



Department  
for International  
Development



# Annual Procurement and Commercial Report Financial Year 2018/19



JULY 2019

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# Foreword from Baroness Sugg



Britain is a world leader in international development. We can all be proud that UK aid is working to save and change the lives of some of the poorest and most vulnerable people in the world. Our aid increases the UK's global influence and reach, particularly with the new and emerging economies that present the greatest opportunities for UK investment. It addresses the root causes of conflict and insecurity, works to limit the scale and impact of climate change and helps create the conditions for greater global prosperity.

Our aid is both the right thing to do and firmly in the UK's national interest, but the public needs to be confident that their money is used effectively. Good commercial practice is a critical element in delivering better development results, better value for public money. It also ensures that organisations delivering aid on behalf of the British people act ethically at all times.

Over the last two years, DFID has introduced a comprehensive set of commercial reforms to improve value for money and respond to public concerns about the way in which aid is delivered. We have invested in our commercial capability, brought greater competition into our markets and reached out to UK businesses across the country. As DFID's Ministerial Champion for Small and Medium Sized Enterprises I am particularly proud of the Department's record in spending over a third of its funding through SMEs.

DFID's first ever Procurement and Commercial Report assesses our progress in implementing these measures, working in partnership with our supply partners. Our partners have brought vital expertise and operational flexibility to the process and I am grateful to them for their efforts in helping us deliver the reforms.

We have further to go on our commercial journey and DFID will publish a new report each year as part of our commitment to greater public transparency. I am determined to drive even greater commercial improvement, not only in DFID's own spending, but across the aid system, ensuring we get more from our aid, both for the UK taxpayer and the poor and vulnerable people we help.

## **Baroness Sugg**

Parliamentary Under Secretary of State for International Development

# Non-Executive Director's Preface



The public rightly expects the highest standards of governance, value for money and ethical behaviour in the delivery of public funds and services. Achieving and maintaining these standards requires continuing scrutiny, hard work and improvement. My role - and that of my fellow Non-Executive Directors on DFID's Departmental Board – is to ensure that DFID asks itself the hard questions and makes use of best practice from both the private sector and elsewhere in the public sector to improve what the Department does.

I am very glad to say that DFID has embraced this challenge.

The Department has set itself an ambitious programme of commercial reform, built on an in-depth examination of what works elsewhere, adapted to meet DFID's needs. This includes: measures to increase competition for DFID contracts and bring more SMEs into supply chains; provisions to increase control over fees, overheads and profits; strategic relationship management of the most important supply partners; a new, rigorous Code of Conduct setting out clear expectations for ethical behaviour by organisations delivering on DFID's behalf; and actions to strengthen DFID's commercial capability.

DFID's Non-Executive Directors have been closely involved in providing independent challenge and scrutiny of DFID's commercial reforms, beginning with the Supplier Review in 2017 and continuing through their implementation. Earlier this year we carried out a review of commercial delivery which found good evidence that the commercial reforms are bedding in well and raising standards.

I am confident that the Department is heading in the right direction and will continue to apply sound commercial practice to get the most from its funds. I will play my part to ensure that we keep up the pace.

**Tim Robinson**  
Non-Executive Director

# Head of Procurement and Commercial Department

## Introduction to the Report



DFID's procurement and commercial practice has been transformed over the last few years. We have introduced new tools to scrutinise cost, including Open Book Accounting in all our contracts and a fee rate database to benchmark rates across our programmes, ensuring we pay competitive rates for all our programmes. We have made it easier for small businesses to bid for DFID funding, in their own right, as part of consortia, or as sub-contractors. We have extended strategic relationship management to cover 80% of DFID's contract and grant spend and introduced a Code of Conduct for supply partners that requires ethical behaviour by everyone of our partners throughout our supply chains.

We have also stepped up our communication with our market. We carry out Early Market Engagement for programmes, both in the UK and in partner countries, publish a pipeline of future funding opportunities and are introducing a new Supplier Portal. Over 450 business people attended Open for Business events in Birmingham, Leeds, London, Cardiff, Edinburgh and Belfast in 2017 and 2018, learning about DFID's work and how they can access potential funding opportunities.

We have made great improvements, testament to the skill and professionalism of DFID's Procurement and Commercial staff. The changes we have introduced have not been without challenges and we continue to listen to our supply partners and internal customers to ensure we get the balance right. We have also benefited from the advice, expertise and sometimes challenge of a wide range of experienced people and organisations, including the Government Commercial Organisation, private sector businesses, DFID's Non-Executive Directors and the searching, but constructive reviews by the International Development Committee and Independent Commission for Aid Impact.

Our work is set out in this first annual report. It summarises our progress to date and provides core metrics on DFID's procurement function.

Its aim is to provide greater assurance to the taxpayer that their money is being used effectively to help the people who need it. My ambition and that of my team is that our aid is not just spent well, but could not be spent better, delivering best value for the UK taxpayer and maximum impact for poor people in DFID's partner countries.

**Nick Ford, FCIPS**

Head of Procurement and Commercial Department

# 1. Introduction

## Purpose of Report

Good commercial practice is critical for the delivery of public goods and services, including the UK's official development assistance. Rightly, the public increasingly demands the highest ethical standards and behaviours, as well as value for money.

DFID has made significant progress to date in the way it thinks and behaves commercially but needs to drive further improvement. Our aim is not just to spend aid well but show it "could not be spent better".

DFID's first Annual Procurement and Commercial Report aims to provide greater transparency and understanding of DFID's commercial vision and priorities, our commercial transformation journey and the performance of our supply partners, showing the value that good commercial practice adds to DFID's mission to end extreme poverty in the national interest.

## UK aid

DFID leads the UK's efforts to deliver the Global Goals and Sustainable Development by ending extreme poverty and limiting the scale and impact of climate change and environment degradation, in line with the government's UK Aid Strategy. The UK's leadership on development is an important part of the government's vision for a secure and prosperous United Kingdom with global reach and influence. Eradicating poverty, tackling climate change, ending instability and creating a safer and more prosperous world are firmly in the UK's national interest.

DFID works in extremely challenging environments and collaborates with a diverse range of public and private stakeholders, including other national governments.



DFID delivers aid in over 30 countries across the world

We provide technical assistance and goods across a range of sectors to meet both immediate humanitarian needs and longer-term development goals. Our support ranges from treatment centres to defeat Ebola in Sierra Leone, life-saving aid to Syrian refugees and shelter for people who have lost their homes because of natural disasters, to longer-term, but equally important work to strengthen the institutions, public services and economic potential of developing countries. All of this adds to the complexity of the commercial challenge and potential risk for a commissioning organisation like DFID, requiring the highest standards of procurement and commercial practice.

### **UK Aid Strategy**

■ **Strategic Objective 1 (SO1)** – Strengthening global peace, security and governance: invest more to tackle the causes of instability, insecurity and conflict, and to tackle crime and corruption. This is fundamental to poverty reduction overseas and to strengthening the UK’s national security.

■ **Strategic Objective 2 (SO2)** – Strengthening resilience and response to crises: including more support for ongoing crises (such as in Syria and other countries in the Middle East and North Africa region), more science and technology spend on global health risks (such as antimicrobial resistance), and support for efforts to mitigate and adapt to climate change.

■ **Strategic Objective 3 (SO3)** – Promote global prosperity: using ODA to promote economic development and prosperity in the developing world. This will contribute to the reduction of poverty and also strengthen UK trade and investment opportunities.

■ **Strategic Objective 4 (SO4)** – Tackle extreme poverty and helping the world’s most vulnerable: strive to eliminate extreme poverty by 2030 and support the world’s poorest people to ensure that every person has access to basic needs, including prioritising the rights of girls and women. This will build security, stability and opportunity that will benefit us all.

All of DFID’s work is underpinned by:

■ **Strategic Objective 5 (SO5)** – Improving the value for money and transparency of UK aid.

## **Funding instruments**

To achieve our objectives, DFID channels funds through a diverse set of supply partners and funding instruments. These include legal contracts and other funding instruments such as Accountable Grants and Memorandums of Understanding.

This report provides information on contractual spend issued centrally through DFID’s Procurement and Commercial Department. It also provides some information on other funding modalities where commercial reforms have extended into these areas such as Strategic Relationship Management for Civil Society Organisations funded by Accountable Grants. Future editions of this report will provide more information on other funding instruments as commercial reforms extend into these areas.

Contractors deliver a relatively small<sup>1</sup> but important part of DFID's programming and are a mix of private sector companies, employee owned companies, academic institutions and Non-Governmental Organisations. All are organisations with expertise in international development, delivering a wide range of activities and services, including technical assistance.

## Legislative Framework

DFID is proud that UK Aid is untied and that all our contracts are awarded to the most capable supply partner offering best value for money. DFID's contracts are tendered in accordance with the EU Public Procurement Directive and the UK Public Procurement Regulations 2015, which ensure open and fair competition between bidders. This means our contracts are competitively tendered following a set of standard processes set out in the regulations.

