

Terms of Reference for a supplier to manage the Accelerated Delivery Component of DFID's *Tax Systems Transformation* programme (TSTP)

INTRODUCTION

About DFID

The Department for International Development (DFID) manages the majority of the United Kingdom's development assistance to poor countries and leads the United Kingdom's work to end extreme poverty, building a safer, healthier, more prosperous world. DFID's approach to international development is focused on working effectively with others to deliver results, transparency and value for money in British aid particularly in fragile and conflict-affected states.

1. Objective

- 1.1. The overall objective of TSTP is to assist the Ethiopian Government (GoE) in raising tax revenues towards 17.2% of GDP in a responsible and equitable manner. The UK and GoE have already invested in the establishment of two delivery units intended to drive accelerated delivery of tax transformation. The Supplier will be expected to assume responsibility of the management, strategy, inputs and monitoring and evaluation of these units. *See additional documents for background information.*
- 1.2. The objective of these terms of reference is to provide details of the programme for potential Suppliers to manage the Accelerated Delivery component of TSTP. The programme has three linked outcomes:
 - 1) An equitable and business friendly tax environment
 - 2) Improved voluntary compliance
 - 3) Increased GoE revenuesTogether these contribute to the impact: *GoE is capable of a self-financed exit from poverty*
- 1.3. Activities that will contribute to these outcomes have been laid out in a tax transformation roadmap (see annex B) agreed with DFID and GoE. Results of these activities have also been projected; however these are subject to revision as programme priorities evolve.
- 1.4. Accelerated delivery aims to translate political will at the highest level into rapid, coordinated, and technically sound reform of Ethiopian tax systems. By programme end the GoE will be capable of raising sufficient revenue for continued development and continue to drive tax transformation independently.

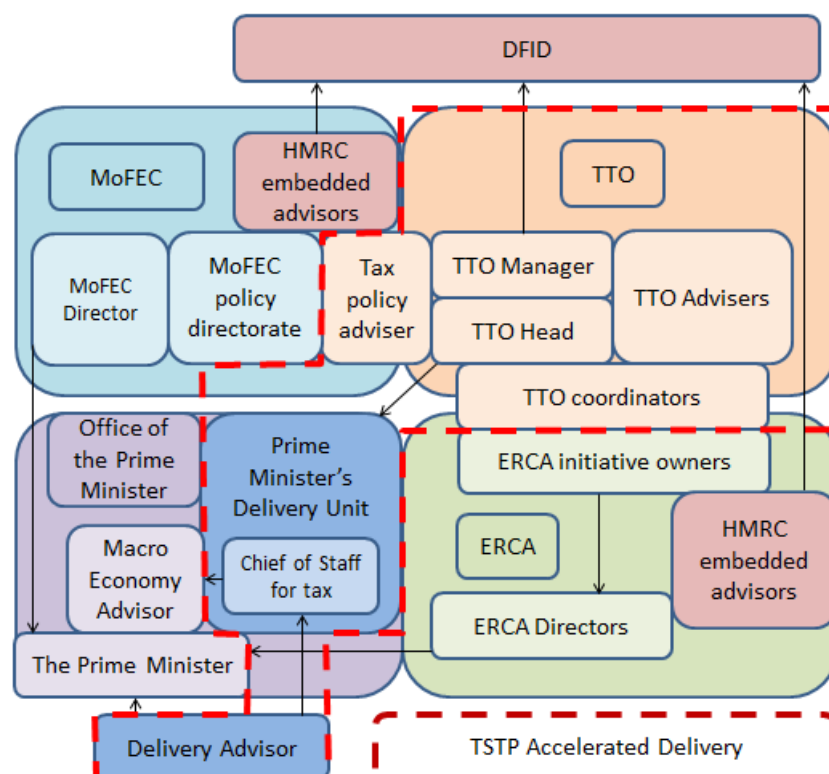
- 1.5. To this end, DFID Ethiopia seeks a Supplier with proven expertise in driving institutional change through a delivery approach and sustainably increasing tax revenues in a developing country context.

2. Recipients

- 2.1. The immediate beneficiary of this contract will be the Government of Ethiopia, primarily the Ethiopian Revenue and Customs Authority (ERCA), the Ministry of Finance and Economic Cooperation (MoFEC), and the Office of the Prime Minister (OPM); tax revenues will be important to realizing ambitious GoE targets and assuring continued stability. The secondary beneficiaries will be the people of Ethiopia. Businesses will benefit from a more predictable tax system. Individuals will benefit from a fairer tax system. Both will enjoy the benefits of resultant investment, jobs and growth.

3. Scope of work

- 3.1. Management of the Accelerated Delivery component of TSTP will consist of three linked sub-components spanning ERCA, MoFEC and the PMO: a) The Tax Transformation Office (TTO), b) The Prime Minister's Delivery Unit (PMDU), and c) technical inputs.



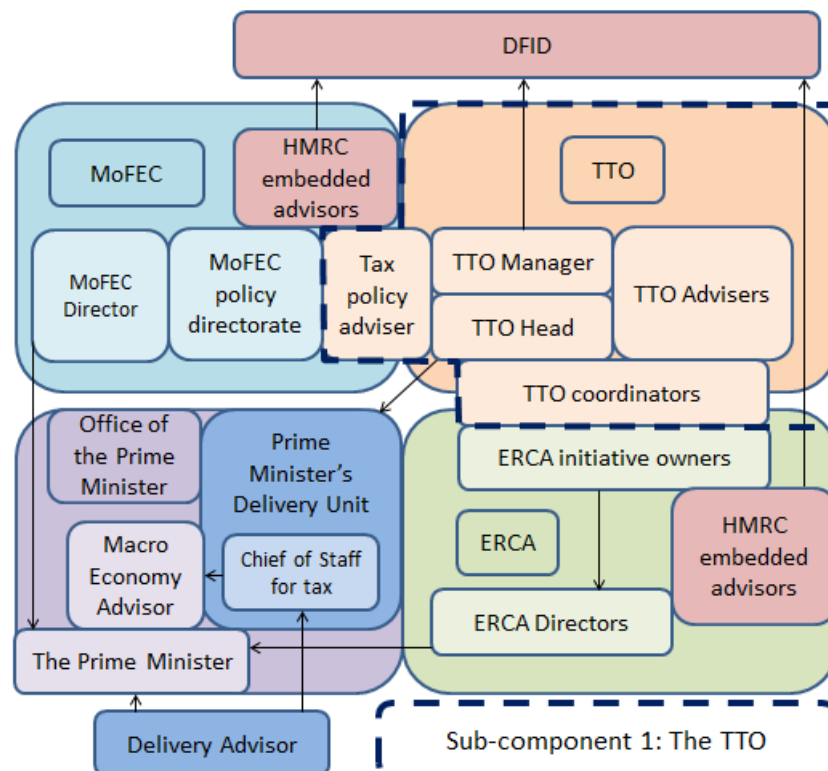
The Accelerated Delivery component will be the main part of a slightly larger programme which will include HMRC peer-to-peer support through embedded long-term advisers, and a DFID managed strategic tax transformation support

fund used to support implementation through operational research and independent evaluation.

