LESOTHO
INVESTMENT CLIMATE STATEMENT
2015
Table of Contents

Executive Summary

1. Openness To, and Restrictions Upon, Foreign Investment
   1.1. Attitude Toward FDI
   1.2. Other Investment Policy Reviews
   1.3. Laws/Regulations of FDI
   1.4. Industrial Strategy
   1.5. Limits on Foreign Control
   1.6. Privatization Program
   1.7. Screening of FDI
   1.8. Competition Law
   1.9. Investment Trends
      1.9.1. Tables 1 and if applicable, Table 1B

2. Conversion and Transfer Policies
   2.1. Foreign Exchange
      2.1.1. Remittance Policies

3. Expropriation and Compensation

4. Dispute Settlement
   4.1. Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts
   4.2. Bankruptcy
   4.3. Investment Disputes
   4.4. International Arbitration
      4.4.1. ICSID Convention and New York Convention
   4.5. Duration of Dispute Resolution

5. Performance Requirements and Investment Incentives
   5.1. WTO/TRIMS
   5.2. Investment Incentives
      5.2.1. Research and Development
   5.3. 5.3 Performance Requirements
   5.4. Data Storage

6. Right to Private Ownership and Establishment
7. Protection of Property Rights
   7.1. Real Property
   7.2. Intellectual Property Rights

8. Transparency of the Regulatory System

9. Efficient Capital Markets and Portfolio Investment
   9.1. Money and Banking System, Hostile Takeovers

10. Competition from State-Owned Enterprises
    10.1. OECD Guidelines on Corporate Governance of SOEs
    10.2. Sovereign Wealth Funds

11. Corporate Social Responsibility
    11.1. OECD Guidelines for Multinational Enterprises

12. Political Violence

13. Corruption
    13.1. UN Anticorruption Convention, OECD Convention on Combatting Bribery

14. Bilateral Investment Agreements
    14.1. Bilateral Taxation Treaties

15. OPIC and Other Investment Insurance Programs

16. Labor

17. Foreign Trade Zones/Free Ports/Trade Facilitation

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

19. Contact Point at Post for Public Inquiries
Executive Summary

Lesotho is a small, landlocked, and mountainous country located in the southern Africa. The Government of Lesotho (GOL), through its National Strategic Development Plan, recognizes the critical role that domestic and foreign investment and the development of the private sector play in driving shared economic growth. The government actively encourages foreign direct investment (FDI) in all areas of the economy, with limited restrictions on foreign ownership of small businesses. Foreign investors enjoy the same rights and protections as domestic investors. Lesotho’s standards of treatment and protection of foreign investors are good, but the legal framework guaranteeing these norms remains weak. There is no foreign investment law, and there are limited bilateral investment treaties (BITs) in place to protect foreign investors and ensure their fair treatment.

Lesotho’s performance in attracting FDI has been credible by regional standards, particularly for a landlocked nation. In recent years, FDI inflows have been mainly driven by investments in the mining sector. The investment climate is conducive to U.S. investment; Lesotho, a relatively small market of only 1.9 million people, is a member of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC) market, which allow foreign businesses to use Lesotho as a gateway to larger regional markets.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. The judicial system is an effective means for enforcing property and contractual rights, and Lesotho has a written and consistently applied commercial law. A Commercial Court was established in 2010, with the support of Lesotho’s Millennium Challenge Compact, in an effort to improve the country’s capacity in resolving commercial cases. Foreign investors have equal treatment before the courts in disputes with national parties or the government. The government has no history of investment disputes involving U.S. or other foreign investors or contractors in Lesotho.

Though corruption remains a problem in Lesotho, U.S. firms have not identified corruption as an obstacle to foreign direct investment. Giving or accepting a bribe is a criminal act under the Prevention of Corruption and Economic Offences Act of 2006.

Lesotho is a member of the International Labor Organization (ILO) and has ratified 23 international labor conventions, including all the eight fundamental human rights instruments. Lesotho's Labor Code Order of 1992 and its subsequent amendments are the principal laws governing terms and conditions of employment in Lesotho. The law provides for freedom of association and the right to bargain collectively. The law stipulates that employers must allow union officials reasonable facilities for conferring with employees.

Lesotho’s investment climate is improving as a result of recent policy reforms, and the government plans to undertake further reforms. The Land Act of 2010 reformed the land tenure system. The Act allows foreign investors to retain land ownership as long as 20 percent of their company is owned by local investors. The Act has also allowed the use of land as collateral, which has expanded access to credit. The Companies Act of 2011 reduced the time it takes to start a business from forty days to five days and strengthened investor protections. As a result of

1. **Openness To, and Restrictions Upon, Foreign Investment**

**Attitude toward Foreign Direct Investment**

The GOL maintains a strong commitment to private investment and is generally open to FDI, with the exception of limited restrictions on foreign ownership of small businesses. The GOL welcomes foreign investments that:

- Create jobs and open new markets and industries in accordance with the national objective of diversifying Lesotho’s industrial base;
- Improve skills and productivity of the workforce and nurture local business suppliers and partners;
- Support knowledge and technology transfer and diffusion;
- Improve the quality and accessibility of infrastructure.