## Data Quality

The data used to compile statistics for this report are extracted from DFID's central system and from offline spreadsheets. There is a risk of error in some attribution of the data but overall the risk is relatively low, and the procurement and commercial department takes steps to verify the data and minimise input errors.

## Definitions

A list of definitions used in this report can be found at Annex A.

## Related Publications

- DFID's [Annual Report](#) provides information on DFID's results achieved, spending, performance and efficiency
- DFID's [Statistics on International Development](#) provides information on the key international measure of official aid spend, known as Official Development Assistance (ODA)

## Contact Details

For enquiries (non-media) about the information contained in this publication, please contact the [Procurement and Commercial Department](#).

For media enquiries please contact the DFID Press Office on +44 (0) 20 7023 0600.

For further information on development issues and DFID policies, please contact the Public Enquiry Point on 0845 300 4100.

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<sup>1</sup> During the Supplier Review DFID benchmarked spending through Supply Partners with other donors and found that other some donors spend a higher percentage of spend with supply partners (some up to 29% of their overall budget).

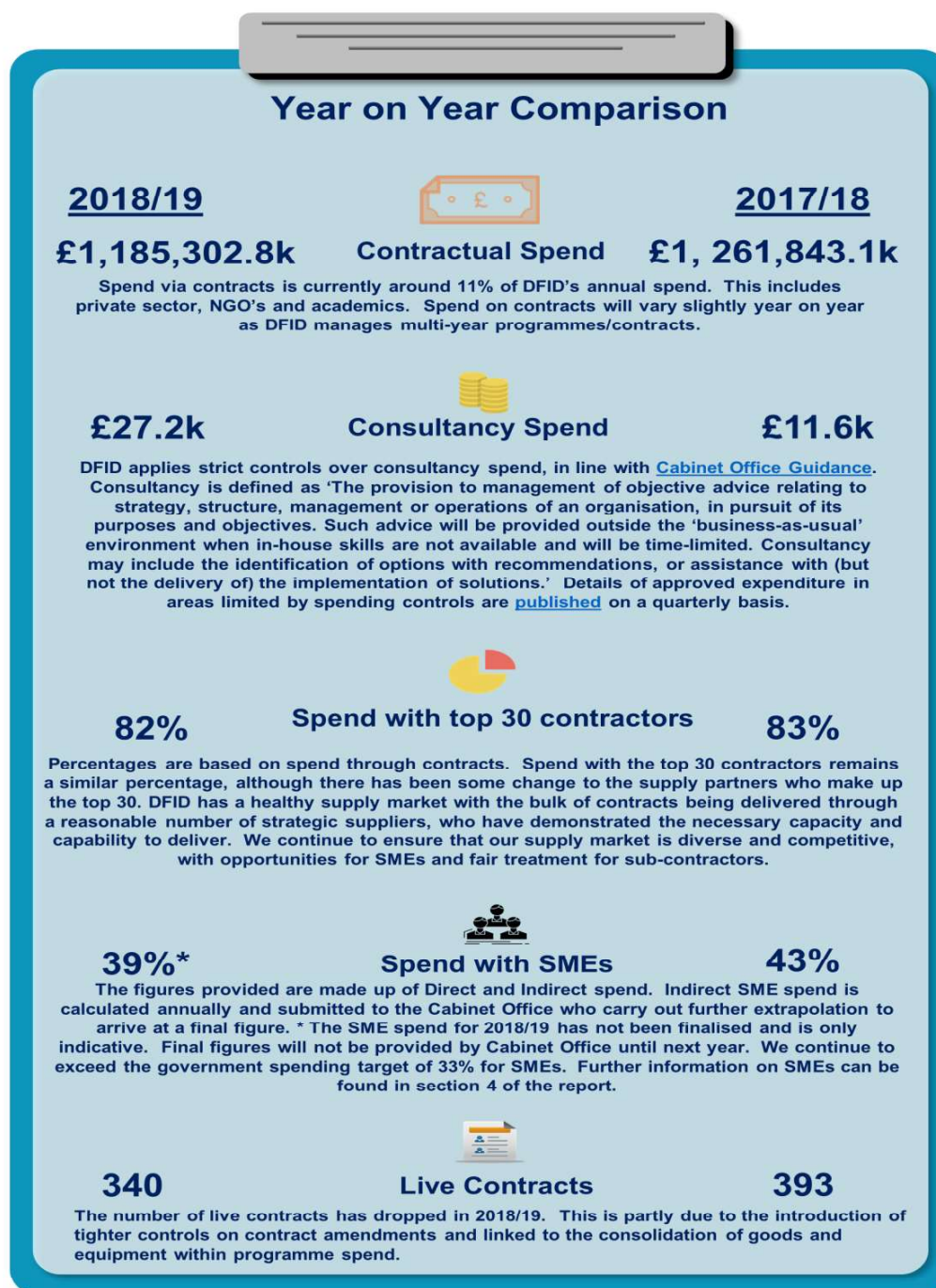


## 2. Procurement Statistics

### Spend – Financial Years 2017/18 and 2018/19

The figures below show information on DFID's spend of Official Development Assistance through contractors in the financial years 2017/18 and 2018/19

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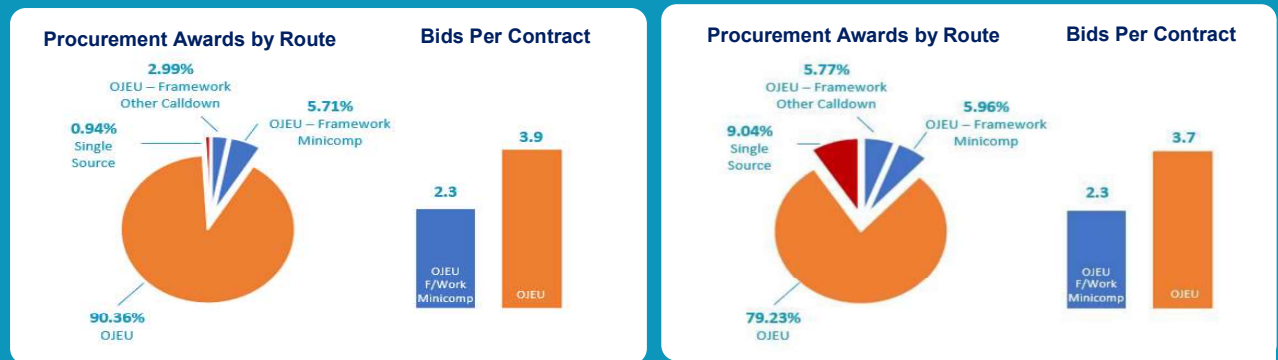
# Awarded Contracts Summary

2018/19

2017/18

|                   |                         |                      |                            |                   |                         |                      |                            |
|-------------------|-------------------------|----------------------|----------------------------|-------------------|-------------------------|----------------------|----------------------------|
| <b>£1.06bn</b>    | <b>114</b>              | <b>£9.3m</b>         | <b>15%</b>                 | <b>£1.03bn</b>    | <b>99</b>               | <b>£10.6m</b>        | <b>9%</b>                  |
| <b>New Awards</b> | <b>Contracts Signed</b> | <b>Average Value</b> | <b>New Supply Partners</b> | <b>New Awards</b> | <b>Contracts Signed</b> | <b>Average Value</b> | <b>New Supply Partners</b> |

The number of contracts signed in 2017/18 dropped slightly due to delays in procurement through the introduction of new reforms from the Supplier Review. We are pro-actively encouraging new entrants to the market including small and micro enterprises which is leading to an increase in the number of new Supply Partners.



We have set a target of 4 good quality bids per tender. This takes account of some of the limited markets we work in whilst driving organisations to submit quality, viable bids to deliver our services. More information on market creation can be found in section 4.



Contracts are awarded to run over multiple years, therefore changes to contract award data will vary year by year depending on the specific procurements awarded during the year. Details of contracts awarded can be found in [contracts finder](#).

# 3. Commercial Vision and Governance

## Commercial Vision and Priorities

DFID's [commercial vision](#) is to provide world class commercial expertise to support a world class development organisation by:

- Contributing commercial expertise and advice to improve the design of development programmes, enhance development results and maximise value for money;
- Managing procurement and amendment of DFID contracts;
- Managing DFID's commercial relationships with strategic supply partners;
- Ensuring supply partners delivering on DFID's behalf act ethically at all times throughout supply chains;
- Using our commercial expertise to raise standards in the procurement of aid across government; and
- Helping deliver DFID's value for money and effectiveness agenda in the international development system.