The overall programme will be governed through existing accelerated delivery accountability mechanisms with the TTO reporting to the Prime Minister on a monthly basis through the PMDU. Effective management of these mechanisms will be essential to programme success. The Supplier will report to DFID in weekly meetings in addition to regular reporting procedures (see section 7).

Since 2016 DFID and the GoE have been investing in the establishment of a delivery framework consisting of 2 fully staffed delivery units (the TTO and PMDU) that will be operational by programme start, and a five year strategy agreed with DFID and GoE. There will be no inception phase. The Supplier will be expected to hit the ground running, assuming full responsibility for delivery unit operations and tax transformation strategy from programme start. Bids should focus on management and strategy rather than the structure of the delivery approach itself as this will already have been established and restructuring will likely be costly and time-consuming. However, as the programme matures, there may be scope for restructuring if deemed necessary.

3.2. Sub-component 1: The Tax Transformation Office.



3.3. This sub-component focuses on the management of the Tax Transformation Office (TTO); a delivery unit embedded in ERCA designed to drive practical changes throughout the tax system. Seconded ERCA staff (initiative owners) work closely with international advisers to implement five (see roadmap in annex A) initiatives throughout ERCA. These initiatives are already underway and may be

complemented with more as the programme evolves. All will contribute to three outputs:

Output 1: Improved customer relationships:

- i) Tax payer satisfaction is monitored with findings influencing policy and administration
- ii) Tax payer understanding of existing processes and new reforms improves with positive effects on voluntary compliance and compliance time

Output 2: Improved organizational health:

- iii) Improved staff retention
- iv) Streamlined decision making process
- v) Improved audit productivity

Output 3: Data led decision making:

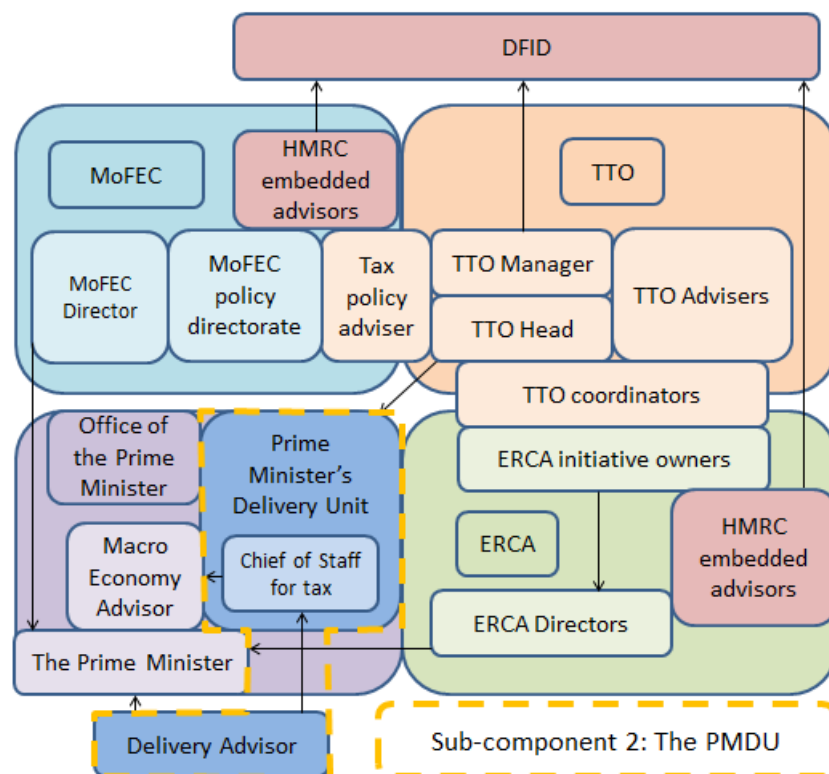
- vi) The TTO routinely collects data that demonstrably informs ERCA decisions.

TSTP aims to reduce the disparity between the experiences of women and men in tax paying (vi). This output will cut across all work under this component and will be reflected in specific indicators under both outputs.

3.4. Work under this component should be characterised by:

- Coordination of international advisory expertise and seconded Ethiopian coordinators
- Management of a fast-paced, high pressure work environment
- Through an applied delivery approach to tax transformation;
 - channel Prime Ministerial decisions into concrete initiatives and results
 - work across Ethiopian government to resolve coordination issues, drive accountability, and unblock bottlenecks
 - identify knowledge and capacity gaps and appropriate means through which to fill these
- Design and implementation of tax transformation initiatives and activities
- Generation of the data and analysis required to inform high level decisions
- Advice to policy and strategy units regarding practical implementation issues
- Coordination with DFID Ethiopia, HMRC, and other donors involved in tax transformation
- Organizational change management
- Project implementation that emphasises ongoing testing, learning and adjusting, and a balance between tried and tested approaches, and innovation/pilots.
- Use of data, research and evidence to influence tax policy making and administration
- Supporting GoE in forecasting, monitoring, and evaluating impact of policy and administrative changes.

