Department for International Development

UKaid from the British people

CALLDOWN CONTRACT

Framework Agreement with: Adam Smith International Westminster Tower,3 Albert Embankment, London SE1 7SP

Framework Agreement for: Fragile and Conflict affected states framework

Framework Agreement Purchase Order Number: 5651

Call-down Contract For: Strengthening Revenue Policy & Administration in Somaliland :2014-2016

Contract Purchase Order Number: 6692

I refer to the following:

1. The above mentioned Framework Agreement dated **April 2012**

2. Your proposal of **October 2014**

and I confirm that DFID requires you to provide the Services (Annex A), under the Terms and Conditions of the Framework Agreement which shall apply to this Call-down Contract as if expressly incorporated herein.

1. Commencement and Duration of the Services

1.1 The Supplier shall start the Services no later than 16th December 2014 ("the Start Date") and the Services shall be completed by 30th March 2016 ("the End Date") unless the Call-down Contract is terminated earlier in accordance with the Terms and Conditions of the Framework Agreement.

2. Recipient

2.1 DFID requires the Supplier to provide the Services to Government of Somaliland. ("the Recipient");

3. Financial Limit

3.1 Payments under this Call-down Contract shall not exceed **£2,999,923 (GBP Two Million Nine Hundred Ninety Nine Thousand Nine Hundred Twenty Three)** ("the Financial

Limit”) and is exclusive of any government tax, if applicable as detailed in Annex B**.**

28. Milestone Payment Basis

28.1 Where the applicable payment mechanism is "Milestone Payment", invoice(s) shall be submitted for the amount(s) indicated in Annex B and payments will be made on satisfactory performance of the services, at the payment points defined as per schedule of payments. At each payment point set criteria will be defined as part of the payments. Payment will be made if the criteria are met to the satisfaction of DFID.

When the relevant milestone is achieved in its final form by the Supplier or following completion of the Services, as the case may be, indicating both the amount or amounts due at the time and cumulatively. Payments pursuant to clause 28.1 are subject to the satisfaction of the Project Officer in relation to the performance by the Supplier of its obligations under the Call-down Contract and to verification by the Project Officer that all prior payments made to the Supplier under this Call-down Contract were properly due.

4. DFID Officials

4.1 The Project Officer is:

4.2 The Contract Officer is:

5. Key Personnel

The following of the Supplier's Personnel cannot be substituted by the Supplier without DFID's prior written consent:

6. Reports

6.1 The Supplier shall submit project reports in accordance with the Terms of Reference/Scope of Work at Annex A.

6.2 IP ownership will be clarified and agreed during the inception phase. This statement takes precedence over all references to IP in the ToR attached in Annex A

6.3 This contract will be subject a break point after inception phase. Not less than one month prior to that breakpoint, the Supplier will have delivered its implementation plan and staffing structure for the implementation phase. Phase 2 (Implementation) will only be initiated following DFID’S assessment of the performance and cost effectiveness of the Supplier.

Continuation following the review point will be subject to satisfactory performance of the Supplier during the preceding period and the continuing needs of the programme.

7. Duty of Care

All Supplier Personnel (as defined in Section 2 of the Agreement) engaged under this Call-down Contract will come under the duty of care of the Supplier:

I. The Supplier will be responsible for all security arrangements and Her Majesty's Government accepts no responsibility for the health, safety and security of individuals or property whilst travelling.

II. The Supplier will be responsible for taking out insurance in respect of death or personal injury, damage to or loss of property, and will indemnify and keep indemnified DFID in respect of:

   II.1. Any loss, damage or claim, howsoever arising out of, or relating to negligence by the Supplier, the Supplier's Personnel, or by any person employed or otherwise engaged by the Supplier, in connection with the performance of the Call-down Contract;

   II.2. Any claim, howsoever arising, by the Supplier's Personnel or any person employed or otherwise engaged by the Supplier, in connection with their performance under this Call-down Contract.

III. The Supplier will ensure that such insurance arrangements as are made in respect of the Supplier's Personnel, or any person employed or otherwise engaged by the Supplier are reasonable and prudent in all circumstances, including in respect of death, injury or disablement, and emergency medical expenses.

IV. The costs of any insurance specifically taken out by the Supplier to support the performance of this Call-down Contract in relation to Duty of Care may be included as part of the management costs of the project, and must be separately identified in all financial reporting relating to the project.

V. Where DFID is providing any specific security arrangements for Suppliers in relation to the Call-down Contract, these will be detailed in the Terms of Reference.

8. Call-down Contract Signature

8.1 If the original Form of Call-down Contract is not returned to the Contract Officer (as identified at clause 4 above) duly completed, signed and dated on behalf of the Supplier within 15 working days of the date of signature on behalf of DFID, DFID will be entitled, at its sole discretion, to declare this Call-down Contract void.

For and on behalf of
The Secretary of State for
International Development

Name:

Position:

Signature:

Date: 15.12.2014

For and on behalf of
ASI

Name:

Position:

Signature:

Date:

Annex – A

Terms of Reference

STRENGTHENING REVENUE POLICY AND ADMINISTRATION IN SOMALILAND: 2014-2016

Introduction

The DFID Somalia Operational Plan sets out DFIDs vision and strategy for Somalia from 2011-2015. DFIDs aim is to promote longer-term stability, and to directly transform and improve the livelihoods of Somali people. DFID Somalia's country programme has four pillars: a) governance and peace-building including the strengthening of core state functions; b) wealth and job creation; c) health care, particularly for women and children, and d) humanitarian assistance. By working in these areas, we aim both to address the humanitarian effects of the conflict and to consolidate local areas of stability by helping local communities to take control of their own affairs, creating jobs, and improving access to women's and children's health and reproductive care.

Under the Somalia country programme, DFID plans to contract a project to strengthen Revenue policy and administration in Somaliland. The project will support the Government of Somaliland (GoSL) to meet its developmental priorities as expressed in the recently approved Somaliland Public Financial Management (PFM) Strategy (2013-2017). The purpose of this Terms of Reference is to set out DFIDs requirements for a Supplier to implement the project. The project will be financed under DFID Somalia's Core State Functions programme.