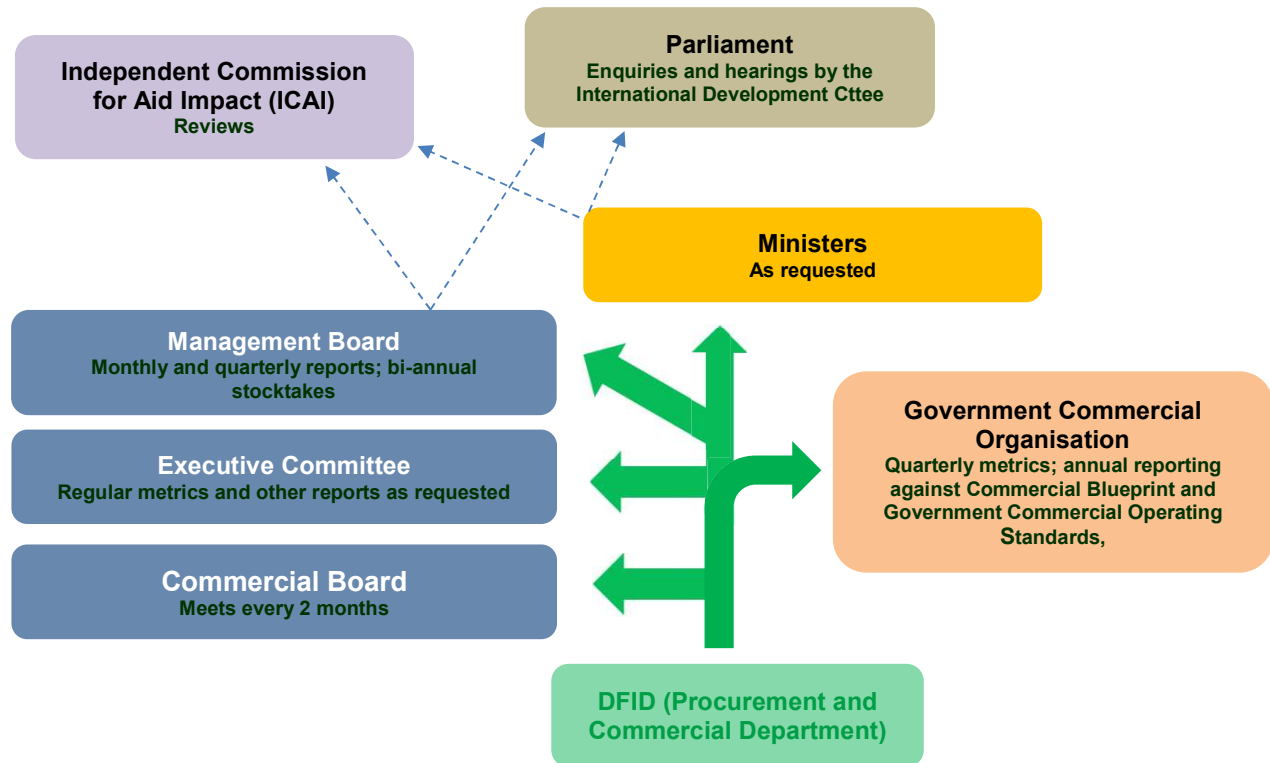
Our commercial priorities support the delivery of DFID's strategic direction, respond to recommendations from independent and parliamentary reviews, implement the Government Commercial Function's initiatives to build stronger commercial capability across government and help meet increased public expectations of public services.

## Governance

DFID's specialist commercial expertise is housed in the Procurement and Commercial Department (PCD). PCD ensure robust scrutiny of contracts, set DFID's commercial policy in line with Ministerial direction, provide commercial advice to programme teams and ensure adherence with procurement legislation and policy. Information on our procurement policies and how to become a supply partner can be found on [Gov.uk](#).

DFID chooses carefully which method of delivery will be most effective and deliver greatest value for money for each programme through DFID's **Business Case** process. This assesses the various delivery routes available using market analysis to determine whether the preferred option is commercially viable, provides value for money and delivers the maximum impact for UK aid. **Early Market Engagement** helps us gauge the market appetite and advantages of the different delivery routes available and, where appropriate, refine programme design. Where tendering a contract is deemed most appropriate, the process is subject to The **Public Contract Regulations** 2015 and we assess the most appropriate public procurement route to ensure sufficient competition, competitive prices and value for money.

We provide regular reporting to Ministers, senior officials and the Government Commercial Organisation on commercial reforms as follows:



### Government Commercial Organisation (GCO)

DFID’s Procurement and Commercial Department reports into the Government Commercial Organisation (GCO) which leads the programme of commercial reform across government. The GCO provides guidance on best practice for public sector procurement and defines how all government departments should operate to ensure consistency of commercial behaviours and purchasing across government.

### Government Commercial Operating Standards

The Government Commercial Operating Standards (GCOS) assess all government departments against a common set of standards and indicators. This is a process of self-assessment which is then peer reviewed by officials from other departments. Pre-defined GCOS success criteria indicate if standards are met – and whether ‘good’, ‘better’, ‘best’ (or in ‘development’ if not yet ‘good’) - to establish a baseline of commercial performance.

DFID carried out its first assessment in 2017. In 2018 we improved our performance on 11 indicators, making the department one of the fastest improvers across government. We delivered an additional 4 improvements during 2018-19. The standards are applied to Business Cases and Sourcing Strategies to enhance programme and contracting processes and deliver better development outcomes.

The table below provides the status of DFID's performance against the GCOS.

| Standard                                   | Metric  | Baseline March 2017 | Status April 2018 | Status 31 <sup>st</sup> March 2019 | Trajectory |
|--|---|---------------------|-------------------|------------------------------------|------------|
| Blueprint and resources                    | Improving commercial capability in departments  | Development         | Good              | Better                             | ↗          |
|  | Changing the grade mix to reflect target operating model  | Good                | Better            | Better                             | ↗          |
|  | Cost of commercial functions  | Good                | Better            | Better                             | ↗          |
|  | The level of commercial interim staffing in departments is optimised                                      | Better              | Best              | Best                               | ↗          |
| Pipeline and planning                      | Extending contracts based on value for money considerations   | Development         | Better            | Better                             | ↗          |
|  | Creating a comprehensive pipeline   | Development         | Better            | Better                             | ↗          |
|  | Using management information to support effective demand and category management                          | Development         | Development       | Good                               | ↗          |
| SROs & expertise                           | Ensuring strong and effective commercial engagement   | Good                | Good              | Better                             | ↗          |
| Early cross-functional analysis of options | Commercial need is shaped in the department early, between the commercial function and the business owner | Development         | Good              | Good                               | ↗          |
|  | Commercial options should be considered early and with the departmental commercial function               | Good                | Good              | Good                               | →          |
| Maximising competition                     | Early engagement of suppliers   | Better              | Better            | Better                             | →          |
|  | Work with suppliers to design and shape the market  | Good                | Better            | Better                             | ↗          |
| Contracting                                | Greater accessibility and awareness of commercial terms   | Good                | Better            | Better                             | ↗          |
|  | Contracts will outline agreement on the cost of potential future options                                  | Better              | Better            | Better                             | →          |
|  | Appropriate risk allocation between parties   | Development         | Good              | Good                               | ↗          |
|  | Departments will have a mechanism for tracking the deliverability of mobilisation options                 | Better              | Better            | Better                             | →          |
|  | Transition arrangements   | Development         | Good              | Better                             | ↗          |
| Contract management                        | Contracts should deliver the outcomes anticipated   | Good                | Good              | Good                               | →          |
|  | Delivering effective contract management  | Good                | Good              | Good                               | →          |
|  | Commercial contract management competency   | Development         | Development       | Development                        | →          |
| Supplier relationships                     | Run a departmental strategic relationship management programme  | Better              | Better            | Better                             | →          |
|  | Understanding your supply chain   | Good                | Good              | Good                               | →          |

## Commercial Board

Following completion of the Supplier Review, DFID established a Commercial Board to coordinate further commercial reform. The Board has overall responsibility for commercial performance and reform in DFID. It:

- Drives consistently good commercial performance across DFID, supporting better development outcomes, whilst ensuring value for money and compliance with DFID's legal obligations;
- Promotes collaborative commercial behaviours and working practices in DFID in line with DFID and Civil Service values;
- Addresses systemic barriers to delivery, seeking all opportunities to streamline processes consistent with commercial rigour and risk management; and
- Ensures commercial principles and good practice inform all DFID's funding streams, including contracts, grants and multilateral funding.

## Procurement Steering Board (PSB)

DFID's Procurement Steering Board provides assurance of DFID's compliance with commercial controls, government operating standards and encourages organisational learning and continuous improvement. It reviews:

- Sourcing Strategies for any contracts with an award forecast for £10 million and above;
- Contract awards above £10 million;
- Requests for termination or suspension of any contract; and
- Contract amendments or extensions with a value of £5 million and above, or which are considered novel or contentious.

