



Department  
for International  
Development



## DFID Response

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**December 2017**

**DFID Response to the Independent Commission for Aid Impact (ICAI) recommendations on “Achieving value for money through procurement – DFID’s approach to its supplier market. November 2017”**

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The Department for International Development (DFID) welcomes the ICAI Review and its recognition of our concerted efforts to strengthen our procurement function over the last few years, our increased ambition for market-shaping and ICAI’s acknowledgement that “a comprehensive market-shaping approach has begun to emerge”.

DFID is implementing a bold plan for tough reform of the Department’s work with suppliers, by clamping down on the risk of profiteering and unscrupulous practices to ensure all contractors deliver the best results for the world’s poorest people and provide value for taxpayer’s money.

We are pleased that ICAI has acknowledged these reforms and recognises that whilst many of the actions are too recent to have achieved their full potential impact on DFID’s supplier market they “would expect to see performance improvements in this area in the near future”.

Whilst a number of the areas raised by ICAI correspond to areas addressed by the supplier review and other change processes already underway we have considered where we can further improve our performance.

**Recommendation 1:** DFID should adopt a more systematic approach to its stated objective of promoting the participation of local suppliers, to the extent permitted within procurement regulations, including measures at the central, sector and country office levels to encourage the emergence of future prime contractors from developing countries. This might include identifying opportunities for local suppliers to compete

directly for DFID contracts, increased supervision of the terms on which prime contractors engage local suppliers, and more inducement of DFID's prime contractors to invest in building local capacity.

## **Agree**

- We have taken a number of actions already to increase the number of suppliers bidding and winning DFID contracts (including for SMEs and local suppliers). These include: the choice of delivery routes (including greater use of framework contracts and open procedures); improved cost transparency; increased use of social media; and more market engagement including in-country Early Market Engagement events; and structuring programme size and design to encourage access by new entrants.
- Whilst our management information highlights a low proportion of centrally let contracts won and led by local suppliers, data limitations prevent us from easily identifying local suppliers on contracts below the OJEU threshold of £106,047 and those who form part of consortia, or who are second and third tier suppliers in centrally let contracts. We expect these numbers would paint a healthier picture of many local supplier markets than this single figure portrays and our new commercial platform will allow us to report on the numbers of local suppliers who win DFID business. However we recognise that we need to do more to encourage local suppliers into the market so that we can capitalise on their experience, expertise and contextual understanding that international staff may not provide.
- Some local partners are unable to meet pre-requisite skills (such as financial due diligence) to be awarded a DFID contract as a lead supplier.
- We will therefore intend to build local capacity by encouraging prime suppliers to harness expertise through local organisations to add value over the life of our programmes. Where appropriate this will be part of the ToR and evaluation criteria for our tenders.
- We are reviewing the next phase of our market creation plan to ensure a more coherent strategy for local suppliers and our objective is for commercial delivery plans to help drive market shaping activities, increasing competition and developing a more diverse supply base for delivery of aid services.
- Competition is often lower in some of the fragile and conflict affected states where DFID works. We will carry out further research and analysis to understand the specific factors affecting competition in these areas and develop specific strategies with the aim of addressing them.

**Recommendation 2:** DFID should develop clear plans for how it will progress its use of open-book accounting and improve fee rate transparency, and ensure that its plans are clearly communicated to the supplier market, to minimise the risk of unintended consequences.

