

I. COUNTRY REFORM PROGRESS

The government's emphasis is on spending wisely, following windfall revenue and a dramatic increase in water royalties. Cross-cutting fiscal issues include improving fiscal sustainability by containing the public sector wage bill and mobilizing domestic revenues to mitigate against SACU receipt volatility while enhancing the efficiency and effectiveness of public financial management (PFM) processes and implementation of reforms. Establishing a tax policy unit (TPU) in the Ministry of Finance (MoF) is long overdue. Developing a Tax Administration Diagnostic Assessment Tool (TADAT) response plan within Revenue Services Lesotho (RSL) has been slower than anticipated. There is a hiatus in passing tax legislation, including the Tax Administration Bill. Reforms around the strengthening of internal controls in the Integrated Financial Management System (IFMIS) are progressing.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy

Key Progress in FY25: The team has been supporting the government to improve tax policy design through comments to reform proposals through the IMF's African Department. Hands-on support to the authorities to improve their modeling capacity for revenue forecasting is scheduled for December 2024.

Next Steps: Strengthening capacity for revenue forecasting and tax policy analysis, including that of the TPU. Authorities would also like support to identify short- and medium-term reform options (including how to bring the informal economy to the tax net and review the fiscal regime for the mining sector).

Revenue Module II – Revenue Administration

Key Progress in FY25: An in-person post-TADAT mission to RSL was undertaken jointly by the IMF's Fiscal Affairs Department (FAD) and AFRITAC South (AFS) in May 2024. This was followed by a TADAT awareness workshop (requested during the mission) and remote technical advice to RSL's TADAT team, which has designed a high-level three-year TADAT response plan.

Next Steps: Ongoing support to RSL's TADAT team on the details of the TADAT response plan and the implementation of the activities planned to strengthen core tax administration functions will be provided. Weaknesses in revenue forecasting and monitoring are to be addressed jointly by FAD through training for RSL and MoF staff in December 2024.

Spending Module II – Public Financial Management

Key Progress in FY25:

Some progress has been made in managing fiscal risks from state-owned enterprises (SOEs). However, there has been no progress in budget preparation and strengthening of the medium-term fiscal framework, as the Fund has yet to start delivering capacity development (CD) in this area.

Progress has been made in implementing internal controls, with 10 out of 61 activities completed and 27 in progress. Improvements have been seen in securing the IFMIS and addressing configuration gaps, but the

key initiative to implement digital signatures is still pending. The Ministry of IT and the Treasury Department are coordinating efforts, and authorities are assessing the adoption of fiscal rules based on IMF CD.

Next Steps: In the next six months, CD will assist authorities in strengthening internal controls and developing a plan to implement gender budgeting. The latter will also touch on aspects of budget preparation and medium-term budgeting. CD on strengthening internal controls is subject to progress in procuring and configuring digital signatures in the IFMIS. Fund CD is expected to enhance internal controls further and build capacity to implement gender budgeting reform.

III. LOGICAL FRAMEWORK

Country – Lesotho		
RM I: Objective - Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 1
Outcome	Rating	Narrative
Improved structures (e.g., TPUs) or capacity (e.g., models and tools) related to tax policy advice and analysis.	1 Not Achieved	Hiring of staff for the TPU is still in progress. A mission to improve the revenue forecasting capacity of the government has been scheduled for December.
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	High-level plan to addresses weaknesses identified through TADAT developed, that will provide for easier tracking of progress.
Corporate priorities are better managed through effective risk management	1 Not Achieved	Compliance risk management is to be addressed through the TADAT response plan.
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) – TAD		Rating - 1
Outcome	Rating	Narrative
The integrity of the taxpayer base and ledger is strengthened	1 Not Achieved	The TADAT response plan outlines actions to be taken to deregister economically inactive former taxpayers, and to register taxpayers who should be registered. These plans are yet to be implemented.
A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	October 2024: Obtaining complete registration and filing statistics remains challenging.

Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	October 2024: Actions have been set out in the TADAT response plan to address weaknesses in audit but are yet to be implemented.
SM II: Objective - Strengthened Budget Management - PBM		Rating - 1
Outcome	Rating	Narrative
Strengthened annual budget process, and effective allocation	1 Not Achieved	The CD will be delivered as planned later this year.
Strengthened identification, monitoring, and management of fiscal risks	2 Partially Achieved	In fiscal risk management, significant progress has been made in disclosing fiscal risks from the SOEs sector. The government's overall fiscal risk statement is under consideration by the Ministry of Finance. The preparation of a comprehensive fiscal risk statement will require more work in future years. Regarding SOEs, the sector consists of commercial and non-commercial entities, partially or wholly owned by the government. The MoF published the FY2022 annual SOE Report in August 2024.
Strengthened medium-term frameworks	1 Not Achieved	No progress has been made on this front. The Fund has yet to start delivering capacity development in this area.
SM II: Objective - Frameworks to Build Sustainable Fiscal Institutions and Frameworks - FIF		Rating - 2
Outcome	Rating	Narrative
Strengthened fiscal policies, frameworks, institutions, and laws	2 Partially Achieved	Based on the Fund CD, the authorities are assessing the adoption of fiscal rules.
Strengthened capacity to plan, implement and sustain digitalization	2 Partially Achieved	There has been definite progress in the implementation of internal controls. However, the progress is slow. Out of the 61 activities, 10 have been completed, and 27 are in progress. There have been improvements in securing the IFMIS, its user access, and addressing some configuration gaps. The key initiative to implement digital signatures and eliminate paper usage is yet to be implemented. The Ministry of IT also has a role to play, and the Treasury Department is coordinating the implementation with them.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
All: Risk that external events create a more challenging environment to implement reforms.	Medium	Monitor closely, ensure sufficient flexibility in program execution across countries and allow for ability to adjust activities in the case of adverse events.
Political Support		
RM I, RM II: Lack of political support for reforms inhibits required actions.	High	Ensure fiscal risk CD is focused on priority areas and engage regularly with Ministers and senior management to ensure government ownership of reforms.
RM I, RM II: Uneven political ownership of reforms – tax reforms need to be accompanied by governance reforms.	Medium	Regular engagement with Ministers and senior management, to ensure full understanding of reforms required.
SM II: Lack of political support for reforms inhibits required actions.	High	Coordination with the IMF's African Department to support implementation of priority reforms as needed.
Management and Technical Staff Support and Commitment		
RM I, RM II: Low commitment of management and staff to adopt and implement changes needed to the legal framework.	Medium	Engage regularly with senior management and technical staff and explain the importance of strengthening domestic revenue mobilization (DRM).
RM I, SM II: Gaps in capacity of management and technical staff lead to changes in priorities and ability to absorb technical assistance.	Low	Maintain flexibility to adjust CD as needed, in alignment with skills and priorities.
RM II: Low commitment of management and staff to adopt and implement improvements to core tax administration processes.	Medium	Engage with senior management and technical staff proactively and explain the importance of strengthening core tax processes.
SM II: Lack of coordination between different departments in the collection and use of fiscal data, and macro-framework	Very High	Closely follow up on the data sharing and the higher management to ensure better coordination
Resource Adequacy		
RM I, RM II: Insufficient technical capacity and human resources necessary to implement reforms are limited.	Very High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas, where resources are limited. Regular remote follow-ups, to facilitate progress.
Other Risks		
All: Multiple donors are providing technical assistance on DRM and PFM, and gaps or overlaps may arise as a result.	Low	Engage with other donors to ensure support is well coordinated, through multilateral and bilateral meetings during missions, and maintaining regular contact with more active development partners.

Description	Rating	Mitigation Measures
SM II: A legal framework to support digital signature implementation and internal controls is missing	High	Apply internal controls in parallel.

V. PROJECT MANAGERS CONTACT INFORMATION

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