

Achieving value for money through procurement

Part 2: DFID's approach to value for money through tendering and contract management

A performance review

September 2018

The Independent Commission for Aid Impact works to improve the quality of UK development assistance through robust, independent scrutiny. We provide assurance to the UK taxpayer by conducting independent reviews of the effectiveness and value for money of UK aid.

We operate independently from government, reporting to Parliament, and our mandate covers all UK official development assistance.

Overall review scores and what they mean

GREEN

Strong achievement across the board. Stands out as an area of good practice where UK aid is making a significant positive contribution.

AMBER/ RED

Unsatisfactory achievement in most areas, with some positive elements. An area where improvements are required for UK aid to make a positive contribution.

GREEN/ AMBER

Satisfactory achievement in most areas, but partial achievement in others. An area where UK aid is making a positive contribution, but could do more.

RED

Poor achievement across most areas, with urgent remedial action required in some. An area where UK aid is failing to make a positive contribution.



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An appropriate overall approach to procurement with good performance in most areas of tendering, but significant weaknesses in contract management.

DFID has made a concerted effort over the past decade to strengthen its procurement, with faster progress since 2015. New initiatives to address previous key areas of weakness include commercial delivery plans, sourcing strategies, codes of conduct, new contractual terms and conditions, and cost guidance. The 2017 Supplier Review has increased the focus on supplier transparency and accountability, giving DFID more visibility over costs and profits – although we are not convinced that new rules on recovering excess profits are the right solution. Lack of adequate consultation with suppliers during the Supplier Review increased the risks of unintended consequences, which need to be carefully monitored. Overall, DFID's reformed procurement approach meets UK government guidance and should help to drive up value for money.

We reviewed contracts over a five-year period, finding significant improvement in DFID's practices since recent reforms and capacity-building initiatives. The new sourcing process means that DFID now approaches procurement for major projects in a more strategic way. More early market engagement has helped to increase competition. However, DFID is over-reliant on quicker procurement methods, rather than using negotiated processes that would enable it to define its needs more clearly and potentially increase efficiency and effectiveness. The department has hired more procurement professionals and provided commercial training across the department. However, an antiquated management information system remains a significant limitation.

Contract management emerges as the major weakness in DFID's commercial practice. The function is not well defined or adequately resourced, which limits DFID's ability to manage supplier performance. Overly rigid contract terms and inception periods that are too short mean that contracts need frequent amendment. There are rigidities in DFID's contracting process that work against its goal of more flexible and adaptive programming. DFID takes an appropriately cautious approach to payment-by-results contracting, but needs to be careful not to suppress innovation.

Individual question scores

Question 1

Relevance – To what extent is DFID’s strategy and approach to procurement appropriate to its objectives and priorities?



GREEN/
AMBER

Question 2

Effectiveness – How well does DFID secure value for money through its tendering practices?



GREEN/
AMBER

Question 3

Effectiveness – How well does DFID secure value for money through its contracting and choice of payment mechanisms?



AMBER/
RED

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Executive Summary

The Department for International Development (DFID) spent around £1.4 billion, or 14% of its 2016-17 budget, through commercial suppliers. The quality of its procurement and contract management – how it engages and manages commercial firms to support the delivery of aid programmes on time, to budget and at the appropriate quality – is a key driver of value for money for UK aid. It is also a subject of considerable Parliamentary and public interest. In recent years, DFID has implemented a range of initiatives to strengthen its procurement practice and embed commercial capability across the department – including its 2017 Supplier Review, undertaken to address concerns about excessive profit-making by DFID suppliers.

The Independent Commission for Aid Impact (ICAI) has conducted two reviews of how well DFID achieves value for money through procurement. The first, published in November 2017, explored DFID's efforts to shape its supplier market. This second review examines whether DFID maximises value for money from suppliers through its tendering and contract management practices. We assess DFID's procurement approach against UK government rules and guidance, and the commercial objectives that DFID has set for itself. We also reviewed a sample of 44 contracts, representing a third of DFID's expenditure through commercial suppliers over the 2012-17 period. Our methodology included visits to Nigeria and Tanzania to explore some of these contracts in more detail.

Does DFID's approach to procurement support its objectives and priorities?

DFID's procurement approach has developed progressively over the past decade. A cross-government review of commercial capability in 2008 placed DFID tenth of 16 government departments, noting that it treated procurement as an administrative cost rather than a management tool for enhancing value for money. From 2008 to 2015, DFID worked to establish a governance structure and operating model for procurement and to build up capacity in its central Procurement and Commercial Department and across its spending units. We found the pace of change over this period to be relatively slow, possibly indicating the lack of a strong champion for procurement at board level.

From 2015 the pace of change accelerated. DFID introduced a range of new initiatives. It adopted the objective of becoming "a world-class commercial organisation", supported by a strategy and delivery plan setting out the steps required. Reforms since then have included:

- Commercial delivery plans for spending departments.
- A new sourcing approach, which involves analysing the capacity of the market to deliver the services required and making more strategic decisions about how to approach procurement.
- Increased early market engagement with suppliers, to gauge the level of competition and how to maximise it.
- Codes of conduct for suppliers and for DFID staff when dealing with suppliers, to protect against collusion and conflicts of interest.
- New standard terms and conditions for supplier contracts, including a requirement for open-book accounting, giving DFID greater potential to scrutinise costs and profits and benchmark fee levels across suppliers.
- New guidance on the costs that suppliers can charge DFID.
- Measures to increase transparency and accountability of subcontractors in DFID's supply chains.

Some of these initiatives are now well established, while others are still being tested and refined. Overall, we find the approach to be consistent with UK government guidance and applicable legislation, with the potential to deliver significant improvements in value for money. In a recent assessment and peer review against the Government Commercial Operating Standards, DFID was found to have improved on 11 out of 22 measures, with only two areas rated as underperforming, compared to 12 months ago.

The Supplier Review was a nine-month, ‘root and branch’ reassessment of supplier practices, which concluded in October 2017. It drew together various ongoing initiatives, while announcing new measures to promote supplier accountability and transparency. It provides DFID with some useful new tools to monitor suppliers. It also introduces new contractual provisions entitling DFID to recover supplier profits if they exceed the level agreed for that contract. We are not persuaded that this is the right approach for ensuring fair profits. As we concluded in our 2017 procurement review, there is no hard evidence of excessive profit in DFID’s supplier market. Ongoing efforts to boost competition are a more appropriate strategy for keeping costs and profits in check. The new contractual rules may create incentives for suppliers to conceal their profits, which works against the objective of transparency. We also find that lack of consultation with suppliers during the Supplier Review – a result of the intense political pressure surrounding the process – has increased the risk of the reforms resulting in unintended consequences. This communication gap now needs to be overcome.