Foreign investors enjoy the same rights and protections as Basotho investors. The government is aware of the challenges it faces as a small, landlocked, and least developed country in facilitating investment and is committed to improving the climate for investment.

**Other Investment Policy Reviews**

In recent years, the GOL has undertaken policy reforms to improve the investment climate in Lesotho. The Land Act of 2010 allows foreign investors to hold land titles so long as the local investors own at least 20 percent of the enterprise. The GOL also enacted the Companies Act of 2011, which strengthened investor protections by increasing the disclosure requirements for related-party transactions and improving the liability regime for company directors in cases of abuse of power related-party transactions. To make it easier to do business and facilitate FDI, the government established a One Stop Business Facilitation Centre (OBFC), placing all services required for the issuance of licenses, permits, and imports and exports clearances under one roof. OBFC services, coupled with the implementation of the Companies Act of 2011, have reduced the number of days it takes to start a business from forty days to five days. The OBFC also hosts the Lesotho Trade Information Portal, a single online authoritative source of all laws, regulations, and procedures for importing and exporting. The portal provides transparency and predictability to trade transactions and reduces the time and cost of trading across borders. In 2013, the government launched the Consumer Protection Policy, although the GOL has not yet established a competition authority.

**Laws/Regulations of Foreign Direct Investment**

The judicial system is generally independent and procedurally and substantively fair, although Freedom House Southern Africa noted politicization, chronic underfunding and structural problems in its 2012 report Politics of Judicial Independence in Lesotho. The judicial system upholds the sanctity of contracts and enforces them in accordance with their terms and on a non-discriminatory basis. The government enforces judicial decisions through officers of the court,
and, if necessary, through criminal proceedings. A Commercial Court was established in 2010 under Lesotho’s Millennium Challenge Compact in an effort to improve the country’s capacity in resolving commercial cases.

Lesotho does not currently have a specific and overarching FDI policy. FDI policy instruments include the Companies Act of 2011 and the Financial Institutions Act of 2012, as well as legislation covering mining, tourism, and manufacturing—particularly the textile industry. The Companies Act and the Financial Institutions Act of 2012 are the principal laws that regulate incoming foreign investment through acquisitions, mergers, takeovers, purchases of securities and other financial contracts and greenfield investments. There is no investment law per se. Instead, a licensing regime and established practice, supplemented by investment treaties, govern conduct towards the entry of foreign investment.

**Industrial Promotion**

Through the Lesotho National Development Corporation (LNDC), the government actively encourages investment in the following sectors: Chemicals, Petrochemicals, Plastics and Composites; Energy and Mining; Environmental Technologies; Health Technologies; Textile, Apparel & Sporting Goods; and Travel. LNDC implements the country’s industrial development policies. LNDC also provides assistance through supportive services to foreign investors and publishes information on investment opportunities and the services it offers to foreign investors. It also offers incentives such as long-term loans, tax incentives, factory space at discounted rental rates, assistance with work permits and licenses, and logistical support for relocation. For more information, please visit: http://www.lndc.org.ls.

**Limits on Foreign Control**

Lesotho does not have an investment approval process, and in most sectors there is no requirement for partial national ownership. The exception to this is a defined number of small-scale businesses in certain sectors that are reserved exclusively for Lesotho citizens to encourage local entrepreneurship. These activities, which are listed in the 2011 Trading Enterprises Regulations, include: agent of a foreign firm; barber; butcher; snack-bar; domestic fuel dealer; dairy shop; general café or dealer; greengrocer; broker; mini supermarket (floor area < 250m2); and hair and beauty salon. Within these carve out business foreigners are not allowed to control or manage the company. Likewise foreign firms must have at least 20 percent local ownership to title land.

The 2005 Mines and Minerals Act No.4, restricts mineral permits for small-scale mining operations on less than 100m2 to local ownership. Diamond mining, regardless of the size of the operation, is subject to the large-scale mines licensing regime, which has no restrictions on foreign ownership. However, the Government reserves the right to acquire at least 20 percent ownership in any large-scale mine.

**Privatization Program**

There is no ongoing privatization program in Lesotho.
Screening of FDI

The Ministry of Trade and Industry screens foreign investments in a routine, non-discriminatory manner to ensure consistency with national interests. The lack of local entrepreneurs has meant the government is under no pressure to exclude foreign investment to the advantage of local investment. No government approval is required, and there are almost no restrictions on the form or extent of foreign investment, except investment in small-scale retail and services businesses (see above).

Competition Law

The government has a draft Competition Bill with the objective of improving the regulation of investments. It is unclear when the bill will be passed into law.

