply them. Its organisational structure should thus reflect the following characteristics of best practice SEZ regulators:

- **Autonomy of action**, in order help to minimise bureaucratic delays and political interference, allowing Management Company to regulate and monitor the SEZ programme most efficiently, through its:
 - **Authority over other Government agencies with regard to SEZ** Developers, Operators, Enterprises and Workers in key areas; and
 - **Autonomy over human and financial resources**, including:
 - Flexibility over hiring and termination of its employees;
 - Ability to offer competitive pay packages;
 - Ability to procure contractors easily, and
 - Financial independence and a dedicated budget; and
- **Corporate culture**, including:
 - **Private-sector standards for stakeholder service;**
 - **Teams-based work** (i.e., its various “Task Forces”) and resources;
 - **Client-focused culture**, including time-bound and streamlined SoPs and systems; and
 - **Application of modern management practices.**

In terms of regulatory (i.e., outward facing) functions, the following Management Company departments will also be established:

- ***Urban planning and Environmental Regulation*** (consulting with the Department of the Environment, the Ministry of Development Planning and the Town & Country Planning Board,): This department will: control urban planning rules and regulations in the SEZs, and ensure that SEZ Developers respect them; approve building permits and monitors building practices; liaise with relevant entities for the provisioning of utilities to the SEZs; set and enforce environmental standards, control regulations and procedures; and audit the environment management practices of SEZ developers, operators tenant companies, as required.
- ***Companies and SEZs Registration*** (consulting with the Ministry of Trade and Industry): This department will: implement the licensing and disclosure policies approved by the Management Company Board, as the SEZ Regulatory Board; register companies incorporated in the SEZs; enable implementation of world class patent, trademark, copyright and industrial design policies; and ensure compliance with streamlined corporate reporting and disclosure policies.
- ***Labour Regulation*** (consulting with the Ministry of Labour and Employment and Ministry of Social Development): This department will: deal with labour and social security matters within the SEZs; ensure that an adequate pool of labour is available to industries operating in the SEZs, through assistance in sourcing and training labour; recommend internal staff, and occupational health and safety, policies and procedures to be adopted by tenant companies; provide optional social security and medical coverage for foreign employees; ensure compliance of tenant companies with the policies, regulations and procedures approved by the Board of Directors, as well as other labour law; and mediate and help settle labour related issues arising at companies within the SEZs.

5.1.2.3. Management Company wholly-owned SEZ development subsidiary

Applying full and effective separation of regulatory and ownership functions (e.g., state ownership in SEZs and related infrastructure), Management Company will continue to act as SEZ Developer and development partner in the context of PPP-based SEZ initiatives.

5.1.2.4. SEZ One-Stop-Shop (OSS)

The most successful SEZ regimes and SEZ regulators operate a One-Stop Shop (OSS) with offices in each SEZ that provide tenants with a single point of contact for streamlined interfacing with the Government. Onsite offices of the overall national SEZ OSS, which shall be established and administered by Management

Company as the SEZ regulatory body, will therefore be located within each SEZ to facilitate regular and effective regulatory services, compliance inspections and enforcement activity. The OSS will be fully empowered to independently handle SEZ users' compliance requirements, consolidating and replacing the functions of other Government entities at the national and local levels. The OSS will, in this regard, perform various Government services for investors, including:

- Enterprise registration certificate issuance;
- Land title deed issuance;
- Construction and environmental permitting;
- Foreign labour permitting (e.g., issuance of identity cards, work permits, visas, residency permits, etc.);
- SEZ regime administrative dispute resolution.

As is the case in best practice SEZ regimes, Lesotho's SEZ OSS will process approvals itself, and thereby reduce bureaucratic burdens, costs and delays for investors. For the SEZ OSS programme to be truly effective, the permits, licenses and other authorisations it issues, as well as the reporting requirements it mandates, will be allowed to replace, or consolidate the existing requirements imposed by other Government entities. The SEZ Act will make explicit reference to this, providing Management Company with the power to re-engineer the procedures for issuance of such authorisations, with a view to streamlining them.

