



KINGDOM OF LESOTHO



LESOTHO

INTEGRATED NATIONAL FINANCING

STRATEGY

MOBILISING & DIVERSIFYING
FINANCING RESOURCES.
DRIVING DEVELOPMENT.
SECURING OUR FUTURE.



INFRASTRUCTURE
INVESTMENT



ECONOMIC
GROWTH



PARTNERSHIPS



INCLUSIVE AND
SUSTAINABLE
DEVELOPMENT

CONTENTS

Contents page	i
List of Boxes	ii
List of Figures	ii
List of Tables	ii
Acronyms & Abbreviations	iii
Preface	vi
Executive Summary	viii
1 Introduction	1
2 Strategic Objective	4
3 National Strategic Development Plan	6
3.1 SDG Financing Gap	7
3.2 Illustrative Costed Action Plan	7
4 Funding & Financing Sources and Trends	9
4.1 Emerging Context	9
4.2 Domestic Public Finance	10
4.3 International Public Finance	20
4.4 Domestic Private Finance	30
4.5 International Private Finance	41
5 Governance and Coordination	52
5.1 How Will the Roadmap Be Executed	54
6 Monitoring and Review	56
7 Risk Assessment & Framework	60
8 Financing Strategy Road Map	62
9 Appendices	66
Appendix I - Indicative Set of Right-Financing Instruments	66
Appendix II - Domestic Public Finance Landscape	68
Appendix III - International Public Finance Landscape	69
Appendix IV - Domestic Private Finance Landscape	70
References/Bibliography	72

CONTENTS

Boxes		
Box 01	Seville FFD4 Outcome	1
Box 02	INFS Key Takeaways & Approach	3
Box 03	Lesotho INFS Measures to Leave No One Behind	5
Box 04	Gender Mainstreaming and GESI upgrade	11
Box 05	Right-Financing Instruments for Sectors	19
Box 06	Adjusting to Declining ODA and SACU Transfers, 2025–2030	22
Box 07	Using ODA Catalytically	25
Box 08	Digital Economy and Digital Finance for SMEs	32
Box 09	Climate Finance and Closing the NDC gap	44
Box 010	SACU Stabilization Fund – Fiscal Rule Concept	61
Figures		
Figure 01	Development Finance Flows Lesotho (as a percentage of GDP)	10
Figure 02	Public Revenue Performance, Lesotho, 2015-2021 (in LSL mil.)	12
Figure 03	Lesotho 2025/26 Budget Allocations by Sector	17
Figure 4A	ODA Receipts for Lesotho (2019-2021)	23
Figure 4B	Bilateral ODA by Sector for Lesotho, 2020 - 2021 Average	23
Figure 05	Private Sector Credit Growth (2011-2025)	31
Figure 06	Lesotho INFS Coordination and Governance Framework	54
Tables		
Table 01	Indicative INFS Costing	8
Table 02	Public Debt and Macro-Economic Indicators	15
Table 03	INFS Indicator Compendium (Baseline - Target - Source - Frequency)	59
Table 04	Lesotho INFS Risk Mitigation and Management Framework	61
Table 05	Lesotho INFS Indicative Roadmap	63

— ACRONYMS & ABBREVIATIONS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AIMS	Aid Information Management System
AiIB	Asian Infrastructure Investment Bank
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AMP	Aid Management Platform
AU	African Union
BEDCO	Basotho Enterprises Development Corporation
BEPS	Base Erosion and Profit Shifting
BoS	Bureau of Statistics
BSP	Budget Strategy Paper
CAFI	Competitiveness and Financial Inclusion Project
CBDC	Central Bank Digital Currency
CBL	Central Bank of Lesotho
CBMS	Central Budget Management System
CMA	Common Monetary Area
CPF	Country Partnership Framework
CSO	Civil Society Organization
DCEO	Directorate on Corruption and Economic Offences
DCR	Development Cooperation Report
DFI	Development Finance Institution (plural DFIs)
DFA	Development Finance Assessment
DFWG	Development Finance Working Group
DMPF	Debt Management Policy Framework
DRMS	Domestic Revenue Mobilization Strategy
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EIB	European Investment Bank
ESG	Environmental, Social and Governance
EU	European Union
FDI	Foreign Direct Investment
FfD4	Fourth International Conference on Financing for Development
FIU	Financial Intelligence Unit
FY	Fiscal Year
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GESI	Gender Equality and Social Inclusion
GIIN	Global Impact Investing Network

ACRONYMS & ABBREVIATIONS

GII	Gender Inequality Index
GNI	Gross National Income
GoL	Government of Lesotho
GPEDC	Global Partnership for Effective Development Cooperation
GRB	Gender-Responsive Budgeting
HMKLIII	His Majesty King Letsie III
ICT	Information and Communication Technology
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IFF	Illicit Financial Flows
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
INFS	Integrated National Financing Strategy
KYC	Know Your Customer
LBS	Lesotho Bureau of Statistics
LDC	Least Developed Country
LHDA	Lesotho Highlands Development Authority
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
LSL	Lesotho Loti
LTDC	Lesotho Tourism Development Corporation
MDB	Multilateral Development Bank
MDAs	Ministries, Departments and Agencies
MEL	Monitoring, Evaluation and Learning
MFDP	Ministry of Finance and Development Planning
MFI	Microfinance Institution
MIGA	Multilateral Investment Guarantee Agency
MoDP	Ministry of Development Planning
MoEM	Ministry of Energy and Meteorology
MoF	Ministry of Finance
MoFDP	Ministry of Finance and Development Planning
MoGYR	Ministry of Gender, Youth, Sports and Recreation
MoH	Ministry of Health
MoLG	Ministry of Local Government
MoTIC	Ministry of Trade, Industry and Cooperatives
MSME	Micro, Small and Medium Enterprise
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
MTFP	Medium-Term Financing Plan
MTRS	Medium-Term Revenue Strategy
NDB	National Development Bank

— ACRONYMS & ABBREVIATIONS

NDC	Nationally Determined Contribution
NDCs	Nationally Determined Contributions
NGO	Non-Governmental Organization
NSDP II	National Strategic Development Plan II
OAG	Office of the Auditor General
OBFC	One Stop Business Facilitation Centre
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Programme
PIM	Public Investment Management
PIMIS	Public Investment Management Information System
PMO	Prime Minister's Office
PPP	Public-Private Partnership
PSIC	Public Sector Investment Committee
PSID	Public Sector Investment Database
PSIP	Public Sector Investment Programme
RSL	Revenue Service Lesotho
RSF	Resilience and Sustainability Facility
SACU	Southern African Customs Union
SADC	Southern African Development Community
SDG	Sustainable Development Goal (pl. SDGs)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SPV	Special Purpose Vehicle
TA	Technical Assistance
TES	Tax Expenditure Statement
TSA	Treasury Single Account
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
VAT	Value-Added Tax
WASH	Water, Sanitation and Hygiene
WTO	World Trade Organization

PREFACE

THE KINGDOM OF LESOTHO stands at a pivotal moment in its development trajectory. As Government implements the National Strategic Development Plan II (NSDP II, 2023/24–2027/28) and advances the Sustainable Development Goals, it is evident that the effectiveness of our financing architecture is as critical as the quantum of resources mobilized. Fragmented, project-based approaches are no longer adequate to meet the scale, complexity, and urgency of our development priorities.

The Integrated National Financing Strategy (INFS) establishes a unified, country-led framework for financing development. It aligns domestic and external, public and private sources of finance within a single, coherent system that links national planning, budgeting, financing, and results. In doing so, the INFS translates policy priorities into actionable fiscal, financial, and institutional measures.

Lesotho's macroeconomic outlook remains stable, supported by revenues from water royalties and the Southern African Customs Union. However, this outlook is subject to structural and external vulnerabilities, including declining grant inflows, limited private investment, and exposure to climate-related and external shocks. In this context, the INFS shifts the policy emphasis from resource mobilization alone to the strategic allocation, efficient utilization, and measurable impact of all public and private financing.

The strategy reaffirms Government's commitment to fiscal and debt sustainability, macroeconomic stability, and intergenerational equity. It prioritizes the expansion of fiscal space, the catalytic deployment of concessional finance, the crowding-in of private capital, and system-wide coordination. Climate resilience and gender equality are integrated as economic imperatives, reflecting their centrality to inclusive and sustainable growth.

The INFS is fully embedded within national systems, particularly the Medium-Term Expenditure Framework and the annual budget process. Its streamlined governance arrangements, supported by robust monitoring, evaluation, and learning mechanisms, are designed to ensure accountability, policy coherence, and adaptive implementation.

The Government expresses its appreciation to the Ministry of Finance and Development Planning, line ministries, and all stakeholders who contributed to the preparation of this strategy. We acknowledge the technical and financial support of the United Nations Development Programme (UNDP) Lesotho and the continued partnership of development partners, the private sector, civil society, academia, and participating communities.

This strategy does not assume unlimited resources; rather, it commits to maximizing the development impact of available financing. Its successful implementation will require sustained discipline, institutional coordination, and collective ownership. The Government therefore calls upon all stakeholders to support its execution in pursuit of a resilient, inclusive, and sustainable economy for all Basotho.



Honourable Retšelisitsoe Matlanyane (MP)

Minister of Finance and Development Planning
Kingdom of Lesotho



EXECUTIVE SUMMARY

Purpose and Strategic Rationale

The Integrated National Financing Strategy (INFS) provides Lesotho with a single, coherent framework to mobilize, align, and deploy all sources of finance in support of the National Strategic Development Plan II (NSDP II) and the UN Sustainable Development Goals (SDGs). The strategy shifts Lesotho from fragmented, project-based financing to a unified, results-driven national financing system linking planning, budgeting, financing, and delivery.

Towards 2030, Lesotho will adopt a mixed financial model which mirrors short-term fiscal surpluses like Southern African Customs Union (SACU) transfers and water royalties with structural vulnerabilities like revenue volatility, limited capital absorption, declining official development assistance (ODA), weak private investment, and high exposure to climate and trade shocks. The INFS responds by prioritizing the efficiency, resilience, and impact of finance over its volume. It serves as the country-owned framework for translating global financing reforms into concrete fiscal, financial, and institutional actions.

Strategic Objective

The INFS will mobilize and align domestic and international, public and private finance to close Lesotho's development financing gap while safeguarding fiscal and debt sustainability. It prioritizes four outcomes: (i) expanded fiscal space, (ii) catalytic use of concessional finance, (iii) increased private investment, and (iv) strengthened system-wide coordination. Climate resilience and gender equality are embedded as core economic and fiscal priorities.

Macroeconomic Context and Financing Gap

Lesotho remains one of Africa's stronger macroeconomic performers under current projections. The IMF's SDG Financing Tool baseline indicates that, under existing policies, Lesotho is on track to reach key SDG thresholds in key sectors by around 2036–2037. Additional annual financing needs to accelerate progress toward 2030 will amount to approximately 8.3 percent of GDP, which is manageable relative to peers. This baseline is, however, fragile. SACU revenues will normalize toward historical averages, ODA will tighten and shift toward loans and blended instruments, and growth will remain modest without structural reform. The INFS, therefore, prioritizes investment quality, sequencing, and leverage to maximize development impact per loti mobilized.

Financing Landscape and Key Trends

Domestic Public Finance

Public finance will remain the backbone of development financing. Tax revenues exceed the African average, but the revenue base will remain narrow and volatile, with heavy reliance on SACU transfers. The INFS will strengthen public financial management focusing on:

- Medium-term revenue and expenditure credibility.
- Stronger public investment management and project appraisal.
- Commitment controls and arrears prevention.
- Gender- and climate-responsive budgeting.

A rules-based fiscal framework - anchored in a SACU stabilization mechanism and a statutory debt rule - will safeguard macroeconomic stability and intergenerational equity.

International Public Finance

ODA will continue to play an important but declining role, with grants falling, and concessional loans, guarantees, and blended instruments increasing. The INFS repositions ODA as a catalytic instrument to unlock additional finance, rather than a primary funding source. It will be used to:

- De-risk private investment through guarantees and first-loss capital.
- Finance project preparation and institutional reform.
- Support climate and gender outcomes where market finance is insufficient.

A strengthened Aid Coordination Forum within the Ministry of Finance and Development Planning (MoFDP) will ensure full alignment of external resources with national priorities and the INFS pipeline.

Domestic Private Finance

Domestic private finance remains underutilized. Credit to the private sector is shallow, MSMEs face persistent access constraints, and institutional investors allocate most assets offshore. The INFS will unlock domestic capital through targeted financial sector reforms and institutional strengthening. Priorities include:

- Reforming credit guarantee schemes and MSME finance products.
- Mobilizing pension and insurance assets for domestic investment.
- Strengthening development finance institutions.
- Deepening domestic capital markets through bond issuance and yield-curve development.

International Private Finance

Foreign direct investment has weakened, reflecting structural constraints. The INFS shifts the focus from investment promotion to investment readiness. Key actions include:

- Regulatory predictability and contract enforcement.
- Bankable pipelines aligned with the SDG Investor Map.
- Targeted de-risking in priority sectors, such as renewable energy, agro-processing, water, health, and digital infrastructure.

Climate and Gender as Economic Priorities

Climate vulnerability and gender inequality are treated as macro-critical constraints to growth and fiscal stability. Climate finance will be integrated into budgeting, public investment management, and debt strategies. The INFS will strengthen climate finance coordination, develop bankable NDC-aligned pipelines, and scale access to global and regional climate financing instruments.

Gender-responsive finance will be institutionalized across all pillars. Mandatory gender tagging, sex-disaggregated indicators, and ex-post gender audits will be embedded across public and private financing instruments. Closing gender gaps will expand labour participation, productivity, and fiscal resilience.

Governance and Coordination

Implementation will follow a deliberately lean governance model to match institutional capacity. The Integrated National Financing Framework (INFF) will serve as the single coordination architecture. Key features will include:

- High-level political oversight for strategic direction.
- A single executive coordination committee chaired by MoFDP.
- A Development Finance Working Group as the technical gatekeeper for all financing proposals.
- A small, embedded Secretariat focused on process discipline, data integrity, and reporting.

The INFS will be fully integrated into the Medium-Term Expenditure Framework and annual budget cycle, ensuring Cabinet oversight and eliminating parallel processes.

Monitoring, Evaluation, and Learning

A robust Monitoring, Evaluation, and Learning (MEL) system will ensure results. An Integrated Financing Dashboard will provide a single source of data across all financing flows. Key indicators will track: (i) domestic revenue and expenditure efficiency, (ii) ODA leverage, (iii) private capital mobilization, and (iv) climate- and gender-tagged spending.

Quarterly performance reviews will directly inform budget adjustments, policy corrections, and pipeline prioritization.

Risk Management

The INFS operates in a high-risk environment shaped by political volatility, SACU dependence, climate shocks, and capacity constraints. Risk management is embedded across all pillars and decision-making processes. This includes:

- mandatory ministry-level risk registers,
- quarterly cross-pillar risk reviews, and
- integration of risk analysis into budget and MTEF decisions.

Fiscal buffers - including a SACU stabilization fund, disaster-risk financing instruments, and prudent debt management - will mitigate shocks.

Financing Strategy Roadmap

The INFS Roadmap will translate strategy into action through a sequenced, rolling three-year plan. Initial actions focus on restoring credibility, strengthening coordination, and preparing bankable pipelines; subsequent phases scale blended finance, thematic bonds, and private investment instruments.

Conclusion

The INFS represents a structural shift in how Lesotho plans, mobilizes, and uses finance. By aligning global commitments with national systems, embedding climate and gender as economic imperatives, and enforcing discipline through strong governance and monitoring, it will position Lesotho to accelerate development outcomes, while preserving fiscal sustainability. Therefore, it is designed to ensure that every loti delivers greater, longer-lasting, and measurable impact for the Basotho people.

Structure of the INFS

The Integrated National Financing Strategy (INFS) is structured into eight chapters, each addressing a core element of Lesotho's financing architecture and implementation framework.

- **Chapter 1: Introduction** defines the purpose, scope, and strategic rationale of the INFS, including its alignment with NSDP II and Lesotho's international financing commitments.
- **Chapter 2: Strategic Objective** sets out the overarching objective and sub-objectives of the INFS, clarifying how domestic and international, public and private finance will be mobilized and aligned to close the national financing gap.
- **Chapter 3: National Strategic Development Plan** outlines the NSDP II framework, includes the SDG Financing Gap and an illustratively costed action plan to anchor financing priorities and sequencing.
- **Chapter 4: Funding & Financing Sources and Trends** examines Lesotho's evolving financing landscape across domestic and international, public and private sources, highlighting key trends in revenues, debt, aid, and private capital flows.
- **Chapter 5: Governance and Coordination** details the institutional arrangements, decision-making structures, and coordination mechanisms that ensure accountability, discipline, and coherence in INFS implementation.
- **Chapter 6: Monitoring and Review** establishes the results framework, indicators, and data systems used to track financing performance and inform policy adjustment.

- **Chapter 7: Risk Assessment Framework** identifies systemic, fiscal, macroeconomic, and implementation risks, and defines mitigation measures embedded within INFS governance and monitoring systems.
- **Chapter 8: Financing Strategy Road Map** translates the INFS into a sequenced and actionable implementation plan, setting out priority actions, timelines, responsible institutions, and performance indicators to ensure sustained delivery and impact.

a Mashome a Ma

1 INTRODUCTION

THE LESOTHO INTEGRATED NATIONAL FINANCING STRATEGY (INFS) establishes a single, coherent national framework for mobilizing, aligning, and deploying public and private finance in support of the National Strategic Development Plan II (NSDP II) and the Sustainable Development Goals (SDGs). The INFS defines the fiscal, regulatory, institutional, and financial reforms required to expand fiscal space and direct investment toward national development priorities. While recent fiscal and current account surpluses have been supported by exceptional SACU receipts and water royalties, these conditions are cyclical. Sustained development progress, therefore, depends on structural reforms that improve efficiency, strengthen coordination, and ensure long-term development impact.

The strategy is anchored in the Government's broader reform agenda and serves as Lesotho's national instrument for translating international financing commitments into a country-owned, operational framework. These commitments, reaffirmed at the Fourth International Conference on Financing for Development (FfD4), held in Seville, Spain, in 2025, are operationalized through the INFS by embedding financing reforms directly within core national systems, including the Medium-Term Expenditure Framework (MTEF), the Public Sector Investment Programme (PSIP), and debt management processes. This ensures that international principles are applied through Cabinet-endorsed policy actions and are aligned with national development and SDG priorities.

Box 1 SEVILLE FFD4 OUTCOME

The FfD4 reaffirmed the shift from fragmented aid dependence toward country-owned, integrated financing frameworks that align domestic resources, concessional finance, and private capital in support of the SDGs. The Seville Commitment emphasized practical reforms to improve fiscal discipline, safeguard debt sustainability, and deploy concessional and blended finance more effectively. These principles are reflected in the INFS through a focus on integrated financing architecture, disciplined instrument selection, and sequencing mechanisms that support inclusive and climate-resilient growth (UNDP, 2024; IMF, 2025). Its recommendations are:

- Treat ODA as a catalytic instrument rather than a primary financing source.
- Operationalize a country-owned financing framework by embedding INFF principles and the Global Financing Playbook within planning and budgeting systems.
- Prioritize bankable, SDG-aligned investment pipelines supported by standardized appraisal, risk, and results frameworks.
- Introduce a sovereign financing calendar to sequence concessional finance, guarantees, and private capital mobilization.
- Publish an annual Financing for Development report tracking leverage, crowd-in, and transaction costs.

The INFS responds to a central policy challenge facing Lesotho by converting temporary revenue windfalls into durable, inclusive growth. It provides a structural roadmap for improving investment efficiency, strengthening fiscal discipline, and establishing buffers through a stabilization mechanism and a rules-based fiscal framework, thereby shifting policy focus from short-term fiscal management toward an investment-driven approach that channels SACU revenues and water royalties into productive SDG-aligned national programmes.

The INFS aligns with the NSDP II by integrating NSDP II priorities into a unified financing ecosystem linking ministerial expenditure frameworks and project appraisal mechanisms under the PSIP and PSIC. This enables public, private, and concessional finance flows to be tracked against NSDP II targets within the MTEF process.

The INFS also draws on the SDG costing baseline, which indicates that under existing resource trends, Lesotho would achieve selected SDGs, including education and health, by around 2038. At the same time, persistent gender inequality and high climate vulnerability remain binding constraints on growth and resilience. These constraints underscore the need for a financing strategy that improves allocation efficiency and accelerates progress.

Implementation of the INFS will be driven through Cabinet-endorsed coordination mechanisms designed to ensure inter-ministerial accountability and execution discipline. Clear responsibilities are assigned within existing government structures, including the PSIC and the Performance Assessment Framework (PAF), linking financing decisions directly to performance targets and development outcomes. Climate adaptation and mitigation financing is embedded within national investment pipelines aligned with Lesotho's Nationally Determined Contributions, supporting economic diversification, resilience, and long-term sustainability.

Gender equality is mainstreamed under the INFS. The strategy institutionalizes gender-responsive budgeting and integrates gender-disaggregated data into the national financing dashboard, enabling policymakers to assess how each financing flow affects women's economic participation and empowerment. This approach reinforces Lesotho's commitments under the Global Partnership for Effective Development Cooperation (GPEDC).

The INFS also redefines how Lesotho should approach fiscal management. It emphasizes right-financing through improved debt management, reallocation of inefficient spending, and the catalytic mobilization of private and concessional capital. In line with IMF recommendations, the framework supports the establishment of a Stabilization and Resilience Fund to manage cyclical surpluses and promote intergenerational equity. The INFS marks a decisive shift from fragmented, project-based financing toward a cohesive national financing system that links planning, budgeting, financing, and monitoring. It operationalizes the principles of country ownership, fiscal transparency, and integrated policymaking advanced by the Addis Ababa Action Agenda.

Box 2 INFS KEY TAKEAWAYS & APPROACH

The INFS is a fully integrated, government-led strategy that aligns fiscal, institutional, and financial reforms to accelerate progress toward the achievement of SDGs.

- It defines the policy, regulatory, and financing transformations required to expand fiscal space while maintaining fiscal prudence and debt sustainability.
- The strategy localizes international financing commitments and operationalizes the Global Financing Playbook within Lesotho's national planning, budgeting, and financing systems.
- It is fully aligned with the NSDP II, NDC 2.0, MGEF, and PSIP/PSIC, ensuring that financing decisions directly support national development priorities.
- The SDG costing baseline indicates that key goals, would be reached by around 2038 under existing trends; INFS reforms aim to accelerate achievement into the early 2030s.
- The framework embeds climate resilience and gender equality as core financing and fiscal priorities.
- Implementation will be Cabinet-driven, using the PAF and the INFS financing dashboard. The INFS demonstrates how Lesotho, a Least Developed Country, can translate global financing reforms into disciplined national fiscal transformation and accelerated SDG delivery.

2 STRATEGIC OBJECTIVE

THE INFS WILL MOBILIZE AND ALIGN ALL public and private, domestic and international sources of finance to fund the NSDP II and the 2030 SDGs national priorities. Its goal is to close the national financing gap, reduce poverty and inequality, and ensure that development leaves no one behind (See Box 3 below), and manage fiscal pressures from declining SACU revenues. Lesotho has signed to the Seville Commitment by operationalizing a country-owned INFF platform, engaging the INFF Facility, and integrating the Global Financing Playbook into national planning and budgeting. It aims to achieve the following sub-objectives:

- **Domestic Public Finance:** Improves public finance management for more efficient spending and increased domestic revenue mobilization; ensure fiscal sustainability; reform and rationalize underperforming SOEs; advance fiscal decentralization; and strengthen domestic capital markets to leverage private investment in public services.
- **Domestic Private Finance:** Fosters private sector-led growth by improving the business climate and financial infrastructure; expand access to finance for local enterprises promotes innovation and economic diversification through better regulations and support for entrepreneurs; and strengthens the role of domestic institutional investors, such as insurance companies and pension funds, and LNDC in leveraging private capital through blended finance, credit guarantees, and co-investment mechanisms.
- **International Public Finance:** Mobilize and align external public finance with Lesotho's national priorities (NSDP II, NDC 2.0 and SDGs) and reform agenda; strengthen coordination with development partners for policy reforms and capacity building; and maximize use of concessional resources.
- **International Private Finance:** Attracts greater international private capital by promoting FDI in priority sectors, harnessing diaspora investment and remittances; bolster investor confidence through stable policies; and facilitate innovative financing (e.g., blended finance, guarantees and risk-sharing instruments).

Box 3 LESOTHO INFS MEASURES TO LEAVE NO ONE BEHIND

At its core, the INFS prioritizes inclusion to ensure that no one is left behind in Lesotho's development. It adopts an integrated approach with measures to address the needs of vulnerable groups and reduce inequalities through:

- **Inclusive Policy Design:** Prioritize marginalized groups (women, youth, people with disabilities, and rural communities).
- **Gender-Responsive Budgeting:** Integrate gender equality objectives into public budgets, directing re-sources to empower women and girls.
- **Decentralization and Local Empowerment:** Empower local authorities through fiscal decentralization.
- **Equitable Public Investment:** Target public investments toward poor and remote regions so that all communities have adequate infrastructure and services, reducing rural poverty and regional disparities.
- **Digital Inclusion:** Bridge the digital divide by expanding connectivity and digital literacy in rural and low-income areas.
- **Inclusive Participation:** Strengthen participatory governance by engaging civil society and marginalized groups in decision-making processes.

3 NATIONAL STRATEGIC DEVELOPMENT PLAN

THE NSDP II 2023/24–2027/28 SETS OUT THE DEVELOPMENT VISION for an inclusive, sustainable, and equitable growth for Lesotho. Originally planned to end in 2022/23, the plan was extended to 2027/28 to ensure effective implementation. The plan integrates economic, social and governance objectives into a cohesive roadmap. It aligns public resources, partnerships, and institutional reforms to boost productivity, create jobs, strengthen infrastructure, enhance human capital, and improve GoL governance systems.

The NSDP II organizes Lesotho's development trajectory around six major pillars:

- **Growth Progression** – Expands productive sectors, enhance competitiveness and stimulate private-sector-led growth.
- **Social Transformation** – Invests in human capital, health, education and social protection.
- **Infrastructure Development** – Builds and maintain critical infrastructure in energy, water, transport and ICT.
- **Good Governance and Accountability** – Strengthens public institutions, enhance transparency, fight corruption, and improve service delivery.
- **Cross-Cutting Themes** – Integrates climate resilience, gender equality and inclusiveness across all sectors.
- **Implementation, Monitoring and Evaluation** – Embeds results-focused frameworks and performance monitoring to ensure accountability and adaptability.

These pillars signal a shift from short-term, fragmented efforts to a more integrated, performance-oriented approach that connects planning to finance and execution.

Listed below are Lesotho's major government planning instruments that guide national development policy and implementation. These frameworks define the hierarchy from long-term vision to medium-term strategy, fiscal planning, sector delivery, and project execution. The INFS will be embedded across all these instruments:

- **National Vision:** Long-term national development strategy, currently guided by Lesotho Vision 2020, focused on inclusive growth, good governance, human capital development, and environmental sustainability.
- **National Strategic Development Plan (NSDP II):** Mid-term national planning framework, extended to 2027/28, defining priorities for growth progression, social transformation, infra-structure development, and governance and accountability, with cross-cutting emphasis on climate resilience and gender equality.
- **Medium-Term Expenditure Framework (MTEF):** Rolling three-year fiscal planning and budgeting framework that enforces fiscal discipline, improves expenditure efficiency, and aligns sectoral budgets with national priorities.
- **Sector Plans:** Ministerial-level medium-term and annual plans translating NSDP II priorities into sector-specific policies, programmes, and investments across.
- **Nationally Determined Contributions (NDCs):** National climate commitments under the Paris Agreement, updated in 2023, focusing on climate adaptation and mitigation across key sectors.

