

I. COUNTRY REFORM PROGRESS

Using a programmatic approach to CD delivery in Lesotho, the IMF's Fiscal Affairs Department (FAD) is providing focused, sequenced capacity development (CD) support to strengthen its public financial management (PFM) and domestic revenue mobilization.

In tax policy, the establishment of a Tax Policy Unit (TPU) within the Ministry of Finance and Development Planning (MoFDP) is a key institutional milestone. The TPU is now operational and using simple tax forecasting models developed with the macro unit and the Revenue Services Lesotho (RSL). However, data quality and staff turnover and limited skills remain challenges, and further support is planned to build TPU's analytical capacity.

In revenue administration, progress against the response plan of the IMF's Tax Administration Diagnostics Assessment Tool (TADAT) developed in-house is now regularly reviewed by RSL's executive team. Exposure to a peer revenue authority's practices (i.e., the Rwanda Revenue Authority) instilled a better understanding of compliance risk management (CRM), the integration of risk management into planning, the importance of building analytical capacity, and data-driven decision-making. Challenges persist in data quality and coverage. Liaison with the African Tax Administrators Forum (ATAF) on their support to RSL on tax gap analysis is ongoing to coordinate this area with work with strengthening revenue and compliance analysis.

On the PFM side, internal control reforms are gaining traction, with the next Integrated Financial Management Information System (IFMIS) upgrade prioritizing these improvements. Authorities are also working to improve budgeting practices, including integrating gender budgeting. A follow-up workshop on gender budgeting in April 2026, along with training for master trainers, will further develop the budget department's capacity to implement gender budgeting reforms. In parallel, the MoFDP is advancing digital transformation by configuring digital signatures and moving toward paperless processes, supported by planned upgrades to IFMIS hardware and software.

Overall, while many outcomes remain partially achieved, Lesotho is laying the groundwork for sustainable reform through institutional development, strategic planning, and targeted capacity building, with continued donor coordination and political commitment being essential to sustaining momentum.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: The TPU (2 staff, Director's appointment pending) is operating at the MoFDP. They are using the simple forecast models developed in close collaboration with the macro unit and RSL (December 2024). FAD support on data management continues to overcome challenges and build the basis for tax policy analysis and forecasting activities.

Previous Progress: During FY25, a joint FAD tax policy and administration team has supported efforts to strengthen revenue forecasting capacity through a whole-of-government approach, involving the MoF, RSL, 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 on tax policy analysis, which will require coordinated efforts with both the macro unit and RSL, will commence. The authorities have also signaled tax incentives analysis as a priority.

RM II: Revenue Module II – Revenue Administration

Key Progress in FY26: A study tour to Rwanda brought together teams working on enterprise risk, CRM and revenue analysis, who engaged collectively with a peer administration to learn how they had strengthened their data management and analytical skills, embedding the use of data in decision-making and planning across core tax administration processes, and at enterprise level. An STX mission reinforced engagement across operational and analytical teams to address data management and thereby strengthen monitoring and analytical capability.

Previous Progress: A post-TADAT HQ mission (in partnership with the IMF's Regional Technical Assistance Centre for Southern Africa, AFS) was undertaken in May 2024. A high-level three-year TADAT response plan developed with remote short-term expert (STX) support is in implementation. The FAD mission (December 2024) to strengthen revenue and a subsequent STX-led interactive workshop in April 2025 enhanced foundational knowledge and skills on revenue reporting, analysis, and forecasting.

Next Steps: Continued support to strengthen data management and analytical skills within RSL will be coordinated with FAD support to the TPU, as well as ATAF's support on tax gap analysis.

SM II: Spending Module II – Managing Public Finance

Key Progress in FY26: Lesotho is slowly advancing its PFM reforms. An FAD diagnostic mission helped the Budget Department develop a roadmap for gender budgeting, a step toward inclusive fiscal policy. Internal controls in PFM processes are improving, with stronger IFMIS security, better user access management, and fixes to configuration gaps. A key reform to introduce digital signatures to eliminate paper and reinforce controls remains pending, awaiting legal updates, infrastructure readiness, and the Ministry of IT's rollout of digital signature services. Hardware and IFMIS upgrades are already planned to support this shift. In infrastructure governance, with FAD support, the MoFDP completed a Public Investment Management Assessment (PIMA) that is now guiding reforms. Using PIMA diagnostics, authorities are drafting PIM regulations and building a project database, with assistance from the African Development Bank, laying the foundation for stronger investment planning and execution.

Previous Progress: In FY25, some progress was made in managing fiscal risks from state-owned enterprises and strengthening internal controls. Improvements were observed in securing IFMIS and addressing key configuration gaps. In addition, collaboration with the Ministry of IT was initiated to implement digital signatures, laying the groundwork for transitioning to paperless processes.

Next Steps: Next steps involve assessing further progress in implementing internal controls and assisting authorities in incorporating the upgraded business process into the IFMIS upgrade, in collaboration with AFS and the World Bank. A gender budgeting workshop is also scheduled for April to build further the Budget Department's capacity to pilot gender budgeting in one ministry.

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	TPU in operation (two staff hired, appointment of Director pending). Data challenges still persist; FAD continues working with RSL on data management. Simple models for each tax heading developed with RSL and the macro team at the MoF being used by the TPU.
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	The tracking of progress against the TADAT response plan provides a clear picture to the executive committee of status of reforms. Learnings from the recent study tour will be incorporated into the new strategic planning cycle.
Corporate priorities are better managed through effective risk management	1 Not Achieved	A deeper understanding of CRM principles developed through a study tour will be employed in CRM.
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 outlined actions to be taken to deregister economically inactive former taxpayers, and to register taxpayers who should be registered. Progress has been made on the latter, but IT challenges limit the quality of registration data available for analysis. However,
A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	Obtaining complete registration and filing statistics as well as return data remains challenging. An STX mission brought together analysts and data specialists, to collectively develop solutions to improve data availability for compliance and revenue monitoring.
Audit and other verification programs more effectively ensure accuracy of reporting	2 Partially Achieved	Following the TADAT assessment, audit coverage was improved. Audit plans are informed by risk assessment and ranking, and compliance improvement plans are being developed sector by sector.
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 is planned to assist them in further developing their capacity to prepare gender statements.
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 state-owned enterprise (SOEs) sector. MoFDP published the annual SOE Report for the FY2022/23 in August 2024. A draft FY2023/2024 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 the Fund CD, follow-up support is provided by the World Bank.
SM II: Objective - Build Sustainable Fiscal Institutions - SFI		Rating - 3
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	Assisted the MoFDP in conducting a PIMA. The PIMA has helped the MoFDP in prioritizing public investment reforms. The authorities have started using the diagnostics to develop PIM regulations and a database of projects with the help of the African Development Bank.
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IV. RISK ASSESSMENT

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