In early 2018, a scandal around the sexual exploitation of aid recipients in Haiti following the 2010 earthquake highlighted an urgent need to ensure that safeguards were in place in DFID’s supply chain. Since then, DFID initiated a review of its programme management processes and its contractual terms for grantees and suppliers, which needed to be adjusted to address this risk more explicitly.

DFID’s procurement approach is set out in its Smart Rules and associated guides and information notes. While these are comprehensive and well written, we identified various issues with internal consistency and version control.

Overall, we find that DFID’s procurement approach is appropriate to the department’s objectives and developing in the right direction to deliver value for money, meriting a **green-amber** score.

How well does DFID secure value for money through its tendering practices?

Our in-depth review of 44 contracts covers DFID’s procurement practice over a five-year period. We found considerable improvement over that time, as DFID has boosted its commercial capacity and introduced new tools and processes.

In most of the older programmes in our sample, advance planning on how to approach the procurement was inadequate. The commercial aspects of business cases lacked appropriate analysis of the supplier market or structured consideration of procurement options. In 2017, DFID introduced sourcing strategies – identifying options for sourcing goods or services from the market – for all programmes, which are approved by a new Procurement Steering Board. For the six programmes in our sample with such a strategy, we found that procurement decisions were based on a much better understanding of market conditions and supplier capacity, and that DFID had made efforts to structure its requirements to make the most of what the market could offer.

This has been supported by increased early market engagement, where DFID meets with potential suppliers to gauge the level of interest in forthcoming programmes. There has been an increase in the average number of bids per tender, from 2.5 in 2015-16 and 2.9 in 2016-17 to 3.3 in 2017-18, against a target of four by April 2019. However, more still needs to be done to improve the visibility of opportunities and make it easier for potential bidders to identify and prepare for opportunities. At the time of conducting our review, for example, no accurate pipeline could be provided.¹

We find that DFID has not always chosen the most appropriate procurement process from among the options permitted by the law. It has been overly reliant on open or restricted procedures and made too little use of negotiated options.² The latter are often better suited to complex aid programmes where the package of services required cannot be specified in advance. The introduction of the sourcing strategy process is, in principle, an appropriate way of addressing this.

DFID has made a concerted effort to build its commercial capability. Its procurement department has expanded from 41 staff in 2010-11 to 121 in 2018. It has made efforts to recruit and retain more senior

1. Following the work for this review, DFID has published pipeline information, dated 31 July 2018. This has not been reviewed by us.
2. These terms are further explained in Table 4, p. 24 of this report, along with other procurement procedures.

procurement experts, despite struggling to offer competitive salaries due to restricted pay levels set by central government. DFID is also rolling out training programmes to increase commercial knowledge across the department, and has introduced commercial delivery managers to support country offices and spending departments. The increase in capacity has allowed DFID to be more ambitious in its procurement and commercial work, but continued effort will be needed to embed commercial skills and awareness across the department.

One significant gap in DFID's capacity is the lack of an integrated management information system to record all aspects of the procurement process. DFID's procurement is currently supported by multiple, ageing IT systems that do not interact. As a result, there is no single audit trail for procurements, and DFID has difficulty generating the data required to make informed decisions. While this problem has been apparent for some time – and was raised in our 2017 procurement review – progress on addressing it has been slow.

Our analysis suggests significant improvement over the review period, with stronger performance on procurement in the most recent contracts. While DFID still has a way to go in building the capacities and systems required to achieve its ambitions, it merits a **green-amber** score for its recent performance.

How well does DFID secure value for money through its contracting?

While DFID has a well-established programme management process to guide aid delivery through third parties, the commercial and contractual aspects of its management of suppliers are not well articulated. To effectively manage a contract requires monitoring of whether suppliers comply with budgets, timetables and other contract terms, and maintaining a productive relationship between suppliers and DFID. Without active contract management, there is a risk that programmes may achieve poor commercial outcomes even if they successfully reach their targets.

Within DFID, no senior official or department had overall responsibility for the contract management function at the time of our review.³ The role was split among various personnel, without clear assignment of functions and responsibilities. While there is some reference to contract management in DFID's Smart Rules and Guides, the processes are not clearly defined or supported by adequate training. Across our sample of contracts, we found that core management processes such as annual reviews make little reference to contractual or commercial matters. The lack of a formal contract management regime means that DFID often reacts to performance issues only after a poor annual review score, rather than using performance incentives and other tools proactively to prevent problems from occurring. DFID has acknowledged the weakness in its internal assessments of contracts, and it was also highlighted in the 2018 cross-government peer review of commercial capability.

Across our sample, we found that 34 out of 44 contracts had been subject to formal amendment, on average three times each. Over the past five years, the value of DFID's 711 contracts has been extended by a total of £2 billion. As well as being costly and time consuming, this suggests that the programmes may have been procured based on incorrect assumptions, which distorts the tender process. We also found that the inception phases on DFID contracts are often too short for the preparatory processes (such as background research and consultation – the requirement will vary for each contract) needed to define targets and milestones accurately. For example, in one programme to tackle stunting in Tanzania, a performance-based contract tied payments to progress in changing community behaviours around nutrition, but the inception period allowed too little time to establish an accurate baseline against which to measure change.

DFID has set itself the goal of moving towards more flexible and adaptive programme management, to allow for learning through the implementation process. We heard concern from stakeholders both within and outside the department that DFID's contracting practices do not support this level of flexibility, because activities and outputs are often written into contracts and can only be changed through formal contract amendment.

3. After undertaking the work for this review, DFID appointed the Director of Finance and Delivery as the senior officer with responsibility for contract management in addition to his existing responsibilities. Although we have not assessed the effectiveness of this appointment, we are pleased that responsibilities have begun to be made clearer.

Payment-by-results (that is, where part of the payment is conditional on achieving agreed results) is now common in DFID contracts. In the right conditions, it can incentivise better supplier performance, but it is a complex tool to use with a risk of unintended consequences. We find that DFID has generally been cautious in its use. In most instances, only a portion of the fees is performance-based and generally linked to activities or outputs that are within suppliers' control. While there is a risk that payment-by-results may discourage smaller firms and non-governmental organisations from participating, we saw examples of DFID managing this risk by adjusting the level of payment-by-results. It is difficult to assess at this point whether payment-by-results is in fact improving supplier performance. DFID is beginning to develop a better understanding of supplier incentives, but this is still a new field where further learning is required.

