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NEWSLETTER

LESOTHO JOINT SDG FUND



ABOUT THE JOINT SDG FUND

To support the Government of Lesotho (GoL) to establish a functional and sustainable integrated planning and PFM ecosystem that contributes to the accelerated achievement of the SDGs targets and the NSDP, the Joint Programme on Economic and Financial Management Integration for the Achievement of SDGs (JP-EFMIS) was signed in October 2020 and will run until March 2023.

The UN agencies supporting the GoL are UNICEF, UNDP and IOM.

Key officers capacitated on important tools for efficient planning and monitoring of national budgets



Key officials from the Ministry of Finance and Development Planning (MoFDP) and other Ministries, Departments, and Agencies (MDAs) gathered in the UN House between November 7th and 11th, 2022, for training on Public Expenditure Tracking Survey instruments and Programme Based Budgeting. More than 30 officials attended the four-day training.

The Public Expenditure Tracking Survey (PETS) is an important tool that enables analysts and decision makers to track expenditure to determine the extent to which resources released by the government reach the intended destination, and for intended purposes. It allows understanding of leakages in the system and promotes accountability and efficiency in the national budget. During the training, the participants took on imaginary roles away from their regular roles in the ministries and voiced their concerns and ideas on implementing the PETS for their respective sectors.

The PETS, when implemented in full, includes development, implementation, and analysis of questionnaires that clarify the whereabouts of resources and allows for targeting to different stakeholders. The PETS therefore can be resource heavy. However, the idea and logic can also be applied in the daily work of the budget officers in the MoFDP and other MDAs without committing additional resources. This can be done by asking the right questions on the budget to the right people.

On the other hand, the Government of Lesotho has been implementing the Programme Based Budgeting (PBB) since 2007. The programmes and sub-programmes have been defined and presented in the national budget. However, the Results Based Management (RBM) and Results Based Budgeting (RBB) principles of the PBB were somewhat lost. The analysis of allocation and spending of the national budget were not necessarily based on the results of the programme.



The workshop, therefore, enhanced the practical knowledge of PBB's underlying logic and principles, including the RBM and the RBB.

Simultaneously, it also introduced the idea of tagging the national budget with Sustainable Development Goals (SDGs). The SDG-tagging of the national budget allows the Government to understand the level of national spending on each of the SDGs and serves as a baseline for tracking investment on the SDGs. The SDG-tagging of the national budget follows the same logic as the PBB, but more prominently using the SDG to define programmes and targets.

Through these workshops, senior officials from the Lesotho government, including the MoFDP and other MDAs, improved their competence to prepare and oversee the national budget. The program had lively group work and debates, and participants expressed their willingness to use the skills and ideas in their daily work. The training was made possible by UNICEF and the Global Initiative for Fiscal Transparency (GIFT).



Integrated Financing Strategy – The key for mobilizing and aligning resources for sustainable development in Lesotho

The Government of Lesotho is pursuing sustainable and inclusive economic growth, that is private sector led. This has been a long-standing development agenda for the country of Lesotho, yet unemployment continues to be a challenge, at 22.5% in 2019. Economic growth has been stagnant at 1.6% until 2019 when it further contracted by 5.3% in 2020 due to COVID-19.

Achievement of the development agenda has been further challenged and worsened by external shocks such as COVID-19, negative Climate Change impacts and the recent Russia-Ukraine war. At the same time, financial resources to support development have been declining with a gap of LSL3.3billion identified for implementation of the national strategic development plan II.

The scarce financial resources were further depleted by the reallocation to buffer against the immediate negative economic impacts of covid 19 and external shocks. This was an indication of a development finance ecosystem that is unsustainable and prone to shocks to ensure implementation of development agenda in the context of global crises. To address the challenges of development financing, Government of Lesotho initiated the Integrated National Financing Framework which has established a foundation for the development of the integrated financing strategy which provides a framework for sequenced actions to finance national development strategies and goals and mobilize and align financing with national priorities.