Investment Trends

Lesotho's FDI stock by 2010 was USD 1,443 million. Given the size of the country and its economy, Lesotho’s performance in attracting FDI has been credible by regional standards, particularly for a landlocked nation. The bulk of FDI flows into the financial, mining, and manufacturing sectors, and most of that investment goes into export activity. Most investment currently originates from South Africa, Taiwan, China, the United Kingdom, and Singapore. Lesotho’s lead in export-oriented FDI gives it an advantage that it should build upon; however, that export activity is highly concentrated in a very narrow range of low technology products. There are 40 factories specializing in a very narrow range of woven and knit garments. Foreign affiliates have also invested in footwear, electronics, food processing and other manufacturing products such as plastics and card boards. South Africans also invest in insurance, telecommunications, financial services, tourism, and hotels.

Future FDI flows will depend on continued improvements to the investment climate, particularly improving access to credit and land tenure reform, which constrain growth in key sectors such as tourism.

Table 1

<table>
<thead>
<tr>
<th>Measure</th>
<th>Year</th>
<th>Index or Rank</th>
<th>Website Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI Corruption Perceptions index</td>
<td>2014</td>
<td>55 of 177</td>
<td>transparency.org/cpi2014/results</td>
</tr>
<tr>
<td>World Bank’s Doing Business</td>
<td>2015</td>
<td>128 of 189</td>
<td>doingbusiness.org/rankings</td>
</tr>
<tr>
<td>Report “Ease of Doing Business”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>2014</td>
<td>117 of 143</td>
<td>globalinnovationindex.org/content.aspx?page=data-analysis</td>
</tr>
<tr>
<td>World Bank GNI per capita</td>
<td>2013</td>
<td>USD 1,500</td>
<td>data.worldbank.org/indicator/NY.GNP.PCAP.CD</td>
</tr>
</tbody>
</table>
**Millennium Challenge Corporation Country Scorecard**

TABLE 1B - Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) of USD 4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC’s indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

**Foreign Exchange**

There are no restrictions on converting or transferring funds associated with an investment into a freely usable currency and at a legal market-clearing rate. Subject to foreign exchange control rules, Lesotho’s policy is that foreign investors may access foreign exchange for day-to-day business purposes and can remit capital and profits overseas. Investors may hold foreign currency accounts in local banks. Lesotho has acceded to Article VIII of the IMF charter, which provides for foreign exchange convertibility of current account transactions. For loan repayments, investors must notify the Central Bank of Lesotho (CBL) at the outset of an investment that the capital for that investment is a loan and must disclose the terms of the loan. Lesotho is a member of the Southern African Common Policy on approval of foreign loans.

The CBL has authorized three commercial banks and two privately owned currency exchanges houses in Lesotho to deal in foreign exchange; however, the CBL still retains the power to approve foreign exchange requirements for all capital account transactions including FDI, capital disinvestment, and contracting and servicing offshore debt. The procedures for approving dividend remittances are somewhat bureaucratic, similar to other countries that have foreign exchange control regimes. Copies of audited company accounts are required for final dividend payments; interim dividends require only management accounts. Tax clearance certificates are required for both interim and final dividend payments.

Lesotho’s fiscal and monetary policies operate within the context of its membership of the Common Monetary Area (CMA). The CMA consists of the following SACU countries: Namibia, Swaziland and South Africa. Under the CMA, the national currency, the loti, is pegged at par to the South African rand, which is also accepted as legal tender in Lesotho. As a member of the CMA, Lesotho has free convertibility of transactions with Namibia, South Africa, and Swaziland. Under this regime, Lesotho has effectively surrendered its monetary policy to the South African reserve bank, and therefore cannot engage in currency manipulation. To maintain the rand/loti peg, Lesotho maintains reserves in rand and other foreign currencies. Lesotho’s prudent management of its reserves enables it to offer free foreign exchange convertibility for all current account transactions.
Remittance Policies

According to the CBL, there are no plans to change remittance policies in the near future. The current average delay period for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties, and management fees through normal, legal channels is two days, provided the investor has submitted all the necessary documentation related to the remittance. There has never been a case of blockage of such transfers, and shortages of foreign exchange that could lead to blockage are unlikely given that the CBL maintains net international reserves at a target of 6 months of import cover.

3. Expropriation and Compensation

The constitution provides that the acquisition of private property by the state can only occur for specified public purposes. Further, the law provides for full and prompt compensation at fair market value. Affected persons may appeal to the High Court as to whether the action is legal and compensation is adequate.

Currently, there are thirty-five cases alleging inadequate compensation for land expropriated for the construction of Metolong Dam lodged with the Transformation Resource Center (TRC), a non-governmental organization. The communities affected by the dam approached TRC to mediate between themselves and the Metolong Authority, because TRC mediated disputes around the Lesotho Highlands Water Project. None of these cases have been brought to court yet.

