LESOTHO REVENUE AUTHORITY STRATEGIC PLAN 2014 - 2019

Table of Contents

Foreword by the Chairman of the Board

Lesotho still ranks as one of the poorest countries in the world. The Lesotho GDP per capita falls within the low income category. In its National Strategic Development Plan (NSDP), Lesotho, among others, focuses on improving the business climate, providing better access to finance, facilitating cross-border trade and strengthening Lesotho's international competitiveness. These initiatives are aimed at sustaining economic growth and increasing the direly needed employment for the betterment of quality of life in Lesotho.

In its pursuit of an inclusive economic emancipation of Basotho, the Government of Lesotho has over the years continued to invest in, among others, infrastructure development projects, supported agriculture production and human capital development by helping many Basotho to continue their studies at tertiary level in many institutions both within the country and internationally.

All these initiatives take place in the face of several risks that, left unmitigated, could threaten sustenance of the growth achieved and attainment of goals in the NSDP. The future of the South African Customs Union (SACU) revenues in the long term remains uncertain. According to the IMF, the prospects of the textile sector, the third largest employer of people in Lesotho, are subject to downward risks, as the United States African Growth and Opportunity Act (AGOA) is slated to expire in 2015. The current exchange rate between the Loti and US Dollar at over M11 will impact negatively on capital costs of the mining industry, which may deter growth in production capacity of existing mines, and postpone new investment in new mining operations.

Continued growth in confrontation with the challenges that Lesotho faces, is significantly premised on her ability to collect revenue that shall be able to sustain developmental efforts even in unfavourable economic times. This then obligates the Lesotho Revenue Authority (LRA) to develop an understanding of the clients it serves and their groupings, the geographic markets within which those clients are based, the segments of those markets and ensure that it responds with innovative solutions that meet the needs of its clients, the Government of Lesotho and all stakeholders in the revenue administration environment. This, the LRA has chosen as its driving force for the next five years.

This strategy has its planning horizon as five years as opposed to three years of past strategic plans. It represents the LRA's response to the dire need to provide funding required to grow the economy, while minimising the cost of compliance to the client and minimising the cost of collecting that revenue. This strategy also builds on previous efforts of the LRA in the three years of its previous strategy:

- Re-engineering and continuing to automate processes;
- Capacitating its people to serve better;
- Reviewing the structure to ensure its alignment to strategy; and
- Strengthening relationships with stakeholders.

This strategy seeks to place the LRA as an organization that is driven by the needs of its Taxpayers, the Government of Lesotho and all its stakeholders. This client-centric approach shall help to create a level playing field for all to pay their taxes and improve the rate of Taxpayers voluntarily complying with their tax obligations.

It is my firm belief that the LRA has put in place a strong foundation upon which to build an organisation it wishes to be, in service to Basotho; an organization that understands the needs of its wide Taxpayer base and all stakeholders and that is able to respond with solutions that meet those needs and surpasses expectations of all people it serves in revenue collection, policy advisory and border management services.

This strategy has identified key business enablers which need to be developed and strengthened in order for the LRA to execute on its strategy and to achieve its mandate in a sustainable manner for the years to come. These are referred to in the plan as Critical Issues and they are the bridge between the reality now and the desired future. They need to be pursued with rigor for the Authority to achieve strategic objectives contained in this plan.

Success in the implementation of the LRA strategy is the most significant enabler for Lesotho's sustainable economic growth and creation of employment. This enablement of betterment of lives in Lesotho is the higher purpose we cherish and aspire for in LRA. It is the higher purpose we are in pursuit of with this strategy.

Message from the Commissioner General

I am happy to be publishing for the third time -as the Commissioner General of the Lesotho Revenue Authority (LRA), a plan of what we are going to deliver over the next five years from 2014/15 to 2018/19 and how it will be achieved.

This plan builds on the solid foundation that we built in 2007 when we started the Taxpayer centricity journey as the LRA. It further aims to consolidate all our efforts since then, for us to be able to build a delightful Taxpayer compliance experience. We have decided to move from an organization that designs services and consults Taxpayers and stakeholders for their support, to an organization that understands the needs of the Taxpayers and stakeholders and respond by designing solutions that meet the client's needs and surpasses their expectations.

This is a huge paradigm shift from the way we do business currently. It requires us to have an understanding of what it takes to serve Taxpayers in this new way and requires us to invest in the necessary skills and capabilities to sustain this commitment. It also requires us to build our capability and capacity to engage with, and work jointly with, all our clients in development and implementation of solutions to compliance problems. It is our belief that this shall encourage many Taxpayers to comply voluntarily. Voluntary compliance itself is a critical success factor to improved revenue performance.

Over the planning journey, we have clarified that our job is to provide revenue management, border management and policy advisory services to Taxpayers, the Government of Lesotho and all our stakeholders. The essence of our strategy is to develop an in-depth understanding of our clients and to respond with service offerings that are fast, efficient and cost effective in order to ease the burden of compliance to clients and reduce the cost of collecting revenue by us. We believe that this way we shall enable clients to pleasantly, easily and conveniently fulfil their obligations to contribute to the stability and development of Lesotho. We have chosen to be "clients' needs driven", as our Driving Force. In other words, this is the single point of focus which will govern how we make decisions and allocate resources within the organization. This is the area we must excel in if at all we have to paint the picture of an organisation that makes compliance to tax laws less burdensome and more cost effective to Taxpayers.

Our staff, through their hard work, make serving possible. It is their hard work and commitment that brings the revenue we collect. To unleash their potential, we intend to make the LRA an employer of choice, by building and maintaining an exciting environment which encourages commitment and a “can do” attitude, characterised by an entrepreneurial culture where there is freedom with responsibility and a belief in the achievement of the impossible. We acknowledge that this will take time, drive and consistent effort to make it happen.

We believe that we have made strategic choices that will enhance revenue and customs compliance over the next five years. These choices will help us build an organisation that provides an efficient and effective service, delivered in a spirit of utmost commitment to our clients and stakeholders. With these choices we wish to build an organisation that our people shall like to serve in and which our clients would like to be served by: an organization that Basotho shall be proud of and have trust in.

We clearly have lots to do between now and 2019 and our actions are not without risks. We know that many obstacles and challenges lie galore in the road of our choice. However, we feel it is right that we create clarity of our purpose and direction, for ourselves, our stakeholders and, most of all, our Taxpayers. When we know where we are headed, we will decide wisely and use our resources optimally for the benefit of our clients and the entire nation.

