CALLDOWN CONTRACT

Framework Agreement with: Oxford Policy Management

Framework Agreement for: Wealth Creation

Framework Agreement Purchase Order Number: 5929

Call-down Contract For: STRENGTHENING REVENUE POLICY AND ADMINISTRATION IN SOMALILAND: PHASE TWO

Contract Purchase Order Number: 7982

I refer to the following:

1. The above mentioned Framework Agreement dated 28th January 2013;
2. Your proposal of 26th June 2017
3. Table of clarifications and response dated 30th October 2017

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 30th January 2018 ("the Start Date") and the Services shall be completed by 30th May 2020 ("the End Date") unless the Call-down Contract is terminated earlier in accordance with the Terms and Conditions of the Framework Agreement. Should DFID require to extend the contract (at no extra cost) we will work with The Supplier to understand what inputs should be slowed down/removed over the course of the programme.

2. Recipient

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

3. Financial Limit

3.1 Payments under this Call-down Contract shall not, exceed £ £4,893,597 ("the Financial Limit") and is exclusive of any government tax, if applicable as detailed in Annex B**.**

When Payments shall be made on a 'Milestone Payment Basis' the following Clause 28.1 shall be substituted for Clause 28.1 of the Framework Agreement. For the avoidance of doubt this refers to the Inception Phase Payments for this contract.

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.

Expense Payments will be made monthly in arrears based on actual expenditure incurred as verified by receipts. The expenses are listed as indicative of an expense ceiling: DFID will reimburse costs up to this value only.

4. DFID Officials

4.1 The Project Officer is:

[redacted]

4.2 The Contract Officer is:

[redacted]

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.

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. Sub-Contractors

8.1 Oxford Policy Management has permission to sub-contract with the following organisations:

[redacted]

9. Branding

9.1 The Supplier will collaborate with DFID and proactively look for ways to build support for development and raise awareness of DFID's funding. The Partner will explicitly acknowledge DFID's funding, in written and verbal communications about activities related to the funding, to the public or third parties, including in announcements, and through use, where appropriate, of DFID's "UK aid – from the British people" logo ('UK aid logo') in accordance with DFID standards for use of the UK aid logo, unless otherwise agreed in advance by DFID and in all cases subject to security and safety considerations of the Partner.

9.2 The Supplier will provide a visibility statement of how and when they will acknowledge funding from DFID and where they will use the UK aid logo, which should be approved by DFID. The Supplier will include reference to this in its progress reports and annual reviews.

9.3 Suppliers may use the UK aid logo in conjunction with other donor logos, and where the number of donors to a programme or project is such as to make co-branding impractical, acknowledgement of funding from DFID should be equal to that of other co-donors making contributions of equivalent amounts to the programme or project.

9. Call-down Contract Signature

9.1 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.

Department for International Development

UKaid from the British people

For and on behalf of The Secretary of State for International Development	Name: Position: Signature: Date:
For and on behalf of	Name: Position: Signature: Date:

TERMS OF REFERENCE

STRENGTHENING REVENUE POLICY AND ADMINISTRATION IN SOMALILAND: PHASE TWO: 2017-2020

INTRODUCTION

History tells us that taxation is fundamental to sustained development and state effectiveness, and that economic and political development is difficult without a consolidated central state (DiJohn, 2010). In 2015, Gadenne showed the correlation between tax capacity and economic development which he states can be interpreted as causal, because governments that tax more will also invest more in human capital infrastructure. Further works build on this and show the interaction of taxation, accountability, and public spending which underpin our understanding of how representative governments emerged in the West, and that aid revenues are often less well spent than tax revenues.

The UK was an early international pioneer for making the connection between taxation and development. The UK has matched this influential policy thinking with increased investments in bilateral assistance for taxation reform across Africa and started to support this critical reform in Somaliland from early 2015. The UK recently committed to doubling its spend on tax programmes by 2020, as part of Addis Tax Initiative. DFID's operational plan grasps the strategic case for strengthening domestic revenue in Somaliland seeing revenue as essential for the survival of the state.