Lesotho's SEZ OSS, under the administration of Management Company, will provide face-to-face assistance, as well as assistance over the phone, via e-mail and on the Web, for all of the various aspects of compliance, including in terms of:

- receiving and processing applications for licenses, registration and permits;
 - processing of payments; and
 - providing guidance on regulatory compliance.
- In addition, the SEZ OSS will undertake to ensure the provision of:
- rapid provision of SEZ investment information;
 - hassle-free investment facilitation, troubleshooting and aftercare;
 - service consolidation, reducing regulatory process redundancies, documentation and overall transaction costs to all parties; and
 - corporate compliance and Government services monitoring;
 - high-quality and rapid reporting, analysis and responses - feeding into better Government services, through the feedback loops this creates.

The SEZ OSS, which will be created under the SEZ Act, will be managed entirely by Management Company or, in part, through PPP-based or (a) fully private service provider(s), to whom Management Company may outsource some of the OSS functions.

5.1.2.5. Interagency Service Level Agreements (SLAs) with other regulatory bodies

All activities not performed by Management Company directly, in its capacity as SEZ Regulator, must be simplified, made less costly and made faster, through the structured coordination of the delegated or shared SEZ regulatory functions with these bodies. Even with relatively strong, new regulatory authority, Management Company will need to work with existing Government agencies to deliver key services, given the need to align and integrate the SEZ framework to the greatest extent possible with existing systems and technical requirements. These SEZ inter-agency SLAs, for maximum efficiency, must include:

- Clearly delineated responsibilities between Management Company and other Government agencies;
- A legal mandate to require coordination and scheduling of inspections or other Government regulatory functions through Management Company;
- Mandatory time limits and performance benchmarks imposed on various Government agencies' G2B processes; and
- Facilitation of Government functions through the Management Company-administered OSS.

The exact authorities with whom an SLA will be established, based upon best practices for the regulatory area in question, is highlighted below:

- ***Title Registration***: Land Administration Authority;
- ***Master planning and land use***: Town and Country Planning Board;
- ***Building, occupancy, internal zoning permits, internal roadworks, health and safety permits, and fire clearances***: Town & Country Planning Board, Ministry of Health, and Ministry of Public Works and Transport;
- ***Environmental permits***: Department of the Environment;
- ***Utilities regulation***: Utility regulators (i.e., LEWA and LCA);
- ***Utilities connection***: Utility regulators (i.e., WASCO and LEC);

- ***Incorporation***: Companies Registrar at the Management Company;
- ***Visas, work and residency permits***: Ministry of Home Affairs;
- ***Social Security***: Ministry of Social Development;
- ***Labour inspections***: Ministry of Labour and Employment, and Ministry of Social Development;
- ***Labour dispute resolution***: Ministry of Labour and Employment;
- ***Customs***: RSL Customs and Excise Division;
- ***Tax policy***: Ministry of Finance and Development Planning;
- ***Tax administration***: RSL,⁶⁴
- ***Municipal taxation***: Ministry of Local Government and Chieftainship Affairs;
- ***Foreign exchange regulation***: Central Bank of Lesotho;
- ***Sanitary and Phytosanitary (SPS), quarantine and bio-safety control***: Ministry of Agriculture Food Security and Nutrition, RSL Customs and Excise Division, and Ministry of Health;
- ***Commercial dispute resolution***: Judicial Services Commission;
- ***Investment promotion, facilitation and aftercare***: Management Company; and
- ***Public SEZs facilities management***: Management Company.

Given the high level of collaboration this will involve, multilateral SLAs may be preferred, under which all relevant agencies sign onto the same document, rather than bilateral SLAs, under which pairs of agencies make agreements.

5.2 Institutional capacity-building

As a new policy construct is being introduced to the country through SEZs, the Government's capacity for facilitating SEZ projects, from identification and inception through to development and launch, must be significantly strengthened. Organisational resource capacity-building will be driven by, and aligned with, this SEZ Policy's stated goals and structures. Moreover, financial and human resource realities and constraints in this context shall, wherever possible, be dealt with through a proper scaling of goals to achievable levels.