Overall, we find that contract management is a significant area of weakness for DFID that is not being adequately addressed by ongoing reforms, meriting an **amber-red** score.

Recommendations

DFID has now put in place most of the building blocks for a robust procurement system able to drive up value for money in aid programmes. However, there are some important gaps still to be addressed. We offer the following recommendations:

Recommendation 1:

Before the next major revision of its supplier code and contracting terms, or future changes that may materially affect suppliers, DFID should conduct an effective consultation process with its supplier market, to ensure informed decisions and minimise the risks of unintended consequences.

Recommendation 2:

DFID should accelerate its timetable for acquiring a suitable management information system for procurement, to ensure that its commercial decisions are informed by data.

Recommendation 3:

DFID should 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. The new regime should include appropriate adaptive contract management techniques, to ensure that supplier accountability is balanced with the need for innovation and adaptive management in pursuit of development results.

1. Introduction

- 1.1 DFID is committed to ensuring value for money across its portfolio. The UK aid strategy states: “We will ensure that every penny of money delivers value for taxpayers.”⁴ In 2016-17, the department spent £1.4 billion, or 14% of its budget, through commercial suppliers⁵ on contracts ranging from school construction to family planning services and the delivery of humanitarian aid. Poor procurement and contract management practice can result in DFID overpaying for services or obtaining poor quality from suppliers, at the expense of the beneficiaries of UK aid. The quality of its procurement and supplier management is therefore an important driver of value for money. In recent years, procurement has emerged as a subject of particular concern to both Parliament and the public.
- 1.2 This is the second of two reviews undertaken by ICAI of DFID’s approach to procurement. The first review assessed whether DFID influenced and shaped its supplier market in order to improve value for money.⁶ This second review assesses whether DFID has maximised value for money from suppliers through its tendering and contract management practices. These reviews complement a further ICAI review published in February 2018 on DFID’s approach to value for money in programme and portfolio management.⁷ Together, these three reviews cover the key processes by which DFID ensures value for money for the UK taxpayer and the beneficiaries of UK aid.
- 1.3 This is a performance review (see Box 1), providing Parliament and the public with an assessment of whether DFID makes appropriate use of competitive procurement, and whether its tendering and contract management practices secure quality programme delivery at competitive prices. It also assesses whether DFID has adequate controls in place against uncompetitive practices and unethical behaviour. Our review questions are set out in Table 1.

“At the **procurement/mobilisation stage**, achieving VfM [value for money] means minimising costs, given the quality and quantity of outputs required through robust and commercially savvy procurement; ensuring an appropriate balance of risk between DFID and our suppliers or delivery partners; ensuring that suppliers or delivery partners’ incentives are aligned with maximising development impact during programme delivery; and ensuring that the contract or agreement allows effective and suitably adaptive programme and contract management during delivery and at closure.”

DFID’s approach to value for money, DFID Smart Guide, March 2017

Box 1: What is an ICAI performance review?

ICAI **performance reviews** examine how efficiently and effectively UK aid is being spent on a particular area, and whether it is likely to make a difference to its intended beneficiaries. They also cover the business processes through which aid is managed, in order to identify opportunities to increase effectiveness and value for money.

Other types of ICAI reviews include **impact reviews**, which examine results claims made for UK aid to assess their credibility and their significance for the intended beneficiaries; **learning reviews**, which explore how knowledge is generated in novel areas and translated into credible programming; and **rapid reviews**, which are short, real-time reviews examining an emerging issue or area of UK aid spending.

- 1.4 This review covers DFID’s procurement of goods, works and services in relation to aid programmes over the period 2012-13 to 2016-17, including ongoing contracts initiated during that period. It assesses the full range of procurement and contract management practices, from defining supply need and identifying delivery options through contract award to oversight and monitoring of suppliers and

4. *UK aid: tackling global challenges in the national interest*, HM Treasury and DFID, November 2015, p. 4, [link](#).

5. *DFID’s use of private sector contractors, Eighth report of Session 2016-17*, International Development Committee, March 2017, p. 8, [link](#); Statistics on International Development, 2016, DFID, November 2016, [link](#).

6. *Achieving value for money through procurement – Part 1: DFID’s approach to its supplier market*, ICAI, November 2017, paras. 4.42 to 4.49, [link](#).

7. *DFID’s approach to value for money in programme and portfolio management: A performance review*, ICAI, February 2018, [link](#).

contract compliance (a glossary of procurement terms is included in Annex A). It explores how well DFID captures and applies lessons on procurement. The review does not cover agreements with multilateral organisations, grant making to non-governmental organisations (NGOs), financial aid to partner governments, the procurement of goods and services for DFID's own administrative use or procurement by other aid-spending departments.

Table 1: Our review questions

Review criteria	Review question
1. Relevance: To what extent are DFID's strategy and approach to procurement appropriate to its objectives and priorities?	<ul style="list-style-type: none"> • Does DFID have a clear and appropriate approach to ensuring value for money through supplier procurement? • How well does the tender process reflect applicable legislation, regulations and guidance, DFID's cross-cutting objectives and the objectives of individual aid programmes?
2. Effectiveness: How well does DFID secure value for money through its tendering practices?	<ul style="list-style-type: none"> • Are DFID's procurement decisions informed by commercial and technical expertise and knowledge of market conditions? • How well does DFID manage competitive tenders and contract negotiation? • How effective are DFID's controls against anti-competitive practices?
3. Effectiveness: How well does DFID secure value for money through its contracting and choice of payment mechanisms?	<ul style="list-style-type: none"> • How well does DFID's supervision of its suppliers ensure that quality delivery and competitive prices are maintained through the programme cycle, including post-award modifications to contracts? • Does DFID make appropriate choices as to payment mechanisms?