Our Mandate

The Lesotho Revenue Authority is a corporate body established under the Lesotho Revenue Authority Act no.14 of 2001 to be the:

"… main body responsible for the assessment and collection, on behalf of the Government, of specified revenue; for the administration and enforcement of laws relating to such revenue and for related matters"

The LRA is responsible for the administration and enforcement of the following revenue legislation:

- The Customs and Excise Act (1982)
- The Income Tax Act (1993)
- The Value Added Tax Act (2001)

Lesotho Revenue Authority Taxpayer Charter

We commit to providing our customers with:

- Efficient, effective and timely professional advice and service
- Courteous treatment, rendered in the spirit of mutual respect
- Clear and concise information and educational materials, so that Taxpayers are aware of, and understand, their legal rights and obligations
- Fair and impartial treatment, delivered to all, without preference or favour
- Confidentiality and integrity in ensuring that Taxpayer information is used only for the purposes allowed by the Law

In exchange, LRA expects the following from all Taxpayers:

- Full compliance with all legal tax obligations
- Honesty and integrity in providing accurate and complete information
- Timely filing of returns and payment of all taxes due

In the interests of transparency and good governance, you have the right to:

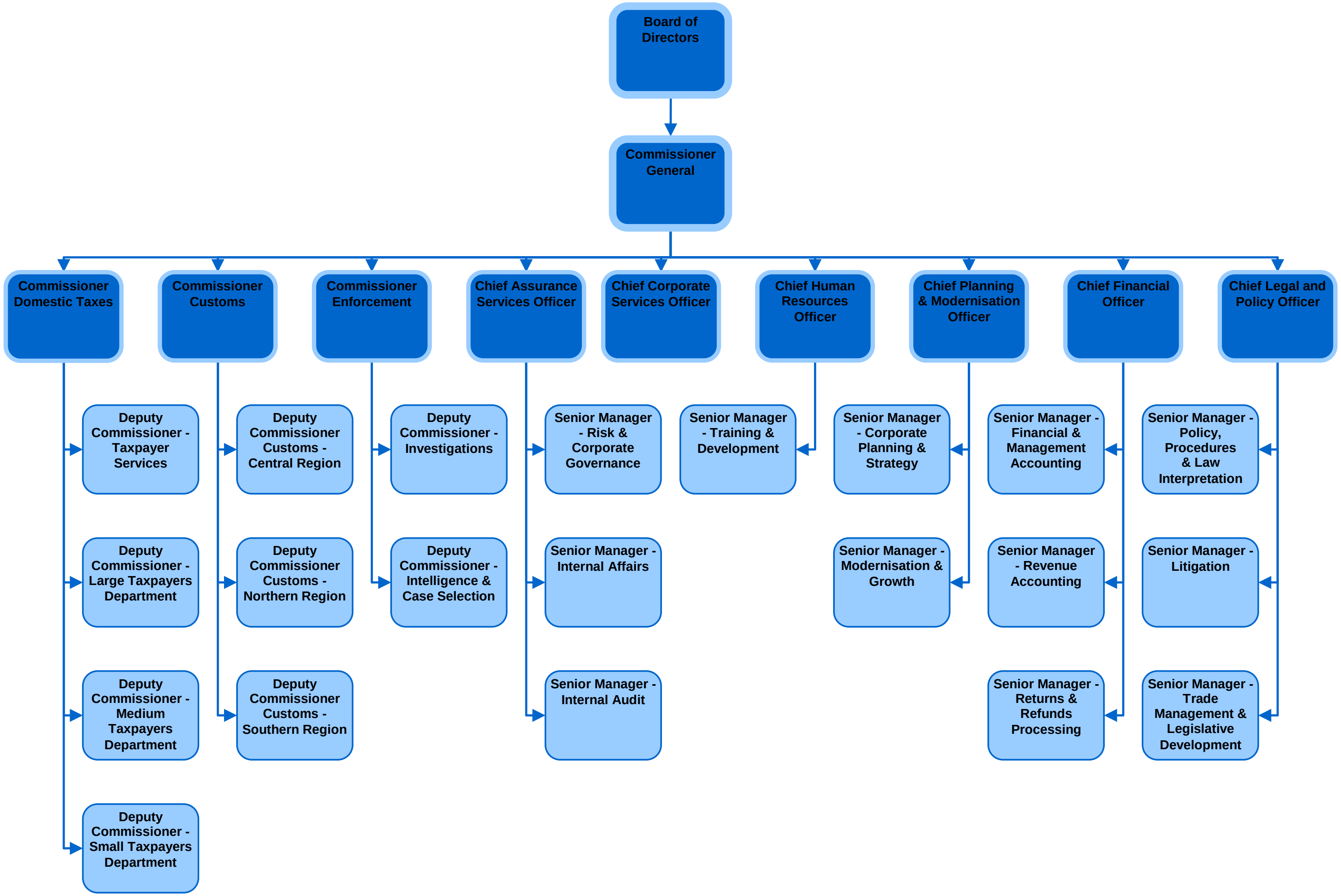
- Request an explanation of any tax decision
- Object to, and appeal, any tax decision
- Request that we advise you of the procedures to be followed in lodging an objection or appeal
- Insist on knowing the name and identification number of the person serving you

Board Chairperson　　　　　　　　　　Commissioner General

Lesotho Revenue Authority Values

- **Teamwork** – the LRA staff should always work together with passion and mutual respect to achieve common goals.
- **Innovation** – the LRA staff should be able to come up with new ideas for continuous improvement aimed at best service delivery.
- **Integrity** – the LRA staff have to be and seen to be honest, reliable and transparent.
- **Service excellence** – the LRA staff should be helpful and patient in providing service to Taxpayers to promote voluntary compliance and to achieve the highest level of quality in their work.
- **Accountability** – the LRA staff are expected to be answerable for their actions; able to abide by the LRA stipulated rules and regulation; firm and consistent in applying the rules without fear and favour.

Lesotho Revenue Authority Organisational Structure



1. Highlights of past performance: *"Ten years of building a better Lesotho": 2003 – 2013*

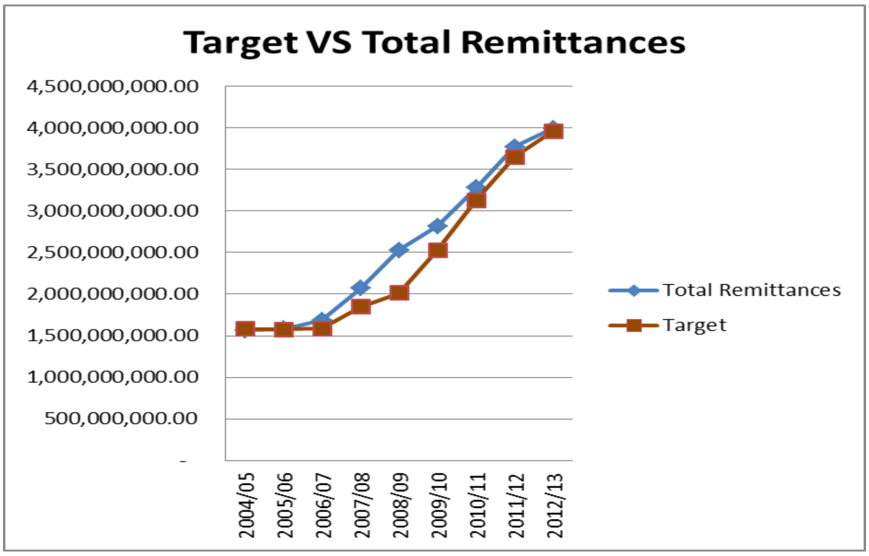
In its first ten years of operation, the LRA has gone through a lot of changes in order to meet and exceed the Government and General Public's expectations. Since inception, revenue collection has been remarkable and the LRA has exceeded revenue targets throughout the years and grown the tax net quite significantly. As a result, the nominal growth in total revenue collected by the LRA has increased over the years with the current domestic taxes contribution to the Government budget being 34.8%.