5.1.3. Human Resources Staffing and Management (HRM)

The following high priority actions shall be taken to build Management Company's systems and capacity to deliver a well-performing SEZ programme:

- Management Company will as a priority deal with **critical staff hiring** needs, including by hiring the following key staff for the purpose of SEZ policy implementation and regulation, as required:
 - Market Research Specialist;
 - Supervising Engineer;
 - Procurement Specialist;
 - HRM and HRD Specialist;
 - Systems Administrator;
 - Network Administrator;
 - Social and Environmental Safeguards Specialist;
 - OSS front end and back-office personnel, including OSS Account Executives; and
 - M&E Coordinator;

- Enhanced, world-class **management capability** must be created as regards:
 - Strategic planning, and an effective vision, mission and values;
 - Task assignment systems, high-performance teams and team leadership; and
 - Programme and project M&E;

- A **Task Attribution, HRM and HRD Plan** will be established for SEZ functions, including, as needed:
 - Proper responsibility, tasking and delegation protocols;
 - Regular, job-specific training plan; and
 - A Performance grading system;

- An enabling, conducive **office work environment for Management Company** staff will be created, to comprise such elements as:
 - Sufficient lighting and plants;
 - Tea and coffee vending machines, and water coolers;
 - Smoking and rest areas including, if possible, an outdoor space, a gym and nursery;
 - A prayer area;
 - Adequate filing and storage areas;
 - A cafeteria; and
 - Workstation kiosks for use by visiting investors;

- Staff **Management-by-Objectives (“MBO”) goalsetting and performance monitoring** systems will, as necessary, be established,

including provision for evaluations with the following characteristics:

- Annual staff MBO matrices, measured against KPIs, with associated rewards and sanctions;
- Annual employee-set objectives, as well proposals on ways to measure and evaluate their achievement of these goals, in formal personalised plans;
- Annual and semi-annual evaluation and discussions with supervisors;
- Surveys of both of staff, and of internal and external clients (the latter which can be anonymous, if so desired), to assist in appraising performance; and
- A requirement for signoffs by both the employee and his or her supervisor to be appended to plans and evaluations, after formal one-on-one meetings on goalsetting and performance evaluation documents.

5.2.2. Standard Operating Procedures

SEZ programme delivery capacity will be further enhanced through the preparation, adoption and introduction of Standard Operating Procedures (SOPs), including on:

- How to select SEZs for designation, with relevant checklists;
- Developer Feasibility Studies, SEIAs and impact mitigation plans;
- Monitoring, evaluation and reporting systems, with associated forms;
- SEZ contract and document content, including checklists;
- OSS operations, and associated application forms;
- SEZ operations; and
- SEZ document management, and internal project communications, reminders and escalation protocols.

⁶⁴ The Management Company will work closely with the RSL to administer Income Tax, Customs, Excise and VAT efficiently within the SEZs, keeping the following principles in mind: Use of streamlined submission and approval of documents, clear rules for calculating assessable income, and post-assessment audits; Streamlined submission and approval of documents; Fast-track clearance of imports and exports for customs and excise purposes at the SEZ, rather than at port of entry or exit; and Post-entry audit techniques and enterprise inventory control to deter smuggling.

5.2.3. Training

Management Company training needs with respect to the SEZ programme will inevitably involve building capacity in a number of SEZ technical, industry, market, individual performance and management areas.

Management Company staff effectiveness and organisational performance will therefore inevitably begin with the required development and adoption, as needed, of:

- a HRD and Training Plan (Planned Learning, including periodic “Refresher Courses”);
- Regular ongoing “Training needs and career development self assessments”; and
- Training request forms.

Management Company staff selection for training will not be based on an “incentive” logic but must instead present the maximum return for expended associated budget.