A sub-committee of the Procurement Steering Board approves light touch sourcing strategies between £5 million and £10 million. Sourcing Strategies below £5 million and contract awards below £10m are approved by relevant procurement staff with the appropriate delegated level of authority.

## Sourcing Strategies

Sourcing strategies enable DFID to choose the best commercial option to deliver a programme based on detailed research and market analysis. Each strategy is reviewed and approved by the Procurement Steering Board to ensure that all commercial options are considered and the right one chosen to deliver the programme. By doing this analysis early we can identify and address problems before the programme is launched and estimate more realistically the time needed for inception.

*“Overall, the introduction of the **new sourcing strategies** has improved DFID's understanding of costs, service drivers and market levers” - ICAI 2018*

## Case Study - Women's Integrated Sexual Health (WISH)

WISH is an ambitious flagship programme to deliver family planning services across multiple African and Asian countries and strengthen national policies, legislation and health systems.

We used the **Sourcing Strategy** to ensure new methodologies were applied to deliver a positive outcome:

- Key Performance Indicators were fully defined for multiple key deliverables with fees at risk against delivery of these targets;
- Country weightings were used to ensure bids focused on hard-to-reach populations;
- The tender was split into two geographical lots (Lot 1: £77 million; Lot 2: £132 million), guarding against a global monopoly and building sustainability.

As a result, the final contract realised efficiency savings of over £47 million, enabling DFID to reach 30% more beneficiaries through the programme.

## Reviews

### Supplier Review

In 2017, DFID carried out a fundamental review of its supplier management to address public concerns about poor value for money and unethical behaviour by some supply partners. The reforms drew on best practice in the public and private sectors to develop creative and innovative new tools that set a new government benchmark for UK aid spend.

The reforms and controls introduced by the Supplier Review aim to drive better value for money and better development impact. These reforms are being progressively applied to all DFID funding agreements and are:

- A Supply Partner Code of Conduct, which sets out our commercial and ethical expectations of our partners along our supply chains;
- New contract transparency measures to make sure we're getting value for money from contracts, contract amendments and grants;
- An enhanced, Strategic Relationship Management programme to improve collaboration with our partners and unlock learning, creativity and innovation across portfolios;
- Measures to open DFID's markets to new supply partners, small businesses, and developing country supply partners, including Open for Business events across the UK to help firms understand our processes and compete for DFID business;
- Fair treatment for sub-contractors, introducing terms and conditions preventing "exclusivity" agreements that stopped them from bidding for tenders as part of more than one consortium and the practice of "bid candy" that removed small supply partners at contract award; and
- A new Commercial IT Platform to advertise and manage funding opportunities.

DFID's Management Board commissioned Non-Executive Directors to carry out a review of the Supplier Review's implementation one year after the announcement. This was an internal review and has not been published. Its aim was to assess benefits realised to date, identify any unintended consequences or perverse incentives created and make recommendations to improve delivery going forward.

*The review found that commercial reforms have been implemented at pace and made some good progress, though it is still too early to see the full impact of some. Further reforms are required to apply commercial practice to all of DFID's funding arrangements and DFID should continue to monitor the impacts of the reforms.*

*Non-Executive Directors Review*

### Independent Reviews

Since the launch of DFID's Supplier Review in December 2016, DFID's commercial function has also undergone the following independent reviews:

- International Development Committee (IDC) review into [DFID's use of private sector contractors](#) (April 2017)

The IDC report examined DFID's commercial strategy, procurement processes, supplier market and competition within it, as well as the conduct, performance and overall value for money of DFID's contractors. The IDC's recommendations for delivery route selection, understanding the market, programme monitoring, oversight of contractors, due diligence, broadening the market and profit, fed into the outcomes of DFID's Supplier Review.

- Independent Commission for Aid Impact (ICAI) review on [Achieving value for money through procurement Part 1: DFID's approach to its supplier market](#) (November 2017)

The report recognised the improvements made by DFID over the last few years and the increased ambition signalled by the supplier review and awarded DFID an overall score of green-amber, indicating satisfactory achievement in most areas. The recommendations largely corresponded to areas addressed by the supplier review and were as follows:

- Recommendation 1: Adopt a more systematic approach to promoting the participation of local supply partners;
- Recommendation 2: Develop clear plans on progressing use of open-book accounting and improve fee-rate transparency;
- Recommendation 3: Accelerate efforts to improve communication of forthcoming procurement opportunities; and
- Recommendation 4: Accompany commercial reform plans with a stronger change management approach.

The action we have taken on recommendations 1, 2 and 3 can be found in section 4 of this report and on recommendation 4 in section 3 of this report.

- Independent Commission for Aid Impact (ICAI) review on [Achieving value for money through procurement Part 2: DFID's approach to value for money through tendering and contract management](#) (September 2018)

The report concluded that DFID has an appropriate overall approach to procurement with good performance in most areas of tendering and awarded DFID an overall score of green-amber which is a satisfactory achievement in most areas. Recommendations were:

- Before the next major revision of its supplier code and contracting terms, or future changes that may materially affect supply partners, conduct an effective consultation process with its supplier market, to ensure informed decisions and minimise the risks of unintended consequences;
- Accelerate its timetable for acquiring a suitable management information system for procurement, to ensure that its commercial decisions are informed by data; and
- Instigate a formal contract management regime, underpinned by appropriate training and guidance and supported by a senior official responsible for contract management across the department.

Our response to these recommendations can be found in sections 3 and 7 of this report.



The official government response to these reviews and enquiries can be found by following the links provided and we are now implementing the recommendations in line with our response.

These formal independent reviews have been a valuable mechanism to improve our commercial performance. The Independent Commission for Aid Impact (ICAI) reported that “DFID’s reforms in recent years are moving the department’s commercial approach in the right direction on multiple fronts”<sup>2</sup>; and the Government Cabinet Office Continuous Improvement Team described DFID’s progress on operating standards as “one of the fastest improvers across government”<sup>3</sup>.

### Listening to our Supply Base

We also benchmark our practice against that of other donors, other government departments, private sector businesses and sector experts.

Most importantly, we engage with our supply partners to improve performance, monitor the impact of reforms, understand their experience of working with us and identify improvements:

- DFID’s commercial staff and Ministers regularly hold meetings, events and roundtables with organisations across the aid sector;
- Our Strategic Relationship Management programme works collaboratively with supply partners to improve impact and unlock innovation;
- An annual Partner Voice survey is issued to all DFID supply partners with a contract over the OJEU threshold and provides valuable insights into our supply partners’ concerns. The 2018 survey identified actions to improve our practice, which we are now carrying out;
- Over 450 business people attended Open for Business events in 2017 and 2018; and
- We consult our supply partners on the [revision of our Terms and Conditions](#) and on our contract documentation, to ensure both are user-friendly and fit for purpose.

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<sup>2</sup> Achieving value for money through procurement Part 2: DFID’s approach to value for money through tendering and contract management - <https://icai.independent.gov.uk/report/procurement2/>

<sup>3</sup> Internal document – (DFID) GCOS 1 Year Report – June 2018

# 4. Transparency of costs and opening our supply market

## Transparency of costs

The Supplier Review introduced new measures to provide greater transparency, scrutiny and control of costs charged by supply partners. We have:

- Updated our tender documents to ensure a clear and consistent approach to bid cost transparency by all tenderers;
- Published [guidance](#) on allowable costs to explain what is covered in a day rate, such as travel and accommodation, to ensure a consistent approach across all contracts;
- Developed a fee rate database to provide us with up-to-the-minute information on fee rates;
- Introduced stricter internal controls on higher fee rates; and
- Required supply partners to report against agreed profit levels throughout the life of a contract every 12 months from the start date, or every 6 months for strategic contracts above £40m in value.

## Fee Rates

DFID's fee rate database now covers over 17,000 entries from 2016 to date, enabling us to profile rates (based on what we pay today) by job profile, sector and country. We use a variety of pricing methods, based upon the specific procurement and the benchmarking data to get better value for money.

During the Supplier Review we gathered comparable fee rate data from UNOPS, UNHCR, World Bank and Global Fund which showed that our fee rates compared well with other donors.

We may pay a higher fee rate in more hostile environments, for a niche specialism, or for an individual with a world-class reputation or skills. Typically, these individuals are engaged for short periods.

## Market Creation

### Developing our supply base

We are determined to understand and develop our market to unlock innovation, source the specialisms we need, improve competition and get the best value for the British taxpayer. We are doing this by:

- Engaging proactively with the supply market in the UK, with regular supplier engagement forums, many in partnership with Department for International Trade, Foreign and Commonwealth Office and Local Enterprise Partnerships. Over 450 business people attended 'Open for Business' events in Birmingham, Leeds, London Cardiff, Belfast, Newcastle and Edinburgh in 2017 and 18.