The objective

The objective of this assignment is to support the GoSL to strengthen its domestic revenue raising capabilities. The specific objective set out by the GoSL in its PFM Strategy is to "increase domestic revenue generation and the tax base to a sustainable level". The GoSL has stated in the Strategy, and subsequently set out in its draft Revenue Act that it plans to establish a new Somaliland Revenue Authority (SLRA) through which to do this.

The recipient

The recipient of this service is the Government of Somaliland. The people of Somaliland will be the primary beneficiaries of the support.

The scope

Thematic focus

The project should encompass all aspects of design and implementation necessary for the preparatory stages of establishing an effective and efficient Somaliland Revenue Authority, and the preliminary steps to establishment of that Authority itself. The project should also encompass technical assistance to support the Government to broaden its tax base as endorsed by President Silanyo in his 2014 Budget Policy statement to Parliament (see background and footnote 7). This will include, inter alia:

- Defining an overarching roadmap and timetable for the establishment of the Somaliland Revenue Authority;
- Review of, and recommendations as appropriate on taxation and customs policies and rates;
- Preliminary steps of the establishment of tax collection and administration systems and processes;
- Support to organisational reforms that can be begun prior to the establishment of the SLRA including management, capacity, and human resources issues, and preliminary organizational establishment of the SLRA itself.

We envisage the greater part of the project to be on preparation for and support to the devolution of Revenue and Customs Departments into the new SLRA. However, passage of the draft Revenue Act is necessary for the act of devolution to take place. This is envisaged to take place during summer 2014. There is a significant amount of work that is needed to prepare for devolution which will be of benefit to Somaliland's tax policy and administration even if delays occur during the passage of the Bill.

It is unlikely that the Supplier will input into/support revisions to the draft Revenue Act before it is passed by Parliament as we anticipate this will be done before or in the early stages of the start of the contract. However if the Revenue Act is delayed and the opportunity should arise, these inputs may be possible. It is expected that the Supplier will recommend revisions to the Act at a later stage in the contract as the GoSL anticipates future review of existing tax laws, potential consolidation of some laws and enacting new ones as part of their drive to expand the tax base.

Ministry focus

The focus of the project will be existing Departments of Revenue and Customs, presently located in the Ministry of Finance, and support their devolution into the new SLRA and the very early days of its establishment and functioning. The project must also support the relevant departments in the Ministry of Finance including the department of planning and statistics, which is the team responsible for revenue forecasting, as well as relevant teams in the Ministry of Planning.

Geographic focus

Both Customs and Inland Revenue have offices, staff and reach throughout Somaliland. There are 23 customs stations grouped into nine regions; and seven regions for inland-revenue. The project should focus on the most significant of these, likely to be Hargeisa, Berbera, Boroma, Burao, Erigavo and border posts with Djibouti and Ethiopia and the supplier will be expected to travel to these areas.

Managing the risk of fraud and corruption

Fraud and corruption risk is very high in revenue and customs systems. The project should explicitly address this risk through a range of measures which could include but are not limited to: clear and transparent communication of tax rates; predictable tax rates that remove the negotiation element; rationalizing the number of deductions, exemptions and concessions granted by tax law; automated payments rather than face to face transactions with tax officials; and codes of ethics.

Sub-national support

Support to revenue mobilization at the sub-national (district) level is provided by the UN Joint Programme on Local Governance (JPLG), therefore this project will not engage in this area. However, the project is expected to co-ordinate closely with the JPLG to ensure that the GoSL approach to policy and administration of revenue generation is coherent between the central and district levels.

Scale of the Project

We anticipate the project value will be in the region of £4m - £4.5m.

Limitations

The project may be limited geographically due to stability and access challenges in some areas of Somaliland, for example: the Eastern regions are harder to reach and work in. Politically, the Somaliland Presidential and Parliamentary elections in 2015 may impact on what is achievable during that year and immediately before.

The requirements

Output 1

Support to the production of a Government owned roadmap for the establishment of the Somaliland Revenue Authority and to help the Government deliver a strategic communication plan around the reform and upcoming changes in the tax administration system.

The sequencing of the roadmap will be key, needing to balance a number of issues including the need for significant preparation for devolution to the SLRA; the high level of enthusiasm felt within the GoSL to reach devolution quickly. the passage of the Revenue Act; and the Presidential elections expected in 2015. It will be important to draw on international experience in preparing a realistic timetable. It is highly likely that the strategic choice will be to pursue devolution through incremental measures as opposed to a more fundamental and fast-paced strategy.

The roadmap should be prepared in the context of ongoing GoSL plans to strengthen trade facilitation along the Berbera Corridor. This work is being supported by the European Commission.

<u>Output 2</u>

Technical Assistance to the Government to carry out a review of taxation and customs policies and rates; and recommendations to establish a progressive framework for taxation that will achieve the Government's objective of increasing domestic revenues to sustainable levels and to broaden the tax base.

Whilst the Supplier is not expected to have the opportunity to propose revisions to the Revenue Act before it proceeds to Parliament in 2014, it may be necessary to recommend revisions to the Revenue Act over the course of the project.

There may also be a need to provide advice to the GoSL for re-aligning the legal, policy and regulatory frameworks of various government and private sector institutions that have implications for revenue policy. These could include e.g. public service, banking, ICT, law enforcement, public audit, licencing authorities and depositories of public/private data.

In providing this support the Supplier should build in the following:

- A good practice approach building on evidence from other comparable countries;
- Consideration of how best to broaden the tax base away from the focus on customs and border taxes, including how to increase the number of registered, taxpayers; rationalizing the number of deductions, exemptions and concessions granted by the tax laws; and identifying new sources of revenue such as consumption tax or VAT.
- Balancing the state-building benefits of a broad and inclusive tax base with the administrative realities of the GoSL and Somaliland's large informal sector;
- Recommending an approach that supports promotes growth as well as raising revenues;
- Consideration of political economy issues and administration capacity to understand what reforms are feasible in the Somaliland context including public attitudes towards, and acceptance of, increased taxes;
- Equity issues that take into account the Somaliland's high levels of inequality;
- A coherent balance between centrally and locally raised taxes;
- Recommendations concerning the completeness of revenue reporting, to include revenue that is currently "off budget" such as the Road Fund and parastatals including Hargeisa, Berbera and Burao Water Agencies and the Somaliland Electricity Agency.