2. Methodology

- 2.1 Building on the data collected during our 2017 procurement review, our methodology consisted of four mutually reinforcing components designed to generate a holistic picture of DFID's procurement practice:
- **Literature review:** an analysis of UK government rules and other commonly used guidance and best practices from across government and the international development sphere.
 - **Strategic review:** an assessment of DFID's procurement policies, strategies, systems and processes across the whole procurement cycle, benchmarking these against the requirements and best practices identified in the literature review. The assessment included analysis of data from DFID's management information systems to identify patterns and trends in procurement.
 - **Desk reviews of contracts:** reviews of a sample of 44 DFID contracts,⁸ including programmes from eight countries⁹ plus three centrally managed contracts, featuring different contract types and market conditions, to identify strengths and weaknesses in DFID's procurement practice (see Box 2 for our sampling approach and Annex 1 for details of our sample). The sample accounts for 33% of DFID's total planned expenditure through commercial suppliers between 2012-13 and 2016-17.
 - **Country case studies:** visits to two DFID country offices (Nigeria and Tanzania) to review procurement practices at the country level. This included following a subset of our sample contracts from tender through to contract delivery, consultation with programme teams and interviews with delivery partners and other stakeholders to assess how well any performance issues were identified and dealt with.
- 2.2 We used a stratified sampling approach to select contracts for detailed review, choosing contracts from each of seven categories (see Box 2) to provide a representative picture of DFID's procurement practices. For selecting country case studies, we identified Nigeria and Tanzania as offering the best coverage across these categories. Nigeria had the third largest DFID country programme in 2017-18, at £282 million.¹⁰ It has a large number of contracts across sectors (eg health and infrastructure) and contract types (eg fund managers, logistics, technical assistance and purchase of commodities). Nigeria also presents a challenging operating environment, with implications for procurement practices. Tanzania is a mid-range country for DFID in terms of expenditure, with a high number of contracts of lower average value. We visited Nigeria for two weeks and Tanzania for one.

Box 2: Our sampling approach

Based on DFID's current contract data, we categorised all open and completed contracts between 2012-13 and 2016-17 according to the following, non-exclusive criteria, in order to ensure that our sample covered the main procurement challenges that DFID faces. Note that these are attributes, rather than types of contract.

- **High value:** the top 30% of contracts by value.
- **Medium value:** the middle 40% of contracts by value.
- **Kraljic¹¹ Strategic:** procurements with a high risk of dependency on a small number of suppliers.
- **Kraljic Bottleneck:** where there are a limited number of potential suppliers and risk of exposure to price increases or supply disruption.
- **Key suppliers:**¹² contracts awarded to key suppliers (accounting for approximately 40% of DFID's contractor spend).
- **Mid-tier suppliers:** suppliers accounting for the next 30% of DFID's contractor spend.
- **High and medium country spend:** countries in the top 30% and middle 40% of expenditure through procurement.

8. Though the Approach Paper indicated 30-40 contracts would be selected for review, we opted to review 44 contracts in order to capture the full range of contract types and market conditions.

9. The desk reviews covered contracts in Democratic Republic of Congo, Ethiopia, Kenya, Nepal, Nigeria, Pakistan, Sierra Leone and Tanzania.

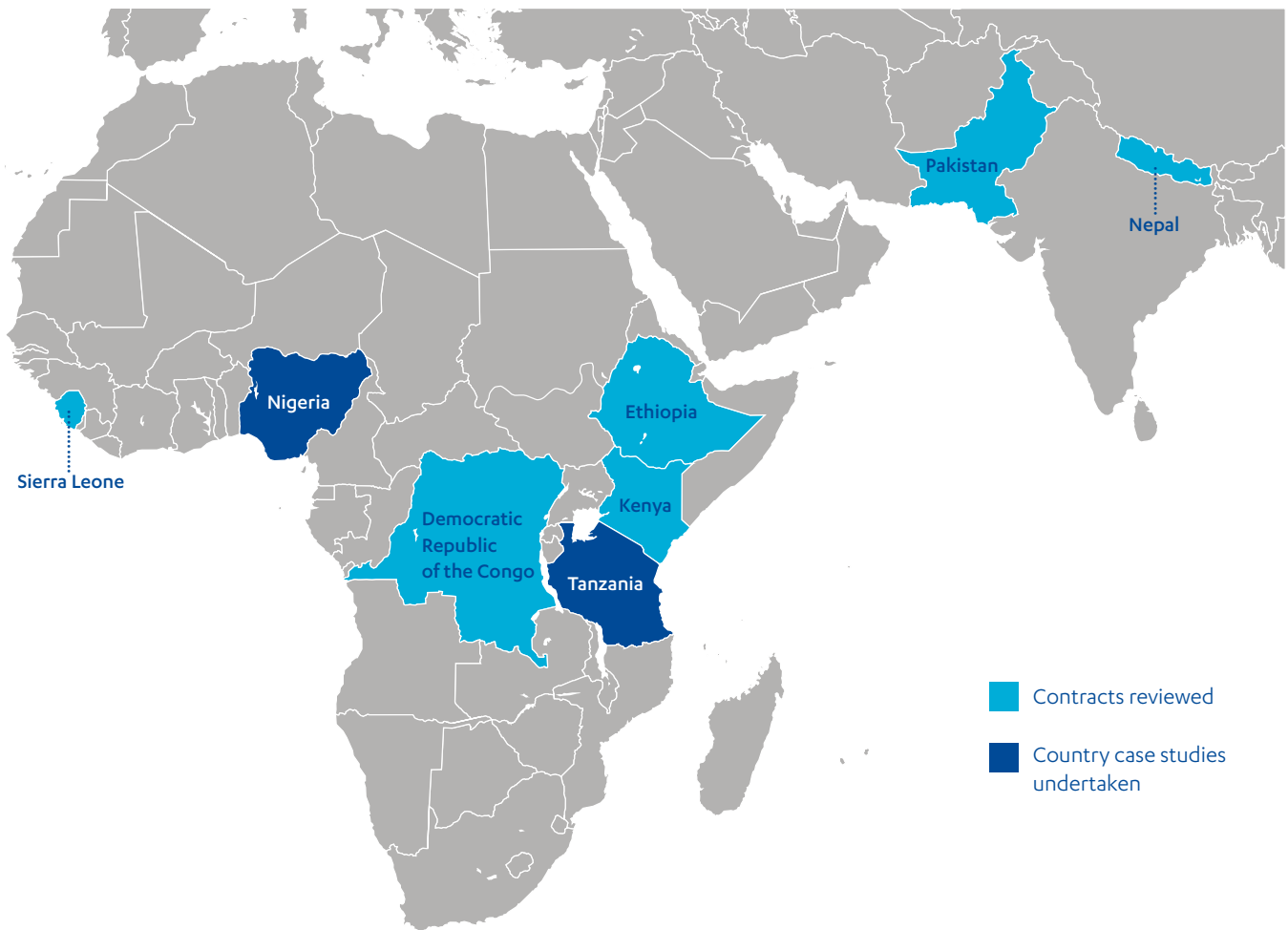
10. *DFID Annual Report and Accounts 2017-18*, DFID, July 2018, p. 140, [link](#).