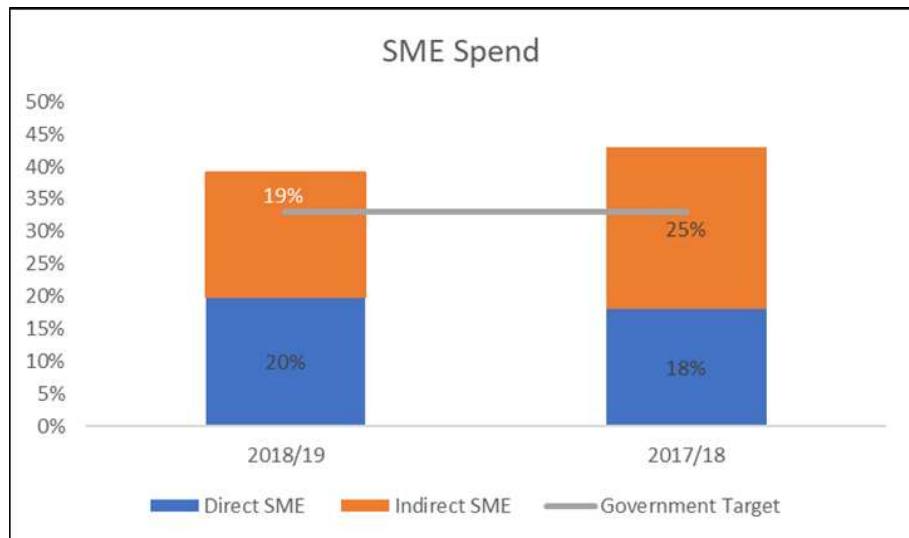
- Early market engagement in the UK, our partner countries and online. This ensures that UK and local markets know about DFID funding opportunities and facilitates early discussion between businesses about building a consortium or delivering as a sub-contractor.
- Publication of our pipeline of funding opportunities. Our first quarterly commercial [pipeline](#) was published in July 2018 and we are continuing to extend both the time horizon and the number of opportunities covered.
- Using social media (@DFIDProcurement) and digital platforms to advertise procurement opportunities and working to introduce a new Commercial IT Platform and Supplier Portal to increase visibility of our data.

### Small and Medium size Enterprises (SMEs)

SMEs are a vital part of DFID's supply network. DFID has the second highest governmental departmental spend <sup>4</sup> with SMEs, consistently exceeding the government target to spend 33% of funding with SMEs by 2022.

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<sup>4</sup> Central Government Direct and Indirect Spend with Small and Medium-sized Enterprises 2016/17 - [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/726955/V2.0\\_Central\\_Government\\_Direct\\_and\\_Indirect\\_Spend\\_with\\_Small\\_and\\_Medium\\_sized\\_Enterprises\\_2016-17\\_v1.2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726955/V2.0_Central_Government_Direct_and_Indirect_Spend_with_Small_and_Medium_sized_Enterprises_2016-17_v1.2.pdf)



Although there was a fall in direct spend with SMEs in 2017/18, this was driven by several delivery partners increasing in size and no longer being classified as SMEs. This is a positive sign that our commitment to working with and support SMEs is helping them to grow.

We have taken a number of actions already to increase the number of SMEs bidding and winning DFID contracts in line with our [SME Action Plan](#).

- We have introduced terms and conditions which prevent the use of “exclusivity” agreements imposed on smaller supply partners, which stopped them from bidding for contracts as part of more than one consortium;
- We have introduced new measures to prevent the practice of “bid candy”, by which larger supply partners would include smaller, specialist organisations in their bids to win a tender, but then remove them once the contract was signed. Our tendering process now requires supply partners to provide a declaration from all sub-contractors who they will use and provide an estimate of the work each sub-contractor will deliver. Supply partners need DFID approval to change a subcontractor from their contract;
- DFID’s Non-Executive Director, Alan Johnson has been given responsibility for the department’s payment performance, including payments by our supply partners to their sub-contractors, who are often SMEs.

## New Frameworks

Frameworks provide access to a pre-qualified range of suitable supply partners, making it easier and quicker for DFID to draw down support and respond flexibly to opportunities as they arise. By aggregating spend they provide DFID with better value for money and they also reduce the administrative burden on supply partners, shorten procurement timescales,

<sup>5</sup> Direct spend – money paid directly to Supply Partners through funding instruments. Indirect spend – money paid to Supply Partners which is subcontracted via the supply chain. Indirect SME spend is calculated annually when supply partners are contacted directly by DFID to retrieve this information. Following this exercise, the results are submitted to the Cabinet Office who carry out further extrapolation of the indirect spend for organisations who submit indirect spend figures for >70% worth of their contractual spend. The indirect SME spend for 2018/19 has not yet been finalised by the Cabinet Office.

open up the market to new supply partners and increase opportunities for SME and micro organisations. DFID frameworks available in 2018/19 is set out below:

| Framework  | Prime           |      |       | Sub-Contractors |               |               |               |
|--|-----------------|------|-------|-----------------|---------------|---------------|---------------|
|  | Large Suppliers | SMEs | Total | Large Suppliers | SMEs          | Unclassified  | Total         |
| Expert Advisory Call Down Service                                | 3               | 1    | 4     | 47              | 72            | 0             | 119           |
| Forensic and Investigative Audit Services                        | 7               | 2    | 9     | Not available   | Not available | Not available | Not available |
| General Economic Development Framework                           | 12              | 1    | 13    | 45              | 87            | 0             | 132           |
| Global Evaluation Framework                                      | 12              | 8    | 20    | 81              | 113           | 135           | 329           |
| Goods and Equipment Framework                                    | 1               | 0    | 1     | 3               | 0             | 0             | 3             |
| Independent Monitoring and Process Evaluation Regional Framework | 4               | 9    | 13    | 8               | 64            | 0             | 72            |
|  | 39              | 21   | 60    | 184             | 336           | 135           | 655           |

In 2019 we tendered a new International Multi-Disciplinary Framework which includes low value “lots” for programmes up to the value of £3 million. We expect this to provide substantial opportunities for small and medium sized businesses.

### Developing country supply partners

Using local expertise in our partner countries can strengthen impact, build local economies and help the sustainability of programmes.

Procurement regulations prevent us from mandating local supplier inclusion in our contracts, but we are taking measures to encourage greater use of local supply partners in our programmes, where this can improve the programme to be delivered:

*In Kenya, local supplier African Women and Children Feature Services (AWCFS) have worked with one of our large suppliers to increase the scope and impact of their initiatives, e.g. the “Adopt a Cop” schools initiative, which gives children access to a known contact at their local police station to report abuse and other crimes.*

- We are incentivising our primary supply partners to invest in building local capacity by incorporating into our contracts the requirement to develop a level of local content over the life of the programme;
- Our network of Commercial Delivery Managers work with frontline programme teams to develop and implement programmes, including by engaging and shaping the local supplier markets; and
- The reforms being implemented to make DFID contract opportunities more accessible to new supply partners and smaller organisations will also assist developing country supply partners to compete for our contracts.

Data limitations currently prevent us from easily identifying the numbers of local supply partners on contracts below the OJEU threshold and those who form part of consortia, or who are second and third tier supply partners in centrally let contracts. We are working to improve our data to provide a comprehensive picture of our delivery chains and have commenced collection of this through our SRM supply partners (see page 31).

**Local supply partners play an important role in the delivery of many DFID programmes. Examples include:**

- Zambia; £27.5m Accountability Programme (ZAP) - the lead partner is the British Council, but it is delivered through multiple local partners.
- Zambia; Private Enterprise Programme (PEPZ) - DAI working with local Private Sector partners - £16 million.
- Zimbabwe; Transparency, Responsiveness, Accountability and Citizen Engagement (TRACE) – DAI - £22.6 million – implemented through local NGOs.
- Tanzania; WASH Behaviour Change - £5.3m contract with the London School of Hygiene and Tropical Medicine but implemented on the ground through local organisation Innovex.
- Tanzania; Human Innovation Development Fund (HIDF) contracted to Palladium for £37m who provide funds to local organisations delivering social impact projects.

### **Strategic Supply Partners**

The bulk of DFID’s programming is delivered through a number of medium to large, strategic supply partners, who have demonstrated the capacity, experience, financial capability and understanding to meet DFID’s requirements. This is also the case for other government departments and for private sector organisations with comparable spend and complexity of supply chains:

- The complexity and size of many of our programmes requires large contractors to lead and manage them to deliver results at scale;
- Medium to large supply partners bring vital expertise which allows DFID to engage in a wide range of contexts and types of intervention that we would not have the capacity to deliver through in-house staff;
- Medium to large supply partners bring innovation through early exploitation of new technology, providing products or services in new or underdeveloped markets; and
- Their operational flexibility in increasing, decreasing or adjusting the composition of programme teams in response to rapidly changing circumstances and needs make them ideal partners in a humanitarian crisis.