Table 1 below shows the total remittances against targets for the period.

Table 1 Remittances over the past ten years

Year	Total Remittances	Total Targets
2004/05	1 561 695 241.25	1 580 390 000.00
2005/06	1 580 295 865.66	1 574 451 179.68
2006/07	1 687 668 958.83	1 585 473 374.00
2007/08	2 069 236 786.71	1 846 985 755.55
2008/09	2 530 450 963.19	2 011 589 999.98
2009/10	2 815 303 112.00	2 527 800 000.00
2010/11	3 276 780 000.00	3 126 099 999.81
2011/12	3 770 745 665.46	3 647 500 000.00
2012/13	3 995 411 935.70	3 961 700 000.99

Figure 1 Analysis of Remittances vs Targets over the past ten years



In the past 10 years, the LRA remittances have continuously exceeded the set revenue targets.

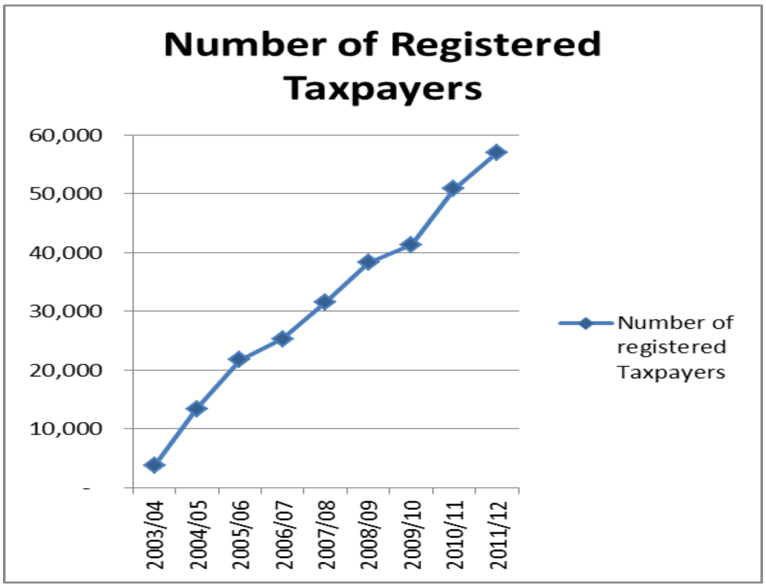
Table 2 below shows the "year-on-year" growth of the Taxpayer registrations per period.

Table 2 Number of Registered Taxpayers over the 10 Years

Year	Number of Registered Taxpayers	Growth
2003/04	3 749	**N/A**
2004/05	13 383	257%
2005/06	21 722	62%
2006/07	25 317	17%
2007/08	31 601	25%
2008/09	38 297	21%
2009/10	41 309	8%
2010/11	50 833	23%
2011/12	56 971	12%

2012/13	64 563	13%

Figure 2 Analysis of the Number of Registered Taxpayers



The tax net increased by more than 300% in the financial years 2004/05 and 2005/06, two years after the LRA was established. In the subsequent years, the growth rate has averaged 18%.

1.1. 2003 – 2006 "Establishment"

In 2003, the LRA was established by merging the three government departments that were tasked with the collection of revenue, namely, Customs and Excise, Sales Tax, and Income Tax. The years from 2003 to 2006 represented the formative period during which efforts were geared towards the establishment of the Authority as a single entity, and the institutionalization of the various functions to integrate them into a homogenous structure that would be able to effectively carry out its mandate.

This period saw the implementation of the following key initiatives:

- The introduction of Value Added Tax (VAT) and a deferred VAT payment facility in July 2003.
- The automation of VAT in 2003 and Income Tax in 2004.

- The introduction of self-assessment in 2004.
- The introduction of the Tax Amnesty in 2005.

These were aimed at the establishment of an appropriate tax regime for the country, and putting in place basic supporting processes and technology to be able to effectively administer it.

1.2.2006 - 2011 " Taxpayer Centricity"

The period from 2006 to 2009 saw a major shift in the LRA's strategic focus from tax centricity to a Taxpayer centricity. The first step in that direction the first structural reorganisation; discarding the traditional notion of administering taxes by tax-type, and making efforts to improve the public image of the LRA by implementing an organisational structure that was more Taxpayer-service oriented. This saw the integration of VAT and Income Tax functions, the establishment of a division that focused on Taxpayer Services, and one that focused on Compliance, as a way of streamlining the services provided by the LRA.

Further steps towards the achievement of Taxpayer centricity strategy included:

- The provision for the submission of tax returns through the local commercial banks in 2008, as a way of reducing the burden of compliance for Taxpayers.
- The decentralization of services through the establishment of two Regional Advice Centres at Leribe and Mohale's Hoek, respectively.
- The development and implementation of the first Taxpayer Education Strategy through various initiatives, including Tax Clinics and the "Mokhafisi" radio programme.
- The commencement of a Border Post rehabilitation programme.
- The re-engineering of some of the Taxpayer facing business processes in order to improve service delivery.
- The implementation of a Performance Management System in order to ensure that the LRA staff performance is aligned to the achievement of organisational objectives.

- Development of the Taxpayer Service Delivery Standards.
- Introduction of Enterprise Risk Management and establishment of a Risk Management Unit.
- Infrastructure Rehabilitation of the two (2) big border posts (Maseru and Maputsoe Bridge) and Tele Bridge.

1.3.2011 – 2014 "Service Excellence"

The "2011 – 2014" period took the Taxpayer centricity focus a step further and introduced Service Excellence as a strategic theme. The emphasis for this period was on improving services to the Taxpayer in order to enhance voluntary compliance, while also still putting a lot of emphasis on combating non-compliance through rigorous enforcement activities. During this period, the following initiatives were carried out towards achieving this theme:

- The alignment of the structure to the strategy, focusing it on the type of services provided. This resulted in the introduction of three units in Domestic Taxes based on Taxpayer segmentation, focusing on large, medium, and small Taxpayers. Out of this exercise, the enforcement function was strengthened through the establishment of an Enforcement Division in which all enforcement functions were brought together.
- The commencement of the LRA modernisation journey through the launch of the Customs Modernization Program, the replacement of legacy systems in Domestic Taxes through the implementation of a New Tax System, and the automation of the records management process, including digitization of manual records.
- The responsibility of the LRA was expanded to include the collection of toll fees at the border posts.

In Summary, since its establishment in 2003, the LRA has transformed from an organization which was focused on the collection of Tax revenue by any means necessary, to an organization which is focused on providing an improved Taxpayer experience. This is aimed at reducing the burden of compliance on Taxpayers and promoting voluntary compliance while, on the other hand, clamping down on non-compliance. This paradigm shift has been supported by a number of initiatives as outlined above and continues to contribute strongly to the strategic direction of the Authority.

