

I. COUNTRY REFORM PROGRESS

Lesotho has made steady progress in strengthening domestic revenue mobilization and public financial management (PFM), supported by a programmatic approach to capacity development (CD) provided by the IMF's Fiscal Affairs Department (FAD).

On tax policy, amendments to Income Tax and Excises Acts have been pending Parliamentary approval for more than four years. Last fiscal year, main tax policy change was a targeted adjustment to personal income tax parameters to provide relief to low- and middle-income earners, and no new tax policy measures have been announced in the 2026-27 budget speech (February 2026). Limited analytical capacity and challenges with data management and modelling are hindering forecasting efforts and tax policy analysis. The new Tax Policy Unit (TPU) is now operating with three staff (Director, Manager, Analyst). The project is expected to improve tax policy capacity to revenue forecasting and tax policy analysis.

Progress is being made on addressing weaknesses in core tax administration processes identified through the Tax Administration Diagnostic Assessment Tool (TADAT) evaluation. A major step forward is the systematic application of a risk approach to defining compliance improvement plans. Revenue Services Lesotho (RSL) is institutionalizing the monitoring of taxpayer compliance monthly. However, system and data issues remain to be addressed. Staff are keen to develop their skills and technical knowledge to increase the effectiveness of the administration in domestic revenue collection.

In PFM, reforms to internal expenditure controls and key business processes have gained traction, underpinned by increased digitalization. These efforts have delivered tangible results, including improved cash reconciliation, expanded electronic non-tax revenue collection, progress in strengthening Integrated Financial Management Information System (IFMIS) controls, clearance of most verified arrears, and preparation for the introduction of digital signatures as part of the upcoming IFMIS upgrade. Fiscal risk management has been strengthened through regular disclosures of state-owned enterprises (SOEs) and the publication of government-wide Fiscal Risk Statements, enhancing fiscal oversight. Progress has also been made in budget transparency, gender-responsive budgeting, and public investment management following a public investment management assessment (PIMA). Sustaining this reform momentum will require further strengthening of the legislative framework, including enactment of a new PFM Law.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: Activities were on hold until the TPU was staffed and operating at the Ministry. Three staff have now been appointed: Director, manager and analyst. The TPU is using simple forecast models developed in close collaboration with the macro unit and RSL (December 2024). Support on data management continues to overcome challenges.

Previous Progress: A joint tax policy and administration team has supported efforts to strengthen revenue forecasting capacity through a whole-of-government approach, involving the Ministry of Finance, the Revenue Services and Licensing Authority, and the Bureau of Statistics. Simple forecasting models have been developed for each major tax category. However, further improvements in data management are necessary to finalize these models and ensure their continuous refinement over time.

Next Steps: The authorities have confirmed that support on revenue forecasting should remain an ongoing initiative, given persistent challenges, and frequent staff turnover, particularly within the newly established TPU. Support to build the capacity of the new TPU's capacity for tax policy analysis, which will require coordinated efforts with both the macro unit and RSL, will commence.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: A study tour providing for peer learning from the Rwanda Revenue Authority heightened awareness of risk management and planning linkages. A direct outcome of this learning opportunity was the development of a compliance risk management (CRM) audit plan for the forthcoming year. Cross-functional teams are seeking to resolve data management issues, to improve the quality of monthly revenue and compliance reports. A meeting was convened with the African Tax Administration Forum (ATAF) to align their future support to RSL on tax gap analysis and the IMF's support on revenue and compliance analysis.

Previous Progress: Monthly monitoring of progress against the TADAT response plan developed (following a post-TADAT mission) has been institutionalized. Gaps in the ability to monitor compliance fully due to system and data management weaknesses still need to be addressed. A change in leadership has temporarily slowed progress.

Next Steps: The authorities seek to strengthen their domestic revenue collections and have expressed interest in wide-ranging CD. Together with the IMF's Regional Technical Assistance Center for Southern Africa (AFS), prioritization of CD is underway, with likely activities to build audit capacity (AFS) and reviewing reform plans with the revenue imperative in mind, including a workshop based on the recently developed Tax Administration Assessment and Yield Tool (TAYAT).

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: The Ministry of Development Planning (MoFDP) made progress in the areas of internal controls, fiscal risk management, public investment and gender budgeting. On internal controls, the MoFDP identified that the hardware and software underpinning its IFMIS have reached end-of-life and require an upgrade to mitigate security risks and ensure continued vendor support. In response, FAD, in close coordination with AFS, pivoted its CD support to the MoFDP to assist with the upgrade, including by supporting the development of a roadmap and terms of reference for hiring an IFMIS manager to oversee implementation. Regarding fiscal risks, staff further built capacity in using the state-owned enterprises (SOE) Health Check Tool and improving the quality of fiscal risk reporting. On public investment, a PIMA provided recommendations to improve strategic planning and project appraisal, align capital budgeting with medium-term frameworks, and ensure adequate funding and maintenance of projects. On gender budgeting, FAD trained 15 staff from the MoFDP and three pilot ministries on the IMF's gender budgeting framework, tailored to Lesotho's context, to support authorities in identifying gender gaps, setting priorities, and tagging relevant budget programs.