Depending on staff responsibilities and positions, training will be undertaken as regards:

- General characteristics and economic purpose of SEZs;
- Efficiency and time management safeguards;
- Market research needed to implement a market-adaptive strategy, including sector and investor targeting;
- SEZ proposal and feasibility study evaluation;
- SEZ financial modelling and analysis, including:
- typical SEZ operating costs and revenues, as well as CAPEX and OPEX line items and required resources in SEZ budgets;
- SEZ IRR assessments, financial viability and sustainability;
- SEZ deal structuring; and
- SEZ resource mobilisation;
- Streamlined Developer evaluation and selection procedures, including:
 - review of proposed SEZ project structures;
 - identification of SEZ project risks;
 - preparation of SEZ tender documents and evaluation tools for scoring SEZ proposals;
- Contract-related training in:

- Tendering and procurement;
- PPPs;
- contract drafting for “win-win” SEZ Developer Agreements; ▪ negotiation strategies including recommended positions on key issues and contract management;
- “The commercial approach”, as well as economic priorities & imperatives; and
- Legal risk mitigation essentials, “deal killers” and “acceptable losses”;
- Environmental, social and labour safeguards and standards; •

Operating SEZs;

- Communications with developers; and
- OSS operations, including:
 - 15-20 days induction training on:
 - Best practice OSS case studies;
 - Value-added client servicing, user assistance and interface; and
 - Core functionalities of OSS ICT service infrastructure and architecture; and
 - Embedding in well-functioning OSS abroad for 2-3 months.

Specific training modalities that need to be given importance are:

- **Visiting and Embedded Experts**, providing on-the-job interactions, over the first 5 years of the SEZ programme;
- **Study Tours**, based on the following format:
 - 3-15 day needs-based and relevant embedded “learning-by doing” training in SEZs abroad;
 - Several weeks of preparation for each tour;
 - Researching, choosing, and justifying selecting tour locations in written and filed memoranda, so as to ensure they are truly reflective of best practice;
 - Selecting events for maximum increased knowhow value and matching events appropriately to specific assigned staff members’ needs; and
 - Back-To-Office Reports (BTOR) or “*Aide-Memoirs*” (AM) filed by each participant and each organiser; and
- Training Outcome Assessments, including:
 - Assessment of training outcomes, with a focus on how training know-how is retained and applied in the workplace;
 - Periodic “Training Discussions” regarding the applications of training in the past and future, and future training needs, including after each training event, as well as at annual staff

- self-assessment and goal-setting exercises;
- Scheduled and random measurement of knowledge retention and application, through tests and surveys both of staff and of internal and external clients (the latter which can be anonymous, if so desired); and
- Staff-driven training, with Management Company personnel given a key role in determining the types of training they require.

5.2.4. Information and Communications Technologies (ICT) and Management Information Systems (MIS)

With a view to capacitating the Management Company for SEZ regulation and strengthening Management Company capacity for SEZ delivery, the following steps will be taken, as needed:

- Procurement and deployment of the following ICT assets and infrastructure:
 - Staff desktop and laptop computers;
 - a Cloud-based central Document Storage Server;
 - a Central LAN;
 - Multifunctional shared network printers;
 - A Cloud-based website and email server;
 - Whole-office Wi-Fi coverage for Management Company headquarters;
 - A Polycom Videoconferencing system; and
 - Organisational e-mail;
- Procurement and programming of a Project Management Online Office Portal solution platform built on ERP software architecture, for Management Company's Strategic planning, HRM, Finance and procurement, as well as CRM, Project Management and Document Management and MIS functions; and
- Procurement and programming of ERP software for Management Company's industrial estates engineering, maintenance management systems, operations management, Strategic planning, HRM, finance and procurement, as well as CRM, Project Management and Document Management and MIS functions.

Furthermore, in order to service SEZ investors in a manner consistent with international best practices, the following facilities shall also specifically be developed and deployed at the earliest convenience:

- A OSS Portal and SEZ programme Website landing page for it, providing online services from numerous ministries, agencies and utilities;
- A OSS coordination committee with at least one official "Focal Point" per OSS contributor;
- OSS hardware and software; and

- Physical “OSS Centres” in each SEZ.

The Management Company “Capacity-building Action Plan” is described in Table 2, below, providing a roadmap of how that overall capacity is expected to be built up, its expected outcomes and the timelines involved.