3.1 SDG Financing Gap

Lesotho has not yet undertaken a comprehensive national SDG costing exercise, but the IMF SDG-FiT baseline provides a credible reference point for assessing the scale of the challenge. Under current policies, Lesotho is projected to achieve key SDGs in education, health, water and sanitation, energy, and infrastructure by around 2036–2037. The estimated additional financing required to accelerate achievement toward 2030 is approximately 8.3 percent of GDP per year. Macroeconomic conditions remain stable under this baseline, with GDP per capita projected to rise from USD 1,020 in 2024 to about USD 1,376 by 2034, real GDP growth averaging 2.1–2.8 percent annually, fiscal balances remaining close to zero deficit at around 0.6 percent of GDP, and revenues and grants holding steady at roughly 62–63 percent of GDP. Public debt is projected to decline gradually from about 52.4 percent of GDP in 2024 to around 49 percent by 2054.

The SDG-FiT results show that Lesotho's baseline and accelerated SDG scenarios effectively coincide, meaning no large investment shock is required to meet the modeled SDGs under current assumptions. This reflects an efficient expenditure mix, with SDG-related spending rising from about 20.6 percent of total expenditure in 2024 to 28.3 percent by 2054 through reprioritization rather than heavy new borrowing. Sustaining this favorable trajectory will depend on maintaining fiscal discipline as SACU revenues normalize, improving capital spending efficiency, protecting social investment, and strengthening resilience to external shocks. The financing gap is therefore manageable but conditional, underscoring the need for the INFS to focus on efficiency, sequencing, and optimal use of domestic reforms, private capital, and targeted concessional and blended finance.

3.2 Illustrative Costed Action Plan

A costed action plan for INFS delivery will need to be developed. Each INFS pillar will be implemented through a rolling three-year MTFP that details activities, cost estimates, and financing sources. Funding sources will include (i) annual budget allocations from MoFDP, (ii) Development Partner technical assistance and trust funds, and (iii) private-sector co-financing under blended mechanisms. The estimated financing requirement for full INFS rollout (2025–2030) is USD 45–60 million, of which 60% will come from domestic budgets and 40% from external grants and technical assistance. Annual financing gaps will be reviewed during the budget cycle, with mitigation measures including reprioritization, resource pooling, and pipeline consolidation.

The estimated cost of USD 45–60 million refers exclusively to the institutional, technical, and operational costs required to implement the INFS itself, rather than to the financing of development projects, SDG investments, or sectoral programmes. The estimate is indicative and benchmarked against comparable INFF and PFM reform programmes, reflecting a phased rollout over 2025–2030 and aligned with absorptive capacity and fiscal realism.

Table 1		INDICATIVE INFS COSTING		
No.	Cost Category	Description	Indicative Share	USD (Approx.)
1.	Coordination & Governance.	INFS Secretariat, committee operations, coordination platforms, reporting.	10–12%	4–7 m
2.	Technical Assistance & Advisory.	PFM alignment, right-financing design, legal/regulatory work, PPP and blended finance TA.	20–25%	9–14 m
3.	Systems & Digital Infrastructure.	Integrated Financing Dashboard, IFMIS tagging (SDG, gender, climate), data integration	15–18%	7–10 m
4.	Project & Pipeline Preparation.	Bankability studies, feasibility, SDG Investor Map updates, climate project preparation.	18–22%	8–12 m
5.	Pilot Instruments & Facilities.	Piloting guarantees, blended facilities, results-based financing, diaspora instruments.	20–25%	9–14 m
6.	Capacity Building & Change Management.	Training MDAs, financial institutions, subnational actors, MEL systems.	8–10%	3–5 m
Total (Indicative)			100%	45–60 m

4 FUNDING & FINANCING SOURCES AND TRENDS

THIS SECTION OUTLINES LESOTHO'S EVOLVING FINANCING LANDSCAPE across public, private, domestic, and external sources. It examines shifts in revenue composition, debt dynamics, and aid flows, alongside opportunities from blended finance, climate funds, and private investment. Diversification and strategic alignment of financing sources are critical to sustaining fiscal stability, closing the development financing gap, and advancing national and global development goals.

4.1 Emerging Context

Lesotho's short-term fiscal position has improved due to high SACU transfers and increased water royalties. The country recorded a fiscal surplus of approximately 9 percent of GDP in FY2024/25, while public debt declined to around 56.8 percent of GDP. However, this fiscal space is exposed to significant volatility, as SACU receipts are expected to normalize in the coming years. This underscores the need for prudent fiscal management, strengthened domestic revenue mobilization, and economic diversification to sustain stability (IMF, 2025).

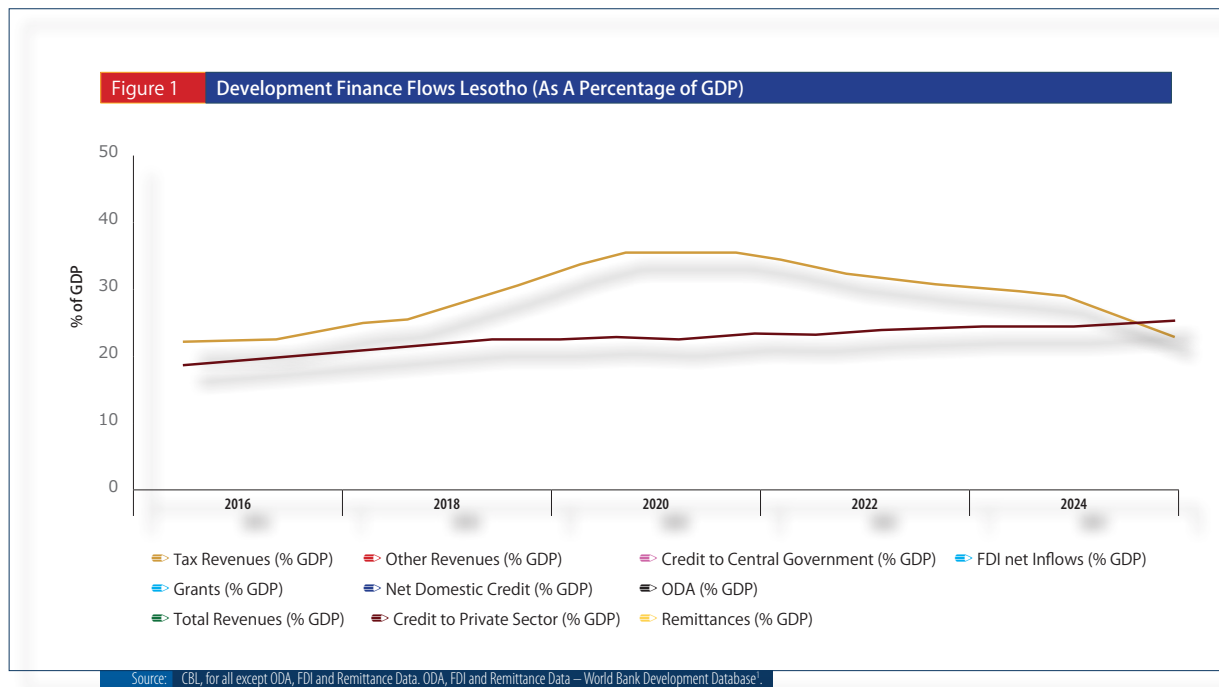
Growth prospects remain modest, with projections of around 1.4 percent in FY 2025/26 reflecting continued external headwinds. Lesotho's export performance is highly concentrated in textiles and diamonds, leaving the economy exposed to shifts in global demand and trade conditions. These exposures are compounded by the loti's peg to the South African rand, which transmits imported inflation and constrains monetary flexibility. Together, these factors underscore the importance of export diversification, value-chain upgrading, and resilience-oriented financing strategies.

Against this backdrop, the INFS is designed not only to maximize the strategic deployment of scarce ODA, but also to transform the structure of development finance by shifting from dependency to dynamism. It aims to broaden the domestic tax base, strengthen public investment management, and advance fiscal decentralization. Crucially, it positions ODA as a catalytic resource to unlock additional finance through instruments such as blended finance, diaspora bonds, guarantees, and results-based models. The strategy seeks to expand the role of the private sector, crowd in investment, and diversify funding sources to reduce fiscal vulnerability and accelerate progress toward national development priorities and the SDGs.

The strategy also reflects that Lesotho's development financing landscape is being reshaped by a global decline in concessional resources and a shift away from traditional budget support. The international aid architecture is under mounting pressure due to escalating global crises and rising debt servicing costs in donor countries, triggering a pivot toward more transactional forms of finance. Despite this, Lesotho enters this transition from a position of relative fiscal strength.

Between 2015 and 2024, Lesotho's financing structure has shifted (See Figure 1 below) and government revenues rose. However, they have since declined with the normalization of SACU receipts. ODA and grants have steadily decreased as a share of GDP, reinforcing the need for alternative financing sources.

Private-sector credit has grown gradually, indicating modest financial deepening, while government borrowing has remained contained. Remittances remain a dominant and stable inflow, exceeding 24 percent of GDP and surpassing ODA and FDI combined, providing a key buffer for households and external stability.



In contrast, FDI has declined and turned negative in recent years, reflecting structural weaknesses in the investment climate. Overall, the financing system is transitioning toward greater reliance on domestic resources, remittances, and private-sector engagement.

Public finance remains the dominant source of development funding, followed by remittances. However, shallow domestic credit and declining FDI constrain investment and productivity. Strengthening capital markets and improving the investment climate are therefore critical priorities.

4.2 Domestic Public Finance

Lesotho’s economic and fiscal trajectory is deeply intertwined with that of South Africa through SACU and the Common Monetary Area (CMA). While this integration offers benefits, it also exposes Lesotho’s fiscal space to external shocks. With limited monetary autonomy under the Loti–Rand peg, maintaining fiscal prudence and debt sustainability is essential.

Lesotho’s Public Financial Management (PFM) system includes the core components of a modern framework, progressively strengthened through legislation like the Public Financial Management and Accountability Act of 2011. However, in the 2023 Open Budget Survey, Lesotho scored 35 out of 100 for transparency, 9 out of 100 for public participation, and 22 out of 100 for budget oversight, indicating significant room for improvement. The 2024 Public Expenditure and Financial Accountability (PEFA) assessment confirms that macro-fiscal forecasting,

¹ FAI data taken from the respective databases, without any intervention. World Bank data reported as a percentage of GDP; CBL data in LSL have been recalculated as a percentage of GDP. GDP data provided by CBL.

budget preparation, and internal control systems have improved, but challenges persist in multi-year budgeting, expenditure arrears, and revenue predictability. The Medium-Term Expenditure Framework (MTEF), though in use, remains weak in practice—largely functioning as a repackaged annual budget.

The PEFA 2024 assessment finds that capital projects remain a notable area of weakness. Deficiencies in systematic project appraisal - such as full lifecycle costing and benefit–cost analysis - mean that investments are not always delivered on schedule, within budget, or aligned with strategic objectives. Strengthening multi-year budgeting, rigorous appraisals, and tighter monitoring are emphasized as key reform priorities.

Looking ahead, the PEFA recommends renewed attention to arrears monitoring, medium-term fiscal frameworks, and performance-oriented budgeting. Sustaining these gains will require integration of digital systems across treasury, procurement, and revenue agencies, as well as continued investment in gender mainstreaming (See Box 5 below).

Box 4 GENDER MAINSTREAMING AND GESI UPGRADE

Gender equality and social inclusion (GESI) are foundational to achieving sustainable growth and equitable economic outcomes in Lesotho. Persistent gender gaps in employment, access to finance, and social protection continue to limit overall productivity and resilience. Integrating gender considerations across fiscal, financial, and policy frameworks therefore represents not just a social priority but a core economic strategy. Consultation highlighted misconceptions of gender, lack of audits, weak data, and limited enforcement. The initiatives outlined below exemplify ongoing and emerging measures by government and partners to strengthen gender mainstreaming within national financing systems. These efforts are critical to achieving fairer distributional outcomes, improving labour participation, and ensuring that women, youth, and other marginalized groups are active participants in economic transformation (UNDP, 2024; IMF, 2025).

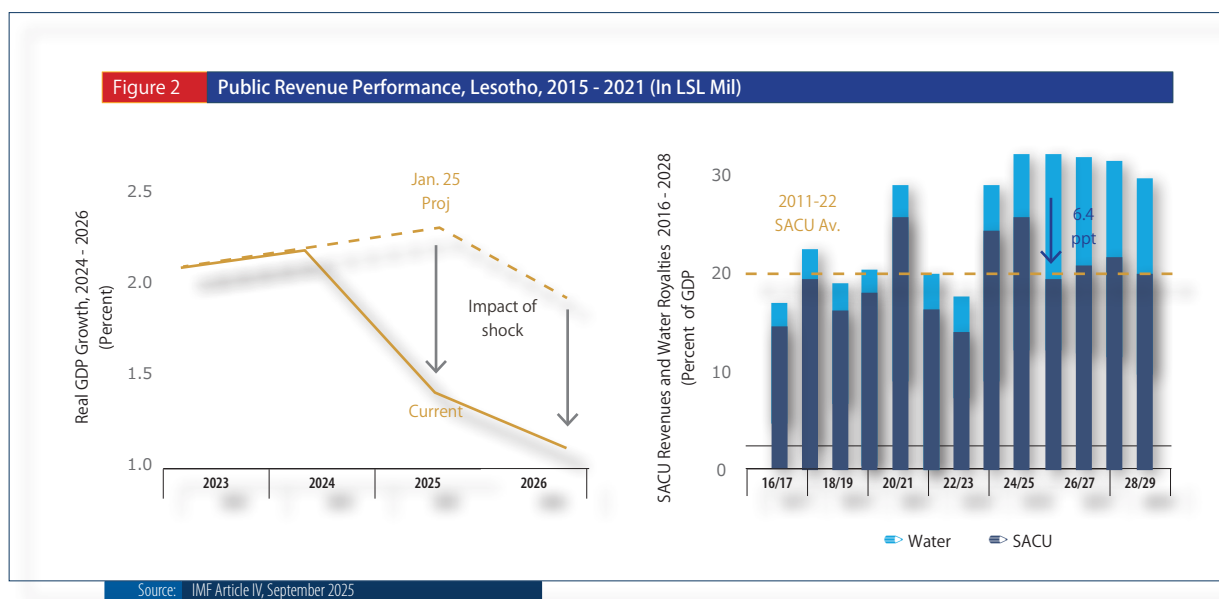
- **Scale gender-responsive budgeting** across all MDAs and implement mandatory sex-disaggregated targets and performance indicators to enable effective monitoring and evaluation, including in-year reporting.
- **Institutionalize periodic gender audits** in budgeting, revenue policy, and procurement, with public action plans that ensure policies and programmes address gender-equality and reduce existing disparities.
- **Expand social protection coverage** for women and youth in the informal economy through portable benefits, simplified enrolment, and sustained wide coverage.
- **Elevate to a Gender Equality and Social Inclusion (GESI) approach** that is intersectional and considers people living with disabilities, youth, rural communities, and other social groups. Ensure that concessional and blended finance deals are tied to GESI covenants, including gender parity in project employment, supplier diversity, and equitable access to finance.

These measures illustrate the deepening integration of gender and inclusion principles into Lesotho’s public-finance architecture. Equality and empowerment are central drivers of inclusive growth rather than secondary policy objectives.

To operationalize gender integration, MoFDP would issue a ‘GESI Tagging Manual’ with tagging codes, examples, and roles within IFMIS. Annual ‘Gender and Inclusion Budget Statements’ would accompany the Budget Speech, presenting expenditures by gender and inclusion categories. Pilot gender audits would be expanded from two to six ministries by 2026, supported by training on GRB methodologies.

Public Revenue

Figure 2 below illustrates two key trends relevant to Lesotho’s fiscal outlook. Real GDP growth is projected to slow sharply from over 2 percent in 2024 to just above 1 percent by 2026, largely reflecting the impact of external and domestic shocks. At the same time, the composition of public revenue is shifting, with SACU receipts forecast to decline by 6.4 percentage points of GDP between FY2023/24 and FY2025/26, returning to their long-term average of around 20 percent of GDP. This decline is partially offset by rising water royalties, projected to reach 13 percent of GDP in FY2024/25 before stabilizing near 10 percent, supporting continued fiscal surpluses in the medium term provided capital expenditure remains constrained by limited implementation capacity. Within the domestic revenue structure, value-added tax (VAT) contributes 7.7 percent of GDP and accounts for 38 percent of total tax revenue, making it Lesotho’s largest tax instrument. Personal income tax is the second-largest source, derived mainly from public sector salaries given the limited role of the private sector, while corporate income tax remains volatile due to fluctuations in the mining and finance sectors. Excise taxes on alcohol and tobacco have been introduced but are not yet fully operational, and health-related levies, such as sugar taxes, are still absent.



Non-Tax Revenues

The non-tax revenues in Lesotho - primarily from water royalties and mining - remain a significant and stable source of income, contributing about 5 to 6 percent of GDP. With renegotiated water royalties projected to rise to 13 percent of GDP in FY2024/25 before stabilizing at around 10 percent, their fiscal role is expanding. The government has introduced tax reforms to limit VAT refunds from mining exports and reclassified diamond royalties as non-deductible expenses to address revenue leakages. While preferential tax rates, such as the 10 percent corporate tax for textiles and agriculture, have been used to attract FDI, their effectiveness remains unassessed.

Existing governing policies and ongoing reforms/initiatives

The Lesotho's tax system has all core features of a modern regime. However, it lacks some key policy and administrative features. Whilst the 2024 IMF Article IV and PEFA assessments noted improvements in tax digitalization and taxpayer services, they highlight continuing weaknesses in compliance, forecasting accuracy, and informal sector exclusion. Micro, Small and Medium Enterprises (MSMEs) remain largely outside the tax net, with the high VAT threshold of LSL850,000 and limited incentives discouraging formalization. A presumptive tax applies to transport and retail sectors, though reforms are being considered. VAT, personal income tax, and corporate income tax remain the main contributors to revenue, while excise duties are underutilized despite stated policy intentions to expand them. Mining taxation is still highly inconsistent, with no national framework for setting royalties, allowing individual contracts to vary widely. Companies often reduce their tax base through loans from parent firms and transfer pricing practices. Corporate tax stands at 25 percent, but strategic sectors like textiles and agriculture are taxed at 10 percent, with no assessment to date of the effectiveness or fiscal impact of these incentives.

State-owned enterprises contribute around 3 percent of total revenues but are frequently criticized for inefficiency, mismanagement, and weak service delivery. Some have become fiscal liabilities rather than assets. Reforming these entities, especially those with economic development mandates, remains a priority. The Revenue Service Lesotho, formerly the LRA, has improved operational capacity with support from the African Development Bank's Tax Modernization Project, although weaknesses remain in audit capacity, arrears tracking, and taxpayer segmentation. A more systematic and targeted approach is needed to close collection gaps, expand the tax base, and ensure a more equitable and efficient revenue system.

Key Challenges and Actions

The country faces challenges in revenue collection, policy coherence, and performance monitoring. A Domestic Revenue Mobilization Strategy has not been adopted, and revenue forecasts remain unreliable .

Key Strategic Actions

- **Develop a Medium-Term Revenue Strategy (MTRS)** to mobilize diverse financial resources, including innovative, green, and gender finance.
- **Develop a Domestic Revenue Mobilization Strategy (DRMS)** to provide overarching vision for mobilizing domestic resources, including through tax reform and innovative financing instruments.
- **Strengthen revenue forecasting and development planning** by improving programme budgeting, data flows, and staff capacity.
- **Enhance VAT performance** by harmonizing rates, lowering the registration threshold, and introducing compulsory fiscal registers.
- **Introduce environmental and health-related excise taxes** to diversify revenue while promoting sustainability and public health.
- **Expand MSME participation in the tax system** through simplified registration, early-stage fee exemptions, and digital tools.
- **Reduce overreliance on SACU revenues** by diversifying domestic revenue sources and advocating for a review of the SACU sharing formula.

- Introduce a unified Mining Fiscal Framework with clear, transparent royalty rates and contract terms.
- Simplify and rationalize corporate taxation, including structured reduction of headline rates and elimination of arbitrary exemptions.
- Introduce a Transfer Pricing and Base Erosion and Profit Shifting (BEPS) framework to strengthen oversight of multinational firms.
- Undertake a comprehensive Tax Expenditure Review and publish an annual Tax Expenditure Statement.
- Expand property and local taxation by updating valuation rolls and digitizing land registries.
- Disaggregate and manage 'other revenues' to improve transparency.
- Establish a National Public Enterprises Authority to oversee all SOEs and implement a reform strategy, including institutionalizing merit-based and inclusive board appointments across the SOEs.
- Mainstream gender-responsive planning, taxation, and expenditure by introducing gender-responsive policies and programmes.
- Undertake a gender analysis of the financial sector and identify opportunities for gender-responsive financial products.
- Conduct gender audits across public institutions and extend to the private sector.

Public Borrowing

Public debt levels have eased slightly but remain high. As of March 2025, gross public debt stood at 56.8% of GDP, with about 80% held externally on concessional terms (IMF, 2025). The debt trajectory has been cushioned by record SACU transfers and renegotiated water royalties.

The Debt Sustainability Analysis (DSA) classifies Lesotho's debt risk as moderate but with heightened vulnerabilities, particularly to SACU revenue volatility. The IMF projects public debt to stabilize around 57% of GDP through FY2030, assuming continued fiscal discipline.

Public Debt Position, FY2024–2026

Table 3 below summarizes the Lesotho's public debt and key macro-fiscal indicators for the period FY2023/24 to FY2025/26. The data illustrates a marked improvement in the fiscal position, driven largely by high SACU transfers and increased water royalties in FY2024/25, which supported a record surplus and stronger reserve accumulation. Public debt declined from 61.5 to 56.8 percent of GDP, reflecting prudent expenditure control and limited new borrowing. However, the IMF (2025) notes that expenditure arrears remain a persistent challenge, particularly in relation to delayed payments to suppliers and public employees. This undermines budget credibility and private-sector liquidity.

The government has begun implementing a commitment-control system within IFMIS and is finalizing a time-bound arrears clearance plan to address verified legacy arrears, strengthen cash management, and prevent re-accumulation (IMF, 2025). As SACU revenues normalize and external conditions tighten, the fiscal surplus is expected to narrow to 2.9 percent of GDP in FY2025/26, whilst the current account reverts to a modest deficit. Overall, the outlook signals temporary fiscal strength underpinned by windfall revenues. However, sustained discipline in expenditure execution and arrears management will be critical in maintaining debt stability.



Table 2		PUBLIC DEBT AND MACRO-ECONOMIC INDICATORS		
No.	Indicator	FY2023/24	FY2024/25	FY2025/26 (Proj.)
1.	Gross Public Debt (% of GDP)	61.5	56.8	57.0
2.	External Public Debt (% of GDP)	46.9	45.6	45.7
3.	Domestic Public Debt (% of GDP)	14.5	11.3	11.3
4.	Fiscal Balance (% of GDP)	7.3	9.0	2.9
5.	Current Account Balance (% of GDP)	-0.8	2.3	-3.9
6.	SACU Transfers (% of GDP)	24.5	26.1	19.7
7.	Gross International Reserves (months of imports)	4.8	5.5	6.3

Source: International Monetary Fund (2025). Kingdom of Lesotho: 2025 Article IV Consultation and Debt Sustainability Analysis. IMF Country Report No. 25/267, Washington, D.C.

Public borrowing is governed by the Medium-Term Debt Strategy (MTDS) and the Debt Management Policy Framework (DMPF), which cap total public debt at 60% of GDP. The IMF recommends adopting a new legally binding fiscal rule targeting a 50% debt anchor. Institutional weaknesses persist, with PFM and Debt Management Bills still awaiting passage.

Fiscal surpluses are expected to continue in the short term but will narrow as SACU revenues decline. Inflation remains stable, supported by the currency peg. However, weak public investment execution risks limiting development impact.

Key Strategic Actions

- Adopt a legally binding fiscal rule setting a 50% debt-to-GDP anchor and a 3% structural deficit ceiling.
- Create a rules-based stabilization fund to save windfall SACU receipts.
- Enact and operationalize the PFM and Debt Management Bills to formalize borrowing procedures.
- Institutionalize Public Investment Management (PIM) framework requiring economic, social, and climate appraisals for all major projects.
- Implement a commitment-control system within the Integrated Financial Management Information System (IFMIS) to prevent new arrears.
- Develop a framework for SDG-linked and green debt financing instruments, including SDG bonds and debt-for-nature swaps.

Decentralization and Sub-National Government Finance

Lesotho has made notable progress in administrative decentralization since the 1990s, with 87 local government councils now operating across the country. However, fiscal decentralization remains underdeveloped. Despite legal provisions in the Local Government Act (1996) and the objectives set out in the Decentralization Policy (2014), local authorities still lack autonomy to raise original revenues and remain heavily dependent on central government transfers.

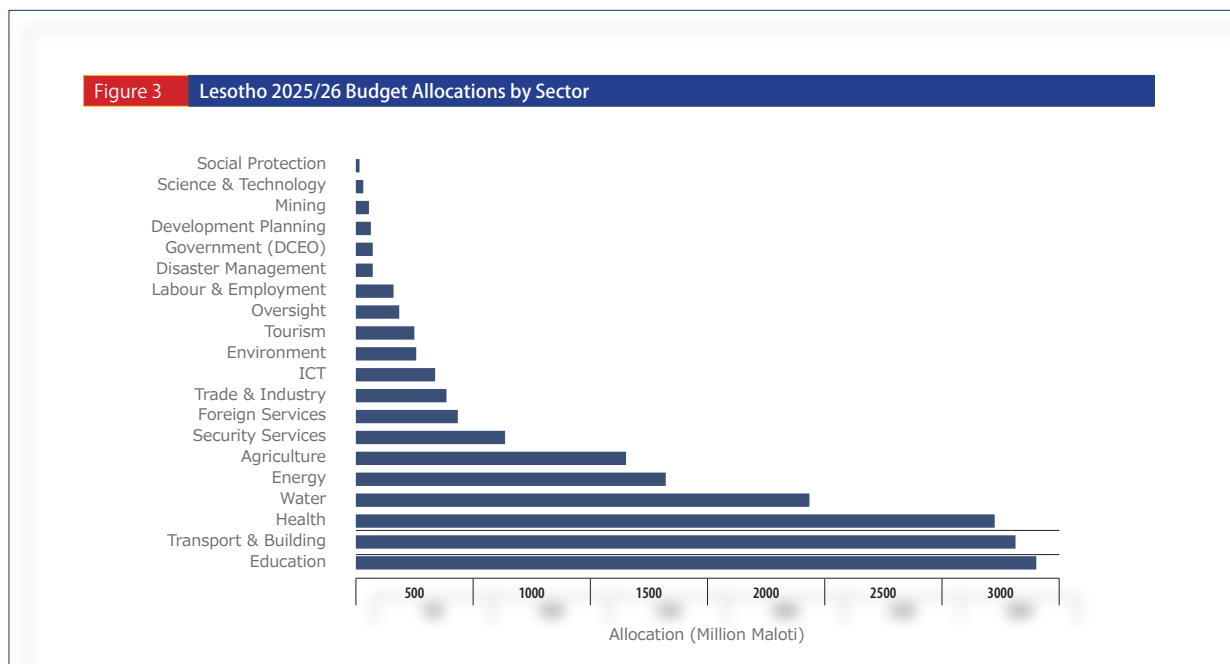
Strategic Actions

- Introduce formula-based intergovernmental transfers and performance-linked grants for local governments.
- SOEs turnaround financing will be tied to fiscal-risk ceilings and performance contracts.
- Review and amend the Local Government Act, 1996 and Lesotho Decentralization Policy, 2014.
- Strengthen the capacity of local governments by monitoring the decentralization framework.
- Enact regulations to begin fiscal decentralization, defining permissible local taxes and establishing a transparent transfer system.
- Establish a Municipal Infrastructure and Resilience Fund to co-finance local infrastructure.
- Introduce mechanisms for community-level diaspora contributions, such as local development bonds.
- Develop district-specific revenue and investment frameworks that capitalize on each area's comparative advantage:
 - Highland districts (Thaba-Tseka, Mokhotlong, Qacha's Nek): water royalties, eco-tourism, and community-based renewable energy schemes.
 - Lowland and border districts (Maseru, Leribe, Mafeteng): trade facilitation, light manufacturing, and border-market levies.