2. The Planning Environment

The LRA carries out its revenue collection mandate amidst an increasingly dynamic environment. Agility in terms of organizational ability to respond effectively to threats and opportunities has become the focus of organizations across the globe, and the LRA is no exception to this trend. A large number of environmental variables will have an impact on the LRA's ability to meet its strategic goals, but the key to the organization's success is in the identification of those that are of most strategic significance to its success, and then harnessing opportunities and effectively mitigating threats. The following are the environmental factors that have been identified of being of strategic priority to the Authority as it embarks on its strategic roadmap en-route to its effective achievement of its mandate.

2.1.Increased Capital Expenditure by the Government of Lesotho

In the Lesotho economy, the Government of Lesotho in regard to capital expenditure spending plays a significant role in economic growth and revenue performance. This means that the rate that the Government of Lesotho spends on capital projects has a direct impact on the tax revenue available for collection by the LRA. Capital projects contribute revenue in terms of Pay As You Earn (PAYE) through the creation of employment, VAT through the procurement of goods and services and equipment, as well as Corporate Income Tax from contractors and sub-contractors. In Budget Speech, the Honourable Minister of Finance emphasized that the focus of the Government in the 2014/15 Financial Year would be on implementation and execution. This means that the capital projects will have to be implemented in line with project plans in order for them to have a desired impact on revenue collection. Examples of such projects are the implementation of water supply and sanitation initiatives, the building of road infrastructure, the installation of Information and Communication Technology (ICT) infrastructure, and other developmental projects. The 2014/15 allocation for such development is in excess of M 5 billion. It is anticipated that the Lesotho Highlands Water Project (LHWP) Phase II on the construction of the Polihali Dam will see an investment of approximately M3.2 billion in 2016/17 and a further M3.9 billion in the subsequent years, as well as creation of 11, 000 jobs annually between 2015/16 and 2019/20. Approximately half of the jobs created will be in the construction, with the rest in indirect activities in sectors such as agriculture, transport, and services. The dam, being in Mokhotlong, will impact the business activity of Butha-Buthe and Thaba-Tseka as well, meaning that tax revenue in those districts is expected to increase.

2.2. Nurturing of the Private Sector

The 2014/2015 Budget Speech also emphasizes the Government's focus on initiatives that will promote the private sector's role in the economy of the country. The Government is looking at schemes that will facilitate capitalization for private enterprise. The increase in access to credit and capital funding for the private sector will imminently lead to job creation and to an increased number of players in the commercial and industrial sectors. Such reforms include the new land laws which allow for land to be used as collateral against loans. This will lead to an increase in the spending power of the nation and an increase in the number of employed individuals. The knock-on effect of these results is that there will be more tax revenue that will be afforded to the LRA through increases in VAT and Income Tax collections.

2.3. Growing Mining Sector

Lesotho appears on the international stage, mostly due to the products of its mining industry. It is the intention of the Government to reinforce efforts to grow the mining industry within the country. The effect of this reaches multiple areas. Capital expenditure will be necessary in order to provide roads and other infrastructure that support access to the mines and living conditions of the miners. It is estimated that in excess of M5.8 billion will be spent in capital outlay in the 2014/15 and 2015/16 financial years, and that diamond exports will be increased from the M1.7 billion they were in 2010/11 to up to M9 billion in 2016/17. Job creation is estimated at approximately 2, 700 jobs in the sector in 2016/17. This mining expansion also creates the requirement to invest in Lesotho's power-grid to ensure that the mines have enough electricity to be able to effectively carry out their business. This is another area that has been identified as a focal point in the 2014/15 Budget Speech and shall lead to further capital expenditure initiatives. A new tax regime is also being proposed which will govern the sector and the outcome of this shift may have negative or positive implications on the tax revenue collectable by the exchequer with regard to the industry, which tends to get favourable tax incentives in order to attract Foreign Direct Investment.

2.4. Global and Local Economic Growth

Economic growth in the global economy continues to be slow, although there was a promising increase in the major players between the third and fourth quarter of 2013. The global economy appears to be rising out of crisis but is still relatively vulnerable. The economic growth in Sub-Saharan Africa has been relatively more promising, although still not ideal for Lesotho's trade position. Coupled with this is the fact that, in South Africa, there has recently been an increase in the Repo Rate, which has resulted in the fact that credit for investment has become more expensive for the private sector credit. In effect, that could hamper private sector growth initiatives.

Lesotho's growth has increased significantly when compared with that of 2010/2011 which is a welcome development. This growth is, however, also vulnerable to the future of SACU, and developments regarding AGOA. The future of the SACU and the revenue sharing formula among its members is currently uncertain. Considering the fact that SACU revenues form a major part of Lesotho's revenue, this factor needs close attention. It is the intention of the Government to optimize the collection of domestic revenue to mitigate the risk associated with possible decline in SACU revenues.

The AGOA is coming to an end in 2015 and should it not be renewed, the textile-manufacturing sector within Lesotho is in jeopardy of losing investment as companies may close and new investment become hard to attract. This means that it should be expected that a number of factories would be closing down and resulting in loss of revenue and jobs. The proposed removal of the zero rating on Corporate

Income Tax from the proceeds of Extra-SACU exports may also have an adverse effect on the textile industry as the standard 10% may have an impact on the Lesotho's position as a desired country for such investment. This proposal comes as a result of Lesotho's regional obligations to remove unfair competition with its SACU member states, in a bid to facilitate regional integration.

It is anticipated that the rate of economic growth will continue to accelerate in the 2014/15 and 2015/16 financial years and then taper off in the 2016-18 financial years due to the fact that the mining and construction industries will have ceased to expand at the rate that they are going to, in the 2014-16 period. The textile and mining industries are also relatively vulnerable due to the fact that the state of the global economy has resulted in a lower demand for Lesotho's exports, and this continues to be a concern for the nation. The Government is looking to roll out its National Strategic Development Plan (NSDP), which includes the Central Bank of Lesotho's Financial Sector Development Strategy (FSDS) that includes a number of reforms in the Financial Sector. Also included in the NSDP is the Public Finance Management Reform Programme that is aimed at reforms in the public financial sector to ensure that policies and structures therein are supportive of national objectives in economic growth. Initiatives within these strategies include the implementation of the National ID system, which will allow the country to uniquely identify citizens (and therefore Taxpayers, enabling the LRA to expand its tax base), as well as the establishment of the credit bureau, which will allow for the effective management of debtors within the country.

These reforms are aimed at augmenting the growth and stability of the economy, which ultimately leads to increased tax revenue. Tax revenue is currently targeted to make up 22% of GDP for the 2013/14 financial year and 23% of GDP in the 2014/15 financial year.

2.5. Rise of the Informal Sector

The informal sector is currently on the periphery of the country's tax net and is increasing both in size and in revenue generated within it. It is envisaged that it will continue to increase for a host of reasons. One reason is that the high rate of unemployment within the country may lead citizens with an entrepreneurial spirit to engage in informal business activities in order to make a living. The next is that the Government intends to increase credit access to small and medium enterprises, which may result in a larger small and informal Taxpayer base residing outside the tax net, if not effectively legislated with supporting tax laws and regulations. It is imperative that the country and the LRA respond effectively to the informal sector in such a way as to both nurture it and ensure that the country's economy benefits from it appropriately, including through its taxation regime.