There is an urgent need to increase domestic revenue and broaden the tax base in Somaliland. The government of Somaliland collects domestic revenues of about $180m (2015). This is just 7% of estimated GDP and very low in comparison to other fragile states, or regional economies. It is hard to secure lasting growth with a tax/GDP ratio below around 15% (Gaspar, Jaramillo and Wingender 2016); a useful statistic to compare with Somaliland's 7%.

The reform to establish a Somaliland revenue authority is clearly articulated in the National Development Plan 2012-2016, the Public Financial Management action plan 2014, and the Revenue Act No. 72/2016 and the Customs Act 73/2016 which were signed into law by on 16 July 2016. The UK contracted Adam Smith International to deliver the first phase of tax policy and administration support from January 2015 until December 2016. This support aimed to achieve four main outputs:

i. Transition to the Somaliland revenue authority
ii. Establish Somaliland Revenue policy
iii. Improve tax and customs administration
iv. Organisational development and future skills and HR for Somaliland's revenue authority

Results from the first phase have been mixed, but a clear reform trajectory is in place and there remains a strong strategic case for continuing with this support. Our support in this area requires a medium to long term investment to ensure that Somaliland's future service delivery and its poverty reduction strategy can realistically be financed from national resources, and not aid.

The recently delayed Presidential election to October 2017, and serious drought means that government attention and political will to spearhead and drive governance reform efforts is relatively weak. The

inception phase will need to square up to these challenges and adapt the implementation phase to work with the grain of Somaliland's political settlement and innovate in challenging circumstances.
This UK investment will be drawn from the Public Resource Management in Somaliland programme, of which this component is designed to support state capability efforts and increasing tax revenue in Somaliland between 2017 and 2020.

OBJECTIVE

The objective of this assignment is a 3 year, politically astute programme that can help to deliver more effective tax administration and policy in Somaliland that can improve governance through strengthening the relationship between state and citizens, incentive public administration reform, encouraging broad based growth and supporting poverty reduction.

TIMEFRAME

The contract is expected to commence on 1st December 2017 and 31 March 2020 (to coincide with end of the PREMIS programme).

There will be an inception phase of 6 months in order to assess progress and to determine whether to continue with implementation. This will be followed by DFID annual reviews to assess progress against overall objectives and to realign the programme if required; stakeholder and beneficiary engagement will strengthen this process.

The upper limit of this programme value is £5 million.

THE RECIPIENT

The recipient is the Government of Somaliland. The people of Somaliland will be the primary beneficiaries of the support. The project will focus on strengthening Somaliland's capacity to raise domestic revenue in an accountable, inclusive and pro-growth way. This will include actions aimed at the public sector (and in particular the Ministry of Finance) but will also include working with the private sector around revenue policy and revenue administration.

SCOPE

In order to effectively deliver on the mandate of this project, the implementing partner is expected to pay continuous attention to the political economy of revenue generation, as well as the players involved. This should continue throughout the project. DFID is seeking a service provider that clearly shows how the local political economy will influence and affect programme design and choice. The service provider should be prepared to actively engage with other donors working within the PFM sector, including the World Bank, USAID, EU, and the UN. It is important for proposals to fully understand the complexity of working on technical assistance programme in Somaliland. As the first phase has shown tax reform should be seen as a medium to long term project. Getting the right people, with the right level of expertise is crucial early on in the second phase.

Institutional focus

The focus of the project includes the Ministry of Finance, in particular those departments responsible for policy and planning, as well as the domestic tax and customs departments including their outposts at the Berbera Port and Airports. This second phase must, however, widen its stakeholders to include working with the private sector around both revenue policy and administration (e.g. via the Chamber of Commerce) and with citizens (e.g. via civil society organisations and the media).

Sub-national support

Support to revenue mobilization at the sub-national (district) level is provided by the UN Joint Programme on Local Governance (JPLG). An approach is expected to clarify how the project will co-ordinate closely with the JPLG to ensure that the Government approach to tax policy and administration is coherent between the central and district levels.

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. The supplier will be expected to travel to these areas.

