

Creating an RFP for a New Tax Stamp System

By **Randall Burgess** – New ProImage/Agfa and Tax Stamp News contributor

I was honoured to moderate a very informative panel discussion last November at the *Tax Stamp Forum*[™], entitled ‘Creating an RFP for a New Tax Stamp System: Putting Round Pegs into Round Holes’. The distinguished panel was comprised of experts in supply chain management, security printing and enforcement, as well as industry and revenue authority representatives, who came together to discuss best practices for developing a Request for Proposal (RFP) for a tax stamp programme.

The panel included: Michael Eads, Sovereign Border Solutions (South Africa); John W Colledge, a former law enforcement professional (US); Michael J Thorne-Begland, Altria Client Services (US); Mark Deakes, Reconnaissance International (UK); Richard Ward, Chairman NASPO (US); and Caxton Masudi Ngeyo, Kenya Revenue Authority.



From left: Michael J Thorne-Begland, Richard Ward, Michael Eads, Randall Burgess.

The discussion began by pointing to the ease with which revenue authorities, suppliers, and other stakeholders tended to ‘blindly’ adopt the processes of their predecessors without giving due consideration to the purpose behind an RFP.

Michael Eads spoke of the need to consider the objectives of a tax stamp system. ‘Typically we recommend that the organisation completes a substantial data analysis of its end-to-end excise value chain – including an analysis of volumes, producers and retailer profiles – so it can better understand the actual problems it is trying to solve. After that, look at the local context of illicit trade, which can take different forms in different places,’ he said.

The ‘shapeshifting’ nature of illicit trade

Referring to a news article from South Africa, Michael said, ‘For the very first time, illicit trade in South Africa has been estimated to be going down, and it’s no longer coming from Zimbabwe – it’s coming from inside the country. So a tax stamp programme would now need to solve a very different problem. Whereas the problem was previously one of illicit imports, now it’s one of product manufactured locally but in an illicit manner. I don’t believe there is a ‘one size fits all’ for a tax stamp programme, or RFP. It is quite a personal exercise’.

Michael raised the need for situational analyses as an ongoing rather than one-time exercise, due to the fact that problems do not remain static and are not the same for every country. With a situation analysis

and problem definition in hand, he said a tax stamp project could be transformed into a strategic and actionable programme.

He referred to several examples of programmes around the world, where although the stamps were well designed and technically functional, they had been implemented without due consideration of operational capacities and capabilities, and thus failed to meet their objective. He also spoke of the need to have indicators in place to measure programme performance.

Michael referred to a capability model that his company, Sovereign Border Solutions, had developed with the University of Canberra's Customs and Excise College, which breaks the excise business into a number of capability blocks. He advocated the use of such a model to examine the business from end to end before generating an RFP, and to make sure the RFP includes more than just stamp specifications.

Lack of inclusion

The discussion then moved to the necessity of including all stakeholders in the development of tax stamp programmes. John W Colledge spoke of the lack of inclusion of key stakeholders as being an ongoing problem across the globe. 'Many of the systems that I have seen tend to avoid the involvement of the police, and are too revenue and customs focused. I am not aware of any system where prosecutors were consulted on the requirements for collecting the data needed for successful prosecutions,' he said, adding that most proposals that he had seen had taken a 'one size fits all' approach.

Referring in particular to the WHO FCTC Protocol to Eliminate the Illicit Trade in Tobacco Products, John said, 'The protocol discusses organised crime. Organised crime is not in the purview of many revenue and customs enforcement agencies – that's a police function. So if you're going to talk about organised crime, then you must involve the police'.

The uninitiated might think it obvious that manufacturers would be consulted on the development of an effective system for the regulation and control of their products, but this is seldom the norm. Michael J Thorne-Begland of Altria Client Services (Altria is the parent company of Philip Morris) agreed with Michael Eads and John Colledge on the importance of first clearly identifying the threat that a market faces and then having an open enough process to include all stakeholders.

He added, 'For years tax stamps were a pure revenue issue. In the late 90s/early 2000s, track and trace became an integral component to stamp or revenue protection. But the question that remains in many markets is whether such integration is necessary. What's the cost/benefit associated with those technologies? Is it revenue related or something else? The ability to have a transparent discussion on all these questions before firming up the RFP is essential'.

Revenue authorities bamboozled by suppliers

I then asked Mark Deakes of Reconnaissance International – who has worked on a number of RFPs in his career in tax stamps – to talk about his experience with tenders. 'One of the best tenders I've seen and responded to was the Irish tender. It was very well written technically. It was very clear for the suppliers,' he said. 'However, there were also a number of cases where it wasn't as clear. Sometimes what can happen is revenue authorities get bamboozled by the technical suppliers, leading to an asymmetry of

information in favour of certain suppliers. When this happens, the revenue authorities won't have a balanced picture of all the available technologies and security features on the market.

'So they do a number of things', he continued. 'For example, they either favour one supplier, which can be detrimental to the entire tender process – because only one supplier can actually bid – or they take the best 'parts' from each supplier's bid and amalgamate them into one tender – which can lead to conflicting security features and technical standards.