2.6. Emergence of Electronic Commerce

In recent years, there has been a global move to online transactions as access to the Internet has been propagated through improvements in technology, cheaper bandwidth, and cellular penetration. This trend has proven itself to be a double-edged sword to revenue administrations across the world. On the one hand, the nature of online transactions significantly increases the complexity of taxation as they are difficult to detect and often transcend national borderlines. The move to a more conducive environment for small and medium enterprise will mean the increase in these transactions as it opens up the possibility for professionals to sell products and services online without even the necessity to have the funds for these come to Lesotho as they may sit in South African bank accounts. The LRA needs to develop a strategy to effectively manage the potential revenue leakage through such transactions and ensure that all revenues due to the country are remitted accordingly.

On the other hand, increased online transaction capability has led to a host of possibilities for the decentralization of tax related services, effectively pushing them closer to the Taxpayer and hence reducing the burden of compliance. Online registration, e-filing, and online payments are but a few of the facilities that are currently being provided to Taxpayers worldwide, even as close to home as the Republic of South Africa. The penetration of cellular phones in Africa, and their increasing processing power have also led to facilities such as cellular financial transfers and cellular payments. Facilities which are already available in Lesotho are the M-Pesa, eco-cash (Sepache-Fono) and mobile money offerings by the national operators. Such facilities are key to the reduction of the cost of compliance to Taxpayers and provide opportunities to the Authority to provide online services.

2.7. Tax Evasion Schemes

Tax evasion and avoidance are essentially the key risks to the achievement of the country's tax collection objectives, and all efforts of the LRA are geared towards thwarting these. The challenge that faces Lesotho is that Taxpayers are continuously engaging in increasingly complex evasion and avoidance schemes and are investing in the capability that will allow them to implement ways to pay as little money to the LRA as possible. This is aggravated by the fact that a significant proportion of especially the large companies within the country have their headquarters in other tax jurisdictions outside of the borders of Lesotho. The implication of these factors is a rise in schemes such as transfer pricing, which make it very difficult for the LRA to effectively determine the tax liability of a company and collect the appropriate revenue. The LRA needs to implement strategies which will address this matter, including ensuring that appropriate legislation and policy structures are in place to mitigate the risk of these schemes being used.

2.8. Increasing National Budget requirements

In the 2014/15 Budget Speech, it was revealed that the proposed funding of the M15, 754 million includes M6, 361.2 million which is expected from tax revenue. On top of this, as stated above, the target for the measurement of tax revenue against GDP is 23%, which is an increase on the 22% and 19% achieved in the 2012/13 and 2011/12 financial years, respectively. The Budget Speech also reveals the fact that the NSDP requires a large capital investment in order to be able to effectively build infrastructure, especially that which is not directly funded, such as electricity supply that is able to support mining operations. The impact of these factors is that there is an increased requirement for the mobilization of domestic tax revenues to ensure that the National Strategic Plan is adequately funded. This is compounded by the fact that, as has been stated, the SACU share which is expected to contribute 45% of the 2014/15 revenues, is at risk due to the current uncertainty surrounding the SACU pool and sharing formula. The LRA is thus tasked with the development and implementation of strategies that will optimize the collection of domestic revenues, thus ensuring that the Government of Lesotho has enough money to be able to meet national objectives and increase the standard of living of its citizens.

2.9. Changing requirements in the role of Customs

Countries around the world have been actively participating in the WTO trade negotiations and making moves towards forming bilateral/regional economic partnerships and cooperative agreements. The core of the World Trade Organization's (WTO) "Bali Package" of trade agreements, finalised at the 9th WTO Ministerial Conference meeting in December 2013, is an Agreement on Trade Facilitation (ATF). At the heart of trade facilitation is a paradigm shift in the role played by Customs. The fundamental role of Customs globally in making trade facilitation a reality involves, above all, a shift of perspective and perception that calls for major reforms in behaviours, processes and infrastructure. Customs services are not only frontliners, enforcers and national revenue collectors, but are also an important service provider to the nation and contributor to economic development and global welfare. From a national perspective, the ATF calls for a number of actions from Lesotho to implement in the short, medium, and long term. The WCO is preparing frameworks and supporting tools to best position Customs nationally and internationally on the ATF to ensure compliance. The ATF measures will boost prosperity by reducing administrative burdens, time and transaction costs.

2.10. Demand Management

The Organisation for Economic Co-operation and Development (OECD) conducted a study in 2012 and found that many revenue administrations were experiencing difficulties in effectively managing Taxpayer service demand. This resulted from the fact that the revenue administrations have a challenge with allocating their limited resources to meet the organisational goals as well as meet the public and business expectations of good service delivery and reduced compliance costs. Effective demand management, therefore, affords the organisation an opportunity to appropriately allocate resources, deliver services more efficiently via multiple channels, including self-service, reductions in compliance risk, to name but a few.

The benefits to Taxpayers, among others, include improved service, improved access and low cost of compliance.

3. LRA Strategic Plan for 2014 – 2019

Our Vision

To be a leading performance oriented revenue administration, characterised by integrity, innovation and service excellence

Our Mission Statement

To provide revenue collection, border management and advisory services through:

- A capable and motivated workforce;
- Understanding and responding to the needs of our market;
- Building strong and sustainable relationships with stakeholders ;
- Fast, efficient and cost effective programs.

3.1. LRA Business Concept

In order to deliver against the vision and mission in the next five years, the LRA has developed the following business concept which will serve as a “strategic filter” for management to use in shaping all strategic business decisions: we have decided that our driving force is deep understanding of the market and responding to the needs of the market with solutions that surpass expectations of Taxpayers.

Our strategy is to respond to the revenue collection, border management and advisory services needs of Government, stakeholders and Taxpayers through programs that are fast, efficient and cost effective thus enabling them to pleasantly, easily and conveniently fulfil their obligations to contribute to the stability and development of Lesotho.

- We will develop an intimate understanding of the needs of our markets, including government, strategic partners, development partners, tax agents and Taxpayers through appropriate strategic partnerships and engagement forums in order to respond with innovative and fit for purpose solutions
- We will drive distinctive relevance by bringing about positive outcomes that surpass expectations of the public whom we serve by continuously optimising and growing our revenue through:
    - Researching, designing, developing and implementing effective, agile Taxpayer centric revenue collection, border management and advisory service solutions;
    - Leveraging our knowledge of tax and customs laws, treaties and conventions as well as the use of Information Technologies to better advise, enhance compliance and educate Taxpayers;
    - Developing a competent workforce, implementing efficient and seamless processes, specialised and decentralised services, and building enabling infrastructure in order to offer expeditious and quality services to Government, stakeholders and Taxpayers;
    - Becoming more influential and prominent in national and international forums to ensure our voice is clearly heard in Government, legislation, policy and developmental initiatives ;

- Relentlessly addressing non-compliance to ensure that everyone meets their obligations to pay their taxes;
    - Embedding project management principles into the organisation at all levels through education, and resolute implementation of processes to drive effective prioritisation, resource allocation and execution;
    - Developing leadership throughout the business to enable effective problem resolution, decision making, implementation and accountability for results;
    - Managing the change within the organisation to ensure all stakeholder needs are met.
- We will make the LRA the best place to work for in Lesotho, by building and maintaining an exciting environment which encourages commitment and a "can do" attitude, characterised by an entrepreneurial culture where there is freedom with responsibility and a belief in the achievement of the impossible