This would involve updating the Local Government Act to permit district-specific levies or service charges linked to local resource use and trade activity.

Public Expenditure

Lesotho's public expenditure system combines a relatively sophisticated legal and procedural framework with persistent weaknesses in execution. The budget process is formally governed by the MTEF, the PSIP, and the BSP, all linked to the NSDP II. However, in practice the MTEF operates largely as an annual budgeting exercise rather than a credible rolling three-year framework. Weak revenue and expenditure forecasting, incomplete costing of sectoral plans, and fragmented programme budgeting have undermined budget credibility and contributed to ad hoc financing decisions. The 2024 PEFA assessment highlights ongoing problems in expenditure control, arrears monitoring, and inconsistent enforcement of expenditure ceilings, resulting in the accumulation of significant arrears, particularly in public service wages (PEFA, 2024). While the availability of budget information has improved modestly in recent years, Lesotho's overall budget transparency remains low by international standards, and public participation and oversight are weak, as reflected in the Open Budget Survey (International Budget Partnership, 2023). Gender-responsive budgeting has been initiated on a pilot basis. However, binding fiscal rules and stronger in-year monitoring of line ministries remain necessary to enforce discipline, and better align public spending with development priorities (IMF, 2025). Figure 3 provides sector allocations for the 2025/2026 fiscal period.



Consistent with recent IMF assessments, the wage bill remains among the highest in Africa relative to GDP, estimated to account for around one third of total expenditure. Overall expenditure patterns remain skewed toward recurrent spending, with development spending accounting for only around one fifth of total expenditure. The IMF continues to flag weak capital project execution as a key constraint.

The government is prioritizing completion of comprehensive gender audits. In 2025, ongoing initiatives include gender audits in two pilot ministries and capacity-building programmes on gender-responsive budgeting. A partnership framework has been developed to facilitate collaboration with civil society organizations (CSOs)².

Strategic Actions

- Institutionalize a PIM framework requiring standardized project appraisal, selection, and post-evaluation.
- Strengthen budget credibility by improving execution rates, particularly for development spending.
- Enforce stricter expenditure controls through stronger in-year monitoring and reporting.
- Implement performance-based and SDG-aligned budgeting reforms.
- Involve non-state actors and CSOs more systematically in budget processes.
- Tighten control over the public sector wage bill through improved planning and establishment control.
- Develop a robust results-based budgeting framework that links funding to outputs and outcomes.
- Establish a comprehensive arrears monitoring and clearance system.
- Undertake regular spending and value-for-money reviews to identify inefficiencies.

Public Investment

Public investment in Lesotho has declined steadily over the past decade, both as a share of GDP and of total government expenditure. Although the PSIP, guided by NSDP II, formally governs capital planning and selection, actual implementation has been weak. The 2024 PEFA and IMF assessments highlight persistent issues, including poor linkages between planning and budgeting, misalignment with national priorities, lack of lifecycle costing, and underdeveloped maintenance and asset management systems. Many MDAs lack the technical capacity to develop viable, bankable projects, leading to project delays, cost overruns, and incomplete or non-operational infrastructure. Some capital projects remain open years after physical completion, continuing to receive budget allocations. Oversight weaknesses and the decentralized project management model have further contributed to inefficiencies. Addressing these gaps will require centralized oversight mechanisms, stronger project appraisal capacity, and full integration of investment plans into a credible, multi-year fiscal framework³.

Consultation repeatedly flagged non-bankable projects as the main bottleneck. The MoFDP is reviewing project selection guidelines. The government is working with partners to finalize an SDG Investor Map. However, public investment remains vulnerable to limited project screening and weak monitoring systems.

Strategic Actions

- Projects seeking concessional finance, climate finance, PPP structuring, or blended finance support must pass a standardized bankability and fiscal-risk screening prior to inclusion in the PSIP or external financing pipeline. Projects that do not meet minimum readiness thresholds should not advance to financing discussions.
- Establish a fully empowered National Project Management Authority under the National Planning Commission, with a clear mandate for appraisal, monitoring, and evaluation of public investment projects. If placed under the PMO via MoFDP, ensure its operational independence through statutory safeguards and clear reporting lines.
- Centralize the monitoring and evaluation of capital projects through a coordinated interdepartmental mechanism to improve oversight, eliminate duplication, and ensure timely delivery, while line-ministries are left with implementation.

² More info on the gender audits can be found here: <https://sdgfinance.undp.org/resource-library/making-finance-work-people-and-planet>.

³ See suggestion for applying VfM principle more effectively for investments in health: <https://blogs.worldbank.org/african/how-can-lesotho-get-more-value-money-investment-health>.

- **Revise and re-cost PSIP to align with the updated NSDP II priorities** and incorporate SDG Investor Map to guide investment selection.
- **Overhaul the capital investment decision-making framework**, including rules, processes, and appraisal methodologies, supported by updated manuals and guidelines to reflect international good practice and value-for-money principles.
- **Identify and address procedural bottlenecks in the public investment cycle** (from project design and appraisal to disbursement and monitoring), focusing on reducing delays and cost overruns.
- **Introduce a binding prioritization framework** so that only projects demonstrably aligned with NSDP II and the SDGs are approved based on cost-benefit analysis and socio-economic impact.
- **Build institutional and technical capacity for project development**, focusing on ministries, districts, and SOEs to prepare bankable, SDG-aligned, and climate-resilient projects. (See Box 7 below on the application of right-financing) This should include training on project appraisal, financial modeling, and partnership structuring, supported by a national project preparation facility linked to the PSIP and SDG Investor Map.
- **Develop a Public Investment Financing Strategy** that mobilizes blended finance, PPPs, and SDG-aligned instruments (e.g., green bonds, infrastructure bonds, debt-for-climate swaps) to complement budgetary resources and attract private investment into national priority projects.
- **Integrate district and municipal investment projects into the PSIP** through co-financing mechanisms and capacity support, ensuring that national projects leverage local-level opportunities and diaspora-backed initiatives.
- **Establish a National Asset Registry and Maintenance Fund** to track public infrastructure assets, allocate recurrent maintenance budgets, and ensure lifecycle costing in investment planning.

Box 5 RIGHT-FINANCING INSTRUMENTS FOR SECTORS

- Build a menu of instruments matched to sector risks: viability-gap grants for water and sanitation; results-based financing for health and education; credit guarantees and first-loss capital for MSMEs and agribusiness; and revenue-linked notes for renewable energy.
- Couple financial instruments for MSMEs with targeted business-development, market-linkage, and financial-management support to strengthen credit readiness, absorption capacity, and sustainability. These complementary measures should include mentoring, bookkeeping assistance, and access to digital-finance tools so that enterprises can effectively utilize and repay financing.
- Use royalty-backed facilities and project bonds for water and energy assets, along with performance-based maintenance contracts to safeguard lifecycle value.
- Pilot pay-for-results schemes in skills and employment programmes with verified outcomes, combining financing incentives with employer partnerships.
- Establish a transaction-advisory panel to help ministries and development agencies identify the lowest-cost, best-fit instruments before committing budget resources.
- Require value-for-money and fiscal-risk screening for every deal, ensuring publication of contingent liabilities and integrating findings into the medium-term fiscal framework.

The right-financing approach for Lesotho recognizes that sustainable development cannot be achieved through conventional public expenditure or donor funding alone. It requires a broader and more deliberate use of financial instruments that enable public and private investments to work together in a coordinated manner. Appendix I reflects an indigenous set of right-financing instruments tailored to Lesotho's economic structure, institutional capacity, and sectoral risk profile. Many of these instruments are blended in nature, combining domestic and international, public and private capital through de-risking measures, targeted incentives, and first-loss structures. The purpose is to mobilize additional resources, improve risk-sharing, and attract investment into priority sectors. They should also ensure that each financing choice expands fiscal space and is fiscally responsible, effective, and aligned with long-term sustainability and measurable development outcomes.

Appendix II presents a consolidated view of Lesotho's domestic public finance landscape, focusing on how core public finance functions translate into practical reform entry points under the INFS. It presents how revenue mobilization, public borrowing, fiscal decentralization, expenditure management, public investment, and SOE reform, operate in practice, drawing on current trends, existing policies and reforms, binding challenges, and prioritized solution pathways. It is intended to support decision-making by identifying where reforms are most urgent, how they interact across the public finance system, and which measures can be sequenced and scaled within existing institutional capacity to strengthen fiscal sustainability and development impact.

4.3 International Public Finance

The ODA has supported Lesotho's development, but its role is declining and becoming more volatile due to global pressures, such as the wars in Ukraine and Gaza and major donors are shifting toward loans, equity and blended finance. ODA now accounts for under 8 percent of the government budget, with health, governance and WASH as the largest areas of partner spending. The IMF notes that Lesotho has no policy for securing concessional financing or using ODA strategically, and more than 80 percent of external debt remains concessional. As Lesotho moves toward lower-middle income status, concessional funds will tighten and borrowing on commercial terms will increase. This makes it urgent to improve aid coordination, develop bankable projects, and use ODA as a de-risking tool for PPPs, credit guarantees and bond issuance. Emerging partners such as China and new multilateral development banks are expanding infrastructure support, while traditional partners focus on "soft" sectors. Without a stronger framework for alignment and multi-year programming, Lesotho risks fragmented financing and missed opportunities to leverage ODA for sustainable growth.

Between 2020 and 2021, Lesotho received an average of USD 211 million in gross ODA annually, with bilateral aid making up 44 percent. The United States was the largest donor, providing USD 81 million, followed by the International Development Association (USD 41 million) and the Global Fund (USD 23 million). ODA accounted for 6.2 to 6.8 percent of GNI during this period. A striking 84 percent of bilateral ODA was directed toward the health and population sector, with all other sectors—including governance, education, and infrastructure—collectively receiving less than 20 percent. This reflects both donor priorities and a narrow sectoral concentration in external support.

Between 2025 and 2030, Official Development Assistance (ODA) will shift significantly due to donor fiscal pressures and evolving global cooperation. The OECD (2025) projects a 9–17% decline in ODA as advanced economies prioritize their domestic needs amid slow growth, rising debt, and geopolitical strain. Concessional loans, quasi-equity, and blended finance will rise, while grants will decline (World Bank 2025). Aid will increasingly link to performance, investment climate, and co-financing. For countries like Lesotho, ODA will become more conditional, complex, and integrated with trade and private-sector agendas. Key trends shaping ODA include:

- **Gradual decline in grant-based ODA:** Pure grants are expected to contract as donor budgets tighten, with many OECD countries shifting to loan-based or blended models (OECD 2025).
- **Rising share of concessional and quasi-equity finance:** Development partners are increasingly using blended and equity-type instruments to catalyse private investment, especially in infrastructure, green energy, and MSME finance (World Bank 2025).
- **Emergence of non-traditional donors:** South-South cooperation and new regional actors such as China, India, and the Gulf states will expand their roles, often linking financing to trade, supply chains, or resource access (UNDP 2024).
- **Transition from aid to cooperation:** Many OECD members are repositioning from “donors” to “strategic cooperation partners,” emphasizing mutual benefit and shared investment outcomes rather than one-way transfers (OECD 2025).
- **Growth in Aid for Trade and results-based financing:** Support will increasingly target trade facilitation, value-chain integration, and measurable economic outcomes rather than recurrent social spending (OECD/WTO 2024).
- **Increased transnationalism in aid delivery:** Financing will be tied to verifiable results, fiscal discipline, and domestic resource mobilization efforts, reducing predictability but potentially improving accountability (IMF 2025).

These developments suggest that Lesotho’s external financing landscape will become more diversified but less concessional with total inflows remaining broadly stable in nominal terms but increasingly composed of repayable or performance-linked instruments. Strengthening public investment management, co-financing capacity, and debt sustainability frameworks will be critical to navigate this new aid environment.

Box 6 ADJUSTING TO DECLINING ODA AND SACU TRANSFERS, 2025–2030

IMF analysis shows that Lesotho faces a structural shift in its financing base: record SACU transfers and high royalty inflows provided a once-off fiscal bolster, but SACU receipts are forecast to normalize toward their long-run average and global grant aid is facing downward pressure (IMF 2025). To maintain fiscal sustainability and protect development priorities, the government must adjust proactively. What follows is the policy package consisting of strategic measures likely to offset this emerging reality.

1) **Strengthen domestic revenue mobilization**

- Adopt a Domestic Revenue Mobilization Strategy (DRMS) anchored by a four-year Medium-Term Revenue Strategy with annual yield targets.
- Broaden the VAT base, review exemptions, introduce key excises (including health-related levies), align mining and water royalty regimes to price/volume shifts, and close customs leakages (IMF 2025).
- Scale up tax administration: full-scale e-filing, e-invoicing, integrated taxpayer databases, risk-based audit models to lift compliance and transparency.

2) **Protect priority spending through strategic expenditure adjustment**

- Control the wage bill: hiring freeze, pay progression management and establishment control, while safeguarding critical skills.
- Reallocate savings toward maintenance and high-return capital investment.
- Strengthen public investment management systems: rigorous appraisal, multi-year costing, linking physical and financial progress, clear monitoring of results (IMF 2025).
- Clear arrears and enforce commitment and cash-release controls.

3) **Manage debt and financing strategy to mitigate risk**

- Prioritise concessional borrowing for growth-enhancing projects, limit non-concessional debt, and publish an annual borrowing plan aligned with debt anchors and the currency peg.
- Develop domestic debt markets primarily for liquidity management rather than deficit financing; strengthen treasury operations (IMF 2025).
- Expand blended and quasi-equity instruments only with value-for-money analysis, fiscal-risk screening, and publication of contingent liabilities.

4) **Diversify the economy and reduce dependence on volatile transfers**

- Accelerate export diversification beyond textiles and diamonds; develop water, energy, logistics assets with revenue-generating potential.
- Strengthen MSME support: combine credit guarantees with business-development and financial-management assistance to improve capacity and utilization of financing (IMF 2025).
- Improve the investment climate: regulatory streamlining, access to finance for private sector, crowd-in private investment and reduce fiscal dependence on transfers.

Box 6 ADJUSTING TO DECLINING ODA AND SACU TRANSFERS, 2025–2030 (continued)

5) Institutional and fiscal-rule reforms to build resilience

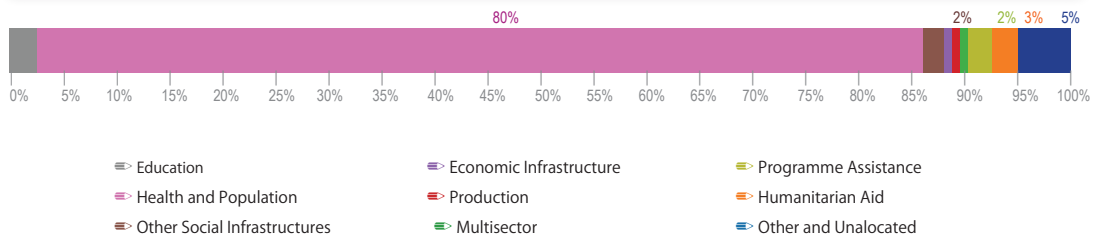
- Publish a medium-term fiscal framework (MTFF) with a primary balance target calibrated to a normative SACU-transfer base and establish a savings rule for windfall receipts.
- Enhance budget transparency with in-year reporting tracking execution of key sectors (health, education, water, roads) and protect them during consolidation.
- Introduce fiscal buffers and contingency planning to manage revenue volatility arising from SACU and external grants.

Figure 4A ODA Receipts For Lesotho (2019 - 2021)



Source: Official OECD Database

Figure 4B Bilateral ODA by Sector for Lesotho, 2020 - 2021 Average



Source: Official OECD Database

Given the post-2024 shift in global aid architecture, and the downturn in concessional finance following the U.S. elections and other geopolitical crises, the OECD DAC data presented in Figure 4 is no longer reflective of the current trajectory of ODA. Based on the IMF Article IV, the following updated strategic actions are recommended for Lesotho to adapt to a rapidly tightening aid environment:

Strategic Actions for International Public Finance

- **Establish a unified Aid Coordination Forum, chaired by MoFDP, to align donor programmes with the INFS and NSDP II.** This process is already underway with technical assistance from the INFF Facility and financial support from the European Union.
- **Develop a national concessional finance policy,** led by MoFDP, to guide the transition from traditional ODA toward more structured engagement with emerging donors and blended finance providers.
- **Operationalize ODA as a de-risking instrument** by allocating concessional resources toward private sector engagement, including Public-Private Partnerships (PPPs), green bonds, and impact investment, with support from multilateral guarantees (e.g., MIGA, AfDB).
- **Expand the use of ODA for risk-sharing mechanisms,** including political risk insurance and credit enhancement structures to crowd in private capital, especially in sectors such as renewable energy, agro-processing, and digital infrastructure.
- **Leverage ODA for technical assistance** in project preparation, PPP frameworks, results-based financing, and establishment of fiscal risk management instruments.
- **Align all donor-supported initiatives with NSDP II, SDG targets, and AU Agenda 2063,** requiring full mapping and pre-screening of externally financed projects through MoFDP's Aid Coordination Department.
- **Upgrade the Department of Aid Coordination** into a centralized INFF implementation hub, with the mandate to oversee financing dialogues, manage the SDG Investor Map, and report annually on ODA alignment and absorption.
- **Establish Economic and Trade Desks at all Lesotho foreign missions** to strengthen diplomatic resource mobilization, track donor trends, and anchor investment and concessional funding pipelines.
- **Consolidate concessional borrowing under a structured external debt strategy,** including proactive engagement with IDA21, AfDB, and NDB, while building a pathway toward sovereign access to capital markets.
- **Develop a sectoral ODA diversification plan** to gradually increase the share of aid supporting productive sectors - such as agro-processing, tourism, renewable energy, and digital infrastructure.
- **Design mechanisms to channel a share of ODA** to subnational governments and community projects, particularly for climate adaptation, livelihoods, and gender-responsive initiatives, through performance-based grants or co-financing models.

- **Strengthen aid transparency and mutual accountability** by reviving the Aid Management Platform (AMP) or integrating it into IFMIS, with annual publication of ODA alignment and effectiveness reports.

These recommendations are grounded in the IMF's emphasis on improving aid coordination, fiscal risk management, and the use of ODA as a strategic lever rather than a passive inflow.

Box 7 USING ODA CATALYTICALLY

Official Development Assistance (ODA) is no longer simply a fiscal inflow for closing budget gaps or financing discrete projects. ODA should increasingly demonstrate additionality—meaning it must mobilize new resources, complement rather than substitute domestic spending, and catalyze other flows such as government revenues, private investment, and philanthropic capital (OECD (2025)). This shift reflects a broader international consensus that ODA's ultimate value lies not in its volume but in its capacity to trigger transformational financing ecosystems. A sustainable financing strategy—anchored in Lesotho's Integrated National Financing Framework (INFF)—is therefore essential to guide this transition and ensure that the value added by international public finance exceeds the nominal amounts disbursed. To operationalize this catalytic approach, Lesotho can adopt the following measures:

- **Channel ODA to de-risk private capital** through guarantees, subordinated tranches, political-risk insurance, and blended-finance anchors that absorb early-stage uncertainty.
- **Target leverage in high-growth sectors**, such as textiles for regional markets, horticulture and cold chains, renewables and storage, digital infrastructure, and tourism - where concessional capital can unlock scale and jobs.
- **Tap IDA21 windows and multilateral partner platforms** for guarantees and private-sector windows, aligning with the INFF to prevent fragmentation and ensure that concessional resources are strategically sequenced.
- **Pair ODA with project preparation and ESG support** so that investments reach bankable quality and can attract commercial financing on viable terms.
- **Track crowd-in effects and cost reductions** in a transparent public scorecard, capturing how concessional finance lowers capital costs, improves risk-sharing, and enhances value for money across portfolios.

Understanding catalytic finance

- **Additionality** means that concessional finance creates benefits or resources that would not have materialized otherwise, such as new investment, jobs, or fiscal space.
- **Catalytic impact** describes how limited public funds mobilize or attract larger volumes of private and other capital, amplifying the effect of each dollar spent.
- **Incentivizing** refers to designing concessional terms, guarantees, or performance payments that motivate private actors to enter riskier markets or sectors aligned with public goals.
- **Leveraging** is the quantitative outcome - how much additional capital is mobilized relative to the original ODA input.

Collectively, these principles ensure that ODA functions not as a passive inflow but as an active, results-oriented catalyst that multiplies financing opportunities and strengthens fiscal resilience. This is the essence of right-financing: ensuring that every concessional dollar not only funds development but also mobilizes, incentivizes, and sustains new sources of growth and investment beyond itself.

Illicit Finance Flows

Illicit financial flows (IFFs) from corruption, tax evasion, crime, and transfer mispricing continue to deprive Lesotho of critical resources for economic and social development. Estimates suggest that between 1980 and 2018 the country lost USD 9.5 billion through illicit transfers, amounting to nearly 30 percent of total international trade (Signé, Sow and Madden, 2020). Despite its small financial system, Lesotho is ranked among Africa's top ten countries for IFF relative to trade volume. Lesotho's economy is deeply integrated with that of South Africa through the CMA and SACU. The Rand–Loti parity and free capital mobility mean transactions (including trade and remittances) are often processed through South African banks, making them hard to trace by the Lesotho authorities. The IMF and PEFA highlight that weak tax compliance, limited capacity for audits, and outdated transfer pricing rules leave significant gaps in controlling revenue losses. Although the Revenue Service Lesotho (RSL) has digitized some processes, it is not yet clear that these efforts have substantially improved compliance or reduced evasion.

Lesotho was an early adopter of anti-money laundering and counter-terrorism financing measures, establishing the Financial Intelligence Unit under the National Strategy on AML/CFT (Government of Lesotho, 2010). However, the AML Authority is yet to be operationalized, and the strategy has not been updated to reflect evolving international standards. The Money Laundering and Proceeds of Crime Act (2008, amended 2016) and subsequent regulations (2019) provide a legal basis, but benchmarking and regular reviews are lacking. Both the IMF and PEFA point to the need to modernize corporate tax treatment and implement effective transfer pricing rules, especially for mining companies, while building institutional capacity and awareness to prevent future large-scale IFF activity.

Strategic Actions

- **Update and modernize transfer pricing rules and the 1993 Income Tax Law** to align fully with current OECD and international best practices, with clear guidance for high-risk sectors such as mining.
- **Introduce systematic trade valuation monitoring**, particularly for diamonds, textiles, and fuel through enhanced customs analytics and third-party price databases to detect mis-invoicing and ensure accurate revenue capture.
- **Strengthen and enforce tax audit capacity** by expanding specialized audit units within RSL, integrating risk-based audit approaches, and enhancing collaboration with the Financial Intelligence Unit (FIU) for cross-border investigations.
- **Operationalize the Anti-Money Laundering Authority** as envisaged in the National AML/CFT Strategy, ensuring it has clear statutory powers, adequate funding, and independence.
- **Conduct a full legislative and regulatory review of AML/CFT and IFF laws** to benchmark against FATF standards, the African Union High-Level Panel recommendations, and emerging global norms.
- **Build institutional capacity across MoFDP, CBL, FIU, RSL, and line ministries** to manage complex IFF cases, including training on forensic accounting, cross-border asset tracing, and inter-agency coordination.
- **Develop an integrated IFF data system** to improve detection and reporting, linking customs, banking, tax, and financial intelligence data, with CBL, FIU, MoFDP, and Lesotho Bureau of Statistics as lead agencies.

⁴ Lesotho's trade data are affected by significant valuation asymmetries. Diamond exports are frequently understated in declared value or routed through intermediary trading hubs, resulting in reduced royalty and tax collection relative to the true market price. Conversely, imports of fuel, vehicles, and construction materials—primarily from South Africa and selected Asian suppliers—are often over-invoiced, a practice used to facilitate capital flight, conceal profit shifting, or launder proceeds through inflated procurement chains. These patterns distort balance-of-payments statistics, erode the fiscal base, and underscore the need for stronger customs valuation systems, cross-border data exchange, and forensic audit capacity within the revenue authority.

- Establish a public beneficial ownership registry linked to company and land registries to enhance transparency and deter the concealment of illegal assets.
- Champion a SACU/CMA regional IFF taskforce to harmonize anti-IFF policies, strengthen customs cooperation, and coordinate asset recovery across borders.

Multilateral Development Finance

Trends & Alignment with Key Priorities

Lesotho's engagement with multilateral development banks (MDBs) has grown as the country pursues infrastructure, human-capital development and resilient growth aligned with its national strategy and the INFF agenda. The World Bank's Country Partnership Framework for Lesotho 2024-28 emphasizes strengthening human capital, service delivery especially in rural highlands, and climate-resilient connectivity, aligning institutional financing with these priorities (World Bank, 2023: viii). Moreover, membership to the African Development Bank (AfDB) and similar institutions is being leveraged for co-financed programmes in line with NSDP II and INFF emphasis on domestic resource mobilization plus external support (AfDB, Country Focus Report, 2024).

Lesotho's Development Finance Assessment (DFA) 2021 identifies multilateral development finance as a pillar for expanding fiscal space and investment in key sectors (UNDP/INFF, 2021). The World Bank's CPF 2024-28 for Lesotho sets out results-based operations tied to infrastructure, private-sector growth and climate resilience, marking a shift toward more integrated financing (World Bank, 2023). The government has also committed to reforms in public investment management (PIM) and project preparation to improve absorption of MDB funds (IMF, Article IV, 2025).

Lesotho faces structural constraints in accessing and efficiently utilising multilateral finance: project readiness is weak, PIM systems are fragmented, co-financing arrangements are constrained by volatile SACU transfers (which contribute roughly 40 % of domestic revenues). The rugged terrain and dispersed settlements increase the cost of infrastructure, making many multilateral-financed projects relatively high per capita and challenging to implement (World Bank overview). Additionally, recent controversies such as local grievances in the Lesotho Highlands Water Project Phase II (financed by AfDB and others) underscore social and environmental risk management issues (The Guardian, September 2025).