Market concentration is often measured through the Herfindahl-Hirschman Index (HHI). DFID’s HHI has been measured at 300, a score which indicates that our supply market is not overly concentrated at the aggregate level. However, we will continue to take action to ensure that our supply market is diverse and competitive and that larger supply partners do not exploit their position through:

- Greater transparency of costs, fees and overheads in our contract awards;
- Reaching out to new supply partners through our commercial pipeline, funding portal and “Open for Business” events; and
- Maximising value across portfolios and capturing innovation through our Strategic Relationship Management programme (see section 5).

## **Civil Society Organisations (CSOs)**

CSOs are crucial partners and allies in DFID's mission to achieve the Global Goals. The Civil Society Partnership Review in 2016 made a number of recommendations to build a relationship between DFID and CSOs that is fit for the future, more strategic and effective and to ensure opportunities for a broad range of CSOs, including those in developing countries.

DFID's work with civil society now has a greater focus on partnership and increasingly high standards on efficiency, transparency and accountability. This will ultimately deliver more for the world's poorest and for British taxpayers. We are applying the main outcomes of the supplier review to accountable grants. SRM covers 80% of accountable grant spending and we are piloting the application of the Code to accountable grants to establish appropriate reporting thresholds and minimise burden. We are also currently piloting new cost templates to ensure consistency across contracts and grants.

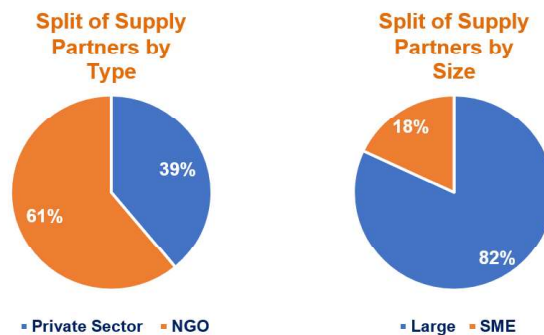
# 5. Relationship Management

## Strategic Relationship Management Programme (SRM)

Strategic relationship management is common in the private sector and is being rolled out across government with the support of the Government Commercial Function. It is a process that aims to unlock innovation and drive mutual improvements in performance based on collaborative relationships between customer and supplier.

DFID's Strategic Relationship Management (SRM) programme was developed with expert inputs from the National Audit Office, Cabinet Office and the International Association of Contract and Commercial Management. It draws on best practice in both the public and the private sector to transform DFID's approach to supply partner management. The programme is managed by a dedicated team of commercial specialists and assessed annually against the Cabinet Office Commercial Operating Standards. It has been welcomed by the International Development Committee and Independent Commission for Aid Impact and is considered a model of good practice in government.

The SRM programme was launched in January 2018 with 4 supply partners. Successive phases increased the number of supply partners, tested new approaches, expanded to include accountable grant spend and refined our methodology. Only 14 months after its launch, the programme now covers:



## Supply partners and segmentation

The level of governance and human resource investment required by each SRM partner is determined in line with Government policy by applying a structured and objective segmentation process that differentiates between supply partners and classifies them as gold, silver or bronze, based on consideration of key factors such as business criticality, risk profile and the volume and complexity of funding agreements. Over time, we will develop our segmentation approach to consider additional criteria such as scope to innovate, strategic alignment and willingness to collaborate.



The supply partners covered under the SRM programme are:

| Gold                           | Silver   |
|--------------------------------|--|
| British Council                | Adam Smith International                       |
| Christian Aid                  | AECOM Professional Services                    |
| Coffey International           | Cardno Emerging Markets                        |
| Crown Agents                   | Care International UK                          |
| DAI Europe                     | Clinton Health Access Initiative               |
| IMA World Health               | Concern Worldwide                              |
| IMC Worldwide Limited          | Crown Agents Bank                              |
| International Rescue Committee | Danish Refugee Council                         |
| Marie Stopes International     | GSMA Mobile for Development Foundation Inc     |
| Mercy Corps Europe             | International Medical Corps UK                 |
| Mott MacDonald                 | International Planned Parenthood Federation    |
| Oxford Policy Management       | IPE Global Ltd                                 |
| Palladium                      | KPMG   |
| PriceWaterhouseCoopers         | Liverpool School of Topical Med.               |
| Save the Children              | London School of Economics & Political Science |
|                                | London School of Hygiene & Tropical Medicine   |
|                                | Louis Berger Group, Inc                        |
|                                | Mannion Daniels Limited                        |
|                                | McKinsey & Co                                  |
|                                | Norwegian Refugee Council                      |
|                                | Overseas Development Institute                 |
|                                | Oxfam  |
|                                | People in Need                                 |
|                                | Population Services International              |
|                                | Sightsavers                                    |
|                                | SNV Netherlands Development Org.               |
|                                | Voluntary Service Overseas                     |

Whilst bronze supply partners are not covered under SRM, we continue to engage with all existing and potential supply partners 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 2015.

## Assessing performance

The programme is underpinned by a performance scorecard process which is used to assess supply partner's performance against six performance pillars: Flexibility, Delivery & Support, Quality, Value for Money, Partnership and Risk & Compliance.

Performance assessments are carried out every six months. In line with the spirit and aspirations of the programme, improvements are identified in a joint Business Plan and made collaboratively with our supply partners.

Three rounds of performance assessment have been carried out since the programme's launch, with the results summarised below.

|                                 | Scorecard Round |            |            |
|---------------------------------|-----------------|------------|------------|
|                                 | Jan-18          | Jul-18     | Jan-19     |
| <b>Serious Underperformance</b> | 0 / 0%          | 0 / 0%     | 1 / 1%     |
| <b>Underperformance</b>         | 4 / 14%         | 14 / 10%   | 21 / 12%   |
| <b>Good Performance</b>         | 22 / 76%        | 105 / 76%  | 126 / 70%  |
| <b>Exceeding Performance</b>    | 2 / 7%          | 19 / 14%   | 32 / 18%   |
| <b>Outstanding Performance</b>  | 0 / 0%          | 0 / 0%     | 0 / 0      |
| <b>Total Scorecards</b>         | <b>29</b>       | <b>138</b> | <b>180</b> |
| <b>Supply Partners Involved</b> | <b>4</b>        | <b>18</b>  | <b>42</b>  |

Since the start of the programme, 74% of DFID's supply partners in the programme have achieved a 'Good Performance' rating across the portfolio of grants and contracts selected for assessment. Under-performing contracts identified have either improved completely or are showing an upwards trajectory of performance and only one contract remains under review with longer term improvement actions in place.

## Emerging benefits

Long term relationships can be difficult to establish and maintain in an environment where our agreements are typically time-limited, but there are significant benefits to be gained on both sides from developing productive and enduring supply partner relationships. Working together in this way with our supply partners builds trust, develops mutual understanding, improves service delivery and helps to solve problems more effectively.

The full benefits of partnership working through the SRM programme will take time to be realised, but SRM is already showing strong results:

- Better performance, as measured by our supply partner performance measurement scorecards;
- Over 20 initiatives to drive relationship improvements and explore innovation opportunities with our key supply partners;
- More collaborative working between DFID and supply partners, joining up field and HQ level to solve problems more quickly; and
- A detailed, 360-degree view of our relationships' key strengths and weaknesses.

### **Feedback from DFID suppliers**

*"We have found the SRM process to be very helpful, as we seek to understand new DFID mechanisms and processes, and to help us find the right people within DFID to talk to"*

*"We are finding the SRM process to be relatively straightforward and we particularly value having a central point of contact in DFID HQ to provide support"*

We are working with the Government Commercial Function and other aid-spending government departments to expand the programme in time into a single, cross-HMG Strategic Relationship Management programme for all strategic government ODA supply partners.

### **One of DFID's Gold supply partners, Crown Agents, are responsible for a number of ambitious and high impact projects across Sub Saharan Africa and South Asia.**

When implementation challenges arose with the Safer Schools Nepal Programme, which is increasing the safety of over 200 schools in the regions of the country most vulnerable to natural disasters, DFID's SRM team were asked to support discussions between the local contract management team and the supplier.

Engaging in open and constructive conversations between the two organisations resulted in a pragmatic resolution being reached in time to enable building work to take place during the Nepalese construction season. Crown Agents welcomed the involvement of our SRM team, saying, "from our perspective this is such a good example of how the SRM process can help move things forward without cutting across important relationships and accountability lines".

# 6. Ensuring high standards of conduct

## Supply Partner Code of Conduct

In September 2017, DFID introduced an innovative Code of Conduct, based on best practice in the public and private sectors. The Code replaced DFID's previous voluntary Statement of Principles and Expectations and set clear standards for DFID supply partners to sustain throughout the whole programme life cycle. It marks a step change in DFID's management of supply chain risk, responding to growing public expectations that businesses and other organisations should behave ethically, as well as deliver value for taxpayers' money.