3.2. LRA Areas of Excellence

In support of the driving force and business concept, the LRA has identified the following Areas of Excellence which are the key strategic capabilities required to ensure the successful delivery of the strategy:

Market knowledge

We must excel at developing an intimate understanding of our markets, legislation, stakeholders, value adding programs and services that form best practices in revenue collection, border management and advisory services, in order to deliver appropriate and sustainable solutions that meet the needs of Government, stakeholders and Taxpayers, enable improved revenue collection and enhance compliance

Stakeholder management

We must excel at building lasting relationships with our stakeholders including Government, strategic partners, development partners, agents and Taxpayers that are formalised, transparent, add value and are conducive to business growth and improved revenue collection

Service excellence

We must excel at developing a total service culture across all areas of the business, supported by agile, seamless and responsive processes and systems that are dependable, accessible, user friendly and transparent, enabling every interaction between ourselves and our markets, and exceeding their expectations through quicker turnaround times

In good times, the LRA will invest maximally in the enhancement of these capabilities and in bad times, they will be the last areas to be cut.

3.3. Offensive and Defensive Objectives

The LRA has identified the following corporate-wide measures that the execution of the strategy needs to attain. These are the specific measures that the implementation of the strategy will be evaluated against. These are split into offensive and defensive objectives relating to programs, districts, Taxpayer sectors and industry sectors for the collection of all revenue. The offensive objectives are growth measures that the LRA will aspire to attain over the period of implementing the strategy and defensive objectives are growth measures that the LRA needs to defend in order to ensure that it is sustainable over time. The LRA recognises that 80% of the revenue is derived from 20% of the focus in the business, and as a result there is a requirement to be able to retain these levels of inputs from the specific programs, clients and districts for revenue collection.

3.3.1. Offensive Objectives

Programs	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
SACU Revenue	7,034,069,489.00	7,376,249,049.21	7,264,206,782.40	7,703,882,232.21	8,171,054,015.68
Customs VAT (VRA and Border Cash)	648,989,242.50	691,559,994.48	759,918,381.35	858,707,770.93	970,339,781.15
Toll Gate	41,200,000.00	42,436,000.00	43,709,080.00	45,020,352.40	46,370,962.97
Domestic Taxes	4,115,794,960.04	4,624,146,090.71	5,204,391,143.79	5,879,959,077.64	6,638,624,480.16
FBT	35,896,115.05	44,618,549.00	55,617,743.75	62,848,050.44	71,018,296.99

Clients	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Large Taxpayers	**3,024,320,691.89**	**3,430,842,334.04**	**3,896,059,195.80**	**4,427,219,243.89**	**5,014,755,696.29**
Companies	2,737,413,464.91	3,110,102,163.42	3,536,023,034.98	4,020,378,382.15	4,555,025,522.54
Organisations & Institutions	286,907,226.98	320,740,170.62	360,036,160.83	406,840,861.73	459,730,173.76

27 of 43

Clients	2014/15	2015/16	2016/17	2017/18	2018/19
Large Taxpayers	**100%**	**100%**	**100%**	**100%**	**100%**
Companies	91%	91%	91%	91%	91%
Organisations & Institutions	9%	9%	9%	9%	9%

Clients	2014/15	2015/16	2016/17	2017/18	2018/19
Medium Taxpayers	**1,976,783,078.11**	**2,193,169,522.53**	**2,433,117,371.30**	**2,724,750,276.94**	**3,066,969,862.23**
Companies + Professionals	782,022,208.25	884,399,304.44	995,172,405.41	1,125,547,732.96	1,277,598,215.81
GoL	1,091,474,268.15	1,193,303,756.67	1,308,331,947.99	1,452,739,833.75	1,623,868,783.87
Schools	68,857,734.48	76,977,640.95	86,408,678.60	97,641,806.82	110,335,241.70
Individuals	34,428,867.24	38,488,820.47	43,204,339.30	48,820,903.41	55,167,620.85

Clients	2014/15	2015/16	2016/17	2017/18	2018/19
Medium Taxpayers	100%	100%	100%	100%	100%
Companies + Professionals	40%	40%	41%	41%	42%
GoL	55%	54%	54%	53%	53%
Schools	3%	4%	4%	4%	4%
Individuals	2%	2%	2%	2%	2%

Clients	2014/15	2015/16	2016/17	2017/18	2018/19
Small Taxpayers	88,051,527.14	99,231,561.28	111,628,268.07	126,139,942.92	142,538,135.50

Geographic Regions	2014/15	2015/16	2016/17	2017/18	2018/19
Berea	9,935,291.57	10,988,432.47	11,702,680.58	12,463,354.82	13,273,472.88
Botha-Bothe	7,372,285.39	8,478,128.20	9,325,941.02	10,258,535.12	11,284,388.63
Mokhotlong	3,371,609.03	5,057,413.55	7,080,378.96	8,496,454.76	9,770,922.97
Qacha's Nek	3,708,419.37	4,101,511.83	4,368,110.09	4,652,037.25	4,954,419.67
Mafeteng	24,736,372.10	28,446,827.92	30,295,871.73	32,265,103.39	34,362,335.11
Thaba-Tseka	3,708,419.37	4,101,511.83	4,368,110.09	4,652,037.25	4,954,419.67
Total	**52,832,396.83**	**61,173,825.78**	**67,141,092.48**	**72,787,522.59**	**78,599,958.94**

Industries	2014/15	2015/16	2016/17	2017/18	2018/19
Mining and Quarrying	413,008,545.32	556,804,368.32	749,152,009.91	880,093,965.55	999,371,163.63
Construction	467,310,425.99	615,063,172.42	728,653,702.83	855,228,867.98	969,164,554.48
Wholesale and Retail	1,299,164,181.11	1,375,670,580.38	1,486,252,324.64	1,667,748,800.65	1,887,823,219.02
Transport and Communication	308,608,142.16	335,128,587.47	365,749,305.98	410,817,484.40	466,046,064.01
Financing and Insurance	477,841,790.76	534,892,976.05	597,249,834.74	671,155,594.49	762,167,282.31
Total	**2,965,933,085.32**	**3,417,559,684.64**	**3,927,057,178.11**	**4,485,044,713.09**	**5,084,572,283.45**

29 of 43

3.3.2. Defensive Objectives

Programs	2014/15	2015/16	2016/17	2017/18	2018/19
PIT	2,201,288,178.61	2,480,789,031.90	2,790,706,701.70	3,153,498,572.92	3,563,453,387.40
Company Tax	722,051,815.37	805,682,261.00	862,645,907.40	974,789,875.36	1,101,512,559.16
VAT	2,208,813,245.70	2,384,689,636.12	2,620,408,211.55	2,961,061,279.05	3,345,999,245.33
SACU Revenue	7,034,069,489.00	7,376,249,049.21	7,264,206,782.40	7,703,882,232.21	8,171,054,015.68