3.5. Sub-component 2: The Prime Minister's Delivery Unit



- 3.6. Under this sub-component, the programme will support the PM in driving strategy and holding ERCA, MoFEC, and the TTO accountable for meeting targets. Programme activities under this sub-component will contribute to the following outputs:

Output 3: Data led decision making:

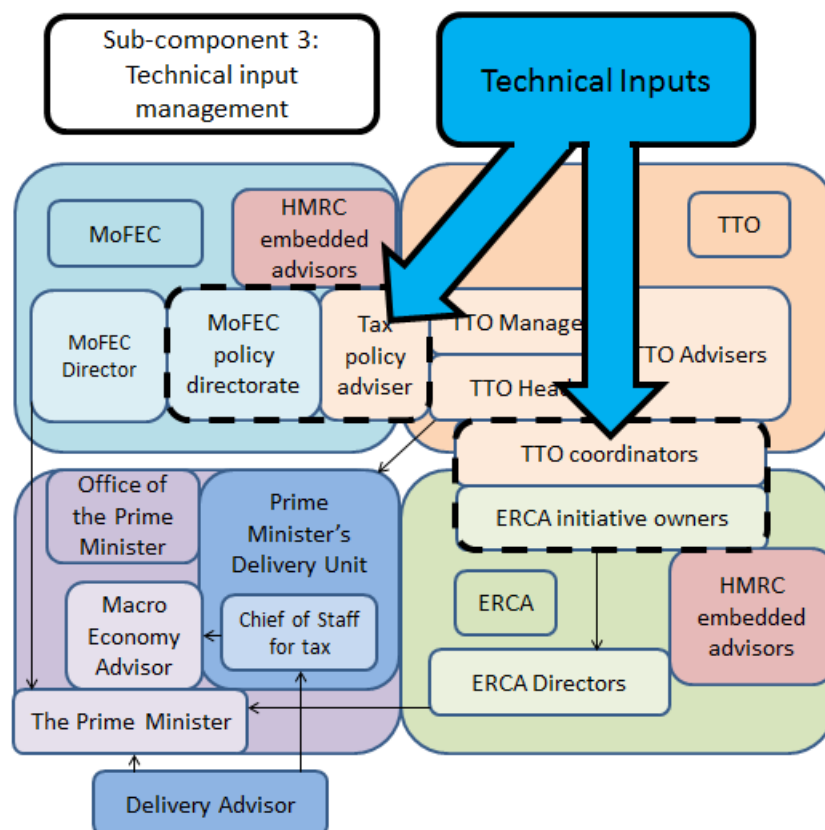
- i) Reliable and up-to-date data informs the Prime Ministerial Decision making process
- ii) Meetings with the Prime Minister are held on a regular basis
- iii) Policy options are presented clearly, decisions are not left pending
- iv) Prime Ministerial decisions are quickly translated into actions, initiative leaders and directors are held directly accountable for progress or lack thereof

3.7. This component should be characterised by:

- The use of data, research, and evidence to inform policy and administrative decisions
- Formulation and oversight of overall tax transformation strategy
- Preparing the Prime Minister to take informed and clear decisions on a regular basis
- Translating Prime Ministerial Decisions into concrete actions and holding those responsible to account when this doesn't happen
- A strong understanding of tax systems in order to distil clear, simple, yet effective objectives (essential to a successful delivery approach) from the complex process of tax reform.

- An awareness of the political economy obstacles and opportunities to/for tax reform in Ethiopia
- A strong understanding of the Ethiopian political economy in order to foresee and effectively respond to potential changes in leadership, objectives, and incentives. This will also enable the supplier to navigate the political obstacles and opportunities to/for tax reform in Ethiopia. An understanding of how a delivery approach can be tailored to political context (closed political space, decentralization, etc.) will be an advantage.
- An understanding of how accountability mechanisms best function under a delivery approach applied to the Ethiopian political context.
- Careful management of relationships with ERCA, MoFEC and other stakeholders where required.
- An understanding of Ethiopian institutional politics in order to strengthen cross-GoE buy-in.

3.8. Sub-component 3: Technical inputs



3.9. This sub-component will allow activities under the previous 2 components to draw on world class tax, IT and organizational change expertise in order to assure the technical quality of the reform process. In this way it will support all four outputs.

This component should be characterised by:

- Identifying capacity gaps and bottlenecks throughout GoE and sourcing appropriate support (capacity building, organizational change management, etc.) to remedy.

- Assessing and quickly responding to requests for technical inputs from the TTO, ERCA, and MoFEC.
- Confidence to push back on certain GoE requests where it is deemed more appropriate that GoE lead and/or finance.
- Up-to-date knowledge of the latest taxation and development research and evidence. The ability to channel this towards the relevant initiatives and source supporting expertise as and when required.
 - Building relationships with the research community in order to be able to respond to evidence needs quickly and appropriately.
- Coordination with DFID Research and Evidence Division and Central Tax Team in order to assure technical coherence of programme and take advantage of pre-existing DFID funded resources.

3.10. The programme's geographical coverage will be limited to tax transformation at the federal level. TSTP may support plans to expand tax transformation to the regions towards programme end, however this will be assessed as the programme and context evolves.

4. Requirements

4.1. General cross-component programme management:

During the first 6 months of implementation the supplier will deliver the following:

- Assume leadership and management of all three programme sub-components
- Governance, programme and financial management and reporting arrangements finalised and agreed with DFID.
- Procurement strategy in place and procurement plans for technical inputs sourcing agreed with DFID Commercial Adviser.
- Finalisation of the TSTP Results Framework, with outcome and output indicators, targets and milestones for the duration of the project, and a monitoring and evaluation (M&E) strategy, to be agreed with DFID.
- Detailed "value for money" (VFM) strategy and VFM indicators identified.
- Existing programme implementation plan revised, updated where necessary, and agreed with DFID and GoE.
- Revised and agreed implementation payment and incentives structure (see 6.4 below).
- Development and formalisation of linkages and synergies with other DFID Ethiopia programmes and projects, including: The Ethiopian Jobs Compact, the Ethiopian Investment Advisory Facility (EIAF), and Invest Africa.

Throughout implementation the supplier will deliver the following:

- Annual Work Plans, to be approved by DFID and GoE.
- Consistent, high quality evidence-based narrative and financial reporting meeting DFID requirements, including regular learning events with DFID and others at which the theory of change will be adjusted in the light of research and experience (See 9. Reporting).

- Effective implementation of agreed programme strategies and work plans
- Completion of key programme milestones and deliverables (see 8.5).
- Grant management with appropriate policies in place to minimise fiduciary, fraud and reputational risk, and to maximise likelihood of success and value for money. Proportionate due diligence assessments should be carried out for all new partners.
- Targeted capacity building
- Regular adjustment of the theory of change and of programming to reflect a) inputs from sub-component 4 technical inputs, b) lessons learned from programme implementation and M&E activities, including beneficiary feedback, and c) the changing Ethiopian political context. Adjustments should include scaling up of successful initiatives and closure or modification of underperforming initiatives.