The application of the Code to our contracts helps to:

- Protect the integrity of DFID and its supply partners, providing assurance to taxpayers that public money is being used effectively and ethically;
- Enable more regular and meaningful management information for DFID's country teams and intelligence on our supply partners to inform the development of DFID's supply chain strategies;
- Support a more proactive approach to risk assessment, enabling DFID to identify financial vulnerability in time to develop appropriate risk mitigation plans and business continuity plans to protect programmes delivering benefits to poor and vulnerable people;
- Build up a body of evidence, data and research that will form the basis for a resilience strategy for DFID's supplier market to stimulate growth (including for SMEs) and increase stability in our market;
- Deliver better value for money across our main supply partners' portfolios; and
- Help supply partners to improve and raise their standards.

The Code has formed part of DFID's contractual [terms and conditions](#) for all contracts awarded after September 2017 and was retrospectively applied to existing high-value, strategic contracts in 2018. In 2018 we revised the Code to further strengthen safeguarding against sexual exploitation and abuse and are now in dialogue with CSOs to apply it to accountable grants.

Supply partners are asked to demonstrate sustained high standards in the following areas:



## Reporting thresholds

Following consultations with small and medium sized enterprises we introduced three tiers of reporting requirements for the Code, to ensure our processes do not create disproportionate burdens for smaller organisations. The three levels are:

- **Level 1** - Supply partners with an individual contract value of £1 million or above, or two or more contracts with DFID with a combined value of £5 million or above;
- **Level 2** - Supply partners with an individual contract value below £1 million, or two or more contracts with DFID with a value of less than £5 million; and
- **Level 3** - Supply partners with an individual contract value or component of a Contract with a value below the EU Threshold. At this level supply partners are required to adhere to the overarching Code principles and recognise, mitigate and manage risks but will not be monitored against the contractual KPIs.

## Managing compliance

Compliance with the Code is managed by a dedicated compliance team of specialists who work collaboratively with supply partners throughout the lifetime of the funding arrangement, providing the highest degree of assurance of ethical behaviour and value for money to the public and beneficiaries.

Since its application to contracts in September 2017, the Compliance and Risk team has carried out spot checks of compliance and “deep dives” into key areas of the Code, such as financial sustainability. These have generated 220 improvement actions, strengthening supply partners’ policies and procedures in the areas of whistleblowing, safeguarding and recruitment.



## Next steps

We are now working with senior commercial officials in other aid-spending departments to establish a common Code of Conduct for all UK aid, based on the DFID Code. This will improve effectiveness and value for money across the delivery of UK aid and provide greater certainty to supply partners on expectations and standards across government. We have also begun discussions with BOND and CSOs to extend the Code to our accountable grant agreements with Civil Society Organisations.

# Gold Supply Partner Summary

Key:

- ✔ Accepted / Assessed, actions complete <sup>7</sup>
- ⚠ Assessed & Partially Satisfactory. Actions agreed and underway or pending re-assessment
- ✘ No active contracts under the new terms and conditions

| Gold Supply Partners (A-Z)     | Contracts          |  | Policies            |                             |                          | Subcontractors                        |                                 |                                |  | Code of Conduct Corporate Spot Check Assessment <sup>8</sup> |  |                   |  |                      |                      |  |
|--------------------------------|--------------------|--|---------------------|-----------------------------|--------------------------|---------------------------------------|---------------------------------|--------------------------------|--|--|--|-------------------|--|----------------------|----------------------|--|
|                                | New T&Cs Accepted? | Procurement Spend 2018/19 (includes fund values) | Volume of Contracts | Gender Pay Gap <sup>2</sup> | Total Modern Apprentices | Modern Apprentices on DFID Programmes | % of DFID Revenue Subcontracted | % of DFID Revenue Paid to SMEs | % of DFID Revenue Paid to In-Country Supply Partners | Average Days to Pay Invoices <sup>5</sup>                    | VFM & Governance                         | Ethical Behaviour | Transparency & Delivery Chain Management | Environmental Issues | Terrorism & Security | Safeguarding, Social Responsibility & Human Rights |
| British Council                | ✔                  | £21.4m   | 6                   | 13.8%                       | 0                        | 0                                     | 56%                             | 39%                            | 26%  | 8.6  | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Christian Aid                  | ✔                  | £2.58m   | 2                   | 6.8%                        | 1                        | 0                                     | 5.2%                            | 5.2%                           | 1.3%   | 29   | Compliance Process Underway <sup>6</sup> |                   |  |                      |                      |  |
| Coffey International           | ✔                  | £13.5m   | 15                  | 39.4%                       | 0                        | 0                                     | 76%                             | 57%                            | 30%  | 18   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Crown Agents                   | ✔                  | £41.9m   | 7                   | Not Provided <sup>3</sup>   | 0                        | 0                                     | 71%                             | 42%                            | 32%  | 36   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| DAI Europe                     | ✔                  | £92.4m   | 24                  | 38.8%                       | 0                        | 0                                     | 55%                             | 52%                            | 42%  | 27   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| IMA World Health               | ✔                  | £22.4m   | 2                   | 8%                          | 6                        | 2                                     | 12%                             | 2%                             | 8%   | 30   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| IMC Worldwide Limited          | ✔                  | £56.3m   | 15                  | -9%                         | 3                        | 2                                     | Not Applicable <sup>4</sup>     | Not Applicable <sup>4</sup>    | Not Applicable <sup>4</sup>                          | 25   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| International Rescue Committee | ✔                  | £0.68m   | 1                   | Not Provided <sup>3</sup>   | 0                        | 0                                     | Not Applicable <sup>4</sup>     | Not Applicable <sup>4</sup>    | Not Applicable <sup>4</sup>                          | 16   | Compliance Process Underway <sup>6</sup> |                   |  |                      |                      |  |
| Marie Stopes International     | ✔                  | £50.4m   | 4                   | 44.7%                       | 4                        | 0                                     | 51.3%                           | 9.3%                           | 19.6%  | 24   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Mercy Corps Europe             | ✔                  | £0.40m   | 1                   | 11.0%                       | 0                        | 0                                     | 0%                              | 0%                             | 0%   | 8  | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Mott MacDonald                 | ✔                  | £76.3m   | 17                  | 20.0%                       | 0                        | 0                                     | 16.6%                           | 10.3%                          | 4.4%   | 35   | Compliance Process Underway <sup>9</sup> |                   |  |                      |                      |  |
| Oxford Policy Management       | ✔                  | £50.1m   | 43                  | 31.2%                       | 0                        | 0                                     | Not Applicable <sup>4</sup>     | Not Applicable <sup>4</sup>    | Not Applicable <sup>4</sup>                          | 25   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Palladium                      | ✔                  | £103.1m  | 23                  | 2%                          | 1                        | 0                                     | 76%                             | 70%                            | 35%  | 35   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| PriceWaterhouseCoopers         | ✔                  | £121.7m  | 13                  | 31.2%                       | 137                      | 7                                     | 73.3%                           | 23%                            | 7.4%   | 29   | ✔  | ✔                 | ✔  | ✔                    | ✔                    | ✔  |
| Save the Children              | ✘ <sup>1</sup>     | £0.00  | 0                   | 10.9%                       | 0                        | 0                                     | Not Applicable <sup>1</sup>     | Not Applicable <sup>1</sup>    | Not Applicable <sup>1</sup>                          | 36   | Not Applicable <sup>1</sup>              |                   |  |                      |                      |  |

- Save the Children have no active contracts under the new T&Cs, however they are engaged in a pilot of the Supply Partner Code of Conduct for Accountable Grants and have submitted their initial response to DFID for review.
- Gender Pay gap data taken from supply partner submissions to DFID or from the Gender Pay Gap Service if they are in scope to report. The mean pay gap has been used for this report. A full definition of how these figures are calculated can be found on the Gender Pay Gap Service (<https://gender-pay-gap.service.gov.uk/>).
- Supply Partner is not required to report their Gender Pay Gap and has been unable to provide DFID with a voluntary submission prior to publication of this report.
- Supply Partners are SMEs and are not required to report these figures to DFID.
- Average days to pay data taken from <https://www.gov.uk/check-when-business-pay-invoices> or supply partner submissions directly to DFID.
- Supply Partner has recently been awarded contracts under the new Terms and Conditions and the compliance process is now in progress for these supply partners.
- Supply Partners assessed under the Corporate Spot Check have scored an average of 77% on initial submission. On average, 10 actions have been required by each supply partner to fully complete the Corporate Spot Check.
- The code of conduct corporate spot check assessment outlines the Code Compliance requirements our Supply Partners need to meet to provide DFID with an appropriate level of assurance to mitigate intrinsic risk in DFID Operations, supply chains and business processes.
- Mott MacDonald are engaged in compliance activity and are currently addressing corrective action to reach 100% in their corporate spot check.