Strategic Actions

To improve the efficacy of multilateral development finance in Lesotho, the government should strengthen its project pipeline via earlier stage feasibility and risk assessment; embed PIM reforms with a strong gate-keeping function, and stabilize co-financing commitments through a fiscal rule anchored stabilization fund that smooths SACU revenue swings (IMF 2025). Enhanced coordination platforms between the government, private sector and MDBs can improve alignment of financing with national priorities and reduce fragmentation. A dedicated unit in the MoFDP that tracks multilateral commitments, disbursement and outcomes would support transparency and absorption.

Blended and Concessional Financing Instruments

Given the limits of domestic resource mobilization and shallow capital markets, Lesotho is increasingly turning toward blended finance and concessional instruments to mobilize private capital for sectors such as renewable energy, manufacturing and logistics. For example, a “Just Energy Transition Fund” with major financial institutions to leverage blended capital for about 200 MW of solar capacity in Lesotho, aligning with the government’s export and energy diversification goals (Daba Finance, November 2024). This aligns with the SDG Investor Map which identifies renewable energy, manufacturing and agriculture as priority investment opportunity areas (UNDP, 2023).

Lesotho has a PPP Policy (2017) and legal framework governing concessions, which provides a foundational enabling environment for blended-finance structures (World Bank PPP Country Profile Lesotho). Moreover, the SDG Investor Map has been used by government and UNDP to identify investment-ready opportunities and signal government interest in blended arrangements (UNDP, 2023). The government has also committed to review its fiscal risk management framework for PPPs in light of lessons from earlier arrangements (Webster 2015).

Despite the policy framework, Lesotho still suffers from a limited deal pipeline, weak risk-sharing frameworks, inadequate transaction advisory capacity, and concerns around long-term fiscal implications of PPPs. The case of the Queen Mamohato Memorial Hospital PPP, which ended with early termination and government takeover, underlines the institutional risk and public trust deficit (McGuire 2024). The absence of aggregated project platforms and standard blended-finance vehicles also hinders investor confidence (Infrascope summary, 2019).

Strategic Actions

To scale blended and concessional financing instruments successfully, Lesotho would benefit from establishing a central ‘Blended Finance Facilitation Unit’ that coordinates technical advisory that: aggregates smaller projects into bankable portfolios, standardizes value-for-money tests and fiscal risk caps, and works with MDBs/DFIs to provide first-loss or guarantee tranches. Strengthening the enabling environment (contract enforcement, land rights, local content rules) will reduce risk premiums. Furthermore, creating outcome-based concessional windows aligned with national priorities (e.g., energy export, agro-processing) can help crowd in private capital and align financing modalities with the INFF framework.

South-South and Triangular Cooperation

Arrangements make South-South and triangular cooperation increasingly relevant. The United Nations development system underscores this modality under SDG 17 to enhance cooperation and knowledge sharing on preferential terms (UN SDG 17.6). Lesotho’s participation in regional water-energy trade (e.g., through the Lesotho Highlands Water Project) and interest in technical exchange with other land-locked developing countries suggest alignment with this modality.

Although explicit sector strategies centred on South-South cooperation are less developed, Lesotho’s DFA notes an intention to tap regional peer learning and triangular finance mechanisms as part of its financing strategy

(UNDP, 2021). The government's interventions at international forums emphasize debt sustainability, concessional instruments and mobilizing southern partners through triangular formats (Ministry of Foreign Affairs, Lesotho, 2025). The SADC region has also recognized cross-border cooperation as a pillar of its strategy, which provides a regional institutional base for Lesotho's engagement (GIZ, 2023).

The uptake of South-South and triangular financing in Lesotho is hampered by weak institutional anchoring (no dedicated focal point), insufficient monitoring of south-south flows and limited data (South-South Cooperation report, 2019). Coordination across multiple partners, alignment with national priorities, local capacity for managing cooperation, and ensuring local content and equitable benefits represent further hurdles. The land-locked nature and modest scale of Lesotho's economy may make it less attractive as a host for large south-south co-financed programmes.

Strategic Actions

Lesotho can strengthen this modality by designating a national focal point for South-South cooperation and integrating cooperation objectives into sector strategies (e.g., energy, water, skills). It should develop a regional cooperation financing window (within SADC) that supports joint project preparation and allocation of triangular funds. The government must also partner with MDBs and UN agencies to build data systems tracking south-south flows, ensuring transparency and alignment with domestic frameworks. Finally, embedding south-south cooperation in investment readiness programmes can connect Lesotho to peer countries and regional supply chains, leveraging its SACU membership for scalability.

Debt Relief and Restructuring (including SACU Linkages)

The country's heavy dependence on SACU revenues (which can represent ~40% of total revenues) and exposure to external shocks have made precautionary debt management a priority. The IMF's latest Article IV notes that fiscal buffers and a structural framework are critical to safeguarding debt sustainability (IMF, 2025). The government's stated priorities include smoothing revenue volatility and strengthening fiscal rules (IMF Selected Issues, 2025).

Lesotho is formulating a debt-ceiling anchored fiscal rule, a structural deficit target and a stabilization fund to absorb SACU windfalls and manage debt risk (IMF, 2025). The country also participated in the Debt Service Suspension Initiative during the COVID-19 crisis, reflecting engagement with global debt relief frameworks. These policies align debt management more closely with the INFF's focus on sustainable external flow management.

The major challenge is that SACU revenue volatility can undermine fiscal planning and create pro-cyclical spending unless properly smoothed. Lesotho's currency peg to the South African rand and external currency denominated debt increase exchange-rate risk and limit borrowing flexibility. Implementation of fiscal rules and stabilization mechanisms remains nascent, and the small size of the economy constrains economies of scale for debt management. Supervisory and monitoring capacities for contingent liabilities are still weak.

Strategic Actions

A fully operational stabilization fund with transparent rules and automatic triggers for SACU windfalls would help manage revenue swings and reduce reliance on debt. Developing domestic debt markets to increase local-currency financing and extend maturities would reduce currency and rollover risk. Implementing stronger debt data-management systems and disclosure protocols will improve oversight. Finally, Lesotho could explore triangular cooperation or trust-funded contingent instruments tied to revenue stabilization, reducing reliance on restructuring down the road.

Appendix III presents an overview of Lesotho's international public finance landscape, focusing on how external public financing sources are evolving and how they can be more strategically aligned with national priorities under the Integrated National Financing Strategy. Further, it examines official development assistance, climate finance, multilateral development finance, blended and concessional instruments, and South–South and triangular cooperation through five lenses: alignment with key priorities, existing policies and reforms, binding challenges, solution pathways, and international benchmarks. Its purpose is to identify where international public finance can move beyond fragmented inflows toward a more catalytic, coordinated, and development-effective role that supports fiscal sustainability, investment readiness, and private capital mobilization.

4.4 Domestic Private Finance

Private finance remains a largely under-utilized driver of growth in Lesotho despite its central role in the 2030 Agenda and the AU Agenda 2063. Diaspora remittances account for approximately one fifth to one quarter of GDP and represent one of the largest sources of private external financial flows. Domestic private investment remains constrained by limited access to credit, high borrowing costs and a small, undiversified business base heavily dependent on public demand. Many micro- and small-enterprises operate outside formal financial systems, and weak risk-sharing instruments further restrict growth. A 2022 Rapid Private Sector Assessment (MoFDP/UNDP) flagged the urgent need to expand access to finance, enhance competitiveness and operationalize the planned SDG Investor Map. Public-private partnerships have made limited progress, but emerging IMF- and government-supported reforms offer an opening for blended finance and increased private-sector participation in infrastructure, renewable energy and digital transformation. Consultation emphasized that existing MSME loan products are misaligned with enterprise cash-flow realities, seasonal income patterns, and informal-sector dynamics. The INFS therefore prioritizes product redesign, not only credit expansion.

Access to credit remains one of the most binding constraints to private sector growth in Lesotho. Domestic credit to the private sector stood at around 21 percent of GDP in 2021 (MoDP and UNDP, 2021; IMF, 2024), reflecting a small and risk-averse banking system with limited capacity to serve MSMEs. Financial institutions maintain conservative lending practices, and many Basotho entrepreneurs are wary of formal banks (UNCDF, 2020). To address this, the government established the Partial Credit Guarantee Fund (PCGF), which offers 50 percent coverage for existing businesses and 70 percent for start-ups, while LNDC operates a similar scheme for firms with at least 51 percent domestic ownership (MoDP and UNDP, 2021). However, neither programme has undergone a comprehensive cost-benefit or performance evaluation despite multiple calls from development partners (IMF, 2024; World Bank, 2021).

In addition to the National Investment Promotion Policy (Government of Lesotho, 2016b), newer frameworks such as the Lesotho Competitiveness and Financial Inclusion (CAFI) Project (2022–2028) and the National Financial Inclusion Strategy II (2024–2028) aim to expand access to finance, particularly for MSMEs, women, and youth. The CAFI Project focuses on improving entrepreneurship support, digital finance, and credit access through a seed funding facility and innovation hubs, while the new inclusion strategy builds on earlier reforms to promote digital payments, strengthen financial literacy, and align with international AML/CFT standards (World Bank, 2022; AFI, 2025). Despite these advances, MSME borrowing remains extremely low—only 9 percent report using bank loans, and just 2 percent have formal credit access (FinScope, 2016; SADC, 2019). Public sector employment continues to dominate, while domestic business ambition and capital accumulation remain weak. Strengthening credit guarantee performance, expanding financial inclusion through these new programmes, and improving confidence in the banking system are critical to unlocking private investment and achieving the employment and diversification goals set under NSDP II (Government of Lesotho, 2022a; IMF, 2024)⁴.



Credit to the private sector— as shown in Figure 5 —has posted a generally upward trajectory over the past decade, albeit with cyclical fluctuations. The growth momentum slowed in the mid-2010s, but recovered strongly thereafter, with double-digit year-on-year rates in several quarters. More recently (2023–2025), credit expansion has stabilized in the 10–15 percent range. Meanwhile, the decomposition of credit growth indicates contributions both from non-financial corporations and from other resident sectors (households, small firms, etc.), with the total private sector credit path closely tracking the sum of these components (as the black line).

⁴ Recent research indicates that entrepreneurs primarily complain about 'collateral requirement, financial information access, and bank and business support services' (see: Amadasun and Mutezo, 2022).

Box 8 DIGITAL ECONOMY AND DIGITAL FINANCE FOR SMES

The digital economy represents a frontier for inclusive growth, particularly through innovations in financial systems that expand access for SMEs. Across emerging markets, the integration of digital financial infrastructure, fintech ecosystems, and open data frameworks has proven to catalyse productivity, transparency, and resilience (World Bank, 2022; IMF, 2023). The enabling environment for SME growth depends on how national strategies align with global standards in digital identification, payments interoperability, and cybersecurity (OECD, 2023).

In this context, several strategic entry points can be identified to advance digital finance for SMEs and strengthen the broader digital economy:

- **Digital Public Infrastructure Expansion:** Strengthening digital identification systems, trusted digital signatures, and secure data-sharing protocols will be critical to reducing transaction costs and accelerating compliance processes.
- **Interoperable Payment Ecosystems:** Scaling national payment switches and tiered Know-Your-Customer (KYC) regimes linked to digital IDs can facilitate instant payments and broader financial inclusion.
- **Innovation Sandboxes for Fintech, Agri-Tech, and Insure-Tech:** Regulatory sandboxes enable agile experimentation and adaptive oversight, balancing innovation with consumer protection, especially in rural areas underserved by traditional finance.
- **Central Bank Digital Currency (CBDC) Pathways:** Exploring wholesale and cross-border CBDC corridors offers a controlled platform to enhance settlement efficiency and AML/CFT resilience once institutional preconditions are met.

Digital SME

- **Finance Platforms:** Integrated digital finance programmes combining partial credit guarantees, invoice discounting, and e-procurement access can improve liquidity for SMEs while embedding financial literacy and cybersecurity support.

Collectively, these entry points form a coherent architecture for digital economic transformation. By linking infrastructure, innovation, and regulation within a unified framework, policymakers can foster a more inclusive, transparent, and competitive financial ecosystem that underpins SME productivity and national economic resilience (UNCTAD, 2023).

The growth rebound after the COVID-19 pandemic was not solely a result of banking sector inertia returning to normal - rather, CBL appears to have played a more active role beginning in 2021 by relaxing its traditional reticence to lend directly to the public sector. By easing that constraint, CBL helped unblock liquidity and paved the way for broader credit extension. The implication is that CBL's policy stance shifted: it used its standing as a "last resort" lender more flexibly, thereby indirectly creating space for commercial banks to extend credit into the private economy.

CBL exerts its influence through indirect policy levers because it faces institutional constraints on direct lending to the private sector. These include soft instruments such as moral suasion - issuing guidance, expectations, or informal advisories to banks to ramp up lending to targeted sectors. CBL could escalate to harder regulatory measures if its

soft measures do not suffice such as mandated credit targets or ceilings, backed by the threat of corrective actions for non-compliance. It is also feasible to require that banks to allocate a fixed share of their lending portfolios to special groups (for example, MSMEs, women entrepreneurs, youth, or businesses run by persons with disabilities).

Separately, three national development institutions - BEDCO, LNDC, and LTDC - play key complementary roles in private sector development. BEDCO focuses on grassroots entrepreneurial development, LNDC works with large domestic investors, and LTDC handles sectoral promotion, both domestic and international. Their tools include easing access to land or facilities, facilitating regulatory approvals, offering incubation or infrastructure support, and sometimes providing start-up funding or guarantee schemes. Through these measures they help bridge the gap between financial availability and project viability.

Lesotho's investment climate continues to face binding regulatory frictions that suppress firm formation, scale, and productivity. While the One-Stop Business Facilitation Centre has simplified some procedures, investors still encounter fragmented approvals, duplicative documentation, and intermittent system availability that prolongs time to register and operationalize a business (GoL, 2019; GoL, 2021; U.S. State Department, 2024). These delays compound high informality and deter domestic and foreign entrants, particularly smaller firms with limited working capital buffers (IMF, 2024a). Weaknesses in land administration and titling, including slow deed registration and uncertain collateral realization, raise transaction risk and constrain access to secured credit, especially outside urban corridors (GoL, 2019; IMF, 2024a).

Contract enforcement remains slow and costly relative to regional competitors, reflecting case backlogs, limited commercial specialization, and procedural adjournments that extend the timeline from filing to judgment. This delays payment cycles, elevates working capital needs, and depresses investment in longer tenor projects that depend on predictable dispute resolution (IMF, 2024a). Experience from comparator markets shows that predictable timelines, transparent e-tracking, and active case management are correlated with higher private investment and firm survival, underscoring the urgency of procedural streamlining and judicial performance management in commercial matters (IMF, 2025).

Until recently, insolvency processes offered limited options for timely reorganization, with weak creditor rights and lengthy recoveries that locked capital in distressed firms and discouraged risk-taking by lenders and equity investors (World Bank, 2017). The commencement of the Insolvency Act, 2022, in 2025 is a welcome pivot to a unified, modern framework for both corporate and personal insolvency. The opportunity now is to operationalize the law through regulations, practitioner licensing, court readiness, and creditor-debtor guidance so that out-of-court workouts and going-concern restructurings become credible first resorts rather than protracted liquidations (IMF, 2023; Webber Newdigate, 2025). Priority bottlenecks to highlight for near-term policy focus are:

- **Business entry, registration, and licensing**, including reliability of digital portals, reduction of sequential approvals, and service-level standards at OBFC counters and online channels (GoL, 2021; State 2024).
- **Land and collateral frameworks**, including deed registration timelines, digitization of records, and enforceability of security interests to deepen secured lending outside Maseru (GoL, 2019; IMF 2024a).
- **Contract enforcement timelines**, including commercial case triage, active case management, e-filing and e-service, small-claims procedures, and publication of court performance dashboards (IMF, 2024a; IMF, 2025).
- **Insolvency regime implementation**, including secondary regulations, insolvency practitioner accreditation, court rules, and creditor committees to enable viable restructurings and faster capital recycling (IMF, 2023; Webber Newdigate, 2025).

These regulatory fixes will lower entry costs, compress dispute timelines, and improve recovery values, which in turn reduce the cost of capital and increase firm survival. Embedding measurable service standards, digital transparency, and cross-agency coordination into these areas should unlock a larger pipeline of bankable projects and support a gradual shift from public-led to private-led growth consistent with macro-fiscal consolidation and diversification goals (IMF, 2024a; GoL, 2023).

Strategic Actions

While these measures constitute important market instruments, their effectiveness will depend on how well they are targeted toward Lesotho's priority value chains. Credit, entrepreneurship, and institutional support schemes must be tailored to high-potential sectors such as agro-processing, textiles, renewable energy, and tourism to prevent the dispersion of limited financial resources. By aligning financing programmes and SME development initiatives with clearly defined sectoral value chains, the strategy can strengthen backward and forward linkages, promote scale, and enhance productivity within the domestic economy, consistent with the NSDP II (GoL, 2019) and IMF Article IV recommendations (IMF, 2024).

- **The CBL will require financial institutions** to demonstrate adaptation of loan tenors, repayment schedules, and collateral requirements to MSME business models, particularly for women- and youth-led enterprises, as part of supervisory engagement.
- **Reinvigorate and institutionalize the Public–Private Dialogue (PPD)** to ensure structured and continuous engagement between government and business, fostering alignment of investment priorities and improving coordination for stronger development impact.
- **Establish a National MSME Development Fund** to expand access to finance, promote entrepreneurship, and scale up viable small and medium enterprises.
- **Formulate a National Private Sector Development Strategy** with clear implementation and coordination mechanisms across ministries and development partners.
- **Undertake a comprehensive performance review of BEDCO, LNDC, and LTDC** to assess their efficiency, effectiveness, and complementarity in promoting domestic and foreign investment.
- **Review and reform credit guarantee schemes and business support programmes** to identify structural bottlenecks limiting MSME participation and introduce targeted policy adjustments to improve uptake.
- **The CBL to strengthen moral suasion and set indicative MSME lending targets** for commercial banks to stimulate private sector financing.
- **CBL to consider introducing formalized lending quotas** for priority groups, including women- and youth-led enterprises and individual entrepreneurs.
- **Expand financial literacy and business management programmes** to enhance entrepreneurial skills and improve MSME capacity to prepare bankable projects.
- **Encourage the development of specialized financial instruments and digital financial products** targeting underserved groups, especially women, youth, and start-ups.
- **Explore the creation of regional development funds or agencies** to provide tailored support to underrepresented groups and promote balanced regional investment.
- **Review the performance and governance of government-backed financing schemes managed by development corporations** to ensure transparency, impact, and sustainability.

- **Establish a National Sovereign Development Fund, capitalized from natural resource revenues and royalties**, to co-invest with private sector actors in strategic sectors, offering seed and growth capital at moderate risk levels. Provide targeted tax incentives and credits for domestic firms that reinvest, expand, and create jobs.
- **Accelerate digitalization and e-government services** to reduce administrative barriers, enhance service delivery to businesses, and expand access to digital financial ecosystems.
- **Develop and implement a comprehensive export diversification and value-chain upgrading strategy** to reduce reliance on concentrated export products and markets, expand regional and global market access under African Continental Free Trade Area (AfCFTA) and other trade frameworks, and strengthen Lesotho's competitiveness and resilience to trade-preference volatility.
- **Consolidate PCGF, LNDC, and other schemes into a single guarantee platform** managed jointly by CBL, MoFDP, and commercial banks. Introduce performance-based subsidies, partial guarantees, and co-investment tools to de-risk SME lending.
- **Streamline business registration, permits, and tax compliance** through a one-stop digital business portal, linked with digital IDs and e-payments. Simplify insolvency, collateral, and contract enforcement frameworks to boost investor confidence.
- **Create or repurpose an institution (e.g., LNDC) into a National Development Bank with a mandate** to co-invest with private partners to mobilize blended finance, de-risk private investment, and co-finance strategic projects in infrastructure, renewable energy, and digital transformation.
- **Amend prudential regulations to allow pension and insurance funds** to invest a portion of their portfolios in domestic infrastructure, green, and SME assets, supported by guarantee mechanisms and transparent governance. This would unlock long-term domestic capital and reduce reliance on external financing.
- **Adopt gender-responsive budgeting** for all MSME support programmes and expand green credit lines through banks and microfinance institutions.

Public Private Partnership (PPP)

The Government supports domestic investment through the promotion of Public Private Partnerships, and a PPP Policy has been in place since 2017 (Government of Lesotho, 2017a). However, Lesotho's experience with PPPs has been shaped by significant credibility challenges arising from earlier transactions. The Queen 'Mamohato Memorial Hospital PPP has become the defining reference point for public and investor perceptions. Widely cited as a failed PPP, the project was taken over by the Government in late 2021 following persistent contractual, fiscal, and performance challenges (Oxfam, 2014; Government of Lesotho, n.d.).

Poor contract design, weak risk allocation, and insufficient upfront fiscal assessment resulted in long-term payment obligations, which absorbed a substantial share of the national health budget, constraining spending in other priority health areas (MoDP and UNDP, 2021). The experience has had a chilling effect on private sector confidence, with PPPs now viewed as fiscally risky, institutionally complex, and politically sensitive. As a result, PPPs are not currently perceived as a viable near-term financing instrument, but rather as an area requiring institutional repair, capacity rebuilding, and credibility restoration.

Existing governing policies and ongoing reforms and initiatives

Despite the adoption of the PPP Policy in 2017, implementation has remained limited. No major new PPP transactions have been launched in recent years, reflecting weak project preparation capacity, the absence of comprehensive legal framework, and lingering concerns among investors following the failure of the hospital PPP. While the Policy provides a sound conceptual framework emphasizing alignment with NSDP II, value for money, fiscal affordability, transparency, and fair risk sharing, these principles have not yet translated into a functioning PPP pipeline.

The PPP Unit within the MoFDP provides coordination and technical oversight, but its effectiveness is constrained by limited staffing, weak enabling legislation, and the absence of standardized tools for appraisal, procurement, and contract management. PPP reform is a gradual confidence-rebuilding exercise, rather than an immediate expansion of transactions, with a strong emphasis on donor-supported technical assistance, improved governance, and strengthened project preparation.

Strategic Actions

- **Enact a comprehensive PPP Act** to establish a clear and enforceable legal framework governing the full PPP lifecycle, including project appraisal, fiscal risk management, procurement, contract management, and termination, in line with international good practice and fiscal sustainability requirements.
- **Review and update the PPP Policy (2017)** to reflect lessons learned from past experience, strengthen requirements for affordability and risk assessment, and reinforce transparency, disclosure, and accountability provisions.
- **Develop a robust PPP implementation toolkit**, including standardized feasibility methodologies, fiscal risk assessment tools, model contracts, and monitoring and evaluation frameworks, to support consistent and disciplined project preparation and execution.
- **Use ODA** primarily as a source of technical assistance and de-risking support to rebuild PPP credibility, strengthen institutional capacity, and develop a small, carefully sequenced pipeline of bankable pilot projects before pursuing larger-scale transactions.
- **Focus initial PPP efforts on confidence restoration** rather than deal volume, prioritizing sectors and project types with manageable risks, strong public value, and clear fiscal safeguards.
- **Implement targeted investor outreach and communication measures** to signal reform commitment, clarify the government's revised PPP approach, and transparently demonstrate how past weaknesses are being addressed.
- **Integrate PPP decision-making more closely with public investment management and medium-term fiscal planning** to ensure that contingent liabilities are fully assessed, disclosed, and managed within a coherent fiscal framework.

Institutional Investors and NDB As Long-Term Capital Sources

Lesotho's domestic institutional investors – notably pension funds and insurance companies – hold substantial assets but currently play a limited role in financing national development. The largest pension fund (Public Officers' Defined Contribution Fund, with ~LSL 5.7 billion in assets in 2018) invests most of its portfolio abroad, reflecting scarce local instruments and regulatory constraints. This represents an untapped pool of long-term capital. The INFS calls for strengthening the role of these investors in mobilizing long-term finance for productive and sustainable sectors. Key impediments include conservative investment rules, a shallow domestic capital market, and lack of bankable projects.

To address this, the government is exploring creation of a National Development Bank (NDB) – potentially by repurposing the Lesotho National Development Corporation – to channel institutional capital into infrastructure, green industries, and SMEs through co-investments and credit guarantees. An NDB could de-risk projects and provide expertise to align pension and insurance funds with national priorities. Early reforms are underway: for example, authorities plan to amend prudential regulations so that pension and insurance funds can invest a portion of their portfolios in domestic infrastructure, green bonds, and SME financing, and backed by a guarantee mechanisms. Such measures would unlock local long-term capital, reducing reliance on external borrowing and South African markets. In sum, by updating regulations and establishing an NDB as a catalyst, Lesotho can leverage its institutional investors for development financing while ensuring proper governance and risk management (AfDB 2022; Government of Lesotho 2025).

Strategic Actions

- **Mandate domestic investment:** Amend pension and insurance regulations to require or incentivize a minimum share of assets be invested in Lesotho (e.g. infrastructure, bonds), rather than mostly offshore.
- **Establish a National Development Bank:** Create a dedicated NDB (through a new entity or by transforming LNDC) to mobilize and blend institutional capital for strategic projects, offering co-financing and credit enhancements to mitigate risks.
- **Develop bankable projects:** Strengthen project preparation and pipeline development in sectors like energy, transport, and housing so that pension funds and insurers have viable domestic investments. Provide guarantees or public seed funding to improve project creditworthiness.
- **Strengthen governance:** Implement robust governance, transparency, and risk management standards for domestic investments (e.g. independent investment committees, disclosure requirements) to build confidence among institutional investors and protect beneficiaries' interests.

Developing Domestic Capital Markets to Reduce Banking Reliance

Lesotho's financial system is heavily bank-centric – three South African bank subsidiaries hold ~95% of banking assets – leading to conservative lending practices, high collateral requirements, and limited long-term credit for local businesses. To diversify financing, the domestic capital market needs significant development. At present, Lesotho has no active secondary market for securities and only a nascent stock exchange platform with few listings. Government bonds exist but are held mostly to maturity, and corporate bond issuance is rare, yielding a very thin market. Key constraints include the small size of the economy, absence of a benchmark yield curve, and regulatory bottlenecks (e.g. delays in operationalizing the 2014 Capital Markets Regulations).

This strategy highlights the urgency of building local capital markets – for example through regular issuance of local-currency government bonds and PPP instruments – to mobilize private investment in public services. Recent steps by CBL indicate progress: the CBL is starting to issue its own securities and facilitate a secondary market for government treasury securities. Going forward, strategic actions could address both supply and demand sides of the market. On the supply side, the government can broaden the range of instruments by issuing longer-tenor bonds and exploring green or SDG-linked bonds to tap into sustainable finance trends. Developing a domestic investment benchmark (a reliable government bond yield curve) will help price other assets and attract institutional investors. On the demand side, regulatory reforms – such as mandating pensions to invest locally and creating tax incentives for bond investors – would channel more domestic savings into local securities. Deepening the capital market will

reduce over-reliance on banks, lower the cost of capital in the long run, and provide alternative financing for projects that banks may not fund. It will also enhance financial resilience by expanding the investor base beyond the banking sector (State Department, 2022; IMF, 2025).