Tables 3 – 7 outline similar plans for some of the more specific and key functions of Management Company, namely: SEZ Investment servicing and OSS; SEZ site selection and designation, and Developer Contract Management; ICT and MIS; and SEZ programme financial management.

Finally, Table 9 and 10 respectively set out Management Company Training Plan and available SEZ knowledge and training resources.

6. Service SEZ

6.1 Joint Venture Formation

The GoL and the iSwiss agree to establish the Management Company under the laws of Lesotho, wherein the GoL shall hold a twenty-five percent (25%) interest in the share capital, and the iSwiss shall hold the remaining seventy-five percent (75%).

The Management Company shall be granted the exclusive right to create and administer the Free Zone in Lesotho, in compliance with local laws.

6.2 SEZ Service Bodies.

A "Company Register" shall be established to handle registration of companies in the FreeZone, maintain the public register of these companies, and update changes in administrative bodies and ownership shares. This register will also keep track of ultimate beneficiaries, as defined by international anti-money laundering treaties. Access to these registers shall be restricted to local Authorities.

A "Free Zone Service Authority" will be created, responsible for issuing licenses for trustee activities, auditor activities, securities and shares rating.

The Free Zone Service Authority will also establish a trust registry for registering trusts as per Lesotho's laws, ensuring ultimate beneficiaries, and providing a legal framework for trust jurisdiction. This Authority will also enforce international anti-money laundering regulations, with powers to suspend and revoke licenses, freeze transactions, and report criminal activities to local Authorities.

A "Commercial Arbitration" will be formed, composed of independent and professional lawyers and honorary judges from various nationalities, to handle disputes related to contract, corporate, and labor issues within the Free Zone. This Arbitration will have appellate authority over decisions by the Company Register and the Free Zone Financial Authority, including powers to annul, suspend, or modify such decisions.

A "Digital Authority" will be established for issuing digital signatures through remote identification. These digital signatures will enable global users to sign documents, open accounts, and conduct transactions within the Free Zone remotely.

6.3 Service SEZ Companies.

Companies in the Free Zone shall be limited liability companies, with the option of foreign administrators, not necessarily residents of Lesotho, and share capital wholly owned by foreigners and non-residents. These companies

may operate within or outside Lesotho's borders but not outside the Free Zone within Lesotho.

Each company will be assigned a unique numerical code by the Company Register for use in all invoicing. Companies authorized by the Free Zone Financial Authority must also include their authorization details in documentation.

Companies in the Free Zone are not limited to a predefined corporate purpose and may engage in any lawful commercial, productive, or service activities. Certain activities will require specific corporate objectives and authorization from the Free Zone Financial Authority.

Companies are encouraged to voluntarily submit annual financial statements to the Company Register. Companies with specific corporate purposes (DAC) are required to submit annual financial statements prepared as per international accounting standards (IAS).

All companies must maintain a physical address within the Free Zone.

6.4 Duty Exemptions for Financial SEZ Companies.

Imports of raw materials and goods from abroad into the Free Zone are exempt from duties, provided they are used exclusively within the Free Zone's production facilities and companies, and are not transferred to other parts of Lesotho. Exports of goods produced, processed, or modified by Free Zone companies are also exempt from duties.

7. Promotional activities of the SEZ and diplomatic network

7.1. The importance of international promotion

For the success of the SEZ, robust international promotion is crucial, involving advertising messages, press relations, and a network of commercial agents capable of reaching entrepreneurs across various sectors to explain the benefits of the newly established SEZ.

The network of commercial agents should act as true 'ambassadors' of Lesotho, not only promoting the advantages of the SEZ but also assisting entrepreneurs who decide to start their businesses in the SEZ.

This network of commercial agents should be organized, structured, managed, and monitored by the Management Company to ensure that the information conveyed abroad accurately reflects the true nature of the SEZ.

7.2. The diplomatic network.

The most effective impetus for establishing the commercial network, which will have to support the costs of logistics, offices, and travel for its activities, is integrating the commercial network with Lesotho's diplomatic network. This choice reassures investors through the promotional message, originating from individuals officially holding positions. Additionally, it demonstrates the support of the Government of Lesotho for the entire SEZ project, which is a crucial message for any potential investor considering investing their money.