THE REQUIREMENTS

The project has three expected outputs with cross cutting management and organizational activities:

1. **Somaliland Tax Commission** driving a step change in Somaliland's approach to taxation
2. **Revenue Policy** that shapes annual budgets, maximizing take, is equitable, and reduces inefficiency and distortion
3. **Revenue Administration** that is efficient and transparent developed and perceived by the public to be fair and accountable

Output 1 = Somaliland Tax Commission

A Somaliland Tax Commission is expected to be established in the coming months. The precise make up and terms of reference are under discussion[1] but likely to include senior business interests, government (both central and regional), academia and civil society commission. The purpose of the Somaliland commission is to instil country ownership into the discourse on Somaliland policy direction around raising sustainable levels of domestic resources. The commission will inform the design of this second phase and review the work plan for the first year. It will monitor progress and recommend the sequencing of reform efforts. All prospective bidders are urged to consider how they would interact with the commission and shift focus in an adaptive style.

Low income country tax systems that appear inefficient from an OECD perspective may actually be highly rational for achieving the real purpose they serve: to help preserve the power of national political

[1] Including its legal status

elites. This underlines the need for political economy analysis to be at the heart of tax reform in Somaliland to identify:

- ✓ Progressive reformers
- ✓ Reform based on domestic political realities and pressures
- ✓ Incentives to persuade the more reticent to allow reform of their tax systems

This 'thinking politically' way of working is predicated on involving a wider set of stakeholders than in the first phase of tax reform support, such as supporting civil society in lobbying for a fairer tax system; working through international organizations to link tax reform with financial and trade benefits; or leveraging the private sector to push for a more formalized taxation arrangement that could reduce uncertainty.

In providing support to the transition to the Somaliland Revenue Authority, the implementing partner should consider the establishment of a Somaliland tax commission, or other body that suits the Somaliland context, to identify the major political economy issues around taxation. The commission should consider:

i. Gaining unwavering support and commitment from the President and the Cabinet to Somaliland tax policy, and introduction of the Revenue Act No. 72/2016 and the Customs Act 73/2016.
ii. Considering how to instil dynamism around taxation reform which is "sticky" [Moore 2012] by nature. Revenue doesn't change much year on year in Somaliland and the current baseline for revenue is 7% of GDP. How can this baseline be used to inform the people of Somaliland that at this very low the state will not deliver much beyond basic salaries for its civil servants?
iii. Consider the concept of tax effort starting with a statistical estimate of an expected tax take in light of Somaliland's economic structure. Could the concept start a strategic conversation with the population to address the grudging compliance to pay tax?
iv. What about the Berbera Port and corridor development in partnership with Dubai Ports World? How might this influence medium term tax efforts? Could this second phase of revenue reform support align with the corridor development expected to be completed by 2020? Does this argue for a major effort on customs and cross border trade with Ethiopia?

The design, management and organisation reform of the departments of inland-revenue and customs, detailed in the annexed Somaliland Revenue Authority Roadmap should be reviewed. The review by the Commission should include:

i. Review the Revenue Authority preparatory plan from Phase 1
ii. Building management and leadership capacity amongst executives and managers
iii. Truth-test the functional review from Phase 1 and consider whether additional analysis is required. Align structure and mandates with the results of the functional review.
iv. Key business processes that can be streamlined
v. Locally applicable and non-financial incentives for staff to sustain engagement
vi. Human resources management improvements such as an executive management cadre
vii. Basic operational and management guidelines for planning and reporting
viii. Establish corporate governance tools based on revenue and customs law and best practices
ix. A workforce and change management development plan

Underpinning all of these issues the Government is looking for innovation, and an analytical framework that drives the use of innovation and appropriate technology.

Output 2 = Revenue Policy Reform

Somaliland's domestic revenue is driven by tax revenue, mainly import duty. Sales tax, harbour tax, export levy (livestock), and administration tax are the other key drivers of revenue. These five tax sources contribute about 80 percent of the total revenue on average between 2002 and 2013. Though declining in share, import duty contribution to total revenue averaged 48 percent in 2002 to 2013. Sales tax contribution has remained steady during this period averaging 10 percent, except in 2010 when its share declined to 7.9 percent. Port and administration taxes are declining as a share of the total as other revenue sources increase (WB 2015).