Strategic Actions

- **Establish a sovereign yield curve:** Regularly issue government bonds across various maturities to build a yield curve that serves as a pricing benchmark for private debt. A predictable auction calendar and improved secondary trading will boost liquidity.
- **Issue innovative bonds:** Diversify instruments by issuing domestic green bonds or SDG bonds, potentially via the SADC regional Green Bond platform, to attract ESG-focused investors and finance climate-related projects.
- **Regulatory reform and market infrastructure:** Finalize and enforce capital markets regulations (e.g. Securities Market Act). Encourage listings on the Maseru Securities Market by streamlining listing requirements and consider partial guarantees for initial corporate bond issuances. Strengthen the regulatory capacity of CBL to supervise market activities and protect investors.
- **Leverage institutional investors:** Align with pension fund reforms to unlock local capital: for instance, amend the Pension Funds Act to require a portion of assets to be invested in domestic bonds/equities. Coupled with credit enhancements, this will increase demand for local securities and spur product development.
- **Regional integration:** Utilize regional capital markets to complement domestic efforts. This could include dual-listing Lesotho's bond issuances on larger exchanges (Johannesburg or others) and adopting regional standards, thereby drawing in international investors and fostering confidence in the Lesotho market.

Microfinance for Inclusion and MSME Development

Microfinance plays a pivotal role in Lesotho's financial inclusion landscape, extending services to ordinary people and micro-enterprises not reached by traditional banks. As of 2021, an impressive 87% of adults had access to formal financial services, but only 39% held bank accounts – the remainder rely on non-bank providers like microfinance institutions (MFIs), mobile money, and informal societies. MFIs and savings cooperatives help fill this gap by offering small loans, savings, and insurance to underserved groups, including women entrepreneurs and rural households, thereby empowering them economically. For instance, the oldest cooperative, Boliba Savings and Credit, and other MFIs have enabled clients to start small businesses and improve livelihoods that would otherwise be excluded from credit facilities.

However, the microfinance sector in Lesotho remains nascent and fragmented. Following recent reforms (the 2023 repeal of the old Money Lenders Act), about 150 MFIs are registered, but only ~70 are members of the Lesotho Microfinance Association, indicating many operate informally or with limited oversight. Current outreach is modest: MFIs have been expanding credit (total micro-loans grew ~8.5% to M1.1 billion by 2022), yet this is still small relative to the economy and demand for MSME finance. Several limitations hinder greater impact. First, MFIs face capital and sustainability constraints – many rely on high-interest short-term loans and have limited funding bases, which curtails their ability to scale and offer affordable products. The COVID-19 pandemic exacerbated liquidity pressures. Second, the sector is fragmented with varying standards; unregistered lenders raise consumer protection concerns (e.g. some have even withheld clients' ID documents as collateral), undermining trust. Third, outreach to rural areas and women-owned enterprises, while a priority, is constrained by difficult terrain, low financial literacy, and products not fully tailored to irregular incomes (most Basotho in rural areas are subsistence farmers or informal workers).

Low financial literacy and fear of over-indebtedness also limit credit uptake – 66% of adults without credit cite fear of borrowing. (uncdf.org.) To boost the coverage and impact of microfinance, the INFS and National Financial Inclusion Strategy II recommend reforms such as strengthening the regulatory framework for MFIs, supporting sustainable models, and enhancing coordination. A dedicated microfinance law or regulations are needed to close gaps and bring all lenders under proper supervision. Improving access for women and rural enterprises will require tailored approaches: for example, using group lending or mobile money platforms to reach remote clients, and offering financial literacy programmes alongside credit. Equally important is expanding funding for MFIs – through wholesale credit lines, an apex fund, or credit guarantee schemes – to increase the volume of lending to MSMEs. By professionalizing the sector and fostering innovation (digital finance partnerships, micro-insurance, etc.), microfinance can more effectively drive inclusion, create jobs, and reduce poverty in line with Lesotho’s development goals (UNCDF, 2020; FinMark, 2024).

- **Strengthen regulatory oversight:** Enact and enforce comprehensive microfinance regulations to license and supervise all MFIs and savings cooperatives. This includes closing regulatory gaps from the past moneylender regime, instituting interest rate caps or transparency rules to prevent predatory lending and ensuring consumer protection standards (e.g. prohibiting the practice of retaining client IDs). A strong apex body (Lesotho Microfinance Association) should be empowered to enforce compliance and build capacity across MFIs.
- **Expand rural and women-focused microfinance:** Promote products and delivery models targeting rural communities and women entrepreneurs. This could involve supporting village savings & loan groups, introducing agri-loans with flexible terms for farmers, and partnering MFIs with mobile network operators to deliver digital financial services in remote areas. Tailor credit methodologies (e.g. group lending, character-based lending) to overcome lack of collateral among women and informal businesses.
- **Increase funding and sustainability:** Improve the financial strength of the microfinance sector by establishing a Microfinance Fund or credit lines (potentially via a national development bank or donors) to on-lend to MFIs at affordable rates. Scale up partial credit guarantee schemes for micro and small enterprise loans, thereby reducing lender risk and encouraging MFIs to lend more boldly. Encourage consolidation or networking of smaller MFIs to achieve economies of scale.
- **Enhance financial literacy and client protection:** Invest in financial education programmes focusing on responsible borrowing, especially for new women and youth borrowers. Simultaneously, implement a client protection code of conduct for MFIs (aligned with the international best practices) to ensure ethical treatment of clients and to avoid over-indebtedness. Building trust in microfinance will expand uptake and maximize its developmental impact.

Trade Policy Risks and Export Diversification⁵

Lesotho’s exports remain highly concentrated, exposing growth, employment, and fiscal stability to external shocks and shifting trade conditions. While preferential market access has mitigated some risks, reliance on a narrow product–market base sustains structural vulnerability. Despite its importance, export diversification is not fully integrated into financing, macro-fiscal planning, or investment frameworks, limiting its effectiveness as a driver of resilience and growth.

⁵ Government of Lesotho (2025) Integrated National Financing Strategy; IMF (2025) Article IV Staff Report; FinMark Trust (2024); UNCDF (2020); U.S. Department of State (2022); Central Bank of Lesotho reports.

Addressing this requires elevating export diversification to a financing and investment priority. Public investment, private capital, and blended finance should be aligned with value-chain upgrading, market expansion, and trade-enabling infrastructure. Leveraging AfCFTA, SACU, and SADC can broaden market access and deepen regional value chains, while upgrading existing sectors and developing new exports will strengthen competitiveness, jobs, and long-term growth.

Strategic Actions

- **Implement an export diversification and value-chain upgrading strategy** that reduces reliance on concentrated products and markets, links trade priorities to financing instruments, and aligns investment promotion, infrastructure, and private sector support within the INFS framework.
- **Support upgrading and diversification within existing export sectors** through productivity-enhancing investments, skills development, technology adoption, and quality upgrading, enabling firms to compete on value rather than cost alone.
- **Accelerate development of new export sectors with strong domestic linkages**, including agro-processing, horticulture, wool and mohair, renewable energy-related services, and tourism, supported by targeted financing and project preparation.
- **Leverage on AfCFTA and regional value chains to expand exports to African markets** by reducing trade costs, strengthening standards compliance, and supporting firms to integrate into regional production networks.
- **Integrate export diversification objectives into macro-fiscal planning, investment prioritization, and private-sector financing strategies** to ensure that trade resilience is treated as a structural economic and financing issue rather than a stand-alone policy response.

Mainstreaming the Informal Sector

Mainstreaming the informal sector is a structural economic priority rather than a marginal social issue, closely linked to weak domestic revenue mobilization, limited access to finance, low productivity, and regulatory exclusion. This diagnosis directly reflects Lesotho's economic reality, where the informal economy is large and pervasive, employing over 50 percent of the labour force and contributing an estimated 30 percent of GDP through predominantly cash-based turnover, with some estimates placing informal employment as high as 70 percent of active workers. The dominance of cash transactions, combined with a relatively high VAT threshold and weak enforcement of registration, was recognized as creating fertile conditions for tax evasion, illicit cash transfers, and small-scale money laundering. Consultations stressed that informality persists not because of policy neglect alone, but because existing tax regimes, financial products, and regulatory frameworks discourage formalization, leaving the informal sector resilient yet poorly integrated into national policy, financing, and development frameworks.

Despite government efforts to formalize firms through registration incentives and support, the informal sector remains resilient and poorly integrated into policy frameworks.

Strategic Actions

- **Develop a National Strategy for Formalizing the Informal Economy**, including incentivized voluntary business and tax registration, simplified procedures, legal recognition, access to social protection, and representation in policy processes through chambers and sector associations.
- **Leverage digitalization to drive formalization** by expanding mobile payment systems, e-invoicing, and digital business registration platforms that link informal traders to tax, social protection, and financial services.
- **Revise the 2018 Public Procurement Policy** to prioritize local content, streamline MSME access to low-value contracts, and implement the forthcoming Business Linkages Policy to expand participation of informal and domestic enterprises in public tenders.
- **Promote voluntary VAT registration for MSMEs** by lowering the registration threshold, introducing simplified tax filing systems, and offering transitional compliance support to reduce entry barriers.
- **Design targeted programmes** to integrate informal workers and entrepreneurs into the formal economy, including provisions for decent work conditions, portable social protection, and gradual inclusion in pension and insurance systems. Adopt a gender- and youth-responsive approach to formalization by providing tailored incentives, capacity support, and access to finance for women- and youth-led informal enterprises, particularly in trade and services.
- **Expand capacity building and financial literacy programmes** for informal sector actors, focusing on entrepreneurship, digital skills, and market access to enhance productivity and incentivize formalization.
- **Introduce a temporary low-rate presumptive tax regime** for micro-enterprises entering the formal system, linked to simplified compliance obligations and phased progression into the broader tax net.

Appendix IV presents an overview of Lesotho's domestic private finance landscape, focusing on the role of households, enterprises, financial institutions, and capital markets in mobilizing private investment for growth, employment, and economic diversification. Further, it examines financial inclusion, entrepreneurship and MSME finance, private sector participation, institutional investors and capital markets, and the informal sector through five lenses: alignment with national priorities, existing policies and reforms, binding constraints, solution pathways, and international benchmarks. Its purpose is to identify where targeted financial instruments, regulatory reforms, and risk-sharing mechanisms can unlock domestic private capital, strengthen investment readiness, and better integrate the informal sector into the national financing system under the INFS.

4.5 International Private Finance

Foreign direct investment (FDI) has historically been an important driver of Lesotho's economic development, but recent trends underscore a sharp erosion of investor confidence rather than a cyclical slowdown. FDI inflows have declined markedly since 2015, with recent investment concentrated in mining, light manufacturing, particularly textiles and apparel, and water, while agriculture was identified as a potential but underdeveloped future opportunity. This trajectory aligns with investor perceptions of a mixed investment climate, previously reflected in Lesotho's ranking of 88th in the 2020 World Bank Doing Business report, an 18-place decline from 2019, and reinforced by more recent data showing net FDI inflows turning negative in 2023 at minus US\$25.6 million and remaining subdued in 2024 at around minus 0.55 percent of GDP.

Investors continue to cite high trade logistics costs linked to Lesotho's landlocked position, limited infrastructure quality, political uncertainty, and weak project bankability as key deterrents. While the Government has introduced reforms such as customs automation, targeted investment incentives, and expanded facilitation services, participants noted that these measures have yet to translate into a credible pipeline of investment ready opportunities or a sustained recovery in international private finance. As a result, FDI and other forms of international private capital were viewed as medium term outcomes of deeper institutional repair, regulatory predictability, and targeted de-risking, rather than as immediate drivers of growth or substitutes for foundational public investment and governance reform.

Existing governing policies and ongoing reforms/initiatives

The National Investment Policy (2016) prioritizes private sector development and grants foreign investors equal treatment to domestic ones, apart from a few reserved areas for small businesses. Despite a supportive policy environment, attracting investment remains challenging due to Lesotho's small market size and limited project readiness. To address this, the Government, with UNDP support, launched the SDG Investor Map (2022) to identify investment opportunity areas aligned with national priorities. Priority sectors include agriculture and food, consumer goods, renewable energy, healthcare, and financial services.

Investment promotion is led by LNDC, supported by the One-Stop Business Facilitation Centre (OBFC), which streamlines investor registration, and LTDC for tourism ventures. However, LNDC faces resource and capacity constraints, limiting its international outreach. While government incentives - such as factory shells, serviced industrial land, and tax holidays - have attracted some investors, their overall impact has not been formally assessed. FDI inflows have remained weak since 2015, reflecting political uncertainty and external shocks, including COVID-19, which severely affected the apparel sector. The new Government has reaffirmed its commitment to strengthening private sector participation, expanding FDI, and aligning future reforms with the extended NSDP priorities.

Foreign investors in Lesotho continue to face several concrete regulatory constraints that dampen investment flows. Although most sectors are open to foreign ownership, certain small-scale retail and service activities remain reserved exclusively for citizen-owned businesses, limiting both greenfield entry and market competition (UNCTAD, 2024). Work permit and expatriate staffing approvals remain cumbersome, reducing flexibility for foreign firms seeking to bring in key personnel or scale rapidly (U.S. Department of State, 2024). The land-titling and security-of-investment environment also present hurdles: for example, in small-scale mining, the state reserves a right to at least 20 percent ownership or control, and foreign-owned firms may face longer registration or licensing timelines than purely domestic players (Privacy Shield, 2023). Contract enforcement and predictable regulatory oversight are additional weak spots, as investor confidence is undermined by delays in commercial dispute resolution, shifting regulatory guidance, and limited transparency in public-private contract terminations (IMF, 2025). Collectively, these factors raise the effective cost of doing business for foreign investors, constraining both the scale and diversity of foreign direct investment (FDI) that Lesotho could otherwise attract (UNCTAD, 2024; IMF, 2025).

Strategic Actions

- **Review and modernize the National Investment Policy** to move beyond incentive led attraction and explicitly address investment readiness, project bankability, and policy predictability, including a systematic assessment of fiscal costs and effectiveness of existing incentives, stronger linkage to NSDP II and NSDP II Extended (2023/24–2027/28) priorities, and alignment with evolving global standards on sustainable and responsible investment.

- **Re-establish a structured Public–Private Investment Dialogue** as a problem-solving platform rather than a promotional forum, enabling continuous engagement between government, domestic and foreign investors, and financial intermediaries to identify binding constraints, resolve regulatory bottlenecks, and rebuild investor confidence through demonstrable follow up.
- **Enact the Competition Policy and operationalize the Science, Technology and Innovation Policy** with clear implementation arrangements, recognizing that credible competition enforcement, innovation ecosystems, and market contestability are foundational to restoring investor confidence and crowding in international private finance.
- **Transform the LNDC digital platform** into a fully functional investment facilitation and pipeline development tool, providing regularly updated, investment ready project profiles, sector specific opportunity briefs, standardized application processes, and clear points of contact for investor engagement and aftercare.
- **Strengthen the One Stop Business Facilitation Centre** by clarifying mandates, integrating digital workflows across agencies, and introducing performance metrics linked to transaction timelines, investor satisfaction, and successful deal closure rather than procedural compliance alone.
- **Shift investor outreach from generic promotion** to targeted deal origination, focusing investment summits, thematic forums, and matchmaking events on a small number of priority sectors and bankable opportunities identified through the SDG Investor Map and national development priorities.
- **Adopt a selective FDI strategy** that prioritizes investments with clear development mandate, technology transfer, and employment impact in sectors such as renewable energy, agriculture and agro processing, health, water, and light manufacturing, while avoiding overreliance on low value, enclave type investments.
- **Establish a National Investment Promotion Council** with clear coordination and advisory mandate, bringing together government, the private sector, and civil society to align investment promotion with SDG objectives, monitor investor sentiment, and recommend policy and regulatory reforms based on evidence rather than aspiration.
- **Develop a time-bound and operational FDI Action Plan** that translates policy objectives into a sequenced reform and investment pipeline, with clearly assigned institutional responsibilities, measurable targets, and monitoring indicators linked to actual inflows, project implementation, and investor retention.
- **Create a single National Investment Coordination mechanism** to align the mandates, targeting strategies, and aftercare functions of LNDC, BEDCO, and LTDC, reducing fragmentation, improving accountability, and ensuring that investor engagement is coherent, disciplined, and aligned with national financing and development priorities.

Green and Climate-Responsive Finance

Lesotho's strong policy commitment to green and climate finance contrasts with limited capacity to mobilize and manage such financing at scale. This reflects the country's broader context of high environmental and climate vulnerability, weak coordination arrangements, limited incentives, and the absence of a dedicated legal and institutional framework for climate finance. While the Lesotho Meteorological Services currently leads on climate policy and the MoFDP is expected to play a stronger role in structuring and attracting green finance, responsibilities remain fragmented and insufficiently anchored in fiscal and investment systems.

Lesotho's NDCs prioritize adaptation and resilience and estimate financing needs at USD 1.08 billion, while also highlighting that access to instruments such as the Green Climate Fund remains constrained by weak project preparation, limited technical capacity, and the absence of a coherent resource mobilization strategy. Opportunities

to issue green or climate bonds, including through the emerging SADC Green Bond Framework, and to expand blended finance remain largely untapped. Scaling sustainable and impact investment in priority sectors such as agriculture, renewable energy, housing, and ICT will therefore require a more structured climate finance architecture, clearer institutional leadership, dedicated financing instruments, and targeted capacity building across both public and private sectors, fully aligned with the INFF and national development priorities.

Box 9 CLIMATE FINANCE AND CLOSING THE NDC GAP

Addressing Lesotho's climate finance and adaptation gap requires a structured approach that translates policy ambition into investable pipelines. The country's Nationally Determined Contributions (NDCs) outline significant adaptation and mitigation commitments, yet progress is constrained by limited fiscal space, weak project preparation capacity, and fragmented access to international climate funds (IMF, 2024; UNFCCC, 2023). Mobilizing finance at scale will depend on creating mechanisms that integrate climate objectives into national budgeting systems, strengthen monitoring, reporting, and verification (MRV), and attract both concessional and private investment (World Bank, 2023). Establishing blended finance platforms, leveraging Article 6 carbon markets, and expanding access to the Green Climate Fund and Adaptation Fund are all critical pathways for aligning domestic priorities with global financing instruments (OECD, 2024). The following entry points identify strategic areas where policy, financial innovation, and institutional coordination can close Lesotho's NDC investment gap and enhance resilience across priority sectors.

- Convert NDC priorities into an investable pipeline with standardized MRV, climate tags in the budget, and PIMA-style asset registers for resilience.
- Access GCF, Adaptation Fund, and Article 6 carbon markets with jurisdictional programmes in land, water, and rangeland restoration.
- Issue small green or blue instruments with credit enhancement and use results-based climate finance for efficient cookstoves, irrigation, and mini-grids.
- Establish a national facility to blend grants, guarantees, and private capital for adaptation in water, agriculture, and health.
- Publish an annual NDC investment gap update that links projects, costs, expected emissions and resilience outcomes.

Existing governing policies and ongoing reforms/initiatives

Lesotho's National Climate Change Policy (2017–2027) and updated Nationally Determined Contributions (NDCs) demonstrate the country's commitment to climate action but reveal major implementation and financing gaps. The NDC review (2023) estimated funding needs at USD 1.08 billion across priority sectors such as water, health, infrastructure, disaster management, and renewable energy. While the policy framework promotes inclusivity and resilience, it lacks concrete financing mechanisms, specific investment instruments, or measurable implementation plans.

Despite progress in institutional coordination, capacity to design and mobilize green finance remains limited, and no domestic climate finance instruments—such as green bonds or climate budgets—are yet in place. Climate finance is still largely driven by external partners, while domestic institutions need technical skills to prepare bankable green

projects. As a landlocked, drought-prone country with strong agricultural dependence, Lesotho must integrate climate resilience into all major infrastructure and investment initiatives to protect livelihoods and sustain growth. Key Challenges include:

- Weak institutional capacity and coordination for mobilizing climate finance.
- Absence of a national resource mobilization and climate budgeting framework.
- Limited pipeline of bankable green projects and feasibility studies.
- No green financial instruments or domestic capital market capacity.
- Lack of incentives such as green taxes or climate-responsive PPPs, and
- Small market size, high logistics costs, and limited skilled labour hindering impact investment.

Strategic Actions

Building climate finance capacity in Lesotho will require embedding climate and resilience investments within the national financing architecture rather than treating them as a standalone or donor driven domain. Alignment with NSDP II and the forthcoming INFS, disciplined sequencing based on fiscal and institutional readiness, and a shift from fragmented projects toward a coherent climate finance system is necessary (GoL, 2023; IMF, 2024). In light of these findings, the proposed actions are strengthened as follows:

- **Establish a dedicated Climate Finance Unit** within the Ministry of Finance and Development Planning to serve as the national coordination, project preparation, and resource mobilization hub for climate finance, with clear authority to interface with line ministries, development partners, and private financiers.
- **Prepare a Climate Finance Readiness Plan** to define accreditation pathways, fiduciary standards, monitoring, reporting, and verification mechanisms, and eligibility requirements for accessing global climate funds such as the GCF, Adaptation Fund, and development bank green windows.
- **Develop and maintain a rolling pipeline of five to seven investment ready climate projects** in priority sectors including renewable energy, agriculture and food systems, water and sanitation, and climate resilient infrastructure, aligned with NDC priorities and integrated into public investment management processes.
- **Strengthen institutional capacity across government, public agencies, and financial intermediaries** to design, appraise, finance, and manage climate resilient investments, with a focus on bankability, fiscal risk assessment, and blended finance structuring.
- **Update and operationalize national climate and green finance frameworks** to clarify institutional roles, coordination mechanisms, and regulatory requirements, ensuring full integration with public financial management, debt management, and medium-term fiscal planning.
- **Expand climate risk, index, and agricultural insurance schemes** to protect households, farmers, and MSMEs from climate shocks, scaling up CAFI pilot mechanisms toward national coverage.
- **Leverage the emerging SADC Green Bond Platform** to prepare and pilot Lesotho's first domestic green or climate bond issuance, using blended finance structures that combine PCGF guarantees, concessional capital, and private investment.
- **Assess and sequence the introduction of carbon pricing instruments, green taxes, or environmental levies**, accompanied by compensatory social measures to safeguard equity, competitiveness, and political feasibility.
- **Integrate climate finance fully into the SDG aligned national financing framework**, embedding sustainability and resilience criteria into public investment decisions and private capital mobilization.
- **Apply the SDG Investor Map** to identify high impact, pipeline ready projects in agriculture, renewable energy, health, housing, and finance, linking these to blended finance facilities and public private investment windows.

- Review and rationalize tax incentives, CSR provisions, and regulatory frameworks for impact investment to better align private sector participation with climate and resilience objectives.
- Explore the establishment of a National Carbon Trading Platform in partnership with regional initiatives to position Lesotho within Southern Africa's emerging carbon market ecosystem and unlock results-based climate finance.

The establishment of a national green finance taxonomy will be required over time to provide clarity, consistency, and credibility in the classification of green and climate aligned investments, particularly as Lesotho seeks to access international climate finance and develop domestic green capital markets. Together, these measures will build a coherent and sequenced pathway for climate finance integration that complements Lesotho's macro-fiscal strategy, while catalyzing private investment and enhancing resilience at both institutional and community levels (IMF, 2024; UNDP, 2024; World Bank, 2023).

Gender-Responsive Finance

Gender inequality remains a binding constraint to inclusive and sustainable growth in Lesotho, and existing disparities are not only social outcomes but structural economic inefficiencies. Lesotho ranks 144th out of 193 countries on the UNDP Gender Inequality Index, reflecting persistent gaps in empowerment, labour market participation, and health outcomes (UNDP, 2025). Women's labour force participation, at 48.7 percent, continues to lag significantly behind men's 67.7 percent, while women hold fewer than 30 percent of registered businesses, constraining productivity, entrepreneurship, and private sector dynamism (World Bank, 2025). Gender-based violence, affecting over 86 percent of women and girls, further erodes human capital, labour productivity, and long-term development outcomes (UN Lesotho, 2023). Despite relatively strong female educational attainment, occupational segregation remains entrenched and access to finance is severely limited, with only 9 percent of women led MSMEs accessing formal credit (FinMark Trust, 2023).

Gender inequality is amplified by climate and spatial vulnerabilities, particularly in rural areas where women and girls face disproportionate exposure to drought, food insecurity, water scarcity, and unpaid care burdens (World Bank, 2023). Gender blind financing instruments, investment criteria, and project selection processes continue to reinforce exclusion, particularly in infrastructure, climate finance, and private sector support programmes. Consistent with IMF (2025) and UN Women (2024) analysis, closing gender gaps could raise GDP growth by up to 30 percent, expand the tax base, and strengthen resilience to external shocks. Integrating gender responsive finance into the INFS is a core economic and fiscal reform, requiring mandatory gender disaggregated indicators, ex post gender audits for major financing instruments, and systematic alignment of public and private investment with gender equality and inclusive growth objectives.

Existing Governing Policies and Ongoing Reforms/Initiatives

- The Gender and Development Policy (2018–2030) provides the overarching framework for promoting equality, empowerment, and non-discrimination, while the forthcoming National Gender Action Plan translates these objectives into actionable interventions (Government of Lesotho, 2018).
- The INFS and NSDP II both embed gender equality as a cross-cutting pillar of public finance, private-sector development, and social transformation (GoL, 2023).

- **Gender-Responsive Budgeting (GRB)** pilots have been launched in the Ministries of Finance, Development Planning, and Gender, with plans to extend GRB across all MDAs by 2026. These include gender budget statements, expenditure tracking, and staff training modules supported by UNDP and UN Women (UNDP and UN Women, 2024).
- **The MoFDP** has initiated integration of sex-disaggregated budget tagging within the Medium-Term Expenditure Framework (MTEF) and IFMIS, linking expenditure to equality outcomes (IMF, 2025).
- **Public institutions** and the private sector are adopting gender audits and inclusive procurement frameworks, promoting equal participation in supply chains and public tenders. Pilot audits in 2024 covered MoFDP, MoDP, and MoGYR, setting the basis for full national rollout (GoL, 2024).
- **Development partners** - including UN Women, UNDP, AfDB, and the EU - are supporting the introduction of gender-linked financial instruments, such as concessional credit lines, impact-investment facilities, and blended-finance guarantees tailored to women-led MSMEs (AfDB, 2024).

Despite these advances, institutional coordination and financing remain fragmented. The absence of a national gender-finance strategy, a dedicated financing facility, or domestic capital instruments such as gender bonds limits the scale of implementation and private-sector engagement.

Strategic Actions

Building on the policy and institutional groundwork already established, the following strategic actions outline a coherent framework for scaling gender-responsive finance across Lesotho's public and private sectors. They focus on embedding equality objectives in fiscal policy, strengthening institutional accountability, and expanding access to finance for women-led enterprises. By combining regulatory reform, innovative financial instruments, and targeted capacity development, these measures will operationalize gender equality as a measurable driver of inclusive growth and fiscal sustainability (UNDP and UN Women, 2024; IMF, 2025; World Bank, 2025).

Institutionalize Gender-Responsive Budgeting (GRB):

- Expand GRB to all ministries and districts by 2026, making gender-budget statements and audits mandatory within the annual MTEF cycle.
- Establish a legal framework requiring all MDAs to assess gender impacts before programme approval and to publish gender-disaggregated results annually.