Output 3

Establishment of basic Government tax collection and administration systems, to enable efficient and effective application and enforcement of the Revenue Act (once passed). This output should include any necessary basic, fit-for-purpose IT but excludes the revenue collections and payments component of the new Somaliland Financial Management and Information System (SLFMIS) which is being supported under a different component of Somaliland's PFM Strategy. This output may encompass some or all of the following inter alia:

- Training/Capacity building measures;
- Introduction of formal systems to support tax assessment and reduce levels of negotiation;
- Roll-out of Taxpayer Identification Numbers;
- Introduction of processes to address corruption;
- Strengthening of supervision and control;
- Tax education campaigns and improvements in client relations;
- Strengthening of enforcement mechanisms;
- Creation of a dispute mechanism, potentially through the creation of tax tribunals)
- Reducing tax evasion by establishing Tax Audit and Investigation departments.

Output 4

Support the GoSL to re-organize and manage the current Inland Revenue and Customs Departments under the Ministry of Finance into the Somaliland Revenue Authority. This will encompass management and organisational reforms including capacity, human resources and ICT needs.

- Functional and training analysis to consider efficient and effective structures in the inland-revenue and customs departments;
- An organizational structure that clearly mirrors the priorities of policy and strategic focus;
- Infrastructure that is fit for purpose in the existing tax offices and customs facilities;
- Clear management structure and systems, pay and grading, skills and modern human resource management systems;
- Hours and disciplinary systems;
- Attracting and retaining qualified staff to manage the change process; and
- Communication skills to improve taxpayer education can help build tax morale that build relationships between the State and its citizens on the need for taxation and commitment to development in Somaliland.

Constraints and dependencies

- The project will begin as soon as possible following award of contract and not later than September 2014. The project will end in September 2016 due to the end of DFID Somalia's Core State Functions Programme in December 2016. DFID will, based on achieved results from this intervention, design a new programme during 2016 to succeed it.

- The project is part of a larger Government-led effort to reform public financial management in Somaliland by implementing the PFM Reform Plan. The project must therefore to co-ordinate with ongoing work strengthen other areas of central Government PFM and which are implemented by the World Bank, African Development Bank and EU as well as with the UN Joint Programme on Local Governance (JPLG) which is responsible for support to sub-national revenue collection and reforms.
- The project must engage with the Government's PFM Reform Unit which is tasked with co-ordination of all projects being implemented in support of the PFM Reform Strategy.
- The project will need to build on any relevant outcomes of the series of "quick wins" currently being implemented by the GoSL, including:
    - a planned study tour to Rwanda where GoSL officials will meet relevant PFM officials including from the Rwandan Revenue Authority.
    - The design and implementation of the SLFMIS. It is particularly important that any IT solution proposed be compatible with and where relevant interface with the SLFMIS.
- The project must coordinate with the Somaliland Development Fund which is about to implement its first wave of projects in: water, roads, livestock and the environment.
- The project must also be cognizant of the civil service reform strategy and the action plan developed in February 2014. A key lesson from civil service reform in Somaliland is to start at the lowest levels of human resource management such as merit based recruitment, retaining quality staff, working hours and management. Donors engaged in 2014 are DFID, EU, UNDP, and the WB.
- The project must co-ordinate with planned OECD DAC work on the international dimensions of capital flight and tax evasion. Fragile states are particularly affected by illicit flows and activities, since they are more at risk from being targeted by such illegal activity, and low state legitimacy can prevent authorities from combatting the economic and financial crimes that contribute to such losses. The OECD can help build the capacity of fragile states by building relevant capacities on the ground, and through coherent global action on illicit flows, money laundering and anti-bribery.

Reporting

The Supplier is expected to attend and report to the quarterly Joint PFM Steering Committee in Hargeisa which is the body created to oversee progress against the PFM Reform Plan. The Somaliland PFM Reform Unit is in the process of developing a comprehensive report format for all PFM reform pillars (of which Revenue is one) and the Supplier will be required to comply with this reporting format. Any reports would first be discussed at the monthly technical PFM Technical PFM Committee and written reporting to the Committee should be provided at least a week prior to meetings. The following reporting is expected to be issued to the Committee.

Inception phase:

- Inception Report following 6 week inception period based on agreed milestones;
- Validation workshop at the end of the inception phase, based on agreed milestones, prior to issuance of full contract

Implementation phase:

- Quarterly Reports (including updates on fraud and corruption issues, risk mitigation, communications, gender). These reports will feed into more comprehensive reporting on the overall PFM Reform Process in Somaliland, which will be prepared by the GoSL PFM Reform Unit;
- Annual Report (including updates on fraud and corruption issues, risk mitigation, communications).

At the start of the contract the Supplier will maintain weekly contact with both the Minister of Finance and the DFID programme leads to appraise them of pertinent issues as they arise. As the programme progresses this may be reduced to less regular contact but will be no less than monthly. The Director General of the Ministry of Finance will be the GoSL's lead official for the Revenue Pillar of the Government PFM Reform Strategy.

Time frame

The duration for this contract will be till March months from the date of award with an option to extend by 12 months subject to need and approval from DFID.

Implementation requirements

Inception Period and Transition Period

During the Inception Period the Supplier shall identify, *inter alia*:

- Governance Arrangements, which dovetail with the governance arrangements agreed for monitoring the broader PFM Strategy
- Outline of the road-map for devolution to the SLRA
- Capacity Building and Training needs
- M&E and Auditing plans
- How the project will work with other programmes operating in support of the PFM Strategy;
- The requirements for systems strengthening including how any new systems will link to the new integrated SLFMIS system which will be rolled out to the in the Ministry of Finance, line ministries, public agencies and local government (superseding the JPLG district level AIMS & BIMS system) over 2014 and 2015.