Policy Implementation Regulation.

1. Definitions

1.1. "Free Zone" or "SEZ" refers to a special economic area within Lesotho where goods can be landed, handled, manufactured, or reconfigured without direct intervention by the customs authorities.

1.2. "iSwiss" refers to an international financial group, headquartered in Switzerland, operates under the names iSwiss, Legal Credit, iSwiss Insurance, iSwiss Bank, iSwiss Pay, iSwiss Securities, Alva Fin, and others.

1.3. "The Government of Lesotho" or "GOL" refers to the governmental authority that will be designated as the counterpart in the creation and management of the Free Zone."

2. Objectives

2.1. To establish and develop a Free Zone for boosting trade and investment.

2.2. To create employment opportunities and enhance skill development in Lesotho according to the Policy.

2.3. To facilitate the exchange of goods and services between Lesotho and other countries.

3. Obligations of the Parties

3.1. GoL's Obligations:

3.1.1. To provide the necessary land and infrastructure for the Free Zone.

3.1.2. To ensure regulatory support and facilitate necessary approvals.

3.2. iSwiss' Obligations:

3.2.1. To invest in the development of the Free Zone.

3.2.2. To manage the operation of the Free Zone in accordance with the best international standards.

4. Financial Zone

4.1. Joint Venture Formation

4.1.1. The GoL and the iSwiss agree to establish a joint venture under the laws of Lesotho, wherein the GoL shall hold a twenty-five percent (25%) interest in the share capital, and the iSwiss shall hold the remaining seventy-five percent (75%).

2. The joint venture company (hereafter referred to as "the Company") shall be granted the exclusive right to create and administer the Free Zone in Lesotho, in compliance with local laws.

4.2. Responsibilities of the GoL

4.2.1. The GoL shall provide, at its own expense, legal, administrative, and tax consultancy for the Free Zone.

4.2.2. The GoL shall establish the financial infrastructure for processing payments from companies operating within the Free Zone.

4.2.3. The structure of the Free Zone must incorporate the experiences of existing free zones globally and implement best practices derived from these experiences.

4.3. Subsidiary Formation and Management

4.3.1. The Company may establish subsidiaries under local law for managing activities and administering the Free Zone (referred to as "Free Zone Management Company").

4.3.2. A "Company Register" shall be established to handle registration of companies in the FreeZone, maintain the public register of these companies, and update changes in administrative bodies and ownership shares. This register will also keep track of ultimate beneficiaries, as defined by international anti-money laundering treaties. Access to these registers shall be restricted to local Authorities.

4.4. Establishment of Regulatory Authorities

4.4.1. A "Free Zone Financial Authority" will be created, responsible for issuing licenses for banking, payment institutions, electronic money issuance, and lending activities.

4.4.2. The Free Zone Financial Authority will also establish a trust registry for registering trusts as per Lesotho's laws, ensuring ultimate beneficiaries, and providing a legal framework for trust jurisdiction. This Authority will also enforce international anti-money laundering regulations, with powers to suspend and revoke licenses, freeze transactions, and report criminal activities to local Authorities.

4.4.3. A "Commercial Arbitration" will be formed, comprised of independent and professional lawyers and honorary judges from various nationalities, to handle disputes related to contract, corporate, and labor issues within the Free Zone. This Arbitration will have appellate authority over decisions by the Company Register and the Free Zone Financial Authority, including powers to annul, suspend, or modify such decisions.

4.4.4. A "Digital Authority" will be established for issuing digital signatures through remote identification. These digital signatures will enable global users to sign documents, open accounts, and conduct transactions within the Free Zone remotely.

4.5 - Characteristics of Free Zone Companies

4.5.1. Companies in the Free Zone shall be limited liability companies, with the option of foreign administrators, not necessarily residents of Lesotho, and share capital wholly owned by foreigners and non-residents.

4.5.2. These companies may operate within or outside Lesotho's borders but not outside the Free Zone within Lesotho.

4.5.3. Each company will be assigned a unique numerical code by the Company Register for use in all invoicing. Companies authorized by the Free Zone Financial Authority must also include their authorization details in documentation.