Low levels of national revenue in Somaliland are largely due to its narrow domestic tax base. Somaliland continues to import manufactured goods primarily through the Port of Berbera, as well as khat through the Kalabaydh border crossing with Ethiopia. Inland-revenue has been obtained largely from small businesses, because of its small formal sector. The few large businesses which dominate the private sector in Somaliland – e.g. telecommunications, remittances, power generation – pay insufficient taxes. 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 both a challenging political and social issue, which requires a process of bargaining and understanding underlying social norms on tax.

Activities may include:

i. Mentoring and supporting the operationalisation of the Tax Policy Unit
ii. Implementing short-term improvements for domestic taxes and international trade taxes
i. Develop an Official Tax Policy framework which might include legislative amendments
ii. Evaluating intergovernmental fiscal relations
iii. Developing a comprehensive tax code (includes laws for all taxes, at all levels)
iv. Simplification of tax systems and rates – e.g. fewer taxes, fewer rates for each tax, fewer exemptions? How to make the tax process routine? Fewer points of contact? Self-assessment?
v. Appraise of the current tax regime to inform further policy and legal reforms that are attuned to the Somaliland context, such as exploring options around instituting a simplified/presumptive tax regime for small businesses, or for strengthening management of large-taxpayer compliance and associated enforcement mechanisms.
vi. Analysing tax policy options and economic impacts of tax reforms
vii. Introducing a new tax policy, system and measures
viii. Twinning key staff with other regional tax authorities or with the UK's HMRC.

In reviewing potential reforms to revenue policy, consider the following:

i. What is the likely impact of Somaliland's high levels of income inequality?
ii. Property taxes are controversial but cited as consistently underused.
iii. What about the digitalisation and GIS? Technological innovation Somaliland might consider?
iv. What about the largest in flow of untaxed resources to Somaliland – remittances?
v. What tax exemptions exist in Somaliland? Are they effective?
vi. Which taxes are hurting small and medium size businesses?

Output 3 = Revenue Administration Reform

The Somaliland Government is clear that it is not looking for a template tax reform project or a standard 'off the shelf' response from the market.

Key challenges in revenue administration have been highlighted in the PFM Strategy and reporting from the first phase of support implemented by ASI and DFID research. The majority of Somaliland's 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.

The customs service continues to suffer from institutional weaknesses related to management, human resources, bureaucratic paper-based procedures, enforcement, and reporting challenges which rely largely on physical inspection. The first phase of support focused on establishing a risk management approach to customs and the introduction of a new customs valuation form, negating the use of the outdated customs valuation manual. Testing is about to start at Berbera port and Hargeisa airport.

The majority of the private sector is small informal businesses with associated challenges around the varying quality of financial records and information, and in some cases under reporting of earnings. This means that inland liabilities are presumed and negotiated rather than accurately calculated. The entire process is subject to delays, transcription errors and lacks effective controls, oversight or monitoring of outstanding amounts. The process is subject to significant losses, under collection and incidences of fraud. As the inland-revenue tax regime is bargained an assumption is that those taxpayers with the greatest bargaining power tend to underpay, and that general consumption taxes that much of the population pay appear to be the most politically palatable in Somaliland.

Poor administration can easily undermine well-designed tax policies. The best governing tax institutions tend to be singular, with a degree of separation from the executive; a concentrated fiscal authority. In reviewing potential reforms to revenue administration, consideration of the following should prove useful:

Inland Revenue Administration Reform

i. Tax takes are low in low income countries because the structure of their economies makes taxing difficult. Informal economic transactions are hard to tax.
ii. What about ICT improvements? The widespread use of mobile phones makes data matching possible. Getting people into the tax net even at nominal levels?
iii. Appropriate policy on the use of ICT and contracting. Essential to avoid getting locked into supplier contracts that often include hidden and substantial user fees and charges.
iv. Consolidate and automate taxpayer registration being established in phase 1.
v. Complete the establishment of the large taxpayers' office, and then consider medium and small taxpayers.
vi. Review the implementation of a large taxpayer registration system/database, before attempting more ambitious IT initiatives. Consider an appropriate "integrated tax software system", a "risk-based tax audit system" and a "tax debt recovery system".
vii. Link the tax software with customs