A validation workshop will take place at the end of the Inception Period. At the validation workshop a detailed implementation plan which will be co-ordinated with the government's budget cycle, will be presented. The plan will include:

- A fully costed budget for the Implementation Period
- A work plan or Gantt chart with (quarterly) milestones and action plan for the first year of implementation.
- A logframe with proposed indicators for performance assessment
- Details of proposed spending and delivery channels.
- A risk assessment matrix with mitigation measures.

- Monitoring and evaluation framework.
- Governance arrangements

Implementation Period

Following acceptance of the Inception Period deliverables by the PFM-JSC, the Supplier will implement the agreed programme with responsibility for timely and effective management and implementation of the project. This will include establishing any necessary bank accounts and distributing funds according to agreed procedures.

The Supplier will, as part of the procurement process, be responsible for carrying out due diligence checks on any sub-contracted implementing partners before the award of contract to insure close fiduciary control. The Supplier will be responsible for satisfying themselves that the risk of financing the sub-contractor is sufficiently low or manageable and submit this in writing to DFID prior to contract award.

Break clauses and review points

- At the validation workshop at end of inception period;
- Following the Annual Review towards the end of 2015

Performance requirements

Suppliers should propose Key Performance Indicators (KPIs) as part of their proposal on how they plan to achieve the specified outputs. Once agreed, these will form part of the common reporting framework for progress on the overall GoSL PFM Reform Plan.

Final KPIs will be agreed before the end of the inception period, between the Supplier, the GoSL, and DFID. The Supplier will need to demonstrate to the GoSL and DFID its performance against these KPIs. It is anticipated that the KPIs will include the following:

1. Timeliness of disbursement after reception of approved proposals and interim reports.
2. Timeliness and quality of assistance provided to implementing organisations.
3. Number and nature of issues arising in the annual audit or periodic review of the Supplier.
4. Timeliness and quality of reports.
5. Measuring the value for money of capacity building and training based on Kirkpatrick's analysis

Conflict Sensitivity

The contract will be managed in accordance with international best practice and recent lessons learnt on development initiatives in fragile and post-conflict environments.

The Supplier will adopt a conflict sensitive approach including by understanding the Somaliland conflict dynamics, political economy, the nature of the the political settlement and the payment of tax in particular in the run up to the Presidential elections. This contextual understanding should inform the design of the intervention including by monitoring the impact of the reforms on different sub-clans and interest groups. The Supplier will use their understanding to ensure the intervention does no harm and avoids negative impacts and maximises positive impacts.

Team profile required

- PFM expert and team leader with experience establishing Semi-Autonomous Revenue Authorities in Africa
- Somaliland national deputy team leader with revenue reform experience and significant knowledge of the local political economy.
- Expertise in tax and customs policies and in public sector reform
- Expertise in fragile and conflict affected states, and small African states
- Technical backup support and facility to draw down ad hoc technical assistance

Competition criteria

We intend to run a mini-competition with pre-qualified contractors from Theme 1 of the Fragile and Conflict Affected States Framework.

Award stage technical criteria include:

- Understanding of and adherence to the terms of reference
- Methodology proposed
- Relevant skills and experience

- Quality of guaranteed personnel on the team. Team skills and experience to include:
    - Experience of successful Revenue and Customs reforms including the establishment of Semi-Autonomous Revenue Agencies
    - Relevant country experience to include Fragile and Conflict States and small African states.
    - Experience of Public Sector Reform projects in political environments
    - Presence of Somalilander team members

Background

Recent diagnostics undertaken by the World Bank estimated that Somaliland's GDP per capita ranks the 4th lowest in the world at $1,390 and with poverty rates at 38% in rural areas. Livestock is the main economic sector followed by the wholesale and retail sector. Somaliland is a highly open economy with the ratio of exports and imports to GDP at 91.5%. Low growth is the product of extremely low rates of investment due to a difficult business environment. Access to finance is the most binding constraint cited by the private sector closely followed by high operating costs caused by poor transport and infrastructure, land disputes and the high costs of energy. Apart from a few very large companies most businesses are informal. Unemployment is very high, with the service and sales sector providing most employment. Inequality is also a significant challenge for Somaliland with large gaps between rural and urban areas, and between the "Berbera Corridor" and the East of the country.[1]

The Government of Somaliland approved the Somaliland PFM Reform Strategy (2013-2017) in December 2013. The Strategy sets out the Government's goal of an "efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery".[2] The Strategy is made up of 5 Pillars[3] and Development partners have agreed a division of labour for their support across these pillars. DFID has agreed to partner with the GoSL in support of Pillar 2: Resource Mobilisation. This project will be financed through DFID Somalia's Core States Functions programme.

Progress against the PFM Reform Plan is overseen by the Joint PFM Reform Steering Committee, chaired by the Minister of Finance and comprising both Government and development partners. The reforms will be coordinated by the PFM Reform Unit newly established within the Ministry of Finance. Whilst the project described by this TOR and other longer term projects to support implementation of the Strategy are being prepared by development partners, Somaliland is taking forward a number of "quick win" projects including:

- Completion of a PEFA Self-Assessment;
- Revision of the Chart of Accounts;

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1 Growth and Unemployment. World Bank presentation to the Somaliland Economic Conference. http://slministryofplanning.org/index.php/statistics/hh

2 Somaliland PFM Reform Strategy 2013-2017; Government of Somaliland

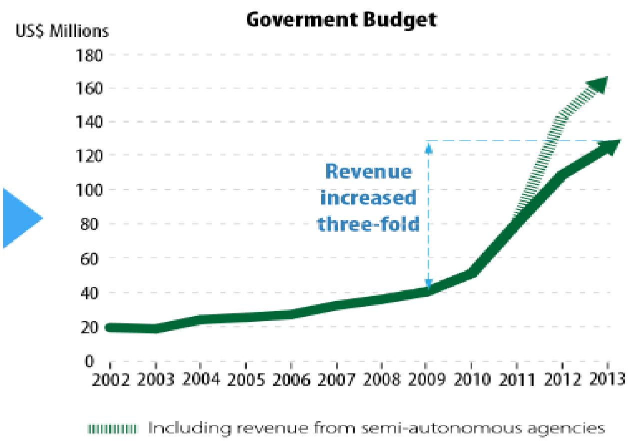
3 The Pillars are: Economic and Budget Management; Resource Mobilisation; Financial Management and Reporting; Public Procurement; Oversight and Evaluation.