Establish a Gender-Responsive Finance Facility (GRFF):

- Create a pooled financing mechanism within MoFDP to coordinate domestic, donor, and private contributions for women's economic empowerment, youth inclusion, and social-impact investments.
- Channel funds into women- and youth-led MSMEs, gender-sensitive infrastructure (health, WASH, markets), and social-enterprise initiatives aligned with SDGs 5, 8, and 10.

Expand Access to Finance for Women Entrepreneurs:

- Partner with commercial banks and microfinance institutions to develop gender-linked credit guarantees, concessional loan products, and micro-insurance schemes.
- Use blended-finance mechanisms to de-risk lending to women-led enterprises, integrating these facilities with the Partial Credit Guarantee Fund (PCGF) and CAFI Project.

Introduce Gender-Focused Financial Instruments:

- Develop Gender Bonds or “Orange Bonds” under the SADC Green and Social Bond Platform to attract ESG and impact investors targeting equality outcomes.
- Pilot a Gender Impact Fund co-financed by government and DFIs to support projects that improve women’s employment, ownership, or service access.

Strengthen Private-Sector Engagement:

- Introduce tax incentives for businesses achieving measurable gender-equality outcomes (e.g. wage parity, women in leadership).
- Embed gender-performance covenants in PPPs, blended-finance contracts, and public procurement agreements.

Enhance Data, Monitoring, and Capacity:

- Institutionalize collection of sex-disaggregated data across IFMIS, NSDP monitoring, and the INFS dashboard to track public and private financing for gender outcomes.
- Build technical capacity within MoFDP, CBL, and the private sector for gender-responsive financial analysis and impact assessment.

Promote Financial Literacy and Digital Inclusion:

- Expand nationwide programmes on financial literacy and digital-finance adoption targeting women and girls, particularly in rural areas.
- Support mobile-based savings, insurance, and payment solutions that increase financial autonomy for women entrepreneurs and informal workers.

Remittances and Diaspora Financing

Remittances remain one of Lesotho’s most significant and resilient sources of external finance, accounting for around 20 percent of GDP in 2024, and continue to play a stabilizing role in the balance of payments and household consumption (IMF, 2025). Although remittances exceeded 50 percent of GDP in the 1980s, their relative importance has gradually declined over time, reflecting structural shifts in labour migration and regional economic conditions (Sparreboom and Sparreboom-Burger, 1996; FinMark Trust, 2016; MoDP and UNDP, 2021). Remittance flows remain largely consumption oriented, with limited linkage to savings, productive investment, or enterprise development, constraining their potential contribution to long term growth and resilience.

Lesotho’s large diaspora, primarily migrant workers in South Africa and other SADC countries, is highly exposed to regional economic downturns, creating volatility through job losses, return migration, and sudden declines in remittance inflows that place pressure on public finances and social systems. While the adoption of the National Diaspora Policy in 2021 marked an important shift by positioning diaspora engagement as a core development priority. However, implementation remains nascent, fragmented, and weakly integrated into the national financing architecture (Government of Lesotho, 2021b). Key challenges include the absence of structured investment vehicles, limited availability of investable project pipelines, weak coordination across institutions, and insufficient data on the size, location, and investment preferences of the diaspora.

Key challenges

High remittance transfer costs, averaging around 11 percent, further reduce the developmental impact of remittance flows, underscoring the need for closer coordination with South Africa and greater use of digital channels such as mobile money, diaspora savings accounts, and fintech platforms (MoDP and UNDP, 2021). Unlocking the investment potential of remittances will therefore require targeted reforms to reduce MSME financing risks, improve small business viability, and create a supportive regulatory environment for diaspora led investment. Repositioning remittances within the INFS as a development finance instrument will depend on strengthening institutional capacity, developing a credible pipeline of bankable opportunities, and introducing structured mechanisms such as diaspora funds, bonds, co investment platforms, and crowdfunding instruments aligned with national development priorities and external stability objectives.

Philanthropic Giving/Finance

Philanthropic giving in Lesotho remains limited, with modest contributions from both domestic and international sources and no unified national framework to guide or incentivize charitable finance (MoDP & UNDP, 2021; Government of Lesotho, n.d.). The current tax system offers little incentive for corporate giving. Therefore, it is necessary to:

- **Establish a comprehensive national diaspora database** to map profiles, skills, investment capacity and preferences, and geographic distribution, enabling targeted engagement and policy design.
- **Develop a Government–Diaspora Partnership Pact** as a formal framework for collaboration, outlining shared responsibilities, investment incentives, and mechanisms for knowledge transfer.
- **Pilot and scale innovative diaspora investment instruments**, including diaspora mutual funds, bonds, and crowdfunding platforms, with appropriate regulatory support and favorable tax incentives.
- **Strengthen structured dialogue and coordination** through regular diaspora forums such as the flagship Lesotho Diaspora Trade and Investment Forum, consultation platforms, and a proactive diaspora communication strategy.
- **Create tailored diaspora financial products**, such as dedicated bank and investment accounts, digital crowdfunding channels, and access to specialized advisory services to facilitate cross-border investment.
- **Develop and grow a portfolio of investable projects** continuously to engage with and attract diaspora investors.
- **Sustain and expand low-cost remittance corridors** and mobile money networks particularly partnering with South Africa to reduce transaction costs and enhance the flow of funds into productive uses.
- **Leverage remittances for MSME development**, using partial guarantees, credit-matching schemes, and impact-linked financing to strengthen small business creditworthiness.
- **Promote diaspora philanthropy and social investment**, including charitable campaigns and joint development initiatives with clear, transparent fundraising goals.
- **Establish a National Diaspora Council** to coordinate engagement, monitor implementation of the Diaspora Policy, and ensure sustained participation of the diaspora in Lesotho’s economic transformation.

Reliable data on philanthropy are lacking, with discrepancies between OECD-DAC and national records, partly because much assistance is delivered directly to beneficiaries. Social enterprises are emerging but remain largely unrecognized within policy or regulatory frameworks, despite their potential to drive youth employment and social impact. The NSDP II Financing Strategy acknowledges the potential of philanthropy but lacks concrete mechanisms for mobilizing it. Strengthening data systems, introducing tax incentives, building fundraising capacity among civil society, and integrating diaspora philanthropy into the broader development financing agenda could significantly expand Lesotho's philanthropic and social finance landscape.

Strategic Actions

- **Establish a centralized philanthropy data system** to routinely collect, analyze, and publish information on domestic and international philanthropic flows, improving transparency and evidence-based decision-making
- **Commission a comprehensive review of the tax framework** to identify fiscal and legal reforms that incentivize corporate and individual charitable giving, including potential deductions and matched-contribution schemes.
- Integrate philanthropy mechanisms into the National Diaspora Policy, ensuring that diaspora engagement explicitly includes structured channels for charitable giving and social investment.
- **Design and pilot innovative diaspora philanthropy instruments**, such as diaspora charitable funds, blended-finance facilities, and social investment platforms, aligned with national development priorities and impact objectives.
- **Consider executing the findings of the commissioned feasibility study on the proposed Lesotho Diaspora Bond**, including the design of issuance structures, investor outreach, risk mitigation arrangements, and potential piloting aligned with priority development and resilience investments.

Lesotho's financing landscape is at a critical juncture, marked by fiscal surpluses, resilient remittances, and expanding domestic credit. It is faced with declining ODA and FDI, weak institutional capacity, and limited private investment dynamism. The INFS demonstrates that sustainable growth will depend on mobilizing diverse sources—domestic and international, public and private—while improving policy coherence and institutional effectiveness.

Section 5 now builds on this foundation by outlining the governance and coordination architecture required to operationalize the INFS—ensuring that these financing reforms are not only well-designed but also coherently implemented across institutions, sectors, and stakeholders.



5 GOVERNANCE & COORDINATION

The Government of Lesotho will implement the INFS through a deliberately lean governance model given the institutional capacity constraints. The objective is to maximize decision clarity, execution discipline, and accountability, while avoiding parallel structures, excessive committees, and administrative overload. The INFF architecture will coordinate all sources of finance, public and private, domestic and international.

Lesotho's binding constraint is not the availability of finance but fragmented coordination, unclear authority, and weak execution capacity. The governance arrangements below prioritize a short decision chain, clear mandates, and integration into existing budget and planning systems. They do advocate for creation of new or parallel institutions. Key governance arrangements and roles are as follows.

- **High-Level Oversight Committee:** Chaired by the Prime Minister, this apex body provides strategic direction and political oversight for the INFF and INFS. It ensures that financing, fiscal, and investment reforms remain aligned with Lesotho's national development vision and resolves cross-government or political blockages that cannot be addressed at executive level. The committee provides strategic endorsement and accountability, meets infrequently and does not manage implementation. The committee will:
 - Formally endorse the INFS and its Financing Strategy Roadmap as a Cabinet-level instrument.
 - Convene Cabinet or Cabinet sub-committee discussions on priority Roadmap actions requiring political guidance, cross-government coordination, or high-level trade-offs.
 - Appoint members of the INFS Oversight Committee at Principal Secretary level based on relevance to financing, fiscal policy, investment, and regulation.
 - Provide guidance on bottlenecks that cannot be addressed at executive or technical level.
 - Review annual progress on INFS implementation, including headline financing outcomes, fiscal implications, and alignment with national priorities.
 - Endorse major strategic shifts to the roadmap where fiscal conditions, political priorities, or external shocks require recalibration.
 - Ensure sustained political ownership and accountability for financing reforms of the strategy.
- **INFS Oversight Committee:** The committee provides executive coordination for INFS implementation and the operational core of the INFS. It is chaired by the MoFDP and coordinates day-to-day rollout of the financing strategy across all pillars, public and private. It implements the INFS Roadmap, arbitrates trade-offs, ensures fiscal realism, and integrates execution. It addresses all matters related to budgeting, debt, public investment, procurement, and fiscal risk. It escalates issues requiring political guidance to the High-Level Oversight Committee. The duties of the committee:
 - Conduct executive review of the INFS and Financing Strategy Roadmap.
 - Prioritize Roadmap actions and yearly implementation plans, with clear ownership, timelines, and dependencies.
 - Convert the Roadmap into a rolling annual work plans aligned with the budget cycles and MTEF.
 - Appoint members of the Development Finance Working Group and other supporting technical working groups.

- Arbitrate trade-offs across domestic public, international public, domestic private, and international private finance actions based on fiscal realism and institutional capacity.
 - Review and implement recommendations submitted by the Development Finance Working Group or escalate issues to the High-Level Oversight Committee.
 - Monitor progress on implementation against agreed milestones using reports prepared by the Secretariat and the Integrated Financing Dashboard.
 - Realign implementation based on experience, financing conditions, or capacity constraints.
- **Development Finance Working Group:** The DFWG is chaired by MoFDP and is the national gatekeeper for financing. It screens and clears all major financing initiatives; ODA, climate finance, PPPs, diaspora instruments, and blended finance. Where initiatives involve public funds, budget execution, public investment approval, procurement, or fiscal risk exposure and screening, and reporting apply automatically. The DFWG submits clear recommendations to the INFF Oversight Committee for decision-making. Its functions are the following:
 - Screens and assesses all major financing initiatives, including ODA, climate finance, PPPs, diaspora instruments, guarantees, and blended finance proposals.
 - Applies standardized intake templates, readiness criteria, and compliance checks to ensure consistency and comparability across financing proposals.
 - Supports line ministries, agencies, and partners in developing bankable pipelines, financing instruments, and implementation plans for prioritized actions.
 - Coordinates technical working groups aligned with specific Roadmap areas, such as climate finance, capital markets, MSME finance, or diaspora instruments.
 - Identifies operational bottlenecks and propose practical solutions to accelerate execution.
 - Submits clear, evidence-based recommendations to the INFS Oversight Committee for decision-making.
 - Tracks implementation status of approved action plans and reports progress, delays, and risks through the Secretariat.

Secretariat and Operating Modality

A single, lean Secretariat functioning within MoFDP and located in the Aid Coordination Department, supports all three coordination bodies. The Secretariat performs process-control and analytical functions only. It manages agendas, applies and enforces standard templates for submissions, conducts completeness and compliance checks, logs proposals and decisions in a central registry; maintains the Integrated Financing Dashboard, and coordinates reporting across institutions. It ensures consistency, transparency, and disciplined execution across the INFS.

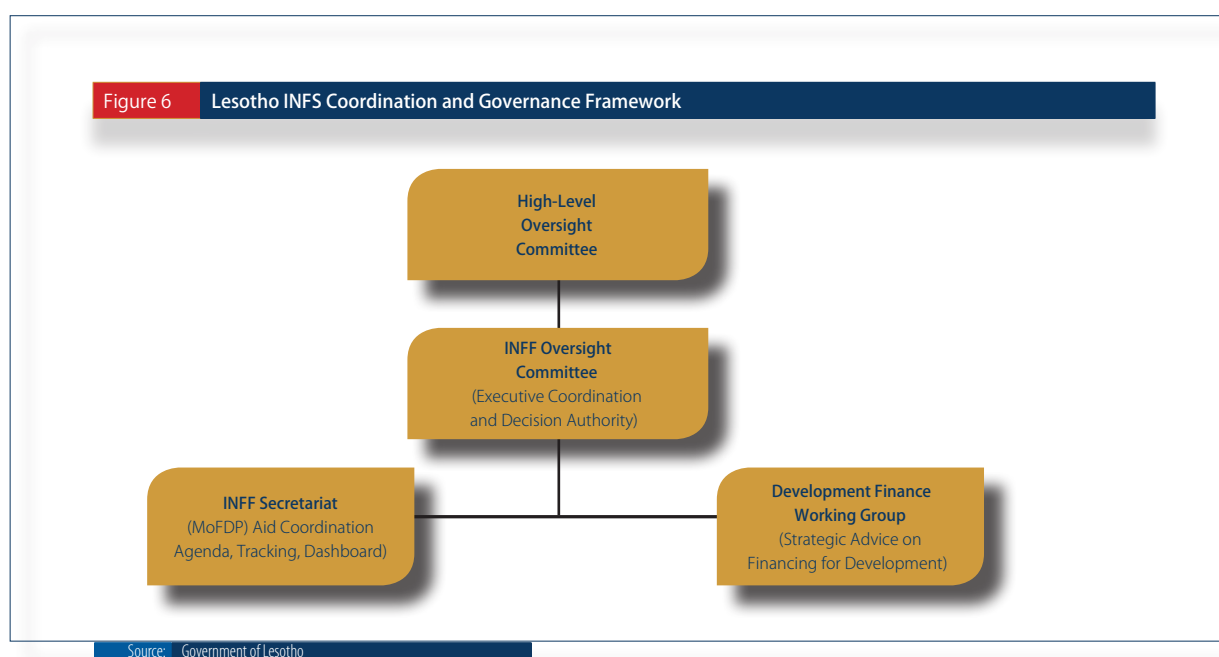
The Secretariat has no policymaking or approval authority. It does not prioritize, approve, or reject financing proposals. Substantive decisions, including approval of pipelines, instruments, and financing allocations, remain the exclusive responsibility of the INFF Oversight Committee and the Development Finance Working Group (DFWG). The role of the Secretariat is to facilitate orderly intake, documentation, monitoring, and publication of decisions taken by the designated oversight bodies.

The Secretariat operates with a small team comprising one coordinator, two technical officers, and a part-time economist seconded by the Planning Department. Its annual operating costs are estimated at LSL 3.2 million and financed through the MoFDP budget and partner support.

Embedding in National Systems

The INFS is not a stand-alone initiative. The INFS Roadmap will be adopted as a Cabinet-approved instrument and fully embedded in the MTEF and annual budget cycle. Line ministries will incorporate INFS programmes into costed sector plans linked directly to budget allocations. Progress will be monitored through existing national systems, including the Development Cooperation Report and budget performance reviews.

This streamlined governance model reflects institutional reality, avoids parallel structures, and establishes a clear line of authority from political leadership to financing decisions and execution. It prioritizes efficiency, discipline, credibility, and long-term sustainability. Figure 6 provides the INFS coordination structure.



5.1 How Will the Roadmap be Executed

This section explains the governance and coordination arrangements to execute the INFS and its Roadmap. The focus is on clear sequencing, authority, and disciplined execution.

- **Step 1: Establishment of the High-Level Oversight Committee:** The first implementation action will be the formal establishment of the High-Level Oversight Committee, chaired by the Prime Minister. The committee provides political leadership and strategic authority for INFS implementation and direct access to Cabinet and Cabinet sub-committees. The INFS Roadmap, anchored within Cabinet-linked decision-making, ensures that financing reforms are aligned with national priorities, political commitments, and the annual budget process. The Committee appoints members of the INFS Oversight Committee for execution and coordination.

- **Step 2: Establishment of the INFS Oversight Committee:** Following Cabinet-level endorsement, the INFS Oversight Committee will be established as the core executive coordination and decision-making body for INFS implementation. Members will be nominated by the High-Level Oversight Committee and drawn from Permanent Secretaries or equivalent level from the key institutions identified in the roadmap. Membership will be drawn from individuals with financing, fiscal, investment, or regulatory skills.

The first task of the INFS Oversight Committee will be to formally review the INFS and the Financing Strategy Roadmap. Based on the review, the committee will prioritize Roadmap actions and translate multi-year implementation plan.

- **Step 3: Conversion of the Roadmap into Rolling Annual Work Plans:** The INFS Oversight Committee will convert the Roadmap into rolling annual work plans aligned with the MTEF and annual budget cycle. These work plans will specify priority actions, lead institutions, timelines, dependencies, and expected outputs. The committee will balance competing priorities, coordinate with institutions, and ensure that expenditure conforms with regulations and available resources.
- **Step 4: Establishment and Mobilization of the Development Finance Working Group:** Once priorities for Years 1 and 2 are agreed, the INFS Oversight Committee will appoint the members of the Development Finance Working Group (DFWG) and establish technical working groups to execute specific Roadmap actions.

The DFWG will operate at technical level and focus on execution. Technical working groups will be constituted only where needed and report through the DFWG to the INFS Oversight Committee.

- **Step 5: Operational Support and Follow-Up by the INFS Secretariat:** The INFS Secretariat will play a critical operational role throughout implementation. The Secretariat will provide administrative support to all committees and provide central registry functions.
- **Step 6: Operating Rhythm and Link to Monitoring and Review:** The governance processes would follow the national planning and budget cycles. The INFS Oversight Committee will meet quarterly; the Development Finance Working Group will meet monthly; and the High-Level Oversight Committee will meet annually.

The execution of the Road Map will be directly linked to the Monitoring and Review framework. Progress against prioritized actions, financing outcomes, and implementation milestones will be reviewed through the Integrated Financing Dashboard.

6 MONITORING & REVIEW

Monitoring, Evaluation, and Learning (MEL) is critical for effective implementation of the INFS. A robust MEL system would enable the government to learn from past experiences, adapt to new challenges, and ensure mistakes are not repeated.

Institutional Arrangements and Current Gaps

The MoFDP Department of Aid Coordination is the central body for monitoring development resources and producing the annual Lesotho Development Cooperation Report (DCR). The DCR tracks grants and concessional loans and links them to NSDP II outcomes to improve budget predictability. The INFS offers an opportunity to build a stronger, results-based MEL system that closes institutional weaknesses and embeds continuous learning into development finance management.

Digital Systems for Budget Monitoring and Data Management

The Government has made progress in digitizing financial monitoring through the Central Budget Management System (CBMS), launched in FY2018/2019, with plans to evolve it into a full IFMIS. These systems aim to improve the speed and accuracy of budget tracking across ministries, and future upgrades will include SDG and NSDP expenditure tagging—enabling real-time monitoring. Public debt oversight is also being strengthened by linking IFMIS with debt management systems and reinforcing mechanisms like the External Debt Committee. A critical gap has been weak coordination between the MoFDP, which oversees public finance and aid, and CBL, which manages the financial sector and capital markets. Strengthening data-sharing and financial stability assessments would strengthen macro-financial coordination, build investor confidence, and attract more diversified and sustainable financing.

Transparency, Oversight and Public Participation

Lesotho's budgetary transparency and oversight mechanisms remain weak, with the country scoring only 26 out of 100 on the Open Budget Survey's transparency index. The Government has acknowledged these shortcomings and is pursuing reforms to strengthen transparency, citizen engagement, and parliamentary oversight. Initiatives include timely publication of budget documents such as Enacted Budgets, Citizen's Budgets, and Year-End Reports) and empowering Parliament's SDG committee to track development outcomes and hold the executive to account. Formal reporting channels between ministries, Cabinet, and Parliament will be reinforced to ensure that NSDP II and SDG implementation.

Alignment with National Plans and The SDGs

The extended NSDP II is explicitly aligned with the Sustainable Development Goals (SDGs), meaning that effective implementation of NSDP II should also advance SDG targets. A formal SDG mapping of NSDP II was completed (MoDP, 2020c) but the alignment with the MTEF and annual budgets remains a challenge. Within the INFS, each key reform or programme in the roadmap will be directly linked to budget allocations through the MTEF process.

Data Systems and Information Management

Lesotho continues to face persistent challenges in generating and managing development data to support evidence-based policymaking. The Government is prioritizing improvements in the reliability, timeliness, and disaggregation of data through strengthened institutions like the Lesotho Bureau of Statistics (LBS). Accurate data - particularly on poverty, gender disparities, and climate vulnerability - is essential for directing resources effectively and tracking impact. The INFS promotes a collaborative approach to data collection, engaging civil society, academia, and communities in participatory monitoring and validation. This inclusion will enhance transparency and public trust in reported outcomes.

A key priority is the development of a comprehensive Integrated National Financing Dashboard to consolidate all development finance flows. While a Public Sector Investment Database (PSID) existed in the past, it has been inactive and focused only on donor commitments. The new dashboard will address this gap by integrating data from IFMIS (budget execution), the Central Bank (financial flows), MoFDP and the Ministry of Foreign Affairs (aid and South-South cooperation), and private sector actors. Non-state stakeholders will also contribute through data validation and project tracking.

To mitigate data constraints, BoS and MoFDP will co-lead a Statistical Capacity Strengthening Plan for 2025–2030. It will establish standard data protocols, automated data transfers from IFMIS and CBL, and annual data quality audits. A Data Innovation Fund will be created to pilot AI-based forecasting and gender-disaggregated analytics and to ensure MEL reliability.

Embedding M&E in Programmes and Strengthening Capacity

Monitoring and evaluation are key features of every development initiative from the outset. In INFS, all programmes - should include clear objectives, measurable indicators, and data collection plans from the design phase. By institutionalizing this approach, Lesotho aims to create a results-oriented financing system aligned with NSDP II and the SDGs.

The Government will develop a comprehensive M&E framework supported by practical tools, standardized processes, and a strong coordination structure. The INFS M&E system will serve as a pilot and catalyst for broader reforms to Lesotho's national M&E architecture.

Key Actions and Proposals to be Undertaken

- Develop an integrated INFS/NSDP Monitoring Dashboard combining a unified M&E framework for tracking NSDP II and SDG targets.
- Produce a step-by-step M&E Manual to guide data collection, evaluations, financial tracking and decision-making.
- Strengthen M&E capacity across MDAs through targeted training in IFMIS tools, data analytics, and gender- and climate-responsive evaluation techniques.
- Establish a dedicated INFS M&E Working Group under the INFF Secretariat, composed of MoFDP, CBL, LBS, key line ministries, and non-state actors.
- Integrate MEL as a cross-cutting function across all technical and sectoral committees to prevent fragmentation and ensure coherence.
- Decentralize M&E functions, empowering local governments and districts to report on and monitor project delivery in their jurisdictions.
- Introduce civic accountability mechanisms, including whistleblower protection, citizen scorecards, and mobile-based community monitoring tools.
- Mandate and publish annual and quarterly performance reports from all MDAs, including targets and outcomes, to promote transparency and public scrutiny.
- Ensure M&E systems capture disaggregated data by gender, region, and vulnerability to support inclusive and responsive policy.
- Align lessons learned from INFS implementation feeding into future revisions of NSDP II and long-term national development strategies.

Performance Monitoring to Close the Financing Gap

The primary goal of the INFS is to close the financing gap to achieve Lesotho's development goals. Monitoring and review will focus on tracking activities, measuring resources mobilization and tracking priority allocations. The monitoring dashboard, updated annually, will serve as the backbone for assessing progress and guiding policy reviews.

- **Domestic Public Finance:** The dashboard will track ODA-blended domestic investments and fiscal. Gender- and climate-responsive budgeting will be integrated, with allocations monitored as a share of GDP or total spending.
- **Domestic Private Finance:** indicators will include gross fixed capital formation, credit growth to the private sector, financial inclusion, and capital market activity. Illicit financial flows will also be tracked. Underperformance in these areas will inform policy responses to boost private investment and access to finance.
- **International Public Finance:** The dashboard will track all external public finance flows. Alignment with NSDP II and SDGs will be monitored using an ODA-SDG mapping approach. An enhanced Aid Information Management System (AIMS) or strengthened DCR process will consolidate donor data, enabling the government to identify funding gaps and engage partners on sectoral priorities.
- **International Private Finance:** Key indicators will include FDI, diaspora remittances, private external borrowing, and philanthropic contributions. The dashboard will also track portfolio flows and international NGO activity. Shortfalls will trigger responses such as diaspora bonds, improved investment promotion, or tailored financial instruments. This ensures regular assessment of total financing flows and progress in closing the overall financing gap.

All these data points will be compiled into the INFS Monitoring Dashboard, with 2023 as a baseline and annual targets up to 2030. For each year, the Oversight Committee (or INFS M&E Working Group) will update the dashboard with actual values and discuss progress against targets. In essence, closing the financing gap becomes a measurable and trackable endeavour.

Operationalizing the Monitoring and Review System

To operationalize the Monitoring, Evaluation, and Learning (MEL) framework, the INFS will establish a compact Indicator Compendium that translates strategic objectives into measurable results. This compendium will serve as the central performance-tracking tool for all financing pillars, linking resource mobilization and expenditure efficiency to national outcomes under the NSDP II and SDGs. It will provide baseline data, medium- and long-term targets, data sources, frequency of collection, and responsible institutions. The compendium will be updated annually through the INFS M&E Working Group and will inform Cabinet and Development Cooperation Partner reviews.

Table 3 INFS INDICATOR COMPENDIUM (BASELINE–TARGET–SOURCE–FREQUENCY)							
No.	Indicator	2024/25 Baseline	2027 Target	2030 Target	Data Source	Frequency	Responsible Unit
1.	% of budget SDG-tagged	15%	30%	50%	IFMIS	Annual	MoFDP
2.	% ODA used catalytically	10%	25%	40%	AIMS/DCR	Annual	MoFDP
3.	Catalytic ODA leveraged (USD)	25M	60M	100M	AIMS	Annual	MoFDP
4.	Private capital mobilized (USD)	50M	150M	300M	CBL	Annual	CBL/MoFDP
5.	Gender-tagged expenditure share	12%	25%	40%	IFMIS	Annual	MoGYR

The Integrated Financing Dashboard will be launched in FY2025/26, integrating real-time data from IFMIS, AIMS, CBL, and LBS. A MoFDP-led Data Stewardship Group will manage quarterly updates, ensuring accuracy and interoperability. Quarterly dashboards will be published online, with visual analytics on domestic revenues, private investments, ODA leverage, and SDG progress.

To provide a clear overview, Appendix 5 summarizes the primary approaches to monitoring and review under the INFS, highlighting the objective of each mechanism, the expected outcome, the institution(s) responsible, and key risk management considerations.