Customs Administration Reform

i. Continued roll out of the self-assessment forms. Code of conduct and relationships with importers / exporters. Towards a service delivery department? Track segments of trade.
ii. New valuation and tariff system
iii. Review operational procedures and border controls
iv. Fully operational risk analysis system for selective controls
v. Fully operational post-clearance audit system
vi. IT requirements and determine whether a new system is required e.g. ASYCUDA
vii. Develop procedures for combatting fraud and smuggling
viii. Link the tax software with customs

CONSTRAINTS AND DEPENDENCIES

The political economy analysis of Sarah Phillips and Mark Bradbury's historical analysis describe Somaliland's state building process through the 1990's and early 2000's. This clearly shows that the Somaliland state and the private sector can establish a political partnership that can drive change for the People of Somaliland. This reform needs to learn from that early state building experience and create the space to engage with the Government and private sector, jointly and separately throughout the project. The project needs to support a form of social contract that forges an alliance around the appropriate levels of taxation and compliance.

Taxation, by its very nature, is highly political. The second phase will encounter many challenges, both from an internal organisational change perspective but also because of political constraints. This calls for an adaptive way of working. The service provider must explain how they will approach this in a low capacity Ministry and with a new legislative framework.

Regional tax organisations are playing an increasingly important role in building tax capacity. It might be helpful to investigate the potential role that the African Tax Administration Forum have in supporting this work and/or potential for south-to-south linkages.

Suggest appropriate links to Public Financial Management and anti-corruption reforms. This should be approached from a coordination perspective – feeding in experience and results to the PFM coordination structure. And also approached from a sustainability perspective considering the levels of revenue collected as a% GDP, the efficiency of the system, and its social impact on most citizens and state legitimacy.

The project should establish a governance framework that is fit for purpose. This should take the existing revenue steering committee from phase 1 and modify it into a corporate governance operating model in consultation with the Tax Commission and a wide range of stakeholders that can hold the reform and its results to account. This model will help embed a nationally led tax reform vision to deliver: tax policy development, transition and change, communication, and risk management.

PERFORMANCE REQUIREMENTS

Coordination

The DFID team and major stakeholders will hold quarterly meetings with the service provider to discuss project progress. The meetings may be as regular as required, especially during the inception phase where coordination meetings may need to be held monthly.

The supplier must ensure that the overall project is delivered accordingly. This means that all tasks must be completed on time and as stipulated in these terms of reference and the entire contract. Performance will also be assessed as part of DFID annual reviews and as part of contract performance review. The supplier will be expected to maintain close contact with and ensure open channels of communication with the DFID team (Governance and Economic advisers) to ensure any changes are routinely captured (and tracked) as part of the annual work plan.

There will be a break point after the six months inception period and a mid-point review of implementation. Continuation of the services after these periods will be based on agreement of deliverables and on satisfactory performance and the progress of the Supplier against the specified outputs.

While quality, experience and technical expertise will be key considerations in selection of the service provider, DFID will also give high priority to efficiency and the ability to deliver Value for Money. The preferred supplier will be expected to continually demonstrate how value for money will be achieved through the project.

Reporting

The supplier will be expected to produce inception period reporting:

i. Work plan: for the period of the assignment and an updated log frame for the period of the contract and describe the mechanisms for making any changes and how changes will be captured.
ii. Inception event(s): facilitate an event which will involve presenting the work plan and technical assistance strategy to a mixture of government and the taxpaying public.
iii. Operational documents: asset register, risk matrix, financial forecast among others.
iv. Inception Report: this will detail what the supplier has learnt and overall experience during the inception period, including a full reflection of the first phase of revenue support. The report will detail recommendations of how the supplier proposes to take forward each aspect of the scope into the implementation phase.