Previous Progress: The MoFDP has improved the reporting of fiscal risks from SOEs. The FAD gender budgeting mission in April 2025 conducted a technical workshop for 30 officers from government agencies on key concepts, practical tools of gender budgeting, and international experience in their implementation.

Next Steps: CD is planned to support the IFMIS upgrade, SOE governance, and the implementation of gender budgeting, with the objective of strengthening internal controls, improving the management of fiscal risks, and advancing gender budgeting. The focus will be on building the capacity of relevant staff within the MoFDP.

III. LOGICAL FRAMEWORK

Country – Lesotho		
RM I: Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 2
Outcome	Rating	Narrative
Improved structures (e.g., tax policy units) or capacity (e.g., models and tools) related to tax policy advice and analysis.	2 Partially Achieved	Staffing and operational issues initially delayed the project and the implementation of activities at the TPU. Despite this, FAD continued to work with RSL on data management to help the authorities overcome persistent data challenges. The authorities reported that the TPU uses daily the simple models for each tax heading developed with RSL and the macro team at the Ministry of Finance.
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	Progress against the plan developed to address weaknesses identified through TADAT is being monitored monthly by senior management.
Corporate priorities are better managed through effective risk management	2 Partially Achieved	A compliance risk register is now centrally available, supporting risk management and monitoring.
RM II: Objective –Strengthened core tax administration functions (SDG 17.1) – TAD		Rating - 2
Outcome	Rating	Narrative
The integrity of the taxpayer base and ledger is strengthened	1 Not Achieved	The identification of inactive taxpayers remains a challenge for RSL, although the compilation of compliance metrics has progressed.

A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	Despite continuing data accuracy challenges, monthly monitoring and reporting of fling, payment, and VAT refund statistics is in place.
Audit and other verification programs more effectively ensure accuracy of reporting	3 Largely Achieved	Following the study tour to Rwanda, a CRM-based audit plan with sector-related CIPs was developed that will systematically inform audit interventions in the new fiscal year.
SM II: Objective –Strengthen Budget Management - SBM		Rating - 2
Outcome	Rating	Narrative
Strengthened annual budget process for more efficient and effective use of resources	2 Partially Achieved	The capacity of the budget department has improved to implement gender budgeting. An FAD diagnostic mission assisted them in developing a roadmap to implement gender budgeting. A follow-up FAD workshop assisted them in further developing their capacity to prepare gender statements, working directly with pilot line ministries to identify key gender equality gaps, priorities and goals for the sectors.
Strengthened medium-term budget frameworks	2 Partially Achieved	Online hands-on support is being provided by the AFS to develop capacity in the macro-economic department to produce the medium-term fiscal framework (MTFF). The department is working on producing the MTFF.
SM II: Objective –Strengthen Macroeconomic Frameworks - SMF		Rating - 2
Outcome	Rating	Narrative
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. MoFDP published the annual SOE Report for the FY2022/23 in August 2024. A draft FY2023/24 SOE annual report has been developed, and drafting of the FY2024/25 report is underway. The government's overall fiscal risk statement is under consideration by the MoF. The preparation of a comprehensive fiscal risk statement will require more work in future years.
Strengthened fiscal policies, frameworks, institutions, and laws	2 Partially Achieved	Based on IMF CD, follow-up support is provided by the World Bank.
SM II: Objective – Build Sustainable Fiscal Institutions - SFI		Rating - 4
Outcome	Rating	Narrative
Strengthened capacity to plan, implement and sustain digitalization	2 Partially Achieved	Authorities are slowly making progress in implementing internal controls. There have been improvements in securing the IFMIS, its user access, and addressing some

		configuration gaps. The key initiative to implement digital signatures to eliminate the use of paper is yet to be implemented. The Ministry of IT has decided to provide digital signature services to the Treasury. Further improvements in the hardware infrastructure are planned to support the implementation. However, the MoF has realized that the upgrade of hardware will also require an upgrade in the IFMIS version. The MoF has now taken steps to upgrade both hardware and software.
Strengthened capacity to plan, implement and sustain infrastructure governance	4 Fully Achieved	FAD conducted a PIMA with the MoFDP and identified considerable challenges. The PIMA is helping the MoFDP in prioritizing public investment reforms. The authorities have started using the PIMA to develop PIM regulations and a database of projects with the help of the African Development Bank.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
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		
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.
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.
RM I, SM II: Gaps in management and technical staff capacity lead to changes in priorities and ability to absorb technical assistance	Medium	Maintain flexibility to adjust technical assistance as needed, in alignment with skills and priorities

Description	Rating	Mitigation Measures
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		
RM I, SM II: 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.
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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