- Basic automation through design and implementation of SLFMIS;

Somaliland has significantly increased domestic revenue in recent years. This achievement reflects a high priority and commitment demonstrated by the government on this issue at both political and administrative levels, but is due to a number of factors including:

- Simplification of the tariff structure;
- Public awareness campaigns;[4]
- The end of the ban on livestock exports to Saudi Arabia;
- A change in the official Somaliland Shilling:USD exchange rate;
- Improvements in personnel and tax administration processes, especially in inland revenue;
- Consolidating national accounts (including sub-national and semi-autonomous bodies;
- Capturing some external sources of revenue, such as the Somaliland Development Fund from 2013. [5]

The figure below highlights the upward trend in the tax revenue from 2010-2012.



Source: Planning and Statistics Department of the Ministry of Finance

Despite this impressive achievement, revenue collection remains just 8.5% of GDP (11.7% including revenue from semi-autonomous agencies) compared to the sub-Saharan average of 18.4%.[6] This is insufficient to finance Somaliland's development objectives. The continuing low revenue is largely due to the narrow domestic tax base, heavily reliant on trade taxes which made up 72% of revenues in 2012. Somaliland imports manufactured goods primarily through the Port of Berbera, as well as Khat – an amphetamine-like stimulant grown in Ethiopia and Kenya – primarily through Kalabaydh close to the Ethiopian border. Although data is fragmented, in 2010 Khat imports were over 16,000 tonnes and contributed to one third of the

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4 Civil Service Reform and Revenue Generation in Somaliland Achievements, Prospects and Challenges. Research carried out for DFID (2013), Horizon Institute

5 Budget Policy: Transitioning from State-Building to Development. World Bank presentation to the Somaliland Economic Conference. http://slministryofplanning.org/index.php/statistics/hh

6 Budget Policy: Transitioning from State-Building to Development. World Bank presentation to the Somaliland Economic Conference. http://slministryofplanning.org/index.php/statistics/hh

total value of imports. In 2009, most export revenue derived from the taxation of livestock and there were over 1.6 million livestock animals (mostly sheep/goats) exported through the Port of Berbera.

Inland revenue has been obtained largely from small businesses, with just 1.57% of domestic revenues generated by the profit income tax in 2012. This in turn is due to a small formal sector, dominated by a few large businesses which pay insufficient taxes.[7] In 2011 domestic revenue from the successful telecommunications and remittances industries did not feature in the top 10 sources of domestic revenue with the implication that many street traders continue to pay a higher relative share of their earnings in taxation than Somaliland's largest companies. However, the broadening and deepening of the existing domestic revenue base is a difficult political issue, which necessitates a process of bargaining and cooperation to address. As an indication of the GoSL commitment to progress in this area, the President's 2014 Budget Policy statement, issued in September 2013, sets out clear commitment at the highest levels to widen the tax base:

"In order to have achieve the goals set for the 2014 budget forecast, all efforts should be made to assist the Ministry of Finance in collecting the revenues and taxes dues specially from telecommunications, Money transfers, taxes on profit, taxes on property, revenue from Government property etc. This should be supported by an awareness campaign with the Houses of Parliament taking a leading role."[8]

Key challenges in revenue administration have been highlighted in the PFM Strategy and other DFID research.[9] The majority of GoSL revenue is collected in the districts either at customs offices or central authority revenue collection offices. Both Customs and internal revenue collections and documentation are manual processes with little effective supervision or control. Sums collected are deposited in district branches of the Central Bank of Somaliland and reports telephoned in to Hargeisa.

The Customs service suffers from many institutional weaknesses related to poor management: weak human resources; cumbersome documentary requirements coupled with bureaucratic and discretionary paper-based procedures; ineffective enforcement practices which rely largely on physical inspection and wide-spread under reporting and evasion. Significant revenue leaks along the country's porous borders.

The majority of the private sector is small informal businesses which do not maintain good financial information on which taxes can be assessed meaning inland liabilities are presumed

7 Budget Policy: Transitioning from State-Building to Development. World Bank presentation to the Somaliland Economic Conference. http://slministryofplanning.org/index.php/statistics/hh
8 Somaliland Budget Policy for 2014, (RSL/M/WM/222-2060/092013)
9 Civil Service Reform and Revenue Generation in Somaliland Achievements, Prospects and Challenges. Research carried out for DFID (2013), Horizon Institute

and negotiated rather than accurately calculated.[10] The entire process is subject to delays, transcription errors and interference and lacks effective controls, oversight or monitoring of outstanding amounts. The process is subject to significant loses, under collection and incidences of fraud.

Support to revenue generation at the district level is provided by the UN Joint Programme on Local Governance (JPLG). Sub-national revenue derives from a mix of central government transfers, JPLG contributions and local taxes and fines, and has been steadily increasing. However there is a high dependency upon central government transfers and JPLG contributions, much attention needs to be given to strengthening local revenue collection capacity and efficiency. Of the 34 districts in Somaliland, local revenue collections are greatest in Berbera and Hargeisa and mostly derived from commodity, property and trade taxes. In Gabiley and Sheik, local revenue collections are minimal comprising only 8% and 13% of total revenue sources respectively. Gabiley's local revenue is almost entirely generated by commodity taxes imposed upon Khat which is predominately imported at Kalabaydh close to the border with Ethiopia. UN JPLG has equipped local governments with tax billing systems (AIMS and BIMS), which have benefited the local governments and increased their overall revenues. [11]

The political settlement in Somaliland remains a social contract between Government and citizens based on a safe and secure Somaliland. Part of this settlement has led to an increase in public sector employment based on nepotism and clan dynamics. Without any pension system in place civil servants do not retire limiting access for a new wave of more educated and potentially more committed civil servants. Civil servants lack access to training, skills, capability, ethics, and sufficient remuneration to dis-incentivise corruption. Inland and customs departments are considered to be over-staffed and hiring across the civil service is not generally done on the basis of merit. Moreover, the Human Resources system is highly centralised and change is difficult to realise.