The supplier will be expected to produce implementation period reporting:

i. Work plan and log frame updated regularly for the period of the contract and describe the mechanisms for making any changes and how changes will be captured.
ii. Quarterly progress reports will be delivered through an agreed template between the supplier and wider stakeholders.
iii. Regular events that reach out to Somalilanders – the supplier will liaise with the DFID team to identify which elements of the programme will benefit from various external events.
iv. Evidence documentation: to inform programme prioritization and for wider dissemination.

v. Financial reports and forecasts, specifically monthly and annual financial forecasts, annual financial reports, and a certified annual audit statement showing funds received and expended. Strong financial management is recommended.
vi. Updated risk matrix (bi-annually) setting out a clear strategy for monitoring, managing and mitigating risks and contingency plans.
vii. Updated asset Register (bi-annually) indicating what assets that have been bought with the programme funds.
viii. Communications products to document and disseminate results and lessons learned as and when required.

The supplier will be expected to prepare for closure in the final 6 months:

i. Deliver a final report covering activities over the life of the project.
ii. Exit strategy - must be provided to DFID 6 months before the end of the contract; all reports submitted must be accurate and submitted on time. All reports should be of a length and level of detail appropriate to the purpose, as concise as possible and written in plain English.
iii. Asset Register disposal plan – if any assets were procured with the programme funds, the service provider will provide a disposal proposal guided by the UK asset disposal guidelines.

Functionality and Throughput

The supplier shall commit to being fully prepared in the event any decision is made to scale up (increase) or scale down (decrease) the scope of the programme. Such a flexible approach might include short to medium term milestones being reviewed by key stakeholders, but in instances where milestones are not met the international technical assistance could, for example, could be pulled back until the problems have been rectified by the Government leads. Ranges of technical assistance (TA) could be clearly deployed based on the following examples:

- ✓ Range 1 = revenue authority board not in place, resistance of large taxpayers to pay tax, limited tax policy changes, delays piloting the customs form = minimal TA
- ✓ Range 2 = revenue board appointed, 10% large taxpayers registered, reduction in nuisance taxes and increased tax on cigarettes considered = medium TA
- ✓ Range 3 = revenue authority organogram agreed with Ministerial approval, large taxpayer unit established and more than 50% of large taxpayers registered, nuisance taxes removed and new excise taxes on khat and cigarettes taxes agreed by the Minister, communications with tax payers starts – full TA compliment

The supplier, in consultation with the Government and DFID may be requested for changes in the deployment of your team at relatively short notice, and a surge or reduction is specific outputs based on the impact observed by the steering committee.

OTHER REQUIREMENTS

UK Aid Branding

Suppliers 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. Suppliers 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.

Transparency

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.

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/

Supply Chain Mapping

DFID is expected to report to central government on the levels of contracted work being allocated to SME and other sub-contracted organisations. It is now a requirement to provide details regarding the levels of direct and indirect departmental SME spend with major suppliers to the cross-government SME Small Business Policy team working on this initiative. DFID is also interested in gathering details of the organisations working within the supply chains of directly contracted partners. As part of the contractual compliance checking process, Contractors should be required to submit returns providing these details, as a minimum on an annual basis.

Duty of Care

Duty of Care Risk Assessment for Somaliland is attached.

Background

The shift to establishing a revenue authority continues to be a key aspiration of this Government but the human resource and implications of new tax policy has not been fully internalised. The result has been very small shifts towards the establishment of a semi-autonomous Somaliland Revenue Authority except for the passing of the revenue legislation.

There is a lot of tax reform that can take place outside of a Somaliland revenue authority. For example, the first phase of support has improved the accuracy and completeness of Somaliland Government's national budget through the development and introduction of a revenue forecasting model, and the establishment of a large taxpayer office being established and staffed within the Department of Inland Revenue.

Some of the lagging results from Phase 1 reflect both technical challenges (e.g. organisational resistance and change) and political challenges (e.g. squaring up to large taxpayers initially – particularly some very wealthy individuals and corporations, many of whom exploit opportunities to minimize tax).