11. The Kraljic matrix is an influential tool in procurement that allows managers to segment contracts according to different criteria. For more information, see [link](#).

12. DFID has established a Key Supplier Management Programme where selected major suppliers receive focused management by the department across their portfolio of contracts, which is discussed further in our first review of procurement, [link](#). Suppliers on this programme are referred to by DFID and in this document as 'key suppliers'.

2.3 During our country visits, we interviewed a range of key stakeholders, including DFID staff, suppliers and government officials. In the UK, we also held face-to-face interviews with a wide range of internal and external stakeholders, including DFID staff, suppliers, NGOs, representatives of other government departments, and independent procurement experts.

Figure 1: Map of country case study and contract locations



Box 3: Limitations to our methodology

DFID's procurement practices have evolved continuously over the review period, and changes take time to impact on supplier behaviour and the supplier market. As we have reviewed contracts over a five-year period, our findings do not always reflect the latest changes. Where we identify weaknesses in DFID practices, we also assess whether the shortcomings are likely to have been addressed by subsequent reforms.

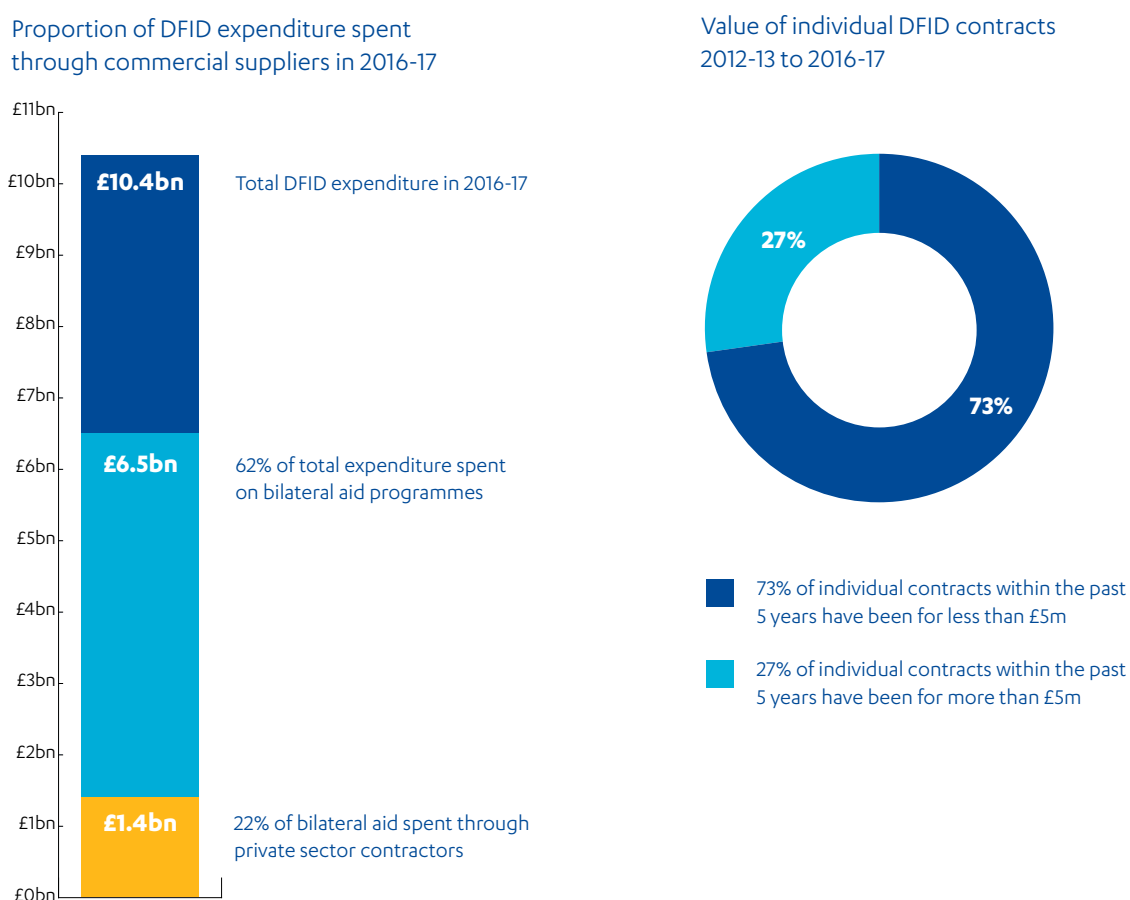
While our sample of contracts provides coverage of eight countries and accounts for 33% of DFID's planned expenditure through suppliers from 2012-13 to 2016-17, it is not fully representative and some sectors and contract types may receive greater focus than others.

3. Background

Procurement and contract management in DFID

- 3.1 DFID does not deliver aid programmes directly, but acts as a commissioning organisation. Its programmes may be procured from a contracted supplier, delivered through a third party such as a multilateral organisation or NGO, or be granted as financial aid to a developing country. Over recent years, the amount of aid spent through suppliers has increased rapidly, from £0.7 billion in 2012-13 to £1.4 billion in 2016-17,¹³ rising to 13.6% of DFID's total expenditure (see Figure 2). In 2016-17, DFID awarded 114 contracts to private sector companies, NGOs and academic institutions.

Figure 2: DFID's supplier expenditure over the last five years



Source: Data provided by DFID

- 3.2 Responsibility for procurement at DFID is shared between the central Procurement and Commercial Department and the units responsible for managing aid programmes (country offices and central spending departments). For contracts above a certain threshold, a competitive procurement must be conducted (except in limited circumstances where the regulations allow alternative procedures). The Procurement and Commercial Department identifies the most appropriate route to market and manages the process, but the spending department retains responsibility for key elements, including preparing the business case and managing the resulting contract. For contracts below the threshold, procurement is managed solely by the spending department. Each programme has a Senior Responsible Owner, responsible for ensuring appropriate use of public funds, supported by programme managers. The Procurement and Commercial Department is responsible for ensuring that all procurement complies with EU and UK law, meets UK government policy, delivers DFID's commercial needs and provides value for money.