The Government of Somaliland has struggled to implement successive public sector reform strategies and action plans. The Government has committed to renewing its efforts based on an action plan from a retreat in Addis Ababa in February 2014. The precise details will be further developed in March as a secretariat is established. The agreed parameters of reform will be divided under the functions of government such as recruitment, pay and grading, training, job descriptions and management, and customer charters.

Somaliland has five PFM related bills[12] which the government plans to put before Parliament in the coming months. Of most relevance to this project are the draft Revenue and Customs Bills. Amongst other issues, the Revenue Bill sets out the intention of the Government to establish the Somaliland Revenue Authority, a new institution which would incorporate the current Departments of Inland Revenue and Customs, currently located in the Ministry of

10 Civil Service Reform and Revenue Generation in Somaliland Achievements, Prospects and Challenges. Research carried out for DFID (2013), Horizon Institute

11 Somaliland PFM Reform Strategy 2013-2017. Government of Somaliland

12 These include the Procurement Bill, External Audit Bill, Revenue Bill, Customs Bill and the Public Financial Management Bill.

Finance. These are currently large and geographically disbursed departments: customs comprises 450 staff (100 in Hargeisa and 350 in the regions) and inland revenue has 350 staff (220 in Hargeisa and 130 in the regions).

The SLRA would report to the Minister of Finance.[13] In preparation for this devolution, there will need to be a period where new ways of working are established, a strategy is developed and other policy, administration and changes are made to management and human resources. These will be key to lay the ground for devolution and all the complexities it will bring. However, sufficient progress must be made before the inevitable disruptions of the Presidential elections in 2016 to ensure that the reform process is established and robust.

A variety of necessary reforms have been identified by the GoSL PFM Strategy, the World Bank and research carried for DFID. These are summarised below including:

- Developing a reasonable and progressive framework for taxation that finds broad public support and deters tax evasion. Undertaking a detailed review of tax rates; collecting tax at appropriate levels from large corporations;
- Restructuring and reorganization of customs administration, introduction of customs systems, procedures and infrastructure and introducing information and communication technology.
- Improving revenue administration by becoming more client oriented, avoiding the use of intimidation tactics and police escorts to increase compliance.
- Improving tax intelligence and tax enforcement capacity and ensuring public officials operate with a sense of commitment and honesty; demonstrating the ability to deal with officials who contravene rules and regulations, rotating tax collection officers to reduce opportunities for diversion, and pursue non-compliance by judicial means.
- Intensify tax education campaigns including by involving Parliament and the Guurti.
- Development of stringer institutional and administrative capacity including human resource management in order to implement the basic rules and procedures that exist;
- The central government should additionally seek to enforce all regulations and legislation including the Telecommunications & Posts Law 2011, as compliance with existing regulations would significantly increase domestic revenue;
- Improving district level local tax collection.

There are many stakeholders involved in Somaliland's revenue effort. Government, at both official and political levels has expressed strong support for these reforms, including the establishment of the Somaliland Revenue Authority. Established businessmen and the Chamber of Commerce however reject the criticism that they do not already pay their fair share of taxes. They argue that they make many contributions to public expenditure, in response to public appeals, which are not registered as tax credit and which are not visible but

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13 Draft Revenue Bill 2011

which need to be regularised. Business leaders defend their contribution to the overall tax effort. They argue they get little in return from the government in essential services, such as dependable energy and water supplies and banking and insurance facilities, all of which are critical for growth of the private sector.[14]

Key Government interlocuters are the Ministry of Finance (most importantly the Departments of Revenue and Customs and Planning and Statistics and the PFM Reform Unit), the Ministry of Planning.

Other international development partners involved in the PFM Reform Plan are the World Bank, the African Development Bank, the European Union and the UN Joint Programme on Local Governance (JPLG).

In late 2013 a Special Arrangement was negotiated for Somaliland, under the New Deal to spearhead the aid effectiveness agenda. The Somaliland Development Fund is seen as one of the preferred aid modalities under this arrangement with a focus on working with some government systems (e.g. planning) and alongside other government systems (e.g. procurement). The special arrangement provides the oversight and coordination mechanisms to improve the overall quality and effectiveness of aid being provided to Somaliland.

Around 15 SARAs have been created in sub-Saharan Africa in the last two decades motivated by a desire to increase revenue collection by removing it from civil service rules, thus improving efficiency, staff competence, reducing corruption and political interference. SARA's have been used to launch broader revenue administration reforms and to signal to the private sector that reforms are serious. Academic assessment is that SARA have been broadly successful in addressing some governance and human resource issues, raising the quality of personnel and improving relationships and compliance of corporate taxpayers. SARA's have also successfully facilitated essential tax administration reforms such as the creation of large taxpayer units. In the early stages they have almost all seen increases in tax revenues, reduced corruption and better compliance.

In general, SARAs are thought to have almost certainly helped enhance the potential of African governments to increase tax revenues by facilitating a range of sensible reforms in tax administration that have proved their worth elsewhere. However, SARA's should not be seen as a panacea. They are also found to be expensive to maintain and strong leadership political commitment is needed over time to keep up performance. In some countries political interference has persisted and internal disputes between the SARA and MOF have stalled progress and enabled backsliding into inefficiency and a failure to address corruption.

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[14] Civil Service Reform and Revenue Generation in Somaliland Achievements, Prospects and Challenges. Research carried out for DFID (2013), Horizon Institute

State building experts tend to argue that taxation is part of the process of building a social contract, the mutual expectation between state and society that there is a reciprocal relationship built on entitlements and duties. Experts argue that fragile states sometimes require radical solutions, and that taxation cannot be reformed if business continues as usual. However, radical steps to bring the majority of Somalilander businesses into the tax net as a state-building measure must be balanced with pragmatism. Tackling ‘informality’ will require better detection/identification, registration, audit and enforcement, and it is feasible that administrative costs could outweigh benefits.