7 RISK ASSESSMENT & FRAMEWORK

LESOTHO'S INFS IS BEING IMPLEMENTED in a challenging risk environment. It ranges from political instability and frequent changes of government; borrowing costs; investor confidence, and donor engagement. Economic risks are equally pronounced. As a small, open economy in de facto monetary union with South Africa, Lesotho's fiscal and external positions are vulnerable to shocks originating from its economically larger neighbour.

Lesotho is also faced with climate and environmental risks with communities vulnerable to climate change threatening food security, livelihoods, and social stability. Public health and social risks compound these vulnerabilities. With HIV prevalence estimated at around 25 percent and persistent TB, the health system is under strain, impacting household finances. Lack of capacity to implement programmes is another critical risk.

The INFS would embed risk management within its governance and monitoring systems. A Comprehensive Risk Framework and accompanying manual will be developed to guide all ministries. Each MDA will maintain an INFS related risk register. A dedicated Risk Monitoring Team within the DFWG will conduct quarterly reviews. Risks and mitigation measures will be integrated into the Cabinet's three-year rolling MTEF, linking resource allocation to risk adjusted priorities. Performance will be tracked through the INFS Monitoring Dashboard.

Key Actions to Risk Mitigation and Management

- Develop a comprehensive INFS Risk Framework and manual covering systemic, sectoral, and implementation risks.
- Establish an INFS Risk Monitoring Team within the DFWG to track risks across all financing pillars and report quarterly to the Technical Committee and Cabinet Sub Committee.
- Integrate risk assessments into Cabinet, MTEF, and budget processes so that high risk initiatives receive contingency planning and risk adjusted allocations.
- Require each MDAs to maintain an INFS risk register linked to their programmes and financing instruments.
- Operationalize a National Disaster and Humanitarian Fund and pilot risk transfer tools, such as index insurance, catastrophe bonds, sovereign risk transfer solutions, and guarantee schemes for SMEs.
- Strengthen capacity for bankable project preparation and cost risk analysis in PPP and capital investment units.
- Mainstream gender and climate risk indicators in all monitoring and evaluation systems.
- Create a centralized finance and risk dashboard combining IFMIS, debt, aid, and private investment data to enable early warning and evidence based decision making.
- Regularly update risk models and mitigation policies and ensure Parliamentary and Auditor General oversight.

This risk framework, together with the INFS Monitoring Dashboard, forms the backbone of Lesotho's proactive approach to risk. It ensures that systemic shocks (political, economic, climate) and implementation risks (capacity, data, governance) are detected early and mitigated through evidence based decisions.

Box 10 SACU STABILIZATION FUND – FISCAL RULE CONCEPT

The proposed SACU Stabilization Fund will act as a buffer against revenue volatility. Trigger: when SACU receipts exceed 25% of GDP. Deposits: 50% of windfall SACU inflows. Withdrawals: permitted only when SACU revenues fall 15% below the 5-year rolling average. Governance: managed by MoFDP with CBL as custodian, audited annually, and integrated into the national budget. Investment policy: low-risk sovereign instruments. Objective: maintain expenditure stability and safeguard macroeconomic resilience.

The detailed Risk Assessment Matrix operationalizes these principles, specifying risk likelihoods, impact ratings, and contingency actions for each INFS priority area.

Table 4 LESOTHO INFS RISK MITIGATION AND MANAGEMENT FRAMEWORK						
No.	Risk Category / Source	Objective of Risk Management	Mitigation / Management Measure	Expected Outcome	Lead / Supporting Institutions	Link to Monitoring & Evaluation / Risk Dashboard
1.	Political / Governance Risk (instability, donor withdrawal).	Preserve investor and donor confidence; ensure continuity of INFS reforms.	High level political oversight by Cabinet Sub Committee and Oversight Committee; quarterly risk reviews by DFWG; embed INFS Roadmap in Cabinet MTEF decisions.	Stable financing flows, reduced ODA volatility, predictable budget planning.	Prime Minister's Office, MoFDP, Parliament SDG Committee.	Risk dashboard flags disruptions in ODA, FDI, or programme delays; mitigation actions triggered.
2.	Trade / Market Access Risk (trade preference volatility and export concentration).	Safeguard export competitiveness and employment in key tradable sectors; reduce vulnerability arising from concentrated products, markets, and preference regimes.	Develop and implement a national export diversification and value-chain upgrading strategy; strengthen export promotion and investment readiness (LNDC and BEDCO); leverage AfCFTA and regional trade frameworks; establish a contingency export resilience mechanism.	Sustained export volumes and employment; reduced exposure to single-market or single-regime shocks; improved regional and global value-chain integration and trade resilience.	MoTIC; MoFDP; LNDC; BEDCO; RSL – Customs.	INFS dashboard tracks export performance by sector and market, diversification indicators, trade concentration ratios, customs data trends, and early-warning signals related to trade-condition changes or tariff shifts.
3.	Economic / Fiscal Risk (SACU volatility, growth shocks)	Maintain fiscal sustainability and protect the currency peg.	Integrate fiscal buffers and contingency lines in the MTEF; prioritize high impact spending; diversify revenue base; improve debt management.	Reduced fiscal stress; continued debt sustainability; preserved peg.	MoFDP (Budget & Debt Units), CBL.	Dashboard tracks revenue, expenditure, and debt indicators; early warnings prompt reallocation.
4.	Climate / Environmental Risk (droughts, floods).	Build resilience of agriculture, infrastructure, and communities.	Develop National Disaster Fund; scale up index insurance and climate risk transfer mechanisms; integrate climate budget tagging in IFMIS.	Timely response to disasters; reduced losses for vulnerable households; increased climate finance absorption.	MoFDP, LMS, MAFS, Development Partners.	Dashboard includes climate related spending, insurance coverage, and NDC project tracking.
5.	Health / Social Risk (HIV/TB, pandemics, gender based violence)	Safeguard human capital and social stability	Create contingency funds for health emergencies; strengthen primary health care; integrate gender and social protection indicators into MEL; partner with CSOs for outreach.	Reduced vulnerability of health system; improved gender equality outcomes; better targeting of vulnerable groups.	MoH, MoFDP, Ministry of Gender & Social Development, CSOs	Dashboard disaggregates spending and outcomes by gender and vulnerability; alerts on rising health costs.
6.	Implementation / Capacity Risk (low absorption, weak procurement)	Ensure timely execution of INFS projects and effective use of funds.	Build pipeline of bankable projects; enhance PPP and investment appraisal capacity; maintain risk registers at MDA level; strengthen procurement oversight.	Higher absorption rates; faster delivery of financed projects; improved value for money.	MoFDP, Line Ministries, Auditor General, Procurement Authority.	Dashboard tracks project execution rates and disbursement lags; M&E Working Group escalates issues.
7.	Financial Market / Currency Risk (FX shocks, private capital outflows).	Protect financial stability and attract private investment.	Hedge FX exposures; develop local currency financing instruments; apply sovereign risk transfer solutions.	Reduced FX losses; increased investor confidence; stable domestic credit flows.	CBL, MoFDP, Private Financial Institutions.	Dashboard monitors FX positions, FDI trends, remittances, and private credit flows.

8 FINANCING STRATEGY ROAD MAP

The Integrated National Financing Framework Road Map translates Lesotho's financing aspirations into a focused, implementable programme of action. It operationalizes the INFS by setting out clearly prioritized actions, institutional responsibilities, and time-bound sequencing across all financing pillars. The Financing Strategy Road Map directly implements the strategic objectives and sub-objectives of the INFS. Each action included in the Road Map is explicitly designed to operationalize one or more of the INFS strategic sub-objectives.

Sequencing is central to the Road Map's structure and actions are organized across two implementation horizons. The 0–24-month period focuses on foundational reforms, coordination mechanisms, credibility restoration, and preparation of bankable pipelines and financing instruments. The 25–48-month period focuses on consolidation and scaling and the rollout of advanced instruments such as thematic bonds, blended finance facilities, expanded PPP pipelines, and performance- and climate-informed budgeting. The phased approach reflects institutional capacity limits and reform timelines .

The Road Map is comprehensive and integrated. It covers governance and coordination, monitoring, evaluation and learning; public finance; private sector finance; social sectors, and gender, climate, and environmental finance. Cross-cutting priorities such as gender equality, climate action, fiscal sustainability, and private sector participation are embedded across all pillars. It is designed as a living instrument, to be reviewed and updated through INFF governance arrangements.

Table 5 LESOTHO INFS INDICATIVE ROAD MAP						
No.	Pillar Section Priority Action	Lead Entity	Priority	0–24 Months	25–48 Months	
GOVERNANCE AND COORDINATION						
1.	Formalize INFS governance architecture (High-Level Oversight Committee, INFS Oversight Committee, DFWG).	Cabinet / MoFDP	High	Approve ToRs, quorum, decision rules, escalation protocol; standardize submission templates and gatekeeping intake for all financing proposals.	Review effectiveness; tighten gatekeeping thresholds for PPPs, guarantees, blended finance, climate finance; institutionalize annual refresh aligned to MTEF calendar	
2.	Establish and operationalize INFS Secretariat within MoFDP.	MoFDP	High	Confirm placement in Aid Coordination function; appoint coordinator and technical officers; establish central registry for proposals, decisions, actions, and risks; publish quarterly implementation summaries.	Expand to portfolio readiness reviews for climate and blended finance; publish consolidated annual Financing for Development report linked to dashboard.	
3.	Embed INFS Roadmap in MTEF and budget cycle.	MoFDP	High	Convert Roadmap into Year 1 and Year 2 delivery plan tied to MTEF call circular milestones; require all MDAs to include INFS actions in costed sector plans.	Convert to rolling three-year operational plans with annual targets and budget links; use quarterly performance reviews to re-sequence actions.	
4.	Launch unified Financing Coordination Forum (public–private–partners).	MoFDP / CBL	Medium	Quarterly forum focused on: pipeline readiness, MSME product redesign, catalytic ODA use, climate pipeline, gender integration; publish action notes.	Institutionalize sector deal rooms for bankable transactions in energy, water, agro-processing, and social infrastructure.	
DOMESTIC PUBLIC FINANCE (INCLUDING HEALTH, EDUCATION, SOCIAL SECTORS)						
5.	Establish SACU Stabilization and Resilience Fund and fiscal rule.	MoFDP / CBL	High	Finalize rule design and legal anchoring, including deposit and withdrawal triggers; integrate fund operations into national budget and reporting.	Operationalize counter-cyclical framework, publish annual fiscal rule and fund performance report, integrate with debt and fiscal risk dashboards.	
6.	Adopt DRM strategy and Medium-Term Revenue Strategy with yield targets.	MoFDP / RSL	High	Finalize DRMS and MTRS; strengthen forecasting; launch full scale e-filing and e-invoicing; integrate taxpayer databases with national IDs; roll out risk-based audits.	Expand tax base via simplified registration and compliance for MSMEs; strengthen arrears management; publish annual Tax Expenditure Statement and reform exemptions.	
7.	Improve VAT performance and formalization link.	MoFDP / RSL	High	Harmonize VAT application; lower registration threshold where feasible; introduce fiscal registers and compliance incentives; strengthen customs leakages control affecting SACU revenues.	Expand VAT base through digital compliance and MSME graduation; integrate VAT analytics with customs and risk-based audit models.	
8.	Introduce environmental and health-related excises	MoFDP	Medium	Design excise package for alcohol, tobacco, sugar-sweetened beverages and environmental levies; draft legislative amendments; define earmarking mechanism for health priorities	Implement and refine excises based on yield and outcomes; strengthen enforcement and compliance controls.	
9.	Strengthen public investment management and PSIP gatekeeping.	MoFDP / PSIC	High	Reinstate standardized project appraisal, selection, and costing; mandate bankability and fiscal risk screening before PSIP entry; align PSIP with NSDP II and SDG Investor Map.	Move to portfolio management with lifecycle costing, maintenance planning, and post-completion evaluation; integrate PPP and climate screening.	
10.	Establish project preparation and oversight capacity.	MoFDP / Planning / PSIC	High	Stand up project preparation support (feasibility, structuring, safeguards); centralize monitoring of capital projects; improve link between physical and financial progress.	Scale project preparation facility; institutionalize national asset registry and maintenance fund; integrate municipal pipelines into PSIP via co-financing windows.	
11.	Strengthen budget credibility, commitment controls, and arrears prevention.	MoFDP	High	Implement commitment controls in IFMIS; time-bound arrears clearance plan; monthly execution reporting and quarterly variance analysis.	Institutionalize results-based and performance-informed budgeting; publish in-year execution and audit follow-up dashboards.	
12.	SOE governance and fiscal risk management.	Cabinet / MoFDP	Medium	Adopt merit-based board appointment framework with gender-balanced representation; create SOE performance contracts and fiscal risk ceilings.	Establish National Public Enterprises Authority; publish SOE dashboards, dividend policy, and fiscal risk statements.	
13.	Subnational finance and fiscal decentralization.	MoFDP / MoLG	Medium	Standardize local budgeting and reporting; finalize regulations enabling local taxation schedule; introduce formula-based transfers and performance-linked grants.	Establish municipal infrastructure and resilience co-financing window; enable subnational access to climate finance, PPP models, and diaspora-linked local instruments.	
14.	Health-related taxes and dedicated health financing mechanism.	MoFDP / MoH	Medium	Establish health fund governance and allocation formula; link excise revenues to priority services.	Publish annual health-finance performance report; adjust rates and allocations based on evidence.	
15.	Right-financing for social sectors, results-based financing pilots.	MoFDP / Sector MDAs	Medium	Select 2–3 pilot programmes, define indicators, verification, and payment triggers, embed in MTEF.	Scale pilots that demonstrate value-for-money; integrate verification into MEL and audit follow-up.	
16.	Protect vulnerable groups during revenue shortfalls.	MoFDP / Social sector MDAs	Medium	Define minimum protected spending lines and targeting criteria; integrate into buffers and budget execution rules.	Introduce shock-responsive triggers tied to dashboard signals; improve delivery using digital tools.	

Table 5 LESOTHO INFS INDICATIVE ROAD MAP (continued)						
No.	Pillar Section Priority Action	Lead Entity	Priority	0–24 Months	25–48 Months	
INTERNATIONAL PUBLIC FINANCE						
18.	Establish unified Aid Coordination Forum and upgrade Aid Coordination to INFF hub.	MoFDP	High	Consolidate fragmented platforms into single forum; require mapping and pre-screening of donor projects to NSDP II and INFS pipeline; revive AMP or integrate into IFMIS where feasible.	Institutionalize annual donor alignment and absorption review; publish annual ODA alignment and effectiveness report.	
19.	Adopt concessional finance policy and structured external financing strategy.	MoFDP	Medium	Define policy for grants, concessional loans, guarantees, blended instruments; codify preference for concessional and SDG-aligned borrowing.	Consolidate concessional borrowing under structured strategy; strengthen engagement with IDA windows and partner facilities.	
20.	Operationalize ODA as catalytic finance.	MoFDP	High	Allocate ODA to project preps, guarantee structures, de-risking, and institutional reform; define intake rules for using ODA in blended structures.	Track leverage and crowd-in via public scorecard; scale portfolio-based guarantees and first-loss structures where feasible.	
21.	Strengthen MDB pipeline readiness and safeguard compliance.	MoFDP / Line MDAs	Medium	Improve feasibility, procurement readiness, safeguards, and co-financing planning; strengthen disbursement tracking.	Increase absorption rates through standardized tools and portfolio oversight; reduce disbursement lags.	
22.	Climate finance access and readiness.	MoFDP / LMS	High	Establish Climate Finance Unit; produce Climate Finance Readiness Plan (fiduciary standards, MRV, accreditation pathways); prepare 5–7 bankable NDC-aligned projects.	Access GCF and Adaptation Fund; integrate climate finance into dashboard; scale through regional green bond platforms.	
23.	Strengthen diplomatic and trade-linked resource mobilization.	MoFDP / Foreign missions	Medium	Establish Economic and Trade Desks in missions; build donor trend tracking and pipeline origination.	Institutionalize targeted engagement for concessional and investment pipelines tied to priority sectors.	
DOMESTIC PRIVATE FINANCE (INCLUDING PRODUCTIVE SECTORS)						
24.	MSME finance product redesign and guarantee reform.	MoFDP / CBL	High	Review PCGF and LNDC schemes; redesign tenures, repayment schedules, collateral requirements; mandate bank reporting templates on MSME lending.	Scale portfolio guarantees and performance-linked incentives; embed gender and youth lending targets and audits across products.	
25.	Operationalize Inclusive Growth Facility style blended finance platform.	MoFDP / CBL / LNDC / BEDCO / banks	High	Establish governance charter and MoUs; capitalize first-loss tranche; launch pilot with partner banks; embed investment readiness support and monitoring.	Scale facility and crowd-in co-financing; evolve into revolving guarantee fund; publish impact reporting on jobs and inclusion.	
26.	Formalization of informal economy through specific instruments.	MoFDP / RSL	High	Implement simplified registration and filing; introduce low-rate presumptive tax entry regime; deploy mobile registration and e-payments; link registration to access to finance.	Scale registration and compliance; integrate transaction data for credit scoring and tax graduation; strengthen enforcement and incentives.	
27.	Link formalization to procurement and business linkages.	MoFDP	High	Revise procurement policy for MSME participation; implement Business Linkages policy; require simplified registration to access tenders.	Expand supplier development, e-procurement access, and local content participation across value chains.	
28.	Mobilize institutional investors for domestic capital markets.	MoFDP / CBL	Medium	Amend prudential rules to allow domestic allocation; issue predictable government bond calendar to support yield curve development.	Scale domestic investment into infrastructure, green, and SME assets supported by guarantees and governance safeguards.	
29.	Establish or repurpose National Development Bank function.	MoFDP / LNDC	Medium	Define mandate and governance; map co-investment and credit enhancement functions.	Operationalize co-investment for infrastructure, renewable energy, and SME value chains; integrate with blended facilities.	
30.	Productive sector financing pipelines aligned to Investor Map and PSIP.	MoFDP / Line MDAs	Medium	Align SDG Investor Map opportunities with PSIP and financing tools; prepare bankable pipelines for agro-processing, renewables, tourism, and digital.	Scale sector platforms and aggregated portfolios; integrate with deal rooms and partner de-risking instruments.	
INTERNATIONAL PRIVATE FINANCE						
31.	Restore investor confidence and investment facilitation.	MoFDP / LNDC / OBFC	High	Streamline registration and permits via one-stop digital portal; introduce service standards and performance metrics for facilitation.	Shift to targeted deal origination and aftercare for priority sectors and bankable projects.	
32.	Strengthen PPP credibility and enabling framework.	MoFDP	Medium	Update PPP policy and implementation toolkit; use ODA for TA and de-risking; develop small pilot pipeline.	Enact PPP law; embed fiscal risk caps, transparency, monitoring, and termination rules; scale cautiously.	
33.	Mobilize diaspora finance and instruments.	MoFDP	Medium	Establish diaspora database; develop diaspora partnership pact; pilot investment instruments and crowdfunding.	Launch diaspora bond and matching or co-investment platforms tied to bankable pipelines.	
34.	Improve investment climate fundamentals for longer-tenor investment.	MoFDP / Justice sector / OBFC	Medium	Operationalize insolvency framework through regulations and court readiness; improve contract enforcement processes.	Institutionalize commercial case management and performance dashboards; strengthen collateral and land systems.	

Table 5 LESOTHO INFS INDICATIVE ROAD MAP (continued)							
No.	Pillar	Section	Priority Action	Lead Entity	Priority	0–24 Months	25–48 Months
INTERNATIONAL PUBLIC FINANCE							
35.			Attract impact and ESG investors through structured pipelines.	MoFDP	Medium	Align pipelines to Investor Map; define eligibility and reporting for impact capital.	Scale outcome-linked and blended structures; publish investor pipeline and results metrics.
CROSS-CUTTING: GENDER, GREEN, CLIMATE, ENVIRONMENT							
36.			Gender-responsive budgeting and tagging implementation.	MoFDP / MoGYR	High	Issue GESI tagging manual; pilot gender audits expansion; publish Gender and Inclusion Budget Statements.	Scale GRB and tagging across MDAs; conduct routine audits and publish findings and action plans.
37.			Mandatory gender-disaggregated indicators and audits for instruments.	MoFDP / INFS Oversight Committee	High	Apply requirements to guarantees, blended facilities, PPPs; set templates and approval conditions.	Make continuation or scale-up conditional on audit results; publish through Financing for Development report.
36.			Climate finance pipeline, instruments, and risk transfer.	MoFDP / LMS / CBL	High	Build NDC-aligned pipeline; pilot climate risk and index insurance products; prepare green bond issuance pathways.	Scale national coverage of insurance; issue green or climate bond; explore carbon pricing instruments in sequenced approach.
38.			Integrate gender and climate criteria into all deal screening.	DFWG / INFS Oversight Committee	High	Embed criteria into intake templates, readiness screening, and fiscal risk review.	Institutionalize cross-pillar compliance with criteria and publish results.
MONITORING, REVIEW, AND LEARNING							
39.			Launch Integrated Financing Dashboard linking IFMIS, AIMS, CBL, LBS.	MoFDP / CBL / LBS	High	Define indicator set and data owners; sign data-sharing protocols; build dashboard prototype and first quarterly report.	Automate data feeds; publish quarterly dashboard outputs with early-warning flags.
40.			Establish INFS M&E Working Group and learning loop.	MoFDP	High	Appoint working group; validation routines and reporting calendar; produce first quarterly performance report.	Institutionalize cross-ministry performance clinics; tie learning to budget reallocations and pipeline adjustments.
41.			Produce standardized INFS M&E Manual and indicator compendium.	MoFDP	Medium	Draft manual and indicator compendium (baseline, targets, source, frequency).	Update manual to include PPP, guarantee, blended finance reporting and contingent liability tracking.
42.			Institutionalize quarterly Performance and Learning Reviews.	Cabinet / MoFDP	High	Launch reviews using dashboard outputs to trigger corrective actions.	Strengthen rules-based cycle tied to MTEF and annual budget decisions.
43.			Publish annual Financing for Development report.	MoFDP	Medium	Publish first consolidated report linking leverage, crowd-in, transaction costs, and results.	Institutionalize annual publication as public accountability tool.

Appendix 1		INDICATIVE SET OF RIGHT-FINANCING INSTRUMENTS		
NO.	FINANCING INSTRUMENT	DEFINITION	VALUE IN DEVELOPMENT CONTEXT	INDICATIVE EXAMPLES
1.	CONVENTIONAL INSTRUMENTS: The foundational financial tools traditionally used in development projects, often funded by governments, international organizations or philanthropic entities. The backbone of development finance, offering straightforward and well-understood mechanisms. General budget supports.			
1.1	Grants	Non-repayable funds or products disbursed by one party to a recipient to carry out a specific project or programme.	Provide non-repayable funds, making them ideal for high-risk, high-impact projects where profit is not the main goal.	ODA project financing
1.2	Technical assistance	Provision of expertise and skills to help an organization or country improve capabilities in specific areas, from managerial assistance to technology transfer.	Focuses on building long-term capabilities rather than providing immediate funding, often a key part of sustainable development.	ODA project financing
1.3	Budget support	Development finance provided directly to a recipient country's budget, either unconditionally or with conditions for its use.	Provides a flexible mechanism for supporting a country's development agenda, allowing for both broad and targeted impact.	ODA project financing
1.4	In-kind support	Non-monetary support provided as goods or services such as equipment, supplies, training or volunteer work.	Allows for targeted, immediate impact without complex financial transactions, used where goods/expertise are scarce or expensive.	Donation of medical supplies, volunteer health clinics, in-kind food donations
2.	DEBT-BASED INSTRUMENTS: Financial instruments involving borrowing of funds, usually with scheduled repayments and interest. Often used for large-scale infrastructure or development projects. Versatile and can be tailored to specific project needs, but they require revenue generation for repayment. Infrastructure loans.			
2.1	Loans	Borrowed funds to be repaid with interest within a specified timeframe.	Straightforward form of debt, suitable for a wide range of projects but requiring a clear path of repayment.	—
2.2	Concessional loans	Loans offered on terms more generous than market loans (lower rates or longer grace periods).	Suitable for riskier or less profitable projects with high social impact.	ODA project financing
2.3	Bridge financing	Short-term loan providing immediate cash flow until permanent financing is secured.	Provides short-term funds until long-term financing is secured; useful for projects with funding gaps but risky if follow-up funds aren't secured.	—
2.4	Bonds	Debt securities where investors lend money to the issuer in return for interest and principal repayment at maturity.	Raise large amounts of capital but require strong repayment sources.	Green, social or SDG bonds
2.5	Credit lines	Pre-approved loans that can be drawn upon as needed up to a limit.	Offer flexibility in borrowing and quick access to funds without renegotiation.	—
2.6	Debt-based trade financing	Instruments facilitating international and domestic trade.	Unlock economic potential and foster growth in trade-dependent sectors.	Export or import credit facilities
3.	EQUITY-BASED INSTRUMENTS: Instruments representing ownership interest in a company and a claim on its assets and earnings. Offer ownership stakes aligning interests of investors and project owners but require longer horizons e.g. Venture capital.			
3.1	Equity	Ownership in a company with entitlement to a share of profits.	Provides ownership and potential dividends; suitable for long-term projects but requiring shared control.	Private equity
3.2	Collective investment vehicles (CIVs)	Pooled funds from multiple investors to invest in diversified securities portfolios.	Pool resources, diversify risk and achieve scale, requiring professional management.	Mutual or impact investment funds

Appendix 1		INDICATIVE SET OF RIGHT-FINANCING INSTRUMENTS (continued)		
NO.	FINANCING INSTRUMENT	DEFINITION	VALUE IN DEVELOPMENT CONTEXT	INDICATIVE EXAMPLES
4.	RISK-MITIGATION INSTRUMENTS: Instruments designed to reduce risk exposure of an investment, making it more attractive to lenders and investors. Reduce financial risk, making projects more attractive but requiring complex arrangements. Insurance-backed infrastructure projects.			
4.1	Guarantees	Agreements where a guarantor pays part or all of a loan in case of borrower default.	Reduce risk for lenders by ensuring repayment; mobilize private capital.	Sovereign or development guarantees
4.2	First-loss capital	Capital tranche that absorbs initial losses to protect senior investors.	Makes high-risk projects attractive to risk-averse investors.	SME fund first-loss facility
4.3	Securitization	Pooling contractual debts and selling related cash flows as securities.	Offers investors varying risk/return profiles; frees up liquidity for new lending.	Mortgage-backed securities
4.4	Co-lending / syndication approaches	Loans provided by a group of lenders under one lead arranger (e.g., MDB or DFI).	Spread risk among lenders, enable large-scale projects but require coordination.	Large renewable or infrastructure projects
4.5	Risk-sharing facilities	Agreements to partially cover credit risk or share losses for a predefined loan portfolio.	Cover losses in case of default, making riskier projects feasible.	MSME guarantee schemes
4.6	Risk-mitigation-based trade financing	Instruments mitigating risks of international trade transactions.	Useful where conventional trade finance is limited due to high risk or weak markets.	Trade-credit insurance
5.	HYBRID INSTRUMENTS: Instruments combining features of debt and equity, designed to meet intermediate financing needs. Allow tailored solutions and flexible capital structures supporting enterprise growth.			
5.1	Mezzanine finance / subordinated debt	Debt junior to senior loans but senior to equity, sometimes convertible.	Enables firms to raise capital without excessive ownership dilution.	Real-estate or SME growth financing
5.2	Convertible bonds	Bonds convertible into equity during their life at bondholder discretion.	Provide flexibility for both issuer and investor; blend fixed income and ownership potential.	DFI investment in social enterprises
6.	SPECIALIZED ARRANGEMENTS: Unique financial structures for specific projects, often multi-stakeholder. Tailored solutions adapting to local challenges, enabling scale and partnership.			
6.1	Development funds	Pooled capital from various investors for collective investment in projects.	Aggregate resources to achieve scale and impact, diversify risk.	Global Environment Facility (GEF)
6.2	Special Purpose Vehicles (SPVs)	Legal entities created for specific purposes, often to isolate financial risk.	Isolate risk and attract investment for large projects; used for off-balance-sheet financing.	Renewable-energy SPVs
6.3	Public-Private Partnerships (PPPs)	Contractual agreements between public agencies and private entities for public assets or services.	Leverage public and private resources, requiring strong legal and monitoring frameworks.	DBFOM-style infrastructure PPPs