Clients	2014/15	2015/16	2016/17	2017/18	2018/19
GOL	1,091,474,268.15	1,193,303,756.67	1,308,331,947.99	1,452,739,833.75	1,623,868,783.87
Large companies	2,737,413,464.91	3,110,102,163.42	3,536,023,034.98	4,020,378,382.15	4,555,025,522.54
Medium companies	1,521,882,067.01	1,676,224,058.98	1,865,791,624.94	2,111,967,534.29	2,395,134,682.89
Total	**5,350,769,800.06**	**5,979,629,979.08**	**6,710,146,607.91**	**7,585,085,750.19**	**8,574,028,989.29**

Geographic Markets	2014/15	2015/16	2016/17	2017/18	2018/19
Maseru	5,307,463,970.13	5,948,181,448.00	6,689,608,223.12	7,565,512,266.32	8,556,058,113.84
Leribe	26,898,990.49	30,933,839.06	32,944,538.60	35,085,933.61	37,366,519.29
Mafeteng	24,736,372.10	28,446,827.92	30,295,871.73	32,265,103.39	34,362,335.11
Mokhotlong	3,371,609.03	5,057,413.55	7,080,378.96	8,496,454.76	9,770,922.97
Butha-Buthe	7,372,285.39	8,478,128.20	9,325,941.02	10,258,535.12	11,284,388.63
Total	**5,369,843,227.14**	**6,021,097,656.72**	**6,769,254,953.44**	**7,651,618,293.20**	**8,648,842,279.85**

30 of 43

3.4. Critical Issues

To implement the Business Concept, the LRA has identified critical issues which are specific action programs that need to be addressed in order to successfully implement the overall strategy. These critical issues have been prioritised into medium term critical issues and long term critical issues.

3.4.1. Medium Term Critical Issues

Five Critical issues have been identified in the medium term as the first priorities that the LRA needs to focus on in order to set the foundation to meeting Taxpayer needs. Each of these critical issues has been assigned to an executive committee (EXCO) member to champion them and ensure their successful implementation. The medium term critical issues are:

- Modernise LRA's processes and systems.
- Develop and implement staff capacity building and retention program.
- Develop a culture of accountability throughout the organisation.
- Develop and implement a compliance model that promotes voluntary compliance and deters non-compliance.
- Develop and implement a change management capability to drive strategic change in the organisation.

3.4.2. Long-term Critical Issues

In the medium to long term, the LRA has prioritised the following critical issues:

- Ensure more influence on policy and legislative processes in order to update policies and legislation.
- Development and implementation an effective distribution plan to ensure accessibility to our solutions (this includes decentralisation of services).
- Review and implement an effective R&D capability to research needs, designs, developments and implementation solutions.
- Development of Disaster Recovery Site.
- Development and implementation an integrated border management strategy. (covered under the 3rd Customs critical issue)
- Alignment of structure to strategy.
- Development of a stakeholder management framework. (Covered under 1st CG's Office critical issue)
- Development of a knowledge management program.
- Development of a strategy for new markets and for the informal sector.
- Provision of adequate infrastructure, skills and tools in the operating environment.
- Effective marketing and communication program to Taxpayers.

HIGH PRIORITY CRITICAL ISSUE: # 1

Modernisation of LRA processes and systems

The documentation and modernization of LRA processes and systems has emerged as a priority key to the achievement of the LRA business concept. This is a continuation of the journey that was initiated in 2008 through the development of the LRA Enterprise Architecture. Some of the key projects that will be implemented within this issue are:

- The continuation of the Customs Modernisation Program with the re-design and automation of Customs procedures through the implementation of Asycuda as the cornerstone project;
- The continuation of the automation of the Tax processes through the Oracle Tax system and the extension of the tax automation project into a Tax modernization program;
- The upgrade of the current Oracle Enterprise Resource Planning (ERP) system is an urgent requirement as the financials form the engine for the Tax and Customs systems and to address audit findings and recommendations;
- The continuation of the Electronic Records Management (EDRMS) project which started with the digitization of Taxpayer records to cover all other LRA records;
- The documentation of processes and development of standard operating procedures for staff across all business functions and;
- The modernization of some of the support functions in the medium term.

Table 3 below shows a high level action plan towards the implementation of this critical issue.

33 of 43

Table 3 Critical Issue 1 action plan

Result expected	Steps to achieve	Owner	Contributors	Completion	Review
➢ All LRA divisions modernised in line with requirements ➢ Improved turn-around-times ➢ Improved revenue collection ➢ Enhanced compliance ➢ Reduction in cost of compliance ➢ Reduction in cost of collection ➢ Increase of Domestic Taxes as a percentage of GDP	1. Modernise Tax 2. Modernise Customs 3. Modernise Enforcement 4. Modernise Registration 5. Modernise Payments 6. Modernise Taxpayer Interaction 7. Modernise Support 8. Modernise IT Infrastructure 9. Document Current Processes 10. Modernise Legislation 11. Integration☐☐☐	CPMO	Corp services Domestic Taxes Enforcement Customs HR Legal Finance Assurance Planning and Modernisation	2017	Monthly

34 of 43

HIGH PRIORITY CRITICAL ISSUE: # 2

Develop and implement staff capacity building and retention program

The requirement to adequately capacitate and retain staff has been highlighted in a lot of fora within the LRA including the Internal Customer Climate Survey that was conducted by external consultants. It has also been identified as one of the five high priority critical issues in this strategy. The purpose of this critical issue is therefore to close identified skills gaps and to develop an all-inclusive retention strategy.

Some of the initiatives that will be undertaken include, but are not limited to the following:

- The development of a training curricula based on identified key competencies required and skills gaps;
- The development of a training strategy;
- The development of HR frameworks addressing career progression, succession planning and a review of the current performance management system and
- The development of a retention strategy.

35 of 43

Table 4 below shows a high level action plan towards the implementation of this critical issue.

Table 4 Critical issue 2 action plan

Result expected	Steps to achieve	Owner	Contributors	Completion	Review
➢ 80% of staff having met their performance objectives ➢ Improved turn-around-times ➢ Improved CSI (internal and external) ➢ Less than 2% adverse staff turnover (p.a.) ➢ Improved staff motivation ➢ Employer of choice ➢ Improved staff satisfaction as surveyed. ➢ Increase in revenue as a percentage of GDP	1. Review Training Policy 2. Implement training strategy 3. Develop Career and Talent Management Framework 4. Implement Integrated Performance Management System (IPMS) 5. Training 6. Retention ☐☐	CHRO	HR – Training and Development HR - Operations Business	March 2016	Monthly

36 of 43

HIGH PRIORITY CRITICAL ISSUE: # 3

Develop a culture of accountability throughout the organisation

Accountability is one of the values of the LRA and together with integrity creates a foundation for building a learning and performing organization. The LRA has identified the requirement to create a culture of accountability as one of the five high priority critical issues required to drive the successful implementation of the strategy. This critical issue aims to ensure that everyone in the organization gives 100% of themselves to the job, commits to the achievement of the strategy, innovates and takes calculated risks for the betterment of the job. This will require creating clarity in the role that every individual and team has to play, what the expected results from them are and when they are expected.