4.2. Given that different parts of this programme carry different levels of uncertainty and might realistically adapt (or require adjustments) at different rates, we do not anticipate uniform approaches to the different components, or even subcomponents. We are looking for a portfolio that balances high-risk programming against more established methodologies.

4.3. *As part of its bid, the supplier should specify in its tender how it will ensure that the following characteristics of TSTP are accommodated in its programme management strategy*

- Problem-driven iterative approach to programme management and decision-making.
- An understanding of the basics of administration and programme management that require hardwork, rather than technical expertise, to overcome.
- Working across Ethiopian government to drive through sometimes difficult reforms as well as identify and remedy transformation bottlenecks.
- Working effectively at the highest levels of the GoE up to the Prime Minister to ensure that:
 - The decision making process is efficient
 - Directives are clear, technically sound, and time-bound
 - Implementers are supported in effecting decisions
 - Implementers are held accountable for progress or lack thereof
 - Reasons for success / failure are analysed and fed into future decision making processes
 - Strategy is constantly revised according to levels of progress across transformation programme
 - Political support and momentum for change is sustained
- Consultation with a range of representatives from the business community
- Engagement with representatives of marginalised groups (women, youth, disabled, minorities, etc.) to understand how they are affected by tax.
- Active encouragement of more diverse approaches, and approaches that tackle problems from new angles different angles at the same time.

4.4. Sub-component 1: TTO

Under this sub-component, the supplier will deliver:

- A revised and updated budget of TTO annual running costs
- A 5 year staff retention and recruitment plan
- A smooth transition: taking on existing programme contracts and assets and quickly filling empty posts.
- Systematic coordination with:
 - HMRC long term advisers
 - ERCA, MoFEC and the Prime Minister's Delivery Unit
 - Other tax donors (IMF, World Bank, USAID, etc.)
- An initial review of knowledge and capacity gaps and implications for the tax transformation process
- An initial review of potential obstacles and opportunities for tax transformation and a clear strategy for escalating issues to the Prime Ministerial level
- By year 3;
 - A functional debt management system
 - Use of updated audit risk-engine systematized
 - Systematic evidence-based engagement with large tax payers
 - Total revenue target: 8.9 – 12.9b ETB
 - MoFEC are demonstrably able to effectively forecast, monitor and evaluate tax policy impact
 - 3 Prime Ministerial decisions have demonstrably translated into policy change
 - 3 policy changes are directly informed by evidence
 - Customs and VAT policies designed and approved by parliament
- By year 5;
 - IMF VAT recommendations implemented
 - Revenue target: TBC
 - Customs procedures updated
 - Details TBC
 - Initial strategy for expanding tax transformation beyond the federal level is formulated

A summary of thematic areas and indicative activities is provided in Annex 2. However, this may be subject to change as the programme and circumstances evolve.

4.5. Sub-component 2: The PMDU

The supplier will deliver the following:

- Political economy obstacles and opportunities understood and strategy for introducing them to the Prime Ministerial decision making process agreed with DFID
- Support to ERCA and MoFEC tax payer communications teams
- Systematized approach to regular prime ministerial meetings agreed with TTO; meetings are held regularly, the required people are present, reliable and up-to-date data is available, the latest research findings are available, the

evidence base informs the decision making process, and decisions are made and implemented

- Evidence and advice to ensure tax transformation is done in an equitable and responsible manner
- Management of relationships with the TTO, ERCA, MoFEC and other stakeholders (primarily GoE entities) as and when required
- A monitoring system aligned with that of the TTO and suitable for aiding the Prime Minister in decision making and holding implementers to account
- Evidence that PMDU is fulfilling its challenge function. This will involve both challenging GoE leadership tactfully when required, and holding the TTO leadership to account.

As part of its bid, the supplier should outline an indicative approach to this component, but will have the opportunity to adapt plans as implementation progresses.

4.6. Sub-component 3: Technical inputs

The supplier will deliver the following:

- Maintain a strong network or roster of tax and management expertise that can be drawn upon at short notice on a demand driven basis.
- Agree a tax and management expertise sourcing strategy for programme years 1 – 5 with DFID and GoE: including projected expertise needs, potential sources, and a clear approach to achieving value for money (VfM)
- Contract fixed-term expertise according to sourcing strategy and quickly respond to unforeseen needs for expert input as and when required.
- Brief experts on arrival and ensure they are able to work effectively throughout the duration of their contract
- Monitor performance and effectiveness of deployed TA

As part of its bid, the supplier should outline an indicative approach to this component, but will have the opportunity to finalise plans prior to implementation.

5. Constraints and dependencies

- 5.1. Continuity: by TSTP implementation the tax transformation office will have been running for 2 years. We also expect the Prime Minister's Delivery Unit Tax Policy Unit to be fully operational by this point. As the driver of the tax reform process, and given the importance of maintaining relationships and momentum, the supplier will be expected to prioritise continuity in terms of these units' operating model and key staff ensuring a smooth transition of the management of these units from the TAUT bridging contract to TSTP. Any pre-implementation changes proposed by suppliers should be minimal, justified, and equally qualified replacements identified. Any changes implemented by the supplier should be gradual.

- 5.2. Certain members of staff (such as the TTO head and the PMDU Chief of Staff) must be approved by DFID and GoE.
- 5.3. Decisions related to tax transformation strategy must be approved by DFID and GoE.

6. Required Skills and Expertise

- 6.1. While the staffing of the TTO and PMDU will already be in place by programme start, the supplier will have to demonstrate how ongoing recruitment and retention will be managed throughout the lifetime of the programme. They will also have to demonstrate how their management skills and experience will get the best out of a highly qualified and motivated team faced with complex challenges. The Supplier will have proven legal establishment in Ethiopia with the capacity to acquire work permits for international staff and be fully tax compliant.
- 6.2. High quality management staff that understand the complexities of accelerated delivery in a technical and often politicized environment will be imperative to programme success. The quality of human resources suppliers' include in their offers will be a key element in the evaluation process and a source of competitive advantage compared to other suppliers. Any attempt to change key personnel post-award will be regarded as a significant variation in terms of their tendered offers and may have commercial ramifications. Staff retention problems are often aggravated in the tax sector, special attention to appropriate mitigation strategies should be emphasized in bids.
- 6.3. Suppliers should demonstrate that they have access to the relevant expertise. However, we do not expect to see the full CV of all experts in the roster within bids. Bids should include the CVs of the core project staff, any other permanent staff, and core technical experts. These are referred to as 'core team' within the evaluation criteria and can include programme leadership, programme management, technical advisors and programme support and administration. Your extended team should be any short term, technical advisors called upon to deliver the technical inputs of the programme. Bids should also include a summary of the expertise available through the roster e.g. in spreadsheet format. This information should also help to demonstrate the fee rate categories detailed in the commercial bid.
- 6.4. Once the programme is underway, "key personnel" should not be replaced without DFID approval.
- 6.5. The supplier must be self-supporting and responsible for its own activities. It should not rely on DFIDE transport, offices, facilities or logistical or administrative support.