The Lesotho Financing strategy development process has helped the Government of Lesotho to concretize and advance the recommendations of the INFF roadmap that has been adopted to align the public revenues, aid and private financing to the development needs. The Development Finance Assessment carried out in 2021 during the inception phase of the Lesotho INFF has shown that, Lesotho has relied on a few sources to finance its development. The Southern African Customs Union receipts, tax revenue, ODA to which Lesotho has relied on to finance its development agenda, have been unpredictable and on average have declined in the recent years. During inception of the financing strategy process Government in partnership with UNDP undertook a three-day financing dialogue session to bring together a wide range of stakeholders from Government Ministries and departments, CSOs, private sector and the Academia with the aim of establishing the scope and objectives of the financing strategy. As a result, Government was able to identify and prioritize policy options to strengthen mobilization of development financing streams.

The first meeting focused on the public finance revenues and policies and was predominantly attended by the representatives of the Government ministries, departments and agencies (MDAs). Some of the issues touched on were the challenges of tax collection efficiency and mechanisms that could be used to address tax collection challenges and its illicit flows. Successful implementation and achievement of the SDGs requires alignment of the National plan, SDGs, the public sector investment program and the national budget and on that basis, discussions delved into the public sector investment program development process and its alignment to the national priorities and the SDGs as well as the budget, to come up with strategies to address existing misalignment in the national planning and budgeting landscape. Climate financing, another source of financing that Lesotho can leverage to advance its development, was discussed in-depth to enable diagnosis of the challenges of its access and mobilization. The outcome of the meeting was consensus on policies and institutional mechanisms that government should establish to better manage public finance flows such as tax and non-tax revenue, receipts from the Southern African Customs Union, Official Development Assistance, debt and its management.



On the second day, discussions were focused on private finance and investment. Participation included major representatives of private sector/industry, private sector organizations such as Chamber of Commerce and Industry and the Private Sector Foundation Lesotho, as well as government agencies in charge of private sector development such as LNDC, LTDC, BEDCO, private sector departments of the respective ministries, commercial banks, representatives of diaspora, and other interested parties operating in the private sector and the informal sector. The issues of the day were on the challenges facing the private sector and to identify gaps of private sector promotion policies and assessed the effectiveness of existing private sector promotion policies. Presentations by the main investment promotion agencies, LNDC and LTDC were delivered to highlight the successes and limitations of investment promotion in Lesotho to mobilize FDI.

Issues discussed also focused on Diaspora financing and looked at the challenges that have impeded diaspora investment in Lesotho and how they could be addressed by establishing platforms and financing instruments that facilitate diaspora investment. Development of the local private sector, mostly MSMEs, was also a focus area of the dialogue that resulted with concrete proposals on how challenges faced by the private sector can be addressed through consolidated efforts of all relevant stakeholders. The dialogue confirmed policies and mechanism that can mobilize private investment towards development. Diaspora financing was emphasized to be an opportunity that Lesotho can tap to finance its development taking into consideration that remittances are already a source of livelihoods for many Basotho.

The third day focused on domestic and international civic sector (NGOs) and national academia where participants discussed how to mobilize better philanthropy finance, and how the enabling environment and the civic sector can further be strengthened to contribute more meaningfully to the national sustainable development efforts.

The process 3-day process has essentially enabled the government along with its partners to determine and agree the development financing needs, binding constraints and opportunities that Lesotho can tap into for better mobilization and management of development financing sources. These proposals to advance the development finance agenda will be elaborated at length in the Lesotho Integrated Financing Strategy for a more efficient and better coordinated public financial ecosystem.

Mobilizing untapped diaspora resources to accelerate sustainable development in Lesotho

Sustainable development requires a whole of government and society approach without excluding the private sector as well as an integrated approach to public policy for private financing. Lesotho does not have a big private sector and the potential economic contribution of the little that exists has not yet been fully explored. Every sector of the economy is worth exploring for resources needed to finance sustainable development and this requires looking beyond domestic resources. Lesotho diaspora resources have a huge potential to accelerate achievement of SDGs. Remittances to Lesotho account for 20% of GDP (World Bank, 2021) and this figure is an underestimate considering there is still a significant number of unbanked Basotho residing outside of the country.