The LRA, through this critical issue will create a culture of accountability through a number of initiatives which include:

- The review of policies;
- The development of service level standards and agreements across the organization;
- The drafting of Management charters and the development of a decision-making framework to improve governance.

This is going to be done through defining LRA staff's commitments to each other and to stakeholders, how and when they measure and report on progress, how to interact when things go wrong, and how everyone takes ownership to get things done on time. In other words creating a culture of accountability and not accounting only when things do not go according to plan.

37 of 43

Table 5 below shows a high level action plan towards the implementation of this critical issue.

Table 5 Critical issue 3 action plan

Result expected	Steps to achieve	Owner	Contributors	Completion	Review
➢ Deadlines met ➢ Decrease in offences ➢ 100% of staff meeting their targets ➢ Accountabilities driven by KPIs in performance contracts ➢ 80 % of clients surveyed seeing us as keeping our promises. ➢ Strategic business benefits realised	1. Define our desired Accountability Culture 2. Identify and Benchmark Organisations that have a Culture of Accountability 3. Identify the Gap 4. Design and Implement the Roadmap 5. Monitor and Evaluate☐	CASO	Planning and Modernisation HR Legal Lejone Finance	2015	Monthly

38 of 43

HIGH PRIORITY CRITICAL ISSUE: # 4

Develop and implement a compliance model that promotes voluntary compliance and deters non-compliance

The requirement to develop and implement a compliance model has been highlighted as a key requirement towards improving compliance. It has therefore been identified as one of the five corporate critical issues in this strategy. Needless to indicate that the development of the model is aligned with the LRA's decision of being a market driven organization.

The model is going to enable the LRA to have a structured way of looking at the full range of Taxpayers attitudes to tax and presents different sorts of support and interventions that the LRA will need to provide its Taxpayers with to ensure it collects the right tax at the right time. By understanding the factors that influence Taxpayers' attitudes, the LRA will then be in a position to apply the most appropriate strategies to encourage their compliance with the law.

Some of the initiatives that will be undertaken include, but are not limited to the following:

- Research into understanding Taxpayers' attitude towards paying tax i.e. what are the factors that influence their attitude;
- Profiling of Taxpayers; and
- Development of a compliance model that will govern how Taxpayers are treated in regard to their tax compliance behaviours and that will ensure reward of good compliance and punishment of deliberate non-compliance.

An annual compliance program will then be developed to support Taxpayers that are willing to comply and influence or deter those who choose not to comply.

39 of 43

Table 6 below shows a high level action plan towards the implementation of this critical issue.

Table 6 Critical issue 4 action plan

Result expected	Steps to achieve	Owner	Contributors	Completion	Review
➢ 90% compliance rate in LTD ➢ 70% compliance rate in MTD ➢ 50% compliance rate in STD ➢ Punitive measures imposed on all non – compliant Taxpayers in LTD and MTD ➢ Increased revenue collection ➢ Increase in revenue as a percentage of GPD. ➢ Decrease in cost of collection ➢ Decrease in cost of compliance	1. Benchmark best practises from other revenue administrators on compliance model 2. Conduct the Environmental Survey to determine attitudes to Compliance Internally and Externally 3. Define Compliance Parameters 4. Classify Taxpayers based upon their Compliance Behaviour 5. Implement compliance model 6. Design Interventions to improve compliance behaviour□□□□□	CE	Domestic Taxes Customs Planning and Modernisation Assurance Legal HR Corporate Services	31/03/2016	Quarterly

40 of 43

HIGH PRIORITY CRITICAL ISSUE: # 5

Develop and implement a change management capability to drive strategic change in the organisation

The increased requirement for the LRA to fund Government's budget and resultant increase in targets necessitates that the LRA delivers on the priorities that it has set for itself in this strategy. This also means that changes are required in the way that things have been done historically. The implementation of the LRA Strategic Plan 2014-19 is guaranteed to bring about significant changes to how things are currently being done at the LRA. Core to this is therefore the requirement to build Change Management capability within the LRA supported by strong Strategic Management and Project Management principles. The initiatives towards the delivery of this critical issue include:

- The Program/Project Management Office capacity building project;
- The Strategic Management Framework project and
- The development of an LRA wide Change Management capability and supporting frameworks.

41 of 43

Table 7 below shows a high level action plan towards the implementation of this critical issue.

Table 7 Critical issue 5 action plan

Result expected	Steps to achieve	Owner	Contributors	Completion	Review
➢ Reduce resistance to change ➢ 90% implementation of change initiatives ➢ Improved revenue collection ➢ Improved turnaround times ➢ 90% of projects implemented within time, budget and scope ➢ All staff aware, of the strategy and operational plan Institutionalisation of change, project and strategic management principles ➢ 90% achievement on strategy ➢ 90% of change initiatives achieving their desired outcomes	1. Develop Change Management Plan for the implementation of the Strategy 2. Assess and align to current situation (project management approach) 3. Develop Change Management Framework. 4. Develop the Change Management Policy and Processes and Procedures 5. Review the OD structure against the framework 6. Develop & implement SMF & tools 7. Develop & implement PMO framework 8. Monitor and evaluate	CG	Planning and Modernisation HR Change agents Informal networks All divisions	September 2015 End March 2016	Monthly

42 of 43

Appendix 1: Performance measures and targets over the five-year period

Strategic Outcomes	KPI's	Baseline	Target Year 1	Target Year2	Target Year 3	Target Year4	Target Year 5
Increase Revenue Collection	% Increase of revenue collection – Domestic Tax	27%	12%	12%	12%	12%	12%
	% Increase of revenue collection – Customs		23%	6.5%	8.25%	10.5%	10.5%
	% Revenue collected to GDP		23%	23%	23%	24%	24%
Increase Compliance	Increase anti – smuggling detections by %		20%	20%	20%	20%	20%
	Complete criminal cases of tax evasion cases		8	8	8	8	8
	% in audit coverage	1.2%	20%	25%	25%	25%	25%
	% reduction of collectable debt stock	8%	50%	50%	50%	50%	50%
	Risk based inspections	64%	80%	100%	100%	100%	100%
	Filing compliance rate (VAT)	75%	80%	85%	90%	93%	95%
	Filing compliance rate (CIT)	60%	70%	75%	80%	85%	90%
	Filing compliance rate (PIT)	40%	50%	52%	56%	58%	60%
	Filing compliance rate (PAYE)	70%	80%	90%	95%	95%	97%
	Filing compliance rate (WHT)	65%	68%	70%	75%	80%	85%
Enhance voluntary compliance	% increase in number of registered taxpayers	10%	12%	12%	12%	12%	12%
	Average filing rate						
	"On time" filing rate LT	80%	90%	95%	95%	95%	95%
	"On time" filing rate MT	50%	70%	72%	74%	77%	80%
	"On time" filing rate ST	40%	50%	52%	56%	58%	60%
	Average payment rate						
	"On time" payment rate LT	80%	90%	95%	95%	95%	95%
	"On time" payment rate MT	50%	70%	72%	74%	77%	80%
	"On time" payment rate ST	40%	50%	52%	56%	58%	60%

43 of 43