7. Duty of Care

- 7.1. DFID has a 'Duty of Care to Suppliers' policy which clarifies DFID's position in relation to Duty of Care (DoC) and how it will be addressed as part of our risk management and procurement processes. The policy has a particular focus on Suppliers who will be operating in dangerous environments. Further information on this policy and how it will be applied to DFID's procurement processes can be found at <http://www.dfid.gov.uk/Work-with-us/Procurement/Duty-of-Care-to-Suppliers-Policy/>.
- 7.2. A Strategic Review Panel (SRP) will provide a forum for DFID-GoE dialogue on the strategic direction of the programme, policy issues relating to tax transformation in Ethiopia and to provide an additional means of transparency on financial issues and project activities for senior GoE policymakers. The SRP will be comprised of a DFID representative and representatives MoFEC, ERCA, and the Office of the Prime Minister (OPM). The SRP will be convened on an *ad-hoc* basis at strategic decision making points and/or in the event of difficulties in communications or coordination between the Supplier and GoE counterparts.

8. Implementation requirements

- 8.1. Team Structure: The supplier should propose in its bid a programme management team structure including roles and responsibilities, and expertise required for each post. The supplier should specify the individuals who will take up key positions. The supplier should make clear the working days expected from each team member and where (either in Addis Ababa, or abroad) they will be based. Personnel arrangements should be finalised prior to implementation and agreed by DFID.
- 8.2. Contracting third parties: In commercial bids, suppliers' will be required to quote fee rates for categories of experts, distinguishing by experience and qualifications.
- 8.3. Budgeting and contracts: Up to £35m (inclusive of VAT and other applicable taxes¹) of UK funding has been allocated to the TSTP programme over 5 years (2018-2023) of this £31.5m will be allocated to the Accelerated Delivery component of TSTP; the main component and subject of this ToR. It is anticipated that costs will, roughly, be evenly spread between delivery unit management (sub-components 1 and 2) and technical inputs (sub-component 3), with savings in one passed over to the other and vice-versa. Suppliers should

¹ Note DFID programmes are not tax exempt and therefore suppliers will be liable to pay tax in Ethiopia. Tax liabilities should therefore be taken into consideration in commercial proposals.

note that TSTP aims to hand over full responsibility for delivery unit management to the GoE by programme end. As such, a programme extension is not envisioned, however, given the context provisions for a possible time extension of up to 2 years with a maximum budget of £10 million (subject to approval) will be considered at the mid-term review point. This will ensure that full responsibility is passed to the Government of Ethiopia in the appropriate manner.

8.4. The approximate distribution of funding across components is:

- Sub-component 1, TTO: 35%
- Sub-component 2, PMDU: 10%
- Sub-component 3, Technical inputs: 55%

Suppliers may recommend a different distribution for consideration by DFID prior to programme start or up to six months after this date. DFID also reserves the right to adjust the balance across components depending on the effectiveness of implementation.

Suppliers' should be aware that the following costs are to be included in your budget breakdown within the ranges specified (these are minimums as there will be increase as new posts are filled):

Estimated total running costs for the TTO and PMDU will be between £125,000 and £175,000 (excluding fees) per month. This will rise to between £350,000 and £650,000 when fees are factored in. An estimated budget breakdown looks like:

- Travel and Living costs - £550,00 - £750,000
- Equipment - £40,000 - £65,000
- Expenses (office running cost, workshops, TTO expense, Income tax) - £1,000,000
- Tax – £90,000

8.5. Payment and contracting mechanisms: Suppliers are encouraged to consider the most effective payment mechanism that is appropriate to promoting flexibility, innovation *and* accountability for results and value for money under the TSTP, and to outline the proposed mechanism as part of their commercial proposal. We do expect to see a PbR element within proposals and bids should link a percentage of payment to the delivery of KPIs (see Section 7 below) which will be assessed in *C3 Commercial Evaluation Criteria*. Final arrangements will be agreed either prior to implementation or up to six months after this date. DFID has the following guidance to offer:

- Given the need for flexibility Suppliers should propose a 'hybrid' contract that incorporates some aspects of output-based contracting/payment by results (PbR), with an element of 'staff costs' linked to performance, and expenses paid on an actuals basis. Suppliers should pay particular attention to ensure that incentives to innovate and take risks are preserved.
- The content of any payment-linked KPI's; is subject to realistic targets and sensible incentives and is highly context and time sensitive, therefore a PbR

framework and accompanying KPIs will be agreed between the Supplier, DFID, and GoE approximately 3 months prior to the contract starting.

- Although tax transformation does provide the opportunity to incentivise performance through the setting of measurable targets, the magnitude of long-term revenue increase is difficult to forecast. There will be opportunities to agree upon the details of such targets as initiatives are implemented and realistic targets become clear. However, it is unlikely that any targets are met if delivery approach systems, procedures, and accountability mechanisms are not effectively managed.
- DFID reserves the right to periodically review the payment model to ensure it reflects programme needs.

Suppliers should specify their proposed approach as part of their bids, and should be aware that value for money criteria will factor in an assessment of the proposed PbR offer. Suppliers' should explicitly justify their chosen balance between short term and long term results and qualitative and quantitative indicators. Suppliers' should also outline how their proposed approach to PbR is relevant to the particularities of a delivery approach to tax reform.