13. ICAI analysis of data provided by DFID.

DFID's efforts to build commercial capacity

- 3.3 In 2008, the government undertook a procurement capability review of key spending departments. A National Audit Office analysis of the results placed DFID equal tenth out of 16 departments.¹⁴ It reflected that procurement in DFID at that stage was viewed as an administrative cost, rather than a core business process capable of enhancing value for money. It concluded that:
- insufficient value was placed on procurement by the departmental board, highlighted by the standing of the head of procurement three levels below the board in the department hierarchy;
 - poor performance was not monitored and shared through the department, allowing suppliers with poor performance records to win contracts;
 - there was evidence that the central procurement department was delegating contract management to untrained in-country staff, increasing the risk of poor contract outcomes.
- 3.4 Since then, DFID has made a sustained effort to build up its commercial capacity. The Procurement and Commercial Department has expanded from 41 staff in 2008 to 121 in August 2018, with plans to have 142 staff by the end of 2018-19. DFID has also implemented commercial awareness training for non-specialist staff, including all senior civil servants. The Procurement and Commercial Department has adopted a *Procurement and Commercial Vision*¹⁵ setting out its ambition to develop a first-class commercial and procurement service (see Box 4).

Box 4: Extract from DFID's Procurement and Commercial Department 'Vision'

First class commercial and procurement service within DFID

- Providing expert commercial advice to design and manage development programmes
- Robust assurance and governance: agile and flexible, with appropriate control, risk and contract management
- Service excellence, enabling the business to be ambitious and innovative in programme delivery
- Meeting the Government Commercial Standards as set out by Cabinet Office

Maximising and shaping markets

- Shaping both international and local markets alike
- Collaborates with other donors, multilateral organisations and across UK government to ensure opportunities are visible to the market, to include both local and UK SMEs
- Developing key markets that grow the supply base, build local sustainable capability and increase choices
- Creating greater assurance on market capability and capacity, increases competition and improved value for money

Our commercial influence and impact on the wider sector

- DFID understands the wider international development system and the impact of its commercial choices, not just on its own programmes, but on the work of others
- Developing ever-stronger links with the private sector and bring about economic growth
- Ensure policy decisions consider commercial effectiveness and drive sustainable commercial reform across the multilateral system

14. Performance of the Department for International Development 2008-09, National Audit Office, 2009, p. 19, [link](#).

15. DFID's Procurement & Commercial Vision, DFID, April 2018, [link](#).

- 3.5 These efforts form part of a wider UK government initiative to drive up commercial standards, under the leadership of a new Chief Commercial Officer. The government has recognised that departments lack the capacity to deliver commercial functions at the standard and scale required.¹⁶ It is therefore going through a process of building the capability of 4,000 civil servants in commercial functions across central government and establishing a new Government Commercial Organisation to provide centralised employment and development opportunities for 400 of the most senior staff in the commercial profession.

“[T]he best outcomes can be achieved when commercial professionals work closely together to understand whether achieving policy goals requires outsourced services, significant new technology or property procurement, or the involvement of external parties in other ways. It also means taking a broad view of commercial needs within departments and across government, and considering whether existing markets can meet our needs. Once we have procured the products or services, we need to continue to get the best from them.”

Government Commercial Excellence

- 3.6 DFID’s procurement became subject to heightened external scrutiny in 2016 as a result of allegations that one of its major suppliers had engaged in unethical practice in order to gain a competitive advantage, leading to an inquiry by the International Development Committee.¹⁷ The allegations exacerbated concerns raised by the Committee¹⁸ about perceived high profits earned by commercial suppliers in the aid sector.¹⁹ As well as an internal investigation into those allegations, the then International Development Secretary commissioned a far-reaching review and reform of DFID’s procurement practices, which became known as the Supplier Review. The Supplier Review drew together and accelerated procurement reforms that had been in train for some time. The results are considered as part of this report.

16. *Government Commercial Operating Standards*, March 2017, unpublished.

17. *Conduct of Adam Smith International, Seventh Special Report of Session 2016-17*, International Development Committee, February 2017, [link](#). We have not conducted our own assessment of the allegations made against Adam Smith International. We note that the firm has since launched its own reforms and changed its business model. Molly Anders, *Adam Smith International launches reforms after misconduct*, Devex, March 2017, [link](#).

18. *DFID’s use of private sector contractors, Eight Report of Session 2016-17*, International Development Committee, April 2017, [link](#).

19. There is no objective way to measure whether profit is excessive, whether in international aid or any other sector. Competitive procurement should in principle ensure fair pricing, provided that there is sufficient competition in the market. Some of DFID’s reforms are designed to boost the level of competition by expanding the supplier base.

4. Findings

- 4.1 This section sets out the findings of our review. We first assess relevance: to what extent are DFID's strategy and approach to procurement appropriate given its objectives and priorities. We then turn to effectiveness: whether DFID secures value for money through its tendering practices. Finally, we assess how well DFID secures value for money through its contracting and choice of payment mechanisms.

Relevance: To what extent are DFID's strategy and approach to procurement appropriate to its objectives and priorities?