Equally important from a revenue raising perspective is tackling non-compliance with existing regulations, as well as broader issues of corruption. Reforming the tax system needs to works in conjunction with anti-corruption measures, otherwise corruption is likely to undermine new tax policies and administrative reforms. Linkages between taxation and governance are likely to involve linkages with wider support being provided to Somaliland’s institutions and organizations outside the revenue system such as the justice system, parliament and civil society.

Duty of Care

The Supplier is responsible for all acts and omissions of the Supplier’s Personnel and for the health, safety and security of such persons and their property. The provision of information by DFID shall not in any respect relieve the Supplier from responsibility for its obligations under this Contract. Positive evaluation of proposals and award of this Contract (or any future Contract Amendments) is not an endorsement by DFID of the Supplier’s security arrangements”. Note that the term “Supplier’s Personnel” is defined under the Contract as “any person instructed pursuant to this Contract to undertake any of the Supplier’s obligations under this Contract, including the Supplier’s employees, agents and sub-contractors.

DFID will share available information with the Supplier on security status and developments in-country where appropriate. DFID will provide the following:

- All Supplier Personnel will be offered a security briefing by the British Embassy Nairobi (Mogadishu when in Somalia) on arrival. All such Personnel must register with their respective Embassies to ensure that they are included in emergency procedures.

- A copy of the DFID visitor notes (and a further copy each time these are updated), which the contractor may use to brief their Personnel on arrival.

This Procurement will require the supplier to operate in conflict-affected areas and parts of it are highly insecure. The security situation is volatile and subject to change at short notice. The supplier should be comfortable working in such an environment and should be capable of deploying to any areas required within the region, where they adjudge security permits, in order to deliver the contract.

The supplier is responsible for ensuring that appropriate arrangements, processes and procedures are in place for their Personnel, taking into account the environment they will be working in and the level of risk involved in delivery of the Contract. The Supplier must ensure their Personnel receive the required level of training and complete a UK government approved hostile environment training course (SAFE) or safety in the field training prior to deployment.

The Supplier is responsible for ensuring appropriate safety and security briefings for all of their Personnel working under this contract and ensuring that their Personnel register and receive briefing as outlined above. Travel advice is also available on the FCO website and the Supplier must ensure they (and their Personnel) are up to date with the latest position.

Tenderers must develop their Tender on the basis of being fully responsible for Duty of Care in line with the details provided above and the initial risk assessment matrix developed by DFID (see annex 2). They must confirm in their Tender that:

- They fully accept responsibility for Security and Duty of Care.
- They understand the potential risks and have the knowledge and experience to develop an effective risk plan.
- They have the capability to manage their Duty of Care responsibilities throughout the life of the contract.

Annex 1: Duty of Care Questions

Please state 'yes' or 'no' to each of the Duty of Care questions detailed below in the boxes provided. Please refer to any information provided on Duty of Care within the Terms of Reference, Additional Information Documents before completing this section.

Your responses must be supported by evidence (no more than 2 A4 pages) attached as a separate Annex and must include a statement confirming that you (as the Lead Organisation) fully accept responsibility for Security and Duty of Care (including any personnel and subcontractors) throughout the life of the contract. The supplier must demonstrate their capability to take on this responsibility in terms of knowledge, experience and resources.

DFID reserves the right to clarify any aspect of this evidence or to request additional evidence/information where we deem appropriate. We may also decide to conduct an interview before short-listing a supplier for Invitation to Tender.

If you are unwilling to accept responsibility or are assessed by DFID as not having the capability to provide Security and Duty of Care for any contract awarded under this procurement, your tender will be excluded from any further Technical Evaluation and Scoring.

Note: this assessment of supplier capability does not form part of the Technical Evaluation and Scoring and should not be viewed as DFID setting any standard of Duty of Care requirements, which is for the supplier to determine.

1.	Have you completed an initial assessment of potential risks that demonstrates your knowledge and understanding, and are you satisfied that you understand the risk management implications (not solely relying on information provided by DFID)?
2.	Have you prepared an outline plan that you consider appropriate to manage these risks at this stage (or will you do so if you are awarded the contract) and are you confident/comfortable that you can implement this effectively?
3.	Have you ensured or will you ensure that your staff are appropriately trained (including specialist training where required) before they are deployed and will you ensure that on-going training is provided where necessary?
4.	Have you an appropriate mechanism in place to monitor risk on a live/on-going basis (or will you put one in place if you are awarded the contract)?

5.	Have you ensured or will you ensure that your staff are provided with and have access to suitable equipment and will you ensure that this is reviewed and provided on an on-going basis?
6.	Have you appropriate systems in place to manage an emergency/incident if one arises?

ANNEX 2. DFID Overall Project/Intervention

Summary Risk Assessment matrix

Project/intervention title: **Strengthening Revenue Policy and Administration in Somaliland**

Location: **SOMALILAND**

Theme	**DFID Risk score**	**DFID Risk score**	**DFID Risk score**
	Hargeisa, Berbera	**Borama, Burao**	**Other Parts of Somaliland**
OVERALL RATING	4	4	4
FCO travel advice	5	5	5
Host nation travel advice	Not available	Not available	Not available
Transportation	4	4	4
Security	5	5	5
Civil unrest	4	3	3
Violence/crime	3	3	3
Terrorism	5	5	5
War	3	3	3
Hurricane	1	1	1
Earthquake	1	1	1
Flood	3	1	3
Medical Services	4	5	5
Nature of Project/	**X**	**X**	**X**

Intervention			

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

ANNEX 3. DUTY OF CARE TO SUPPLIERS, SOMALIA POLICY INFORMATION NOTE

DFID implemented a new Duty of Care to Suppliers Policy with effect from 19 July 2012. The policy clarifies the DFID position on Duty of Care to Suppliers, how it will be applied in practise and who is responsible for Duty of Care (DoC) when DFID contracts with a Supplier for the provision of Goods and Services (of any type or value). Under this Policy, DoC must be considered at the beginning of any procurement process and be managed throughout the life of the contract. This policy does not apply to DFID Accountable Grant arrangements.