The GOL has no history of discriminating against U.S. or other foreign investors regarding expropriation. The only local ownership law is the Trading Enterprises Act.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The legal system is a mixture of Roman-Dutch and English Common Law. The judicial system consists of the High Court, the Court of Appeal, subordinate courts, and the Judicial Service Commission (JSC). The High Court has unlimited original jurisdiction over civil and criminal matters, as well as appellate jurisdiction from subordinate courts. Subordinate courts, comprising resident magistrate's courts, judicial commissioner's courts, and central and local courts, administer statute laws, while chiefs administer customary and tribal laws. There is no trial by jury. Lesotho has accepted compulsory International Court of Justice jurisdiction with reservations.

Lesotho’s independent judicial system is an effective means for enforcing property and contractual rights, and Lesotho has a written and consistently applied commercial law. The judicial system is, however, inefficient—courts are overburdened, and cases can take years to resolve. A Commercial Court was established in 2010 in an effort to improve the country’s capacity in resolving commercial cases. Foreign investors have equal treatment before the courts in disputes with national parties or the government.
The SADC Protocol on Finance and Investment enables investors to refer a dispute with the State to international arbitration if domestic remedies have been exhausted. Lesotho’s Arbitration International Investment Disputes Act of 1974 commits them to accept binding international arbitration of investment disputes.

Bankruptcy

The Companies Act is the principal commercial and bankruptcy law. According to the law, creditors, equity shareholders, and holders of other financial contracts of a bankrupt company have a right to nominate a person to be liquidator, and if the creditors and the shareholders nominate different persons, the person nominated by the creditors shall be the liquidator. All claims against a bankrupt company shall be proved at a meeting of creditors, equity shareholders, and the court or the liquidator may fix a time or times within which creditors of the company are to prove their claims. If the claim is rejected by the liquidator, the claimant may apply to the court by motion to set aside the rejection. Creditors who will act as witnesses are entitled to witness fees, to be paid out of the funds of the company, as they would be entitled to if they were witnesses in any civil proceedings. Creditors are paid first in a bankruptcy; equity shareholders and holders of other financial contracts then follow. According to the Labor Code, workers have the right to recover pay and benefits from local and foreign firms in bankruptcy before creditors, equity shareholders, and holder of other financial contracts, regardless of the provisions of any other law in Lesotho. Monetary judgments are usually made in the local currency. An amount of a claim based on a debt or liability denominated in a foreign currency shall be converted into Lesotho currency at the rate of exchange on the date of commencement of the liquidation.

Investment Disputes

The government has no history of investment disputes involving U.S. or other foreign investors. Foreign investors have full and equal recourse to the Lesotho courts for commercial and labor disputes. Courts are regarded as fair and impartial in cases involving foreign investors.

International Arbitration

Lesotho does not have a bilateral investment treaty with the United States. Lesotho accepts international arbitration of investment disputes. Lesotho has entered into a number of bilateral investment agreements that provide for international arbitration. For instance, under the Bilateral Investment Treaty with United Kingdom, an investor may take a dispute with the government to international arbitration. The GOL has stated that local domestic courts would readily accept and enforce foreign arbitral awards—there have been no such awards to date.

ICSID Convention and New York Convention

Lesotho is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention) and a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).
Duration of Dispute Resolution

Before the establishment of the Commercial Court, commercial cases used to languish for years due to the lack of specialized judges trained to deal with commercial disputes. The Commercial Court has reduced the time to resolve a commercial dispute, and reduced the costs of such litigation. Incidents of government interference in commercial cases have not been reported.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Lesotho has not notified the World Trade Organization (WTO) of any measure inconsistent with Trade Related Investment Measures (TRIMs) requirements and has not introduced measures that violate TRIMs obligations.

Investment Incentives

There are no incentives for, and no performance requirements imposed on, foreign investors as a condition of investment. However, there are tax, factory space, and financial incentives available to manufacturing companies establishing themselves in Lesotho, such as: no withholding tax on dividends distributed by manufacturing firms to local or foreign shareholders, unimpeded access to foreign exchange, export finance facility, and long-term loans. These incentives are applied uniformly to both domestic and foreign investors. For more information, see http://www.lndc.org.ls. The incentives are specified in government administrative policies and regulations.

Research and Development

U.S. and other foreign firms are able to participate in government financed and/or subsidized research and development programs on a national treatment basis, although such programs are rare in Lesotho.

Performance Requirements

With the exception of textile companies that export to the United States under the African Growth and Opportunity Act (AGOA), which are bound by SACU regulations to export all their products, there is no requirement that investors purchase from local sources or export a certain percentage of output, or only have access to foreign exchange in relation to their exports. The GOL does not impose "offset" requirements, whereby major procurements are approved only if the foreign supplier invests in manufacturing, research and development or service facilities in the country related to the items being procured. The GOL does not impose conditions on permission to invest, with the exception of land titling, which requires the entity to have at least 20 percent local ownership.