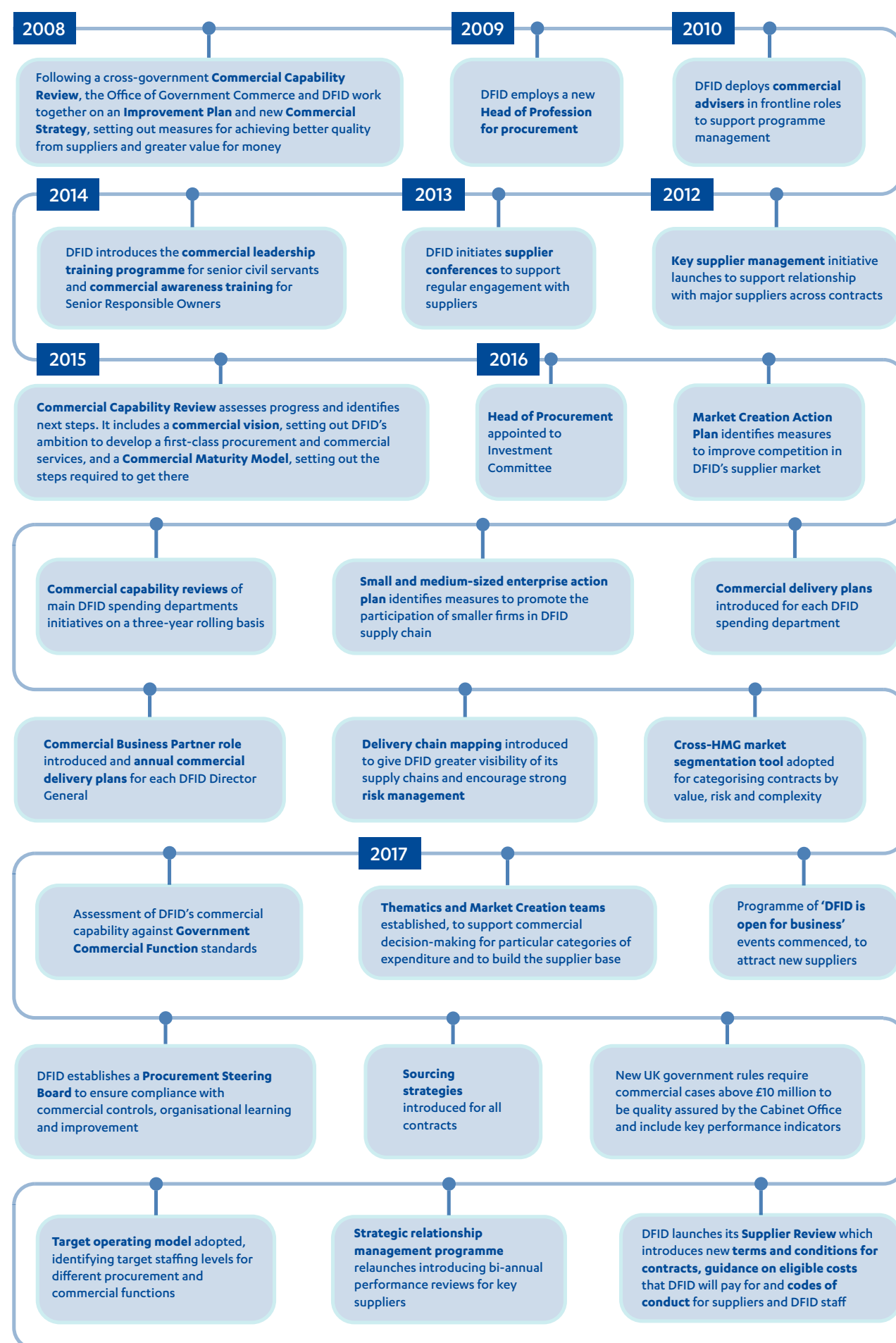
Since 2015, DFID has progressed towards a more mature procurement approach

- 4.2 The procurement function in DFID has been developing progressively over the past decade (see Figure 3 for a timeline of key changes), driven by increased procurement spend, increasing complexity of DFID's procurement and high levels of external scrutiny.
- 4.3 In 2008, a cross-government commercial capability review found that DFID lacked a clear and comprehensive procurement strategy, and viewed procurement as an administrative cost rather than a strategic management tool capable of enhancing value for money.²⁰ It identified that improvement was needed in nine areas, with three of them classed as urgent: leadership, client capability, and information and performance management.
- 4.4 From 2008 to 2015, DFID's reforms focused on creating an appropriate governance structure and operating model for DFID procurement, strengthening the Procurement and Commercial Department and, in later years, embedding commercial skills across the department. The impact of these measures on DFID's organisational capacity is considered below under Effectiveness. There were also a number of measures undertaken to improve DFID's approach to market shaping, including the introduction of frameworks for particular categories of procurement, a supplier management programme and more regular interaction with suppliers. These areas were assessed in our 2017 procurement review.
- 4.5 While it was logical for DFID to build up its commercial capability before introducing more sophisticated approaches to procurement, we find that progress over the 2008 to 2015 period was too slow and cautious, given the shortcomings identified in 2008 and the fact that DFID's volume of procurement was growing so rapidly. This was indicative of the lack of a strong champion for procurement within DFID's senior management structure – an issue that had been pointed out in the 2008 commercial capability review.
- 4.6 From 2015, however, the pace of change has picked up. DFID adopted a commercial vision (see Box 4) stating its objective of becoming "a world-class commercial organisation".²¹ The commercial vision is supported by a strategy and a delivery plan which describe a range of ongoing initiatives to strengthen the procurement function. The strategy includes a Commercial Maturity Model, describing the steps required to move from a 'basic' approach (procurement as an administrative function, without much focus on wider commercial issues) to a 'best in class' approach, with a strategic approach to sourcing and commercial functions integrated into the department's management processes.

20. *Performance of the Department for International Development 2008-09*, National Audit Office, 2009, p. 19, [link](#).

21. *DFID's Procurement and Commercial Vision*, DFID, April 2018, [link](#).

Figure 3: Timeline of DFID procurement reforms



4.7 Some of the key reforms introduced since 2015 have included:

- **Commercial delivery plans** for each spending department, which encourages them to give more strategic consideration to their procurement needs and how to interact with their supplier markets.
- First steps towards the introduction of a **‘Thematics’ process** – namely, procurement strategies for particular segments of the market (eg medical supplies or evaluation services).
- **Sourcing strategies** for all contracts, to encourage forward planning on how to approach the market and how to interact with suppliers.
- A **quality assurance process** for commercial cases above £5 million, including review by a new Procurement Steering Board (see paragraph 4.13) of senior procurement experts.
- Increased **dialogue with suppliers** and early market engagement around forthcoming tenders, to collect feedback on how best to approach the tender process.
- **Codes of conduct** for DFID suppliers²² and for DFID staff²³ which articulate ethical standards and set clear rules prohibiting collusion and conflicts of interest (see Box 5).
- New standard **terms and conditions** for supplier contracts. Among other things, these set out the requirements for **open-book accounting**, whereby suppliers are required to disclose details about their costs and profits. This provides DFID with greater market intelligence, giving it the potential to benchmark across contracts and suppliers.
- **Guidance on costs**²⁴ that can be charged to DFID by suppliers, designed to ensure that taxpayer money is only used as intended. It includes items that cannot in any circumstances be charged to DFID (such as the cost of petitioning the UK government for additional funding, or the cost of funds lost to fraud and corruption). It clarifies when and to what extent suppliers can charge for capital costs and management overheads, as well as project delivery costs, and sets out allowable expenses for travel.
- Measures to increase **transparency and accountability** of subcontractors in DFID’s supply chains.
- A redesigned **strategic relationship management programme**, including bi-annual cross-contract performance reviews for major suppliers.

These reforms were supported by a programme of training across the department to promote better understanding and implementation.

4.8 Some of these reforms are now well established, while others are still at an early stage of implementation and will need to be tested and refined. Overall, we find that the approach is consistent with the Commercial Operating Standards set by the Government Commercial Function.²⁵ If backed by adequate capacity across the department and implemented effectively, the package of reforms has the potential to ensure a strong commercial orientation and to deliver improved value for money in procurement and contract management.