4.5.4. Companies in the Free Zone are not limited to a predefined corporate purpose and may engage in any lawful commercial, productive, or service activities. Certain activities will require specific corporate objectives and

authorization from the Free Zone Financial Authority and for the following activities: cryptocurrency activities, securities and investment management, gold trading, trustee activities, auditor activities, securities and shares rating, forex, gambling by Management Company.

4.5.5. Companies are encouraged to voluntarily submit annual financial statements to the Company Register. Companies with specific corporate purposes (DAC) are required to submit annual financial statements prepared as per international accounting standards (IAS).

4.5.6. All companies must maintain a physical address within the Free Zone.

4.6 - Taxation

4.6.1. Companies in the Free Zone will contribute a predetermined annual amount towards the operation of the Free Zone. No additional tax will be levied on company profits.

4.6.2. Remuneration and salaries of Administrators and employees who are non-residents of Lesotho will not be subject to local taxation. However, if these individuals are residents or citizens of Lesotho, local taxation and social security laws apply.

4.6.3. Companies are required to report monthly to the Free Zone Management Company regarding any employment and administrative contracts, which will then be forwarded to the local Authorities for compliance checks.

4.7 - Duty Exemptions

4.7.1. Imports of raw materials and goods from abroad into the Free Zone are exempt from duties, provided they are used exclusively within the Free Zone's production facilities and companies, and are not transferred to other parts of Lesotho.

4.7.2. Exports of goods produced, processed, or modified by Free Zone companies are also exempt from duties.

5. Industrial Zone

5.1 Establishment of Industrial Zone

5.1.1 GoL shall establish and prepare a designated area specifically for the construction of industrial warehouses and the provision of associated services.

5.2: Role and Responsibilities of iSwiss

5.2.1 iSwiss shall undertake the promotion, research, and invitation of productive activities from European and North American entities, primarily in the manufacturing sectors such as clothing, mechanics, medical, and automotive, to establish their operations within the Industrial Zone.

5.2.2 iSwiss shall oversee the organization, coordination, and facilitation of establishing production facilities within the Industrial Zone. This includes liaising between foreign investors and local authorities.

5.2.3 iSwiss is responsible for the international promotion of the Industrial Zone, identifying and engaging reputable entities with the required professional expertise, know-how, and financial resources interested in

relocating or establishing their production in the Industrial Zone.

5.3 Financial and Infrastructural Development

5.3.1 The Free Zone Management Company, a subsidiary of GoL, may impose service fees for settling within the Industrial Zone. These fees will be utilized to finance the construction of infrastructural support, including roads, electrical, water, and telecommunication connections.

5.3.2 The Free Zone Management Company is authorized to issue debt securities on major financial markets to fund these constructions, with the proceeds from subsequent billings being used to reimburse the securities. **The infrastructures developed under this arrangement will become the property of the Free Zone Management Company.**

5.4 Recruitment and Training

5.4.1 GoL will establish an Agency responsible for the recruitment of personnel necessary for the enterprises operating within the Industrial Zone.

5.4.2 This Agency, in cooperation with iSwiss, shall implement training programs aimed at enhancing the skills of the local workforce in sectors with high demand.

5.5 Diplomatic Status and Promotion

5.5.1 **GoL agrees to grant diplomatic status and the corresponding rank to individuals appointed by iSwiss who are instrumental in promoting the Free Zone and the Industrial Zone.**

5.6 Bilateral Agreements and Export-Import Facilitation

5.6.1 GoL commits to fostering favorable export and import conditions for goods within the Industrial Zone, which may include establishing specific bilateral agreements with third-party states.

5.7. Security.

5.7.1. iSwiss, along with its qualified partners, will ensure the security of the Industrial Zone, including through the deployment of appropriate security staff. This personnel will be responsible for controlling access to the industrial area, as well as for ensuring the safety of the area and its equipment. The GoL will provide any necessary authorizations that the qualified partner needs to legally and safely perform these activities.

6. Duration

6.1. **The Sez shall be effective for a period of 99 years from the date of signing.**