'Sometimes what also happens in new schemes I've experienced is that as soon as the tobacco and alcohol industries get wind of them, they will lobby like mad to kick them into the long grass,' explained Mark. 'This situation, coupled with often very high revenue authority staff turnover, can result in something that is far less than best for the country issuing the RFP'.

Standards can help

Richard Ward, Chairman of NASPO International (NASPO stands for North American Security Products Organization), then spoke about how standards that touched the tax stamp industry could be used as a framework for developing an RFP. The standards he discussed were either in existence or underway (although work on ISO 19998, a guidance standard specific to tax stamps, is only in its initial stages).

'The first thing to do is to get the stakeholders together to conduct a risk analysis, using the standards developed for that purpose, and then to develop solutions to mitigate those individual risks,' said Richard, adding, 'Such analysis involves looking at what your risks are in your particular situation. One country will have one set of risks, while another country will have another set'.

Richard then went on to discuss standards specific to different parts of the supply chain. For the integrator or printer who manufactures the stamp, there are two standards that cover related risk analysis. These are ISO 14298 and NASPO's near equivalent, SA 2013. The difference between them is that the ISO standard covers the printer and the NASPO standard covers the printer and the entire supply chain.

Speaking from experience

Caxton Masudi Ngeyo of the Kenya Revenue Authority then joined the discussion by saying, 'I will speak from an experience perspective, not a theoretical one. First and foremost, an RFP is supposed to give you a solution to deal with your problems, and the starting point, in the case of Kenya, was to understand the problem. Our problem was illicit trade, and we needed a solution to deal with that. Therefore, it was important from the outset for us to understand how illicit trade occurred in our context.



From left: Caxton Masudi Ngeyo, Mark Deakers, John W Colledge.

‘We have in our part of the world probably one of the most complex tax evasion mechanisms, and highly mutative tax evading fraternities’ said Caxton. ‘Once we understood the problem and what was causing it, the second step was to try to conceptualise how technology would be able to fill the gaps that facilitated or enabled illicit trade. As we were looking at tax stamps as an integral part of the solution, we had to look at all the features of the tax stamp programme, including the supporting systems’.

Caxton described how the Kenya Revenue Authority started with an Expression of Interest (EOI), a non-committal process, where solution providers were invited to demonstrate how their technology, including tax stamp solutions, could help the Kenyan government deal with the challenges of illicit trade.

‘However, as solutions apply to people, institutions, and companies,’ said Caxton, ‘it is important that all these stakeholders are involved at the very initial stages, so that you don’t miss out on important input’. He went on to describe some of the consequences of failing to include stakeholders early on in the process, including project delays, excessive time redefining the project, and possibly the need to renegotiate the cost of the solution.

Give suppliers sufficient time

Mark Deakes added that another factor that sometimes contributed to an RFP or tender not working correctly was not allowing sufficient time for a supplier to respond. ‘A couple of weeks is sometimes not enough time to get the documents together, particularly if they are to be notarised, and if you need samples, that all takes time as well,’ said Mark. ‘You probably need a month at least to get physical samples prepared and get the designs done. Sometimes you need specific documents from the country that you are bidding to that only that country can provide, or you have to set up an entity in that particular jurisdiction,’ he said.

Other common factors compromising the success of an RFP were identified as: publishing tenders in obscure publications; procurement authorities consciously or subconsciously favouring incumbent suppliers; and procurement authorities not understanding that a particular technology is IP-protected and consequently specifying that technology in the RFP, thereby closing the door to other potential suppliers.

The discussion also delved into legislative and budgetary issues with regard to RFPs, with Mark Deakes commenting that cost seemed to be driving increasingly more decisions and that the consequence of this was usually that the best solution would not be offered.

RFPs should showcase newest and best

Michael Thorne-Begland highlighted the fact that the RFP process should be the time when the newest and the best is reviewed by a government entity. As such, the process should be as open as possible so as not to exclude potential suppliers, and should include objectives based on performance as opposed to technology.

Michael said, ‘In the United States, in many jurisdictions, there is full discretion with the regulatory authorities to make the decisions broadly. We have seen cases of procurement lobbying, which attempt to legislate a specific requirement or solution outside the discretion of a department of revenue. This can skew the need for an open process. In theory, each RFP is likely the single best opportunity for the industry to profile the newest and the best. The RFP offers the opportunity for every vendor, no matter

how big, small or new, to propose technologies that may address specific issues encountered by particular jurisdictions.

‘What happens sometimes, through procurement lobbying or otherwise,’ said Michael, ‘is that a predetermined set of technical specifications take out vast majorities of candidates for that proposal. It is better to open it up much more broadly, with performance-based measures’.

ITSA and ISO 19998 will become useful tools

The panel agreed that the formation of the International Tax Stamp Association (ITSA) and the establishment of ISO 19998 could create a framework of discussion for some of the issues covered during this exchange.

It was agreed that if the standard could provide for the inclusiveness of all stakeholders, could guide users through a problem definition phase, could offer a strong risk management profile, could guard against single-technology specifications, and could address other key issues covered in this discussion, it had the potential of becoming a highly useful tool for tax stamp procurement and revenue authorities throughout the world.