What is "Duty of care"?

"Duty of Care" is a legal obligation requiring an adherence to a standard of reasonable care to prevent foreseeable harm. The duty stems from the relationship of the participants in a given situation being sufficiently close that it is reasonable for the law to infer that a duty is owed. Where it exists, such as between an employer/employee, it requires due care to be taken (which will always depend on the circumstances). The focus should be on what needs to be done or prevented to provide adequate care. In general terms, a Duty of Care will arise towards someone whom you should be aware of as being potentially at risk from some act or inaction on your part.

Who is responsible for duty of care?

All Supplier Personnel (including their employees, sub-contractors or agents) engaged under a DFID contract will come under the Duty of Care of the lead Supplier. The Supplier is responsible for the safety and well-being of their Personnel and any Third Parties affected by their activities, including appropriate security arrangements. This approach is not new, but our DoC policy, competitive processes and contract documents make our position clearer for both DFID staff and suppliers.

Suppliers must comply with the general responsibilities and duties under relevant health and safety law including appropriate risk assessments, adequate information, instruction, training and supervision, and appropriate emergency procedures. These responsibilities must be applied in the context of the specific requirements the Supplier has been contracted to deliver.

What will DFID provide in relation to duty of care?

DFID will carry out a risk assessment (of foreseeable risks) for all new procurements and a risk rating of Low, Medium or High will be applied; for Somalia the risk currently ranges from high to very high and is updated monthly. The Terms of Reference will provide any further DoC information DFID considers appropriate. In exceptional circumstances DFID may offer to provide specific DoC arrangements and if applicable, these will also be specified in the Terms of Reference. The provision of DoC information or special arrangements by DFID does not relieve the Supplier of their DoC responsibilities under any contract awarded.

How will this impact on the suppliers' selection process?

For Procurements rated as Low risk there is no change to the supplier selection process and DFID standard processes continue to apply.

Procurements rated as Medium or High risk will require suppliers to provide evidence that they have the capability to take on and effectively manage their Duty of Care responsibilities throughout the life of the contract. As part of the procurement process suppliers will be asked to respond to a set of standard DoC questions (see Annex A for a copy of the standard questions) and to provide supporting evidence in the form of text (the number of pages required may vary and may be specified in the procurement pack). The assessment of DoC will be on the basis of suppliers demonstrating in their response that they have the Knowledge, Experience and Resources to adequately deal with their responsibilities in the context of the specific procurement. The DoC assessment will be on a Pass / Fail basis:

- For High Value procurements that are being competed under the EU Restricted Route, the assessment will be carried out at the Pre-Qualification Questionnaire (PQQ) stage. The standard DoC questions will be included in our PQQ Template. This assessment is completed separate from (and prior to) the Technical Evaluation / Scoring of the PQQ. If a supplier fails the DoC assessment, their PQQ Response will be excluded from the Technical Evaluation and they will not be shortlisted for ITT. DFID may revisit their earlier DoC (PQQ) "Pass" decision if at the ITT stage the more detailed risk management information provided in the Supplier's Tender raises significant concerns in relation to their DoC capability.

- For Low Value procurements (under the EU threshold of £113K), the standard DoC questions and request for evidence will be included in the Terms of Reference provided in the Invitation to Tender (ITT) pack. The Supplier DoC response will be provided as part of their Technical Tender. The assessment of Supplier DoC capability is completed separate from (and prior to) the Technical Evaluation / Scoring of the Tender. If a supplier fails the DoC assessment, their Tender will be excluded from the Technical Evaluation/Scoring.
- DFID will not award a contract to a Supplier who cannot demonstrate that they are willing to accept and have the capability to manage their DoC responsibilities in relation to the specific procurement.

How detailed should the responses be?
Somalia is a high risk, conflict country. Duty of Care arrangements are therefore of the highest importance. To assess the DoC responses DFID Somalia needs to be sure not only that 'appropriate measures' are in place, but to be able to assess the detail of those 'appropriate measures'. Accommodation, transport (including the type of vehicles available and what close protection will be provided), medical and evacuation arrangements, communications systems, and detail of training and secure equipment to be provided are examples of the sort of detail required.

How will this impact on the contractual arrangement?
Our standard contract for suppliers will include the following clause in relation to DoC:

"*The Supplier is responsible for all acts and omissions of the Supplier's Personnel and for the health, safety and security of such persons and their property. The provision of information by DFID shall not in any respect relieve the Supplier from responsibility for its obligations under this Contract. Positive evaluation of proposals and award of this Contract (or any future Contract Amendments) is not an endorsement by DFID of the Supplier's security arrangements*".

We will also be in touch with Framework Suppliers to agree the inclusion of this clause in section 2 of the Framework Agreements. In line with this policy, Framework Suppliers will be assessed for DoC capability as part of any mini-competition under the Frameworks. A Call-down contract will not be awarded to a Framework Supplier who cannot demonstrate that they are willing to accept and have the capability to manage their DOC responsibilities in relation to the specific procurement.

How will DoC be managed post contract award?
The Supplier is responsible for managing all aspects of DoC for the duration of the contract (in line with the contract Terms and Conditions). When, in exceptional circumstances DFID is providing specific DoC arrangements these will be detailed in the Terms of Reference and agreed in the contract.

The Terms of Reference will provide an outline of any on-going briefing arrangements that DFID are willing to provide. This will vary in relation to the procurement. The level of appropriate briefing provided by DFID will be decided at the sole discretion of DFID.

DFID will maintain an overview of on-going supplier contracts and may decide that changes are required to contractual arrangements to alleviate concerns on Supplier capability to manage DoC responsibility throughout the life of the contract in a changing risk environment. This could in some instances result in termination of a contract.