9. Key Performance Indicators

1. It is intended that the majority of KPIs should be linked to payment retention but may also consider indicators linked to performance only. We propose KPIs linked to payment that will be realistic and measurable and will be either annual, bi-annual or quarterly depending on appropriateness. They should be developed under the following areas (see annex 3):

- Cross-cutting
 - Delivery
 - Organizational change
 - Data and IT
- Initiative performance KPIs
- Initiative revenue KPIs

Key areas:

- The pace of staff mobilisation and deployment (for example, number of days from request or need identified) including TTO/PMDU filled on time at required skill set
- Quality and timeliness of work planning and reporting (on delivery of the programme, risk management, value of money, staff, etc)
- Voluntary compliance in tax payment (for example, proportion of tax payers who e-filed and paid within the due date)
- Tax revenue increment (example, against targets, against previous performance, etc)

- Overall Score of A and above, and or components score of A and above during the annual review
 - Type and number of capacity/capability building activities completed
 - Realistic and implementable tax systems reform proposals/recommendations provided during the year (related to tax policy area)
 - Regular high level meetings and decisions made including Director General and Prime Minister engagement
1. KPI's will be developed further in conjunction with GoE as they will reflect the Ethiopian tax reform process for the next 18 months. Indicators will be agreed for year 1 ahead of contract award but agreement will depend on the data available and forecast performance as of TSTP implementation.
 2. Given current progress in strategy development and data cleaning it will be possible to define quantitative **initiative revenue based KPIs** regarding discrete TSTP interventions (e.g. audit optimization, debt management, etc.) prior to implementation. These will be linked to the **initiative performance KPIs** that we are currently refining in collaboration with the TTO. Payment of the former should be made contingent of achievement of the latter. This will incentivise long-term compliance building activities over short-term revenue collection, yet still reward any immediate gains. It will also ensure the supplier is paid for performance improvements even if, due to any unforeseen circumstance outside of their control, these fail to lead to immediate or measurable revenue increases.
 3. Cross-cutting KPIs should not be linked to initiative performance or revenue KPIs. This is because, although essential to the tax transformation process, linking these to immediate improvements in compliance, performance, or collection will be impossible.
10. Monitoring and Evaluation: M&E will be embedded in the delivery approach, the supplier will be responsible for ensuring that reliable and timely data informs tax transformation activities and the decision making process to the greatest extent possible. This should feed into the programme logframe, which is DFID's principle monitoring tool. The logframe is expected to evolve as programme priorities and circumstances change. There will be flexibility to adjust output indicators on an annual basis; however outcome and impact level indicators are expected to remain constant.
- 10.1. The supplier should be adept in the use of live data to inform effective decision making and experience in working in a data-poor environment. DFID will hold back £1.5m in a strategic fund that will be used to carry out independent evaluation where objectivity is deemed important. This may include mid-term or end-term programme evaluation or specific deep-dives into certain programmatic areas. This strategic fund will also fund M&E activities deemed

beyond the scope of the supplier activities such as distributional analysis and operational research.

- 10.2. The supplier will develop its own M&E strategy and a comprehensive Results Framework (RF) that will be revised and agreed with DFID and GoE during the first six months of implementation. The RF should include output indicators compliant with DFID annual reporting requirements, but we encourage use of alternative approaches to results management that may be more appropriate for this type of programme to capture a) the qualitative changes the programme is working towards, b) the programme's secondary contributions to targeted sectors/programmes, and c) the programme's responsiveness on cross-cutting issues such as gender equity, social inclusion and conflict mitigation. In line with DFID's commitment to inclusion of women, the results framework should include at least one specific indicator linked to women's experience of paying taxes at outcome level, and should systematically factor in diverse beneficiary feedback as part of its adaptive programming approach.
- 10.3. DFID recognises that adaptive programming poses challenges for forward planning and M&E. As programming is adjusted, output indicators will also require regular adjustment. Given that performance against output indicators not only forms the basis for DFID annual review scoring but may well also be linked to payments, milestone revisions should be carried out in consultation with the supplier and GoE.
- 10.4. Monitoring for the programme needs to incorporate both supplier performance and the processes of change the programme seeks to generate. It should aim to capture not only the contributions and achievements of individual initiatives but also the collective outputs and outcomes that the programme as a whole is able to generate in terms of systemic transformation. It should facilitate reflection on the programme's approaches and enable the Accelerated Delivery Programme Manager and partners to recognise what is not working and make course corrections during implementation. DFID accepts that every initiative may not enjoy the same levels of success, so the monitoring system needs to enable the programme manager to recognise, manage and learn from failure effectively.
- 10.5. The supplier is responsible for ensuring that both it and its partners monitor and report on fraud, in line with DFID's zero tolerance policy.

As part of its bid, the supplier should provide a summary in its tender of how it will monitor for compliance and programme performance purposes). It should also provide an overview of how it will approach M&E for programme outputs and outcomes, and how it will approach adjustment of output indicators/milestones, but will have the opportunity to finalise plans prior to implementation.

11. Reporting

- 11.1. During year 1 of programme implementation the TSTP accelerated delivery management team will report to DFID on a weekly basis in meetings and after 6 months in a formal written report covering the following (see also 4.1)
- Full organogram plus ToRs and staff biographies for all key positions.
 - TSTP Theory of Change, Results Framework, M&E strategy and VFM strategy.
 - Risk Matrix and risk mitigation approach.
 - Implementation plan including detailed work plan for the following 12 months and outline work plan for the rest of the programme.
 - Revised and agreed KPI framework and initial progress.
- 11.2. Once the parameters of the programme have been established, unless otherwise agreed, the following documentation will be required as standard:
- Six-monthly narrative reporting due within 1 month of the end of the reporting period, including a report on progress against results and recommendations for adjustments to the approach. Reporting should be focused primarily on the transformation process including emerging risks and opportunities. It is expected that the programme's theory of change will be adjusted regularly to reflect learning.
 - Six-monthly financial reporting. While we recognise –and intend to provide– day-to-day flexibility for the supplier for programme implementation, we still expect periodic reporting on costs in order to review those costs against impact in order to inform ambition and content of milestone-setting going forward.
 - Annual Work Plans, including financial forecasts to be submitted to DFID for approval at least 30 days before the start of each 12 month period. A shorter planning timeframe for higher risk or more adaptive and experimental components may be agreed during implementation.
 - Biannual risk reviews.
 - Additional contributions as required to DFID annual reviews.
 - Annual audit reports for the programme from an audit firm approved by DFID Ethiopia.
- 11.3. Formal meetings will take place between the supplier and DFID on a weekly basis. These meetings may include HMRC staff and fixed-term contracted tax experts as and when required.
- 11.4. All documentation relating to the programme will need to be filed and archived electronically. DFID should have access to this repository. DFID adheres to principles of transparency and accountability, and complies with UK Right to Information legislation. We encourage our partners to take a transparent and proactive approach to information disclosure.