Requirements for visas and residence permits are neither discriminatory nor excessively onerous. For executive positions, work permits to foreign nationals are issued and renewed easily; for technical positions, firms have to provide justification based on local skill shortage. The
procedures for obtaining permits are transparent although foreign investors complain about excessive fees charged and long delays in processing. Work permits for the manufacturing sector are issued at the One Stop Business Facilitation Centre (OBFC), while all other sectors need to lodge their applications with the office of the Labor Commissioner. For more information on requirements for visas, residence permits, and work permits, please visit: http://www.obfc.org.ls/business/default.php

Data Storage

The GOL does not follow a policy of forced localization designed to force foreign investors to increase investment and/or employment in the local economy. The government does not force foreign investors to establish and maintain data storage within Lesotho; however, foreign investors are required to keep records of local sales and employees’ remuneration locally for tax purposes.

6. Right to Private Ownership and Establishment

The right to private property is protected under the law. All foreign and domestic private entities may freely establish, acquire, and dispose of interests in business enterprises. Under the Land Act of 2010, foreign nationals are permitted to buy and hold land provided they have a local partner with at least 20 percent ownership. Lesotho has no competition law or overall competition regulator. Under the industrial and trading licenses system a business can apply for protection from competition for up to 10 years.

7. Protection of Property Rights

Real Property

Secured interests in property, both movable and real, are recognized and enforced under the Land Act 2010. The concept of a mortgage exists; mortgages are protected under the Deeds Registry Act of 1967. Secured interests, including mortgages, are recorded and filed by the Deeds Registry. Through the support of the Millennium Challenge Corporation, the GOL has significantly improved the process of registering land titles; it ranks 93 under the Registering Property index of the World Bank’s Doing Business Report.

Intellectual Property Rights

Legal structures to protect intellectual property rights are relatively strong. Investors complain that enforcement is somewhat weak, although infringements and theft are not common. Lesotho respects international intellectual property laws, and is a member of the World Intellectual Property Organization (WIPO) as well as the African Intellectual Property Organization. Both the 1989 Industrial Property Order and the Copyright Act of 1989 regulate Intellectual property protection. These domestic regulations conform to the standards set out in the Paris Convention and Berne Convention. The law protects patents, industrial designs, trademarks, and grant of copyright, but does not protect trade secrets or semi-conductor chip lay-out design. The Law Office is responsible for enforcement of the Industrial Property Order, while the Ministry of
Tourism, Sports and Culture is responsible for enforcement of copyright (reflecting the law’s focus on protection of artistic works). The Deeds Registry carries out registration.

The Anti-Smuggling Unit of the Lesotho Revenue Authority (LRA) tracks and reports seizures of counterfeit goods to Regional Intelligence Liaison Office for Eastern and Southern Africa (RILO-Eastern and Southern Africa) and World Customs Organization (http://www.wcoomd.org).

Lesotho is not listed in USTR’s Special 301 Report, nor does it host a Notorious Market.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at http://www.wipo.int/directory/en/.

**Resources for Rights Holders**

Contact at Mission:
Daniel Kobayashi
Political and Economic Officer
+266 2231-2666
MaseruCommercial@state.gov

For a list of local lawyers, see: http://maseru.usembassy.gov/service/information-for-travelers/legal-services/attorney-list2.html

**8. Transparency of the Regulatory System**

Business regulations in Lesotho are on the whole reasonable, but variable—modern and flexible in some areas and outdated and retrogressive in others—due to the government’s piecemeal approach to reform. For example, the regulatory framework for utilities and the financial sector is modern, but mining regulation and the industrial and trading licensing system need improvements. The regulatory environment is generally weak, but it does not hinder competition, nor distort business or investment practices. The legal, regulatory, and accounting systems are transparent and consistent with international norms.

Businesses in Lesotho are regulated by the Companies Act of 2011, which changed the process of registering private and public shareholding companies in Lesotho. The act has made business registration easier by abolishing the requirement for an inspection of the proposed company premises before the company is registered, eliminating the need for a legal representative when registering a business, and providing standard articles of incorporation. The act also envisages electronic company registration, as well as electronic regulatory filing, but the office of the Registrar is not yet set up to facilitate these improvements. The act also allows foreign companies to register as an external company, and companies must do so within 10 days of opening a business in Lesotho. The company must nominate a person who is either resident or maintains a full-time office within Lesotho upon whom notices and processes can be served and register the principal place of business of the company in Lesotho.
Any firm intending to engage in business must obtain a trader’s license. The Trading Enterprises Order of 1993 and the Trading Enterprises Regulations of 1999 govern the issuance of traders’ licenses. Trading licenses are required for a wide range of services; some enterprises can require up to four licenses for one location.

The 1969 Industrial Licensing Act and Pioneers Industries Encouragement cover manufacturing licenses. For the majority of manufacturing license applications, environmental certificates issued by the National Environmental Secretariat (NES) are sufficient. However where manufacturing activities are assumed to have actual or potential environmental impacts, an Environmental Impact Assessment is required, which must be approved by the NES. The introduction of the OBFC improved the industrial and trading license system. The OBFC has also streamlined other bureaucratic procedures, including those for licenses and permits.