The figure could be higher if remittances sent through informal channels could be quantified. Remittances remain a lifeline for many Lesotho households, and they provide for basic needs of many Basotho. The Government of Lesotho recognizes a catalytic role diaspora can play to accelerate achievement of SDGs. In view of this, the Government of Lesotho is extending resource mobilization beyond borders through strengthening policy framework to engage diaspora.

A Remittances Strategy to leverage remittances and to strengthen the remittance transfer mechanisms as well as bolstering financial inclusion was developed with support of IOM under a joint programme on economic and financial management integration implemented by IOM, UNDP and UNICEF.

The strategy was validated on 16 March 2023 and it proposes among other things, introduction of incentives to attract diaspora investment and development of financial instruments that can multiply gains from remittances. Basotho diaspora are keen to participate in economic development at home.



The Remittances Strategy proposes the following strategic objectives

OBJECTIVE 1

Enhance Institutional Coordination and Accountability Mechanisms for Implementation

- Strengthen the inter-institutional implementation framework led centrally by the Central Bank of Lesotho Remittances Task Team
- Develop a diaspora desk at the Central Bank of Lesotho to specifically serve the need of Basotho living and working outside the country
- Introduce an annual National Forum on Remittances
- Monitoring and evaluation of the Remittance Strategy in 2025 and final review in 2028

OBJECTIVE 2

Bolster Legal and Regulatory Capacity

- Develop a legislative framework to secure electronic transactions
- Strengthen supervisory capacity development at the Central Bank of Lesotho
- Introduce a customer services charter within the Central Bank of Lesotho
- Enhance collaboration and engagement with South Africa Reserve Bank, and National Treasury on issues of mutual interest

OBJECTIVE 3

Reduce the cost of remittance services through the promotion of competition, the use of innovative payment instruments, and by enhancing access to formal financial systems

- Encourage competition in remittance transfer market by attracting additional bureaux de change, independent money transfer operators and value transfer service providers to serve the South Africa-Lesotho remittance corridor (World Remit).
- Enhance interoperability between banks, mobile money operators
- Price disclosure requirements for banks, mobile money operators, etc.
- Work with service providers to develop responsive, affordable and innovative financial products such as Money Transfer Vouchers, debit cards (Visa, Wise)
- Increase ways to pay with mobile money for services in Lesotho

OBJECTIVE 4

Strengthen Financial Education and Financial Inclusion

- Implement a financial literacy and digital skills education programs for labour migrants and for remittance receiving families through Lesotho embassies and consulates and other members of the diaspora
- Consumer education on over indebtedness to unregulated lenders and the potential for severe financial and indeed criminal abuses
- Support expansion of the remittances delivery network through strategic partnerships between banks, post offices, money transfer operators, expansion of the payment infrastructure to remote and hard to reach areas



OBJECTIVE 5

Improve Access to Identity Documents for Know-your-customer (KYC) Requirements

- Lesotho consulates in South Africa offer improved consular services for Basotho migrants in South Africa and help them in accessing Lesotho identity documents
- Engage South African Reserve Bank (SARB) to authorize and promote the acceptance of the Lesotho Special Permit as a specialized form of official identification by South African financial services providers
- Engage South African Department of Employment and Labour to develop Bilateral Labor Agreements for selected skills

OBJECTIVE 6

Build Financial Resiliency of the Remittance Senders and Receiving Families to Prepare for Future Shocks

- Increase access to financial services such as loans, payments, savings, insurance, etc.
- Support development of financial instruments that can multiply the gains from remittances
- Introduction of foreign currency accounts e.g. Dollar or Sterling accounts
- Operationalise Maseru Stock Market (MSM) to facilitate diaspora equity investments