Tax reform in Somaliland is extremely political. The Ministry of Finance is acutely aware of the need to increase taxes to pay for the delivery of services to the Somaliland people. But the political risks of introducing new excise taxes on khat and cigarettes prevent their inclusion in the 2017 budget. How can a poorly resourced Government design a strategy that engages constructively with the most powerful and well organised businesses in Somaliland which in most cases pay no tax at all?

Somaliland Ministries are easily overloaded and cannot absorb significant technical assistance. This means there is a risk that the customs and inland-revenue departments may adopt the forms of improved functionality and an improved organization but in fact be camouflaging a persistent lack of function. This can lead to a fundamental mismatch between expectations and the actual capacity of prevailing administrative systems to implement even the most routine administrative tasks. The first phase shifted from a clear reform roadmap to a much slower and less ambitious set of deliverables in a one year period. This shift has led to higher levels of understanding and engagement, but low levels of confidence by officials to move forward on reforms without a continuation of fairly intensive technical assistance.

When strong political leadership is lacking the tax/GDP ratio is a poor measure of progress (Moore 2013). Not only does it neglect the limitations on tax-take dictated by a country's economic structure (rural, informally employed populations being inherently difficult to tax) but it also fails to capture the quality of taxation; and adverse effects on the wellbeing of its citizens.

Support to tax sector institutions can contribute to wider tensions by inadvertently replicating or amplifying existing tensions, or creating new ones. An intervention may not directly cause violence or increase tension, but certain elements of an otherwise successful intervention can contribute to existing causes and drivers of conflict – for example, (i) tax collection can have serious impacts on certain groups of society as it can be used as a very political instrument used to distribute wealth (or not) and (ii) support may reinforce patterns of domination and exclusion if new recruits to a revenue authority are drawn from one powerful group, who may act in a biased or discriminatory way.

It is also possible that revenue authorities can often be a source of violence, insecurity and grievance for citizens – especially those revenue authorities which use coercive powers (e.g. surveillance, intelligence gathering, arrest, prosecution, and seizure of assets). If our tax capacity building work is to successfully deliver our key objectives), we will, on occasions, need to work directly with organisations and individuals about whom we have serious human rights concerns. It is right for us to do this as only through engaging them can we change their behaviour. However, all HMG departments need to ensure that our engagement in this area does not compromise the UK's commitments to strengthen and uphold human rights (FCO, 2014). When engaging overseas, we need to ensure that our tax capacity building interventions support UK values and are consistent with domestic and international human rights obligations.

Whilst tax capacity building programmes can present serious risks and challenges (both substantive and reputational), it is usually possible to manage and mitigate these risks to an acceptable level so as to ensure our interventions (i) deliver the anticipated results, (ii) do so in a manner which does no harm and (iii) is consistent with UK values and standards.
In practice, this means: working across HMG to develop a shared understanding of (i) programme risks and (ii) potential to 'do harm.' Programme design and implementation, informed by (ii) above, should consider how interventions will deliver results in a conflict- and gender- sensitive manner and in a way which does not inadvertently contribute to human rights abuses. Appropriate programme governance structures should be established which:

i. Establish clear roles and responsibilities for risk management (based on DFID's Smart Rules – see DFID, 2015c) between DFID, HMG and non-HMG implementing partners. HMG cannot outsource the ownership of risk to commercial contractors.
ii. When supporting organisations with coercive powers, ensure human rights risks are assessed, mitigated and appropriately authorised/documented in line with the Overseas S&J Assessment (OSJA) guidance and methodology (FCO, 2014).
iii. Determine risk appetite and establish protocols to ensure proportionate, consistent and appropriate responses in the event of allegations of human rights abuses.

<u>Suggested Reading</u>

Annex A – Tax Capacity Building - A Strategic Framework for HMG Engagement, October 2016
Annex B – Enhancing the effectiveness of external support in building tax capacity in developing countries
Annex C – ICTD Working Paper 15 - Obstacles to Increasing Tax Revenues in Low Income Countries
Annex D – FSR 2014 - Domestic Revenue Mobilisation in Fragile States
Annex E – DRAFT Somaliland Revenue Authority Roadmap