The GOL modernized the regulatory framework for utilities through the establishment of the independent Lesotho Telecommunications Authority (LTA), which regulates the telecommunications sector, and the Lesotho Electricity and Water Authority (LEWA), which regulates both the energy and water sectors. The two authorities set the conditions for entry of new competitive operators. Currently the LTA allows Lesotho Telecom to maintain a monopoly for fixed-line and international services, while permitting competition in mobile telephone services. The LEWA allows both the Lesotho Electricity Company and the Water and Sewerage Company to maintain monopolies in their respective sectors.

The Mines and Minerals Act of 2005, the Precious Stones Order (1970), and the Mine Safety Act (1981), provide a regulatory framework for the mining industry. The Commissioner of Mines in the Ministry of Mines, supported by the Mining Board, is authorized to issue mineral rights to both foreigners and local investors. On approval, it takes about a month for both prospecting and mining licenses to be issued.

The CBL regulates financial services under the Financial Institutions Act of 2012.

Tourism enterprises are required to secure licenses under the Accommodation, Catering and Tourism Enterprise Act of 1997. The Act provides for a Tourism Licensing Board that issues and renews licenses for camp-sites, hotels, lodges, restaurants, self-catering establishments, bed and breakfasts, youth hostels, resorts, motels, catering, and guest-houses. Applicants for any of the above licenses must apply to the Board three months before its next meeting. A number of government departments, specifically the Ministries of Health and Tourism, the police and, when the property is in Maseru, the Maseru City Council, must inspect properties and submit inspection reports to the Board on prescribed forms. Licenses are granted for one year and can be renewed.

Parliamentary committees may, but are not required to, publish proposed laws and regulations in draft form for public comment. Parliament may also hold public gatherings to explain the contents of the proposed laws, and these provide opportunities for comment on proposed laws and regulations. The committees generally hold such consultations for laws that are perceived to be sensitive, such as the Land Act, the Penal Code and the Children’s Welfare and Protection Act.
There are no private sector or government efforts to restrict foreign participation in consortia or organization that set industry standards.

9. Efficient Capital Markets and Portfolio Investment

The regulatory system is not effectively established to encourage and facilitate portfolio investment. The stock of portfolio investment liabilities amounted to USD 12.6 million at the end of 2009 and comprised mostly bonds. Lesotho’s capital market is relatively underdeveloped, with no secondary market for capital market transactions. The GOL issued treasury bonds at the end of 2010 to more broadly develop capital markets in Lesotho. For further development of capital markets requires the establishment of a stock exchange, currently scheduled for June 2015, is essential. The stock market will have a trading floor/central trading room where stockbrokers will sell and buy shares, bonds, and treasury bills. On December 12th 2014, the Central Bank published the Capital Markets Regulations, which are contained in the Government Gazette No. 76, and will govern operations of the stock exchange.

In 1997, the GOL accepted the International Monetary Fund (IMF) obligations described in Article VIII and continues to refrain from imposing restrictions on the making of payments and transfers for current international transactions.

Credit is allocated on market terms, and foreign investors are able to get credit on the local market. However, the banking sector is characterized by conservative lending guidelines, high interest rates, and large collateral requirements. According to the IMF, as a result of structural reforms implemented under the first Millennium Challenge Corporation Compact, private sector credit is growing. In addition, the LNDC provides industrial and commercial credit to foreign investors. The private sector has access to a limited number of credit instruments, such as credit cards, loans, overdrafts, checks, and letters of credit.

Money and Banking System, Hostile Takeovers

Three South African banks account for almost 95 percent of the country's banking assets, which totaled over M12.6 billion (USD 1.1 billion) in January 2015. According to the CBL, the banking system is sound—commercial banks in Lesotho are capitalized, liquid, and compliant with international banking standards. Foreigners are allowed to establish a bank account and may hold foreign currency accounts in local banks; however, they are required to provide a residence permit as a precondition for opening a bank account to comply with the know your customer requirements.

Lesotho does not have a competition law; other existing legislation is silent on measures to prevent hostile takeovers.

10. Competition from State-Owned Enterprises

Lesotho privatized most state owned enterprises (SOEs) following the adoption of the Privatization Act of 1995, including telecommunications, banks, and the government vehicle fleet. The government did not privatize the electricity and water utility companies, which enjoy monopolies in their respective sectors. In 2004, the government established the Lesotho
Postbank, which is mandated to provide Basotho greater access to financial services. The government also introduced state-owned buses in the public transportation sector in 2008, with a mandate of providing public transport to underserved areas of the country. The government also has stakes in private companies in utilities and the telecommunications, mining, and manufacturing sectors. There is a significant level of competition within these sectors—SOEs do not play a leading role. There are no laws that seek to ensure a primary or leading role for SOEs in certain sectors/industries. SOEs operate under the same tax law, value added tax rebate policies, regulatory, and policy environment as other private business, including foreign businesses.

Private enterprises are allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations, such as licenses and supplies. Private enterprises have the same access to financing as SOEs and on the same terms as SOEs, including access to financing commercial banks and government credit guarantee schemes.