# 7. Building Commercial Capability and Systems to deliver

## Building Commercial Capability

Good commercial practice is an essential element in delivering better development results, better value for public money and assurance that organisations funded by public money behave ethically and professionally at all times. DFID is building up its commercial capability in line with high government standards set by the Cabinet Office.

### Increasing capability of commercial staff

DFID is continuing to develop the commercial capability of our staff:

- All of DFID's senior commercial roles (Grade 6 and above) have been through the Government Commercial Organisation's assessment and development centre (ADC). Grade 7 staff are currently going through the ADC and will transition to the GCO in September 2019;
- 40% of DFID's procurement and commercial specialists are accredited members of the industry's professional body, the Chartered Institute of Procurement and Supply (CIPS). All staff with membership of CIPS are working towards chartered status which includes further professional development and enrolment in the CIPS ethics course; and
- DFID has increased the number of commercial experts embedded across the organisation over the past year with more overseas and a new hub in Tanzania.

### Awards

DFID's Procurement and Commercial Department has won five CIPS (Chartered Institute of Procurement & Supply) awards since 2013, and one Civil Service Award. The most recent award was received in September 2017 from CIPS for the 'Best Contribution to the Reputation of the Procurement Profession', for DFID's commercial health strategy.

### Increasing capability of non-commercial staff

- PCD provides the following learning and development products to non-commercial staff:
  - Induction training for DFID staff designated as Senior Responsible Owners of programmes. This includes training in the commercial involvement required at business case stage, Strategic Relationship Management, compliance with the Supply Partner Code of Conduct and market creation practices;



- A 2-day Commercial Masterclass for DFID’s programme managers, delivered by an external partner with a commercial expert from PCD, and covering the entire programme cycle; and
  - Development courses and masterclasses for DFID’s Senior Civil Servants.
- We have introduced weekly commercial surgeries to support programme teams.
  - We are working with the Cabinet Office to professionalise contract management by introducing training and accreditation of those who manage supply partners and contracts.
  - We carry out Commercial Capability Reviews (CCRs) of DFID’s country offices and central spending teams. CCRs are not a commercial audit but are designed to support the Commercial Delivery Managers assess the spending departments level of commercial capability and then put an appropriate improvement plan in place. The CCRs are aligned with the Government Commercial Operating Standards.

## New Commercial Platform and Management Information Transformation

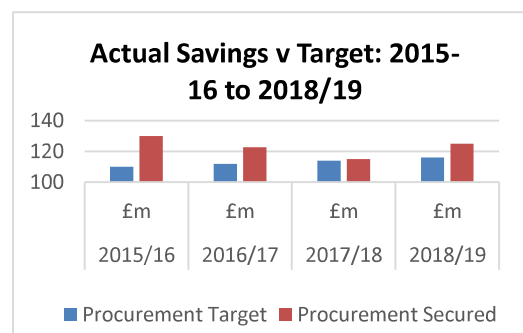
DFID’s current commercial IT platform is no longer suitable for the greater level of commercial ambition in the department. We are therefore implementing a new commercial platform to replace it. The first phase of the new platform was completed in January 2019 and further functionality will be added on a progressive basis during 2019.

Once fully implemented the new platform will provide a consolidated central source of commercial information including data for all sourcing activities from early market engagement right through to contract completion. It will integrate with our financial system, allowing spend to be tracked against contracts from one source. Enhanced data capture and improved business processes will allow better management of contracts, supplier performance and tender management procedures.

Future stages of our MI transformation will also implement a solution for all funding agreements to be accessed through a central repository.

## Efficiency savings

In 2015 DFID announced plans to make over £400 million of efficiency savings by 2019/20. DFID has currently made procurement efficiency savings of nearly £500 million, mostly through more effective procurements. The table below provides more details on savings achieved through procurement. Further information on the department’s efficiency savings through estates, IT and departmental pay can be found in DFID’s annual report and accounts.



Savings have been delivered by implementing new frameworks which drive additional value and by continuing our collaboration with other development organisations to procure goods and services in collaboration to maximise value for money and drive economies of scale.

# 8. Other Government Departments

As the UK Aid Strategy sets out, DFID remains the UK's primary channel for aid. But to respond to a changing world, more development funds are being administered by other Government Departments, drawing on their skills and expertise to tackle global challenges.

Other Government departments have direct responsibility for their share of the development budget and are accountable to Parliament and UK taxpayers for how they spend Official Development Assistance (ODA). DFID is working with other ODA-spending departments to ensure the application of a consistent commercial approach to all UK aid.

In 2018, DFID established a cross-government commercial working group to ensure that aid is spent in the best way, with every single penny delivering value for money. This working group is chaired by DFID, under the auspices of the Government Commercial Function and will deliver:

- A single code of conduct and common set of contract terms and conditions for all strategic ODA supply partners across HMG;
- Greater collaboration in the procurement of ODA goods and services;
- A common compliance and risk management methodology across HMG, based on DFID practice;
- A single, cross-HMG Strategic Relationship Management programme for all strategic government ODA supply partners; and
- A cross-government commercial approach to deliver the new HMG approach to Africa.

To coordinate the delivery of a common commercial approach across all departments, the working group have agreed to establish a UK commercial aid hub for UK ODA from the next financial year, 2020/21.

*"I am delighted that DFID's Commercial team has established the working group. A strong and consistent commercial approach to the delivery of the UK's Official Development Assistance is important especially as departments spend larger amounts of ODA and are being scrutinised by Parliament and the media for its effectiveness and value for money. The group builds on work undertaken by the Government Commercial Function, reinforcing the importance of robust management of our suppliers to ensure both value for money and high standards in delivery."*

*Gareth Rhys Williams  
Government Chief Commercial Officer*

# 9. Next steps

In the next stage of our commercial journey we will:

- **Extend key commercial reforms to DFID’s accountable grants.** We are engaging with BOND to develop the most appropriate way to apply the Supply Partner Code of Conduct to our grants. This includes testing the Code’s application to smaller CSOs, particularly those in developing countries, so that our reporting requirements do not create a disproportionately heavy impact for those who have the least capacity;
- **Continue to build DFID’s commercial capability.** We will strengthen the skills and capabilities of DFID’s Delegated Procurement Officers and carry out the first round of a redesigned Commercial Capability Review of DFID offices and departments. We will also continue with the rollout of further phases of the new Commercial MI Platform;
- **Strengthen DFID’s contract management.** Strengthening contract management is a key strand of delivering the next phase of commercial change in DFID, integrating commercial capability more deeply into the front-line and DFID’s core capabilities and skillsets. We will work with the Cabinet Office to professionalise contract management by introducing the contract management and accreditation programme to those who manage supply partners and contracts;
- **Identify opportunities for “portfolio” procurement.** Better planning will enable us to procure on a “portfolio” basis, saving staff time by eliminating individual procurements and securing cost savings from buying in bulk, while still giving programme teams full operational control over how and when to deploy;
- **Work towards a single commercial hub for all UK aid.** With other aid-spending departments we have agreed to work towards a single Code of Conduct, SRM programme and contract Terms and Conditions for all UK aid. We have begun work on cross-government commercial preparations for delivery of the new UK approach to Africa and in September will hold the first ever UK aid conference for supply partners, representing all UK aid-spending departments; and
- **Clarify options for commercial reform of multilaterals.** More effective multilateral spend could maximise our buying power, give us greater international leverage and influence, drive efficiency savings and ensure DFID leadership on ethical standards and safeguarding is driven across the international system.

# Annex A – Glossary

**Civil Society Organisations (CSOs):** Non-governmental organisations, trade unions, and church faith and community groups have a long and impressive record of involvement in international development. These civil society organisations and networks can play a vital role in empowering poor people overseas and in building global alliances in support of eliminating world poverty. Official funding to CSOs for development and humanitarian assistance abroad is reported in ODA.

**DFID programme:** DFID's expenditure on development assistance. The DFID programme comprises broadly: Bilateral aid to developing countries, where DFID's budget is used to fund specific activity with a recipient country or in sectors. This includes jointly managed funding where DFID has a stake, such as the Conflict, Stability and Security Fund or International Climate Fund; Multilateral aid, including core funding to multilateral organisations such as UN agencies, the World Bank and the UK share of EC development programmes, and Administration costs.

**Direct spend:** Money paid directly to Supply Partners through funding instruments.

**Indirect spend:** Money paid to Supply Partners which is subcontracted via the supply chain.

**Official Development Assistance (ODA):** those flows to developing countries and multilateral institutions provided by official agencies or by their executive agencies, each transaction of which a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character (See the OECD statistics directives)

The UN target for ODA (0.7 per cent of GNI), endorsed in 1970 by the UN General Assembly, is expressed in terms of net ODA (i.e. after deduction of loan capital (i.e. principal) repayments) as a percentage of Gross National Income.

**Technical Assistance:** the provision of know-how in the form of personnel, training, research and associated costs. (see the DAC directives for the different types of aid used for statistical purposes)



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