12. Contract Management

- 12.1. The supplier will report to the DFID Ethiopia Senior Responsible Officer (SRO), and will have regular engagement with other relevant advisers and programme management staff from DFID Ethiopia. The supplier must identify in the tender a

senior representative with whom any contract management issues may be escalated.

12.2. DFID and the supplier will agree Key Performance Indicators in order to manage contract performance (*see Section 9 above*).

13. Time frame and Break Points

13.1. The supplier is expected to start work by January 2019. The contract will be for a period of 5 years, up to January 2024 . There will be a certain level of handover of knowledge, systems and relationships from existing management of the TTO and PMDU expected to last approximately 3 months but there will be no formal inception phase. These first three months will be referred to as the “transition period”. Suppliers’ should be aware that this should not be seen as an “inception phase” as is common under other DFID contracts. The winning supplier will be expected to hit the ground running. However, DFID will ensure there is an overlap, if necessary, between the current TAUT contract and the TSTP contract to ensure a smooth transition.

13.2 By June 2019, the supplier is expected to deliver the first 6 monthly report as detailed under 7.2. Following this report, there will be a breakpoint in the contract, as will be the case after each annual review. Progress throughout implementation will be subject to the satisfactory performance of the Supplier, positive beneficiary feedback, delivery of outputs and the continuing needs of the programme.

13.3 This programme aims to hand full responsibility for delivery management to the Government of Ethiopia by programme end, therefore whilst at this stage an extension is not planned, given the context provisions for a possible time extension of up to 2 years with maximum budget of £10 million (subject to approval) will be considered at the mid-term review point. This will ensure that full responsibility is passed to the Government of Ethiopia in the appropriate manner. The extension will be subject to DFID’s own decision process, rules and procedures

13.4 The programme is expected to be adaptive to the changing context of the Ethiopian political economy and DFID reserves the right to scale the programme up or down.

13.5 The contract will be issued for the full period, but will be subject to the acceptance of deliverables (to be assessed at the end of the 3 month transition period) and satisfactory performance of the Supplier (to be assessed after 6 months of implementation and on an annual basis thereafter). If the Supplier’s performance is not satisfactory, discussions will be held between the Supplier and DFID to determine ways of improving performance, including executing performance

improvement plans, in the first instance. However, if the Supplier still underperforms after the implementation of agreed upon performance improvement measures, DFID will be at liberty to terminate the contract at no cost to DFID.

13.6 Broadly, 2 programmatic phases are envisaged. Through years one to three TTO activities will focus on 5 thematic issues largely limited to tax administration. Years 3 to 5 will see increased focus on complex and politically sensitive policy issues such as customs and VAT. Initial initiatives are expected to deliver early wins important for maintaining political support for tax transformation. However, potentially difficult policy change will eventually be required for GoE to meet its ambitious revenue targets.

14. DFID co-ordination

14.1. The TSTP accelerated delivery management team will report to the programme SRO and Programme Manager. The SRO will be responsible for oversight of all programmatic aspects of TSTP on behalf of DFIDE. Contract administration and payments will be managed by the Programme Manager on behalf of DFIDE.

15. Delivery Chain Mapping

Suppliers must be able to demonstrate a full and comprehensive approach and methodology for undertaking due diligence and taking on the risk management of all downstream delivery partners. DFID may request specific audits of the project and all project partners to be undertaken.

In advance of any release of funds, suppliers will be required to produce a delivery chain risk map which should, where possible, identify all partners (funding and non-funding e.g. legal/contributions in kind) involved in the delivery of a programme. Risk maps should be reviewed and updated periodically, in line with agreed programme monitoring processes and procedures. As a minimum, it should include details of:

- The name of all downstream delivery partners and their functions.
- Funding flows (e.g. amount, type) to each delivery partner

High level risks involved in programme delivery, mitigating measures and associated controls.

16. UK Aid Branding

- a. Partners that receive funding from DFID must use the UK aid logo on their development and humanitarian programmes to be transparent and acknowledge that they are funded by UK taxpayers. Partners should also

acknowledge funding from the UK government in broader communications but no publicity is to be given to this Contract without the prior written consent of DFID.

17. Transparency

- b. DFID has transformed its approach to transparency, reshaping our own working practices and pressuring others across the world to do the same. DFID requires Suppliers receiving and managing funds, to release open data on how this money is spent, in a common, standard, re-usable format and to require this level of information from immediate sub-contractors, sub-agencies and partners.
- c. It is a contractual requirement for all Suppliers to comply with this, and to ensure they have the appropriate tools to enable routine financial reporting, publishing of accurate data and providing evidence of this DFID – further IATI information is available from; <http://www.aidtransparency.net/>

18. Digital Principles for Partners and Suppliers

- d. DFID expects all partners and suppliers who manage aid programmes with a digital element to adhere to the global [Principles for Digital Development](#). If any proposal contains a digital element this must be costed separately within the proformas and are subject to approval by DFID's digital team.

In accordance with the Principles for Digital Development we expect suppliers to generate data through open standards, open data, open source technologies and open innovation. Any deviation from this is subject to approval by DFID's digital team. It is assumed that sensitive tax data is not subject to this clause.

19. Ethical Principles

- a. It is a requirement that all partners DFID commission and fund comply with the Ethics Principles. Partners will be required to include consideration of ethical issues and a statement that they will comply with the ethics principles.

20. Do No Harm

DFID requires assurances regarding protection from violence, exploitation and abuse through involvement, directly or indirectly, with DFID suppliers and programmes. This includes sexual exploitation and abuse, but should also be understood as all forms of physical or emotional violence or abuse and financial exploitation.

- The programme is targeting a highly sensitive area of work. The Supplier must demonstrate a sound understanding of the ethics in working in this area and applying these principles throughout the lifetime of the programme to avoid doing harm to beneficiaries. In particular, the design of interventions including research and programme evaluations should recognise and mitigate the risk of negative consequence for women, children and other vulnerable groups. The supplier will be required to include a statement that they have duty of care to informants, other programme stakeholders and their own staff, and that they will comply with the ethics principles in all programme activities. Their adherence to this duty of care, including reporting and addressing incidences, should be included in both regular and annual reporting to DFID;
- A commitment to the ethical design and delivery of evaluations including the duty of care to informants, other programme stakeholders and their own staff must be demonstrated.
- DFID does not envisage the necessity to conduct any environmental impact assessment for the implementation of the Issue based programme. However, it is important to adhere to principles of “Do No Harm” to the environment.