**OECD Guidelines on Corporate Governance of SOEs**

State owned enterprises (SOEs) are subject to hard budget constraints under the law and these provisions are enforced in practice. SOE senior management reports to an independent board of directors; some of the directors may be politically affiliated. SOEs are required by law to publish an annual report and to submit their accounts to independent audit. SOEs are subject to the same domestic accounting standards and rules as other private investors, and these standards are comparable to international financial reporting standards.

SOEs do not exercise delegated governmental powers. U.S. firms have not reported any commercial activity by government departments or quasi-government institution that has an adverse commercial impact on their operations. There are no reported cases of SOEs being involved in investment disputes. Lesotho’s judicial system is fairly independent; court processes are transparent and non-discriminatory.

**Sovereign Wealth Funds**

There is no sovereign wealth fund or asset management bureau in Lesotho.

**11. Corporate Social Responsibility**

There is a general awareness of corporate social responsibility among both producers and consumers. The government maintains and enforces domestic laws with respect to labor and employment rights, consumer protections, and environmental protections. Labor laws and regulations are rarely waived in order to attract investment, and the government does not compromise on environmental laws. Since 2013, the Policy Analysis and Research Institute of Lesotho has monitored mining companies on corporate social responsibility. Additionally, the Consumer Protection Association and the Media Institute of Southern Africa (MISA) have collaborated to develop a comprehensive monitoring program that will cover a variety of economic sectors.
OECD Guidelines for Multinational Enterprises

Foreign and local enterprises tend to follow generally accepted corporate social responsibility (CSR) principles such as those contained in OECD Guidelines for Multinational Enterprises and the United Nations’ Guiding Principles on Business and Human Rights, although the government does not actively promote adherence to these principles. Firms who pursue CSR are viewed favorably by society, not necessarily by government.

12. Political Violence

In August 2014, there were clashes between the army and the police that left one police officer dead. The Prime Minister, a number of Cabinet members and some police officers crossed the border into South Africa. However, the direct impact on ordinary citizens and businesses was minimal. Following the clashes, the Southern African Development Community provided police support and facilitated a process that led to new elections on February 28, 2015. The elections were peaceful and were widely regarded as free and fair, and a new seven-party coalition government emerged.

Businesses and foreign investors are not targets of political violence.

13. Corruption

Lesotho has laws, regulations, and penalties to combat effectively corruption of public officials. Parliament passed anti-corruption legislation in 1999 that provides criminal penalties for official corruption. The Directorate on Corruption and Economic Offenses (DCEO) is the primary anticorruption organ and investigates corruption complaints against public sector officials. The Amendment of Prevention of Corruption and Economic Offences Act of 2006 enacted the first financial disclosure laws for public officials. The disclosure form to be used has been developed but has not yet been implemented. The law may also be applied to private citizens if deemed necessary by the DCEO. The law prohibits direct or indirect bribery of public officials, including payments to family members of officials and political parties. While the government made significant efforts to implement the law, some officials have engaged in corrupt practices with impunity.

In 2013, the DCEO indicted both a sitting minister and a former minister for separate incidents of corruption; their cases are pending in court. In an effort to prevent corruption and economic offences, the DCEO encourages companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials. Most companies have effective internal controls, ethics, and programs to detect and prevent bribery.

No U.S. firms have identified corruption as an obstacle to foreign direct investment in Lesotho. Giving or accepting a bribe is a criminal offense under the Prevention of Corruption and Economic Offences Act of 2006, the penalty for which is a minimum of 10,000 maloti or 10 years imprisonment. Corruption is mostly pervasive in government procurement; concentrated in mostly in lower ranking public officials.
UN Anticorruption Convention, OECD Convention on Combatting Bribery

Lesotho acceded to the UN Anticorruption Convention in 2005, but it is not yet a signatory to the OECD Convention on Combating Bribery. Lesotho acceded to the African Union Convention on Preventing and Combating Corruption in 2003. Lesotho is also a member of the African Peer Review Mechanism (APRM), and the Eastern and Southern Africa Anti-Money Laundering Group (ESAMLG).

Resources to Report Corruption

Resources to report corruption:

Sefako Seema
Prosecutor
P.O. Box 16060, Maseru, 100 Lesotho
+266 2231-3713
info@dceo.org.ls

14. Bilateral Investment Agreements

Lesotho does not currently have a bilateral investment treaty or a free trade agreement with the United States.

Lesotho does have bilateral investment protection agreements with the United Kingdom (1981) and Germany (1985). In 2004, Lesotho signed a bilateral investment agreement with Switzerland; the agreement has not yet been ratified. The three agreements are posted in full on the UNCTAD website. Lesotho signed an interim Economic Partnership Agreement (EPA) with the European Union in 2009; negotiations for a full EPA are ongoing. In 2008, SACU member states and the United States signed a Trade, Investment, and Development Cooperative Agreement (TIDCA).