Appendix 2		DOMESTIC PUBLIC FINANCE LANDSCAPE				
NO.	ISSUE	(A) TRENDS & ALIGNMENT WITH KEY PRIORITIES	(B) EXISTING POLICIES & ONGOING REFORMS	(C) CHALLENGES	(D) SOLUTIONS	(E) INTERNATIONAL BENCHMARKS
1	Public Revenues (Tax & Non-Tax)	Tax-to-GDP ~20%, above African average (~16%), but highly dependent on volatile SACU revenues (~60% of total). Non-tax revenues (water royalties) rising. Misalignment with NSDP II sustainability objectives.	RSL modernization (e-filing, e-invoicing), VAT and PIT reforms; Domestic Revenue Mobilization Strategy and Medium-Term Revenue Strategy under preparation; digitalization underway.	Narrow tax base, large informal sector, weak non-tax revenue governance (SOEs, royalties), limited gender-responsive taxation, weak predictability.	Finalize and implement DRM/MTRS; broaden tax base including informal sector; digitalize non-tax revenue; introduce health and environmental excises; strengthen royalty frameworks; integrate gender-responsive tax analysis.	Rwanda, Ethiopia, Uganda implemented MTRS frameworks raising tax-GDP above 17–18%.
2	Public Borrowing	Debt declined from 61.5% to 56.8% of GDP (FY24/25) due to SACU windfalls; ~80% external and concessional. Alignment with macro stability but exposed to volatility.	Medium-Term Debt Strategy; debt ceiling (60% of GDP); draft fiscal rule and SACU Stabilization Fund under development.	Exposure to SACU volatility; exchange-rate risk under peg; shallow domestic debt market; weak fiscal-risk integration.	Enact fiscal rule; operationalize SACU Stabilization Fund; prioritize concessional and SDG-aligned debt; expand domestic T-bill and bond issuance; integrate debt and fiscal-risk dashboards.	SADC benchmark: debt <60% of GDP; Ghana and Kenya stabilization funds.
3	Fiscal Decentralization & Subnational Finance	87 local councils exist, but fiscal powers remain centralized; own-source revenue minimal; NSDP II emphasizes grassroots delivery.	Local Government Act (1996); Decentralization Policy (2014); preliminary GFS reporting initiated.	No operational legal basis for local taxation; weak capacity; ad hoc transfers; limited investment financing.	Finalize regulations for local taxation; introduce formula-based transfers; establish Municipal Infrastructure and Resilience Fund; strengthen subnational PFM and project preparation; pilot diaspora-linked local financing.	Uganda, Zambia, Kenya operate formula-based intergovernmental transfers.
4	Public Expenditure Management	Wage bill ~18% of GDP and over one-third of expenditure crowds out capital investment; budget credibility weak.	MTEF and PAF in place; GRB pilots initiated; commitment controls being strengthened under PFMRF.	Persistent wage pressures; weak capital execution; arrears accumulation; limited gender and climate tagging.	Enforce hiring controls; clear arrears; strengthen in-year monitoring; scale gender-responsive and climate budgeting; link performance-based budgeting to NSDP II outcomes.	Rwanda and Uganda performance-based budgeting systems; IMF/PEFA recommend expenditure anchors.
5	Public Investment Management (PIM)	PSIP exists but only ~40% of capital budget executed on time; weak project appraisal and monitoring.	PSIC operational; National Project Prioritization Guidelines; SDG Investor Map (2022).	Low project bankability; weak cost-benefit and risk analysis; fragmented oversight.	Establish National PIM Authority; mandatory pre-screening; centralized digital tracking; project preparation facility linked to INFF country platform.	Kenya, Bangladesh, Indonesia centralized PIM agencies.
6	State-Owned Enterprises (SOEs)	~30 SOEs contribute <3% of revenues, many require subsidies; weak alignment with productivity objectives.	Planned Public Enterprises Authority; board and mandate reviews initiated.	Weak governance; fiscal risks opaque; low accountability.	Introduce performance contracts; publish SOE dashboards; corporatize or restructure via PPPs; integrate SOEs into fiscal-risk framework.	Malaysia (Khazanah), South Africa (DPE), OECD SOE Guidelines applied by Botswana.
7	Gender-Responsive Public Finance	Gender inequality remains a binding growth constraint; GRB introduced but not yet systemic.	Gender and Development Policy (2018–2030); GRB pilots; IFMIS tagging under design.	Fragmented implementation; weak data; no binding requirements.	Institutionalize GRB across MDAs; mandatory gender audits; publish Gender Budget Statements; integrate gender targets into MTEF and PAF.	Rwanda and Austria gender-budgeting frameworks; UNDP INFF guidance.
8	Diaspora & Innovative Public Finance	Remittances ~20–24% of GDP but largely consumption-based; diaspora investment underutilized.	National Diaspora Policy (2021); feasibility work on diaspora bond underway; RemitAid™ and country platform concepts emerging.	No structured diaspora instruments; weak pipeline; limited coordination.	Launch diaspora bond and matching funds; integrate diaspora instruments into INFF country platform; link to SDG-aligned projects and municipal investments.	Ethiopia and Nigeria diaspora bonds; Israel diaspora financing model.
9	Country Platform & Coordination	Pooled capital from various investors for collective investment in projects.	Aggregate resources to achieve scale and impact, diversify risk.	Spread risk among lenders, enable large-scale projects but require coordination.	Spread risk among lenders, enable large-scale projects but require coordination.	Global Environment Facility (GEF)

Appendix 3		INTERNATIONAL PUBLIC FINANCE LANDSCAPE				
NO.	ISSUE	(A) TRENDS & ALIGNMENT WITH KEY PRIORITIES	(B) EXISTING POLICIES & ONGOING REFORMS	(C) CHALLENGES	(D) SOLUTIONS	(E) INTERNATIONAL BENCHMARKS
1	Official Development Assistance (ODA)	ODA ~7% of GNI, declining and volatile. Misaligned with broader NSDP II goals.	INFS proposes Concessional Finance Strategy, Aid Coordination Forum, SDG mapping.	Health-heavy sectoral concentration, grant decline, weak coordination.	Align ODA with NSDP II, coordinate donors, use ODA to de-risk private investment.	Rwanda and Ghana use catalytic ODA platforms. OECD DAC promotes alignment to national strategies.
2	Climate Finance	NDC finance gap >\$1B. Limited access to GCF or climate-specific instruments.	NDC (2023), Climate Policy (2017), SADC green bond linkage.	No investment pipeline, limited project prep, fragmented budgeting.	Develop pipeline, build Climate Finance Unit, launch green bond.	Rwanda's FONERWA, Fiji's green bond, and GCF access by Namibia set precedents.
3	Multilateral Development Finance	Engagement with MDBs such as the World Bank and AfDB has expanded, financing infrastructure, human capital, and climate-resilient growth aligned with Lesotho's INFF and NSDP II priorities	World Bank's Country Partnership Framework (2024–2028) and AfDB Country Strategy Paper (2025–2030) emphasize competitiveness, human capital, and resilience. PIM reforms and debt management frameworks are underway	Weak project preparation, fragmented coordination, and high implementation costs in remote regions constrain absorption. Volatile SACU revenues hinder predictable co-financing (AfDB, 2024; IMF, 2025).	Strengthen PIM systems, develop a robust project pipeline, institutionalize a fiscal stabilization fund to smooth SACU volatility, and improve safeguard compliance and disbursement tracking (IMF, 2025).	Rwanda and Ethiopia use structured PIM systems with fiscal rules and MDB coordination platforms that improve project readiness and absorptive capacity.
4	Blended and Concessional Financing Instruments	With limited domestic savings and shallow markets, Lesotho seeks to mobilise private investment for renewable energy, agriculture, and logistics via blended and concessional instruments aligned with SDG Investor Map priorities (UNDP, 2023; OECD, 2022).	PPP Policy (2017) and SDG Investor Map provide enabling frameworks; new blended facilities are emerging, such as the Just Energy Transition Fund with Standard Bank and Standard Chartered (Daba Finance, 2024).	Weak project aggregation, risk-sharing mechanisms, and fiscal oversight discourage private participation. Public concern over earlier PPP costs persists (McGuire, 2024).	Establish a Blended Finance Facilitation Unit to aggregate small projects, standardize value-for-money criteria, and utilize MDB guarantees for risk mitigation (AfDB, 2025).	Kenya's PPP Directorate and Bangladesh's Infrastructure Finance Fund serve as examples of effective blended-finance institutionalization.
5	South-South and Triangular Cooperation	Regional integration through SACU and SADC enhances South-South cooperation potential, aligning with Lesotho's connectivity, trade, and climate-resilience objectives (UN-OSSC, 2025; GIZ, 2023).	DFA (2021) integrates South-South cooperation into the INFF. Participation in SADC infrastructure and climate partnerships offers triangular opportunities (UNDP, 2021; Ministry of Foreign Affairs, 2025).	Lack of institutional anchoring, limited coordination, and inadequate tracking of cooperation flows constrain this modality. Benefits remain uneven and project governance weak (UNDP, 2021).	Establish a national focal point for South-South cooperation, build a joint SADC project preparation fund, and formalize triangular partnerships through MDB facilitation (AfDB, 2025).	Botswana and Rwanda integrate South-South cooperation into national financing strategies and use UN-supported triangular partnerships for capacity building.
6	Debt Relief and Restructuring (Including SACU Linkages)	Lesotho's debt profile remains largely concessional, but high exposure to SACU volatility necessitates precautionary debt management and buffer mechanisms over restructuring (IMF, 2025).	Draft fiscal rule and SACU Stabilization Fund under development; Lesotho participated in the DSSI during COVID-19, reflecting engagement with global debt frameworks (Fitch Ratings, 2025).	SACU volatility, currency-linked debt exposure, and limited debt-market depth threaten fiscal sustainability. Implementation of stabilization mechanisms is delayed (IMF, 2024).	Operationalize SACU Stabilization Fund, strengthen domestic debt markets, and enhance debt transparency to reduce external vulnerability (IMF, 2025).	Ghana and Botswana maintain stabilization funds and fiscal rules that buffer commodity or revenue volatility, offering relevant lessons for Lesotho.
7	Illicit Financial Flows (IFFs)	\$9.5 billion lost 1980–2018. Trade mispricing and tax evasion rampant.	AML/CFT law, FIU, SACU cooperation, draft transfer pricing rules.	Outdated laws, weak enforcement, poor inter-agency data sharing.	Update tax law, operationalize AML Authority, join SACU IFF taskforce.	Kenya and Mauritius have beneficial ownership registries and forensic audit tools.

Appendix 4		DOMESTIC PRIVATE FINANCE LANDSCAPE				
NO.	ISSUE	(A) TRENDS & ALIGNMENT WITH KEY PRIORITIES	(B) EXISTING POLICIES & ONGOING REFORMS	(C) CHALLENGES	(D) SOLUTIONS	(E) INTERNATIONAL BENCHMARKS
1	MSME Finance & Financial Inclusion	Private credit ~21% of GDP. MSMEs highly underfinanced (~9% with access to formal credit). Digital uptake growing.	Partial Credit Guarantee Fund (PCGF), CAFI project, Financial Inclusion Strategy II.	Risk-averse banks, weak credit infrastructure, and low trust by MSMEs.	Reform guarantee schemes, expand credit registries, support fintech lending and financial literacy.	Kenya's mobile lending model and Chile's evaluated credit guarantees offer strong precedents.
2	Business Climate & Entrepreneurship	Weak private investment; Doing Business rank dropped. Focus sectors underdeveloped.	Investment Policy (2016), OBFC, LNDC incentives.	Cumbersome registration, weak contract enforcement, limited industrial infrastructure.	Streamline procedures, modernize legal framework, reform land and licensing regimes.	Mauritius and Rwanda have strong business climate reforms and rapid procedures.
3	Informal Sector & Formalization	Informality ~50–70%. Limited integration into tax base or financial sector.	Informal Sector Strategy under preparation, tax registration simplification, BEDCO support.	Fear of taxation, low incentives, weak enforcement and outreach.	Create tailored incentives, presumptive tax, link to credit/social protection, mobile-based registration.	Tanzania's simplified tax regime and Kenya's M-Pesa linked formalization.
4	Public-Private Partnerships (PPPs)	Only one high-profile PPP (hospital); resulted in fiscal strain.	PPP Policy (2017), PPP Unit in MoFDP, draft PPP Law.	Negative public perception, legal vacuum, weak capacity.	Enact PPP law, improve project preparation, introduce blended finance tools.	Kenya, Uganda, and Bangladesh have viable PPP pipelines with legal safeguards.
5	Institutional Investors & Capital Markets	Pension funds large (~LSL 5.7b) but underinvested locally. No active bond or equity markets.	Pension Act (2019), SDG bond plans, SADC Green Bond platform.	Regulatory disincentives, limited instruments, low liquidity.	Mandate partial domestic allocation, develop national development bank, issue local bonds.	Botswana mandates local pension investment.
6	Mainstreaming the Informal Sector	Informal sector accounts for about 72% of total employment, and the informal economy is estimated at circa 30% of GDP in Lesotho, making formalisation critical for fiscal-space expansion and inclusive growth.	The Government has begun preparation of an Informal Sector Strategy, simplified business registration and is supporting BEDCO to extend outreach to informal operators.	High informality is driven by weak incentives for registration, fear of taxation, inadequate access to finance, low trust in institutions, and limited data on informal enterprises which restricts policy targeting.	Create tailored registration schemes for micro-enterprises, apply presumptive tax regimes, link informal operators to credit and social-protection schemes, deploy mobile-based registration and digital finance channels to integrate informal businesses into formal financial systems.	Tanzania's simplified tax regime and Kenya's mobile-based registration and M-Pesa integration are viewed as strong precedents for formalization efforts.

Appendix 5		LESOTHO MONITORING AND REVIEW FRAMEWORK			
NO.	MONITORING & REVIEW MECHANISM	OBJECTIVE	EXPECTED OUTCOME	RESPONSIBLE INSTITUTION(S)	RISK MANAGEMENT CONSIDERATIONS
1	Integration of INFS into Budget & MTEF (Cabinet oversight of three-year rolling budget).	Align INFS priority actions with the national budget process (annual budget and MTEF) to ensure adequate resource allocation.	INFS initiatives are funded and implemented on schedule, with budget resources linked to strategic priorities.	MoFDP (Budget Department & Planning Units); Cabinet (budget approval).	Risk: Fiscal constraints or revenue shortfalls could limit funding for INFS measures. Mitigation: Prioritize high-impact actions in the MTEF, reallocate funds from lower priority areas, and strengthen domestic revenue mobilization to create fiscal space.
2	Development Cooperation Reporting & AIMS (Annual DCR and aid data platform)	Track and report on international public finance (ODA grants, loans, etc.) and ensure alignment with NSDP II/SDGs.	Transparency in external resource flows and improved donor coordination; identification of funding gaps in priority sectors.	MoFDP (Dept. of Aid Coordination); Ministry of Foreign Affairs and International Cooperation.	Risk: Incomplete or delayed data from development partners. Mitigation: Implement an Aid Information Management System (AIMS) for real-time partner reporting; regular partner consultations to validate data.
3	IFMIS & SDG Budget Tagging (Integrated Financial Management Information System)	Monitor domestic public expenditures and revenues with tags for SDG/NSDP II targets, gender, and climate, to assess how public finance supports development goals.	Enhanced accountability for public spending; ability to track how much is invested in key sectors (health, education, climate, gender equality, etc.) and adjust allocations as needed.	MoFDP (Budget & Treasury Departments); Line Ministries (data entry); LBS (analysis).	Risk: Technical and capacity challenges in implementing new tagging system. Mitigation: Provide training on tagging, phase the rollout, and use external technical support; start with a pilot in a few ministries before scaling up.
4	Macro-Finance Dashboard & INFS M&E Working Group (Integrated finance flow database and multi-stakeholder review)	Provide a comprehensive view of all financing flows (domestic/foreign, public/private) and monitor progress toward closing the financing gap. The INFS M&E Working Group analyzes this data regularly.	Evidence-based decision-making – policy adjustments and resource mobilization strategies are informed by up-to-date data on where money is coming from and going to. Bottlenecks or shortfalls are quickly identified and addressed.	INFF Secretariat & INFS M&E Working Group (MoFDP, CBL, LBS, key line ministries; UN/ partners; private sector and CSO reps).	Risk: Data silos or reluctance of institutions to share data, leading to an incomplete picture. Mitigation: Establish data-sharing MoUs among agencies; mandate reporting of finance data to the central dashboard; invest in data integration tools and analytical capacity.
5	Parliamentary and External Oversight (Parliament SDG Committee, Auditor-General, CSOs)	Provide independent review and scrutiny of INFS implementation and results, and feedback from citizens. Ensure public accountability.	Increased accountability and trust – Government is kept in check by external observers, and corrections are recommended from outside perspectives (e.g. audit findings, civic feedback).	Parliament (SDG Oversight Committee, Public Accounts Committee); Office of the Auditor-General; Civil Society coalitions and media.	Risk: Oversight bodies lack technical capacity or political clout to enforce recommendations. Mitigation: Build capacity of MPs and audit staff on INFS and financing issues; enact legal requirements for Government to respond to audit and committee recommendations; engage media to publicize findings and maintain pressure
6	Gender and Climate Integration in M&E (Data disaggregation and thematic tracking)	Ensure that the MEL system captures gender-differentiated impacts and climate-related finance and results. This includes disaggregating data by sex and tracking climate finance expenditures and outcomes.	Inclusive and sustainable development – Financing strategy benefits are measured in terms of gender equality and climate resilience, helping to ensure no one is left behind and climate goals are met.	MoFDP and LBS (data systems); Ministry of Gender; Ministry of Environment; National Climate Change Committee.	Risk: Gender or climate data not collected or used in decision-making (due to capacity or low priority). Mitigation: Require gender and climate indicators in all project M&E plans; provide technical support for gender-responsive and climate risk analytics; align with international reporting (e.g. UNFCCC, CEDAW) to reinforce domestic tracking.
7	Knowledge Management and Learning (National repository and learning forums)	Collate all reports, evaluations, and knowledge products on Lesotho's development (including INFS-related analyses) in a central repository; facilitate learning exchanges.	Organizational learning – Policymakers and stakeholders can easily access past reports and data, leading to informed decision-making and avoiding repetition of past mistakes. Success stories and failures are documented to guide future projects.	MoFDP (Knowledge Management Unit or Dept. of Planning); Lesotho Bureau of Statistics; National University (for research partnership).	Risk: Information remains fragmented across agencies, and lessons learned are not applied. Mitigation: Formal mandate for a National Knowledge Repository with dedicated staff; regular "MEL learning forums" where M&E findings are discussed and disseminated across government and partners; incentivize staff to use evidence through training and performance reviews.

REFERENCES/BIBLIOGRAPHY

- AfDB (2018), Lesotho: 2018 African Economic Outlook Country Note, African Development Bank.
- AfDB (2022), African Economic Outlook 2022: Supporting Climate Resilience and a Just Energy Transition in Africa,
- African Development Bank.
- AFI (2018), Digitally Enabled Cross-border Remittances in Lesotho, Alliance for Financial Inclusion.
- Boko, J., Raju, D. and Younger, S.D. (2021), Welfare, Shocks, and Government Spending on Social Protection Programs in Lesotho, World Bank.
- BTI (2022), BTI 2022: Lesotho Country Report, Bertelsmann Stiftung.
- CBL (2004), Lesotho Vision 2020: The Way Forward, Central Bank of Lesotho.
- Crowe (2018), Gateway to Africa: Africa VAT/GST Guide 2018-19, Crowe.
- EIB (2022), Is Crowding Out of Private Sector Credit Inhibiting Africa's Growth?, European Investment Bank.
- EU (2020), The Use of Development Funds for De-risking Private Investment, European Parliament.
- FinMark Trust (2016), The Impact of Remittances in Lesotho, Malawi and Zimbabwe.
- FinScope (2016), FinScope MSME Lesotho 2016.
- GDI (2014), Innovative Financing for Development, Global Development Incubator.
- GIIN (2016), The Landscape for Impact Investing in Southern Africa: Lesotho, Global Impact Investing Network.
- Government of Lesotho (2003), Lesotho Vision 2020.
- Government of Lesotho (2010), Anti-Money Laundering and Combating the Financing of Terrorism Regime National Strategy.
- Government of Lesotho (2014), National Decentralization Policy.
- Government of Lesotho (2016b), National Investment Policy of Lesotho.
- Government of Lesotho (2017a), Public Private Partnership Policy.
- Government of Lesotho (2017c), National Climate Change Policy 2017-2027.
- Government of Lesotho (2018c), Lesotho Gender and Development Policy 2018-2030.
- Government of Lesotho (2021b), National Diaspora Policy.
- Government of Lesotho (2022a), National Strategic Development Plan II Strategic Focus 2023/24-2027/28.
- Government of Lesotho (2023), NSDP II Extension 2023/24-2027/28.
- Government of Lesotho (n.d.), National Strategic Development Plan II Financing Strategy.
- Government of Lesotho and UNICEF Lesotho (2019), Lesotho Social Protection Budget Brief.
- Government of Lesotho, UNICEF Lesotho and World Bank (2020), Budget Absorption Challenges in the Health Sector in Lesotho.
- Guven, M., Jain, H. and Joubert, C. (2021), Social Protection for the Informal Economy, World Bank Group.

- IMF (2022b), Kingdom of Lesotho Selected Issues, IMF Country Report No. 22/162.
- IMF (2023a), Lesotho Article IV Staff Report.
- IMF (2023b), Kingdom of Lesotho: Staff Concluding Statement of the 2023 Article IV Mission.
- IMF (2024), Kingdom of Lesotho: 2024 Article IV Consultation.
- IMF (2025a), Staff Concluding Statement: 2025 Article IV Mission.
- IMF (2025b), Kingdom of Lesotho: 2025 Article IV Consultation.
- INFF (2021), Introduction to INFF, Integrated National Financing Frameworks.
- IOM and UNDP (2022), Rapid Assessment Report on Remittances in Lesotho.
- Lazard (2021), Debt-for-SDGs Swaps in Indebted Countries, European Commission.
- Lehobo, L. (2017), Institutional Capacity and Illicit Financial Flows: Lesotho, TrustAfrica.
- LMS (2019), Lesotho's Experiences and Challenges in Accessing Climate Finance, Lesotho Meteorological Services.
- LRA (2018), LRA 2018–2023 Strategy, Lesotho Revenue Authority.
- Mabote, R.S. (2019), Transfer Pricing: Its Implications on the Economy, Central Bank of Lesotho.
- MoDP and UNDP (2021), Lesotho Development Finance Assessment 2021.
- MoDP and UNDP (2022), Lesotho SDG Investor Map: Sector Selection.
- MoEM (2017), Lesotho Nationally Determined Contributions under the UNFCCC.
- MoF and MoDP (2020), Budget Strategy Paper 2021/22–2023/24.
- MoF and MoDP (2022), Budget Strategy Paper 2022/23–2024/25.
- MoFDP (2023a), Evaluation of the Lesotho National Vision 2020.
- MoFDP (2023b), Budget Speech to Parliament for FY 2023/24.
- Mu, Y. (2022), Evaluating Fiscal Rules for Lesotho, IMF Selected Issues Paper.
- Nyane, H. and Kapa, M.A. (2021), Coalition Politics in Lesotho, African Sun Media.
- OECD (2022), Revenue Statistics in Africa 2022.
- OECD (2023), Private Finance Mobilized by Official Development Finance Interventions.
- OECD (2025), Global Outlook on Development Finance 2025.
- OECD and WTO (2024), Aid for Trade at a Glance 2024.
- Oxfam (2014), A Dangerous Diversion: Will the IFC's Flagship Health PPP Bankrupt Lesotho's Ministry of Health?
- PEFA (2012), Public Expenditure and Financial Accountability Assessment 2011.
- PEFA (2017), Public Expenditure and Financial Accountability Assessment 2016.
- SADC (2019), Fourth SADC Financial Inclusion Forum Report.
- SARDC (2018), Women Economic Empowerment and Gender Responsive Budgeting: Lesotho Factsheet.
- Signé, L., Sow, M. and Madden, P. (2020), Illicit Financial Flows in Africa, Brookings Institution.

- Sparreboom, T. and Sparreboom-Burger, P. (1996), Migrant Worker Remittances in Lesotho, ILO.
 - State Department (2024), Investment Climate Statement: Lesotho.

 - UN Women, UNDP and INFF (2021), Technical Guidance Note on Mainstreaming Gender Equality in INFFs.
 - UNCTAD (2020), Economic Development in Africa Report 2020.
 - UNCTAD (2024), Investment Policy Review and AfCFTA-related references to Lesotho.
 - UNDP (2024), South–South Cooperation Report 2024.
 - UNFCCC (2019), Lesotho’s Experiences and Challenges in Accessing Climate Finance.
 - UNGA (2015), Transforming Our World: The 2030 Agenda for Sustainable Development.
 - UNICEF Lesotho (2017), Fiscal Space Profiles: Lesotho.
 - UNICEF Lesotho (2020), National Budget Brief 2020/21.
 - UNODC (2021), Killings of Women and Girls by Their Intimate Partner or Family Members.

 - Vian, T. and Bicknell, W.J. (2014), Good Governance and Budget Reform in Lesotho Public Hospitals.

 - Webber Newdigate (2025), The Coming into Force of Lesotho’s New Insolvency Act.
 - Webster, P.C. (2015), Lesotho’s Controversial Public–Private Partnership Project, The Lancet.
 - World Bank (2012), Lesotho Public Investment Management Efficiency Review.
 - World Bank (2017), Kingdom of Lesotho Public Expenditure Review.
 - World Bank (2019), Kingdom of Lesotho Disaster Risk Financing Diagnostic.
 - World Bank (2020a), Lesotho Macro Poverty Outlook.
 - World Bank (2021a), Systematic Country Diagnostic Update: Lesotho.
 - World Bank (2021c), Climate Risk Country Profile: Lesotho.
 - World Bank (2023), Country Partnership Framework references and climate finance discussion.
 - World Bank (2025), Global Development Finance Outlook 2025.
 - World Bank and IMF (2020), Joint Debt Sustainability Analysis.
- WTO (n.d.), Trade Costs for Landlocked and Coastal Economies.

— NOTES

— NOTES