21. General Data Protection Regulations (GDPR)

Please refer to the details of the GDPR relationship status and personal data (where applicable) for this project as detailed in App A and the standard clause 33 in section 2 of the contract.

22. Background

22.1 The Government of Ethiopia (GoE) has overseen impressive economic growth and poverty reduction over the last ten years. Around half of GDP growth is driven by public investment funded through a combination of aid and external debt; domestic revenues are insufficient. At current levels of borrowing, GoE debts risks becoming unsustainable. Ethiopia also aims to become a lower-middle income country, no longer aid-dependent, by 2025. However, GoE revenues stand at 12.4% of GDP – below the Sub-Saharan average of 16%. To meet public investment needs in a sustainable way, GoE aims to raise tax take to 17.2% of GDP. However, capacity at the Ministry of Finance and Economic Cooperation (MoFEC) and the Ethiopian Revenue and Customs Authority (ERCA) is insufficient. Without technical assistance, it is unlikely that GoE will be able to meet targets without jeopardizing poverty reduction efforts and the investment climate.

22.2 The Ethiopian Prime Minister has requested that the UK lead an accelerated delivery approach to taxation. Through its *Tax Systems Transformation Programme* (2018-2023), the UK is contributing up to £35million over 5 years to strengthen GoE capacity to raise domestic revenue in a sustainable, equitable, and responsible manner.

Annex 1: Country Risk Assessment

Location: Ethiopia

Date of assessment: 18th September 2017

Assessing official: Robbie Packer

This is a general risk assessment for the whole of Ethiopia. Although the vast majority of TSTP be activities will take place in Addis Ababa, risk does vary by region and the supplier should take this into account when planning travel.

Theme	DFID Risk score
OVERALL RATING	2.07
FCO travel advice	3
Host nation travel advice	N/A
Transportation	4
Security	2
Civil unrest	2
Violence/crime	3
Espionage	2
Terrorism	2
War	1
Hurricane	1
Earthquake	1
Flood	2

Medical Services	4
Nature of Project/Intervention	1

1 Very Low risk	2 Low risk	3 Med risk	4 High risk	5 Very High risk
			SIGNIFICANTLY GREATER THAN NORMAL RISK	

Theme	DFID Risk score
OVERALL RATING	2 Low Risk
FCO travel advice	There are no travel restrictions to the majority of the country, however the FCO advises against all travel to large parts of the Somali region, border areas, and parts of Gambella region. The FCO advises against all but essential travel to North Gonder and parts of Gambella region.
Host nation travel advice	Not available
Transportation	<p>Driving standards are poor, and traffic accidents are common and often fatal. Visitors should be very careful when travelling by car. Drivers should also be aware that under Ethiopian laws, drivers involved in car accidents can face severe punishments, including custodial sentences and fines.</p> <p>Traffic accidents are a regular occurrence in Ethiopia and Addis Ababa specifically. You should avoid driving after dark in rural areas: vehicles often have no lights and livestock may be roaming the roads.</p>

Security	<p>The security situation in the country as a whole is rated as moderate, however there are pockets of insecurity. Since September 2014, there have been reports of ethnic conflict between communities in the Gambella region. There is local instability, lawlessness, military activity and a general risk of banditry in the Somali region, especially bordering Oromia. There are cross-border tensions in the Tigray and Afar regions. There is banditry in the areas bordering Sudan, South Sudan and Kenya. This is reflected in the FCO travel advice. This said, the security situation in Addis Ababa (where programme activities will take place) is stable, hence the low risk rating.</p>
Civil unrest	<p>Protests and demonstrations sometimes take place in Addis Ababa and other cities. In the past, some of these have become violent. You should avoid any protests or demonstrations.</p>
Violence/crime	<p>Petty theft and mugging is common and on the rise. Take particular care when visiting crowded public places, especially at night. Be aware of the risk of pick-pocketing, and bag and jewellery snatching including from vehicles stopped at traffic lights in Addis Ababa. Incidents involving parked and unattended cars are on the increase. Levels of violent crime are low.</p> <p>There has been violence, inter-tribal clashes and armed attacks in the Gambella region.</p>
Espionage	<p>The threat of espionage is considered to be low.</p>
Terrorism	<p>There is a threat from terrorism, although historically this has been low. Attacks could be indiscriminate including in places frequented by foreigners. The terrorist group Al-Shabaab, although based in Somalia, poses a threat across the East Africa region. There are credible reports that Al Shabaab plan, and have the capability, to attack targets in Ethiopia, particularly in Addis Ababa, Jijiga and Dolo Odo.</p>
War	<p>The Ethiopia-Eritrea border remains closed. Several security incidents have taken place along the border. The risk of cross-border tensions remains.</p>

Hurricane	No identified risk
Earthquake	No identified risk
Flood	Seasonal and localized floods cause temporary displacements and damages to roads.
Medical Services	There are a number of hospitals in Addis Ababa but only private hospitals offer a reasonable standard of basic care for minor health problems. Elsewhere, medical facilities (including dentistry) are extremely poor.
Nature of Project/Intervention	It is envisaged that the project will mainly be operating in Addis Ababa. Work will be mainly office based and therefore is not deemed to have heightened levels of risk in any area.

Annex 2: Component 1 Thematic Areas across tax administration

Audit	<ol style="list-style-type: none">1. Revised National audit Plan and risk engine2. Performance and case management tool3. Audit center of excellence4. New approach to tax payer requested audits
LTO	<ol style="list-style-type: none">5. Sector-specific teams and retention6. Customer service and voluntary compliance7. TP segmentation8. Performance and case management9. Outsource audit10. Self-audit
Debt	<ol style="list-style-type: none">11. Prevent delinquencies12. Refine recovery strategy13. Clean up bad debt
Org health	<ol style="list-style-type: none">14. Improve performance management15. Improve performance of core processes16. Improve leadership capabilities
Data / IT	<ol style="list-style-type: none">17. Short term stop-gap tools18. Internal compliance19. Value assurance20. IT incubator

Annex 3: Key Performance Indicators