Bilateral Taxation Treaties

Lesotho does not have a double taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

Lesotho does not have an OPIC agreement with the United States.

With the implementation of the USD 1.75 billion Lesotho Highlands Water Project second phase, there is potential for operation of OPIC’s programs in Lesotho. The project involves construction of a dam, expansion of the water delivery system to South Africa, and the construction of a 1,000MW pump storage hydropower plant. If an agreement is signed, OPIC could provide political risk insurance or finance for equipment to U.S. companies interested to bid in the project.
16. Labor

Lesotho has abundant supply of unskilled labor but a limited supply of skilled labor. The official unemployment rate is 25.3 percent, and youth unemployment is widespread. To augment the limited supply of skilled labor, the Labor Code allows firms to hire of non-citizens with a work permit. A work permit is issued based on a labor quota formula by the Labor Commissioner who must be satisfied that no qualified Lesotho citizen is available for the position. Within the textile and garments sector, an informal policy permits a company to employ one expatriate worker for every 20 Basotho workers. The statutory maximum duration of a work permit is two years. A work permit may be cancelled before term or renewed.

The government is aware that Lesotho needs to preserve its competitive labor costs while affording workers fair wages and conditions. Statutory minimum wages are fixed annually by the Ministry of Labor and Employment with recommendations from a tripartite Wages Advisory Board, representing the government, employers, and employees.

Lesotho has been a member of the International Labor Organization (ILO) since 1966 and has ratified 23 international labor conventions, including all the ILO eight fundamental conventions. The law provides for freedom of association and the right to bargain collectively. Employers sometimes violate those rights. The law stipulates that employers must allow union officials reasonable facilities for conferring with employees, but, according to union officials, some employers denied employees access to union officials, even during lunch breaks. Collective bargaining at the factory level is effectively restricted in practice because the law requires that any union entering into negotiations with management represent 50 percent of workers at a factory, and only a few unions meet that condition. The labor movement is also fragmented, with multiple unions competing for membership among workers. Most unions focus on organizing apparel workers. All worker organizations were independent of the government and political parties except the Factory Workers Union, which is affiliated with the Lesotho Workers Party. The Labor Commissioner’s Office reported that the fragmented union movement did not influence labor market decisions. The law provides for a limited right to strike. In the private sector, the law requires workers and employers to follow a series of procedures designed to resolve disputes before the Directorate of Dispute Prevention and Resolution, an independent government body, authorizes a strike. The law does not permit civil servants to strike, and therefore all public sector strikes are illegal. In practice, strikes are rare in Lesotho.

Lesotho's Labor Code Order of 1992 and its subsequent amendments are the principal laws governing terms and conditions of employment in Lesotho. The Labor Code regulates terms of employment and conditions for worker health, safety, and welfare. The law permits union organization. The Labor Court and the Labor Court of Appeal are the key judiciary entities dealing with labor disputes. In addition, the Labor Code Amendment Act of 2000 established the Directorate of Industrial Dispute Prevention and Resolution (DDPR), which is a semi-autonomous labor tribunal independent of the government, political parties, trade unions, employers and employers’ organizations. LNDC is another key institution that deals with labor disputes. The function of LNDC in this realm is to bring parties together before any formal process is set in motion. For example, LNDC intervenes in strikes and tries to reconcile workers and employers. When this informal process fails, the more formal process of the DDPR can be engaged which can consist of conciliation and arbitration.
Over 28 percent of children in Lesotho are engaged in child labor, primarily in cattle herding and in domestic service. Cattle is included on the U.S. government's List of Goods Produced by Child Labor or Forced Labor.

Lesotho’s high HIV/AIDS prevalence, estimated at 23 percent of the adult population, has heavily impacted the labor market; companies need to take the health of their workforce into account when making management decisions. With the support of external donors, such as the Global Fund and PEPFAR, the anti-retroviral drugs are easily accessible to HIV positive workers.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Lesotho does not have any free or foreign trade zones. However, the labor intensive textile manufacturing companies that export beyond the SACU market enjoy the benefits of free trade zones since they can import raw materials then export finished products duty and tax free. The LNDC maintains five industrial areas with direct road links to attract foreign investors. These areas are mainly occupied by foreign manufacturing firms which enjoy the same investment opportunities as local entities.
18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Host Country Gross Domestic Product (GDP) ($M USD)</td>
<td>2012</td>
<td>2,125</td>
<td>2012</td>
<td>2,448</td>
</tr>
</tbody>
</table>

*Host country sources: Central Bank of Lesotho, and Ministry of Finance.* Exchange rate in 2010: 1 USD = 7.3198 Maloti

Table 3: Sources and Destination of FDI

Foreign direct investment position data are not available for Lesotho.

Table 4: Sources of Portfolio Investment

Portfolio investment data are not available for Lesotho.
19. Contact for More Information

Daniel Kobayashi
Political/Economic Officer
254 Kingsway Road, Maseru, Lesotho
+266 2231-2666
MaseruCommercial@state.gov