### **Agree**

- Following the Supplier Review, DFID has introduced tougher scrutiny of costs and greater transparency into its contracts by including new clauses in our standard terms and conditions to allow DFID to inspect costs, overheads, fees and profits of suppliers in greater detail. We have also introduced a new clause enabling DFID to intervene to tackle profiteering where we believe excessive profits are being made.
- Key recommendations and changes have been communicated to suppliers and the new reforms are being phased in, testing as we go to ensure the new systems and processes are fit for purpose and address any teething problems. We have undertaken supplier meetings on the new terms and conditions and are delivering training to staff, initially through the Supplier Review roll out and then embedding into existing training to develop the capability and confidence for staff to use the new tools effectively.
- Suppliers are required to submit information on profit levels throughout the life of a contract. We will monitor any variance in profit from that proposed at competition stage, scrutinising costs and bearing down on any unscrupulous behaviour by suppliers.
- DFID is also investing in a dedicated, compliance team, which will scrutinise each contract and provide assurance that suppliers are complying with all new terms.
- Our tender documentation and terms and conditions provide visibility to suppliers on our expectations, ensuring that suppliers understand their obligations at the tender/bidding stage. We have also published a policy on allowable costs to explain what is covered in a day rate, such as travel and accommodation, and ensure a consistent approach across all contracts. We run supplier engagement events including programme specific early market engagements and training events to help organisations understand the process for contract applications.

**Recommendation 3:** DFID should accelerate its efforts to improve communication of pipeline opportunities to the market. It should also assess what potential information advantages are gained by participants in its Key Supplier Management Programme, and

ensure that this is counterbalanced by more effective communication with all potential suppliers. Internally, DFID should provide clearer guidance to staff as to what can and cannot be discussed during key supplier meetings.

### **Partially Agree**

- We are using social media and digital platforms to advertise procurement opportunities and are working to introduce a new Commercial Platform and MI Transformation Strategy that will be integrated with other DFID systems including our internal Aid Management Platform (AMP). This will join up and help increase visibility of our data.
- We have begun a schedule of regional Open for Business events across the country to help local businesses make the most of opportunities to deliver UK aid, encourage them to compete for DFID business to share their vital skills and expertise, and understand the simplified process for contract applications. Our events provide information about the countries that receive aid and the type of services that we buy which enables potential suppliers to make more informed choices about how their services might be suitable for aid delivery.
- Strategic Relationship Management is best practice across the private sector and increasingly common in the public sector, as part of the Government Commercial Operating Standards. SRM helps embed robust strategic relationship and performance management where a supplier has multiple programmes with DFID, allowing us to hold our largest suppliers to account and maximise value for money. Suppliers in the programme do not receive preferential treatment.
- We will provide clear guidance and protocols to staff on the new system which will cover DFID's top 30 suppliers, requiring DFID staff (particularly programme managers) to complete regular performance reporting scorecards for those managing contracts with top suppliers. Senior Civil Servants will be designated as strategic leads to each supplier, maximising the scrutiny provided by the new programme.
- We will continue to ensure that no commercially beneficial information is shared preferentially with any supply organisation, through any channel, including the SRM programme, in accordance with DFID's duty under the Public Contract Regulations to award all contracts in excess of £106,047 after open and fair competition. We aim to provide the market with information about opportunities in our pipeline to enable potential suppliers to better plan for future commissions.

**Recommendation 4:** The next phase of DFID's commercial reform plans should be accompanied by a stronger change management approach, with explicit objectives that are clearly communicated to staff. Its plans should be supported by robust monitoring and management information arrangements, to enable full transparency, regular progress reporting and mitigation of potential negative effects.

### Agree

- We have put in place new governance and programme management arrangements to implement the supplier review recommendations and provide strategic direction and external challenge. This will ensure the reforms are embedded into business as usual for the Department, helping to leverage a culture change in DFID's working practices and a mind-set which values and applies commercial principles and practices in programme delivery.
- The new reforms are being phased in, testing as we go to ensure the new systems are properly embedded and ensuring alignment with other vfm workstreams. They are being accompanied by training and regular communications to develop the capability and confidence for staff to use them effectively.
- We are developing a set of Key Performance Indicators to monitor impact and drive improvement. These will look at the number of bids per tender, the direct and indirect engagement of SMEs and local suppliers, average fee rates and the length of time from development of a Business Case to procurement of a supplier.
- We also report to Cabinet Office on the Government Commercial Operating Standards which assesses and benchmarks departments' commercial capability, ensuring effective and consistent commercial delivery and driving continuous improvement.