22. DFID Supply Partner Code of Conduct, DFID, Version 2, August 2018, [link](#).

23. DFID Staff Code of Practice (when dealing with External Relationships), DFID, undated, [link](#).

24. Programme Expenditure: Eligible Cost Guidance, DFID, Version 1.1, undated, [link](#).

25. Government Commercial Operating Standards, March 2017, unpublished.

Box 5: DFID Supply Partner Code of Conduct

DFID's Supply Partner Code of Conduct²⁶ introduced in October 2017 at the conclusion of the Supplier Review, formalised voluntary commitments in DFID's earlier Statement of Priorities and Expectations. The Code of Conduct sets out five overarching requirements of DFID suppliers:

- Act responsibly and with integrity
- Demonstrate commitment to poverty reduction and DFID priorities
- Demonstrate commitment to wider government priorities
- Seek to improve value for money
- Be transparent and accountable

The value for money requirements include a transparent, open-book approach to facilitate external scrutiny, pricing structures that align payment to results and an acceptance of performance risk.

The ethical requirements include avoiding conflicts of interest, regular ethical training of staff and a workforce whistleblowing policy. Suppliers are also required to meet DFID's requirements on human rights, social responsibility and environmental protection.

Prime contractors are responsible for ensuring that their subcontractors also comply with the code. This provision has caused some concern among suppliers, who may have limited capacity to oversee the conduct of local suppliers, particularly when operating in conflict-affected countries. As we discussed in our review of DFID's fiduciary risk management in insecure environments, it is generally more helpful for DFID to engage with suppliers on how to manage risks around corruption and aid diversion, rather than simply pass all the risks and responsibilities to the contractor.²⁷

DFID's tender process follows current EU legislation and UK government guidelines

- 4.9 The legal framework for the procurement of goods, works and services within the UK public sector is set down by EU Procurement Directives²⁸ and UK public procurement regulations.²⁹ The central requirement of the rules is fair, open and transparent international competition (see Box 6). We find that DFID's procurement practices are in compliance with the legal requirements and that commercial controls have been tightened to minimise the use of exceptions or waivers to good procurement practice.

Box 6: The legal and policy framework governing DFID procurement

All procurement above the 'EU threshold' (currently, £118,133³⁰) is governed by UK public procurement regulations and EU Procurement Directives. These rules require fair, open and transparent international competition. The Crown Commercial Services has produced a range of guidance to support implementation of these regulations.³¹ The value for money principles applicable to public procurement are set out in two HM Treasury documents: *Managing public money* (a handbook for public expenditure)³² and *The Green Book* (which sets out rules for project appraisal and evaluation).³³ DFID has set out additional principles to guide procurement in its *Smart Rules*,³⁴ its *Procurement and Commercial Vision*³⁵ and its code of conduct for suppliers.³⁶

- 4.10 DFID's Smart Rules require Senior Responsible Owners to engage with the Procurement and Commercial Department on all procurement requirements with a value above the EU threshold

26. DFID Supply Partner Code of Conduct, DFID, Version 2, August 2018, [link](#).

27. DFID's approach to managing fiduciary risk in conflict-affected environments, ICAI, August 2016, paras. 4.50-51, [link](#).

28. Of which the most relevant is Directive 2014/24/EU on Public Procurement, March 2014, [link](#).

29. The Public Contracts Regulations 2015, Cabinet Office, 2015, [link](#).

30. Official Journal of the European Union: EU Procurement Thresholds, [link](#).

31. EU procurement directives and the UK regulations, Cabinet Office and Crown Commercial Services, March 2017 update, [link](#).

32. Managing public money, HM Treasury, March 2018 update, [link](#).

33. The Green Book: Appraisal and Evaluation in Central Government, HM Treasury, 6 March 2018 update, [link](#).

34. Smart Rules: Better Programme Delivery, DFID, Version IX, 1 April 2018 update, Part 1, section 2.4 and Part 4, section 4.3, [link](#).

35. DFID's Procurement and Commercial Vision, DFID, April 2016, [link](#).

36. DFID Supply Partner Code of Conduct, DFID, Version 2, August 2018, [link](#).

(currently £118,113). The Procurement and Commercial Department is responsible for ensuring that the tender proceeds in accordance with the relevant regulations.

- 4.11 The rules permit government departments to dispense with competitive procurement in certain circumstances. Good practice, however, suggests that these be kept to a minimum.
- 4.12 In the past, the Procurement and Commercial Department granted a large number of exemptions from competitive procurement. Between September 2013, when it started to log waivers, and July 2016, a total of 194 waiver requests were approved,³⁷ covering contracts and contract extensions with a combined value of over £600 million (see Table 2). The reasons included extreme urgency, the fact that the previous tender procedure had failed or that there was only one suitable provider. These figures were too high, giving rise to value for money and reputational risks.

Table 2: Waivers of competitive tendering granted, 2013-16

Reasons	Total contract value (£ million)
Additional works	288.0
Extreme urgency	117.3
Failure of previous procedure	13.0
Research requirement	19.2
Sole provider	74.2
Reason not recorded	118.1
Total	630.9

Source: Data provided by the Procurement and Commercial Department.

- 4.13 In May 2017, DFID established a Procurement Steering Board of procurement experts and other senior staff to tighten its compliance with the rules. The Board must approve all waiver requests. For contract extensions, the request must be made 9-12 months in advance of need, to reduce the need for last-minute waivers.³⁸ The Board also reviews sourcing strategies for contracts above £10 million and those considered to be strategic. For all programmes under £10 million, a sub-committee of the Board reviews to ensure that the right approach to procurement is being taken.
- 4.14 These measures have reduced the number of contracts awarded without a competitive process to just seven in 2017-18, with a combined value of £148 million, compared to an average of nearly 50 per year in the 2013 to 2016 period. This has significantly reduced the risk of legal challenge and increased competition, which helps to demonstrate value for money.

Cross-government peer reviews confirm improvements in DFID's procurement approach

- 4.15 In 2016, the Government Commercial Function issued guidance articulating the commercial standards expected of central government departments, with a road map for continuous improvement. The standards are accompanied by an annual peer review process, to facilitate sharing of experience across departments. Each department completes a self-assessment, which is then reviewed by senior officials from other departments. There are 22 indicators, each of which DFID grades on a four-point scale (development, good, better or best). This has now become the primary monitoring system for the continuing development of DFID's commercial function.
- 4.16 The latest peer review from April 2018 finds that DFID has made considerable progress since a baselining exercise in 2017. It has improved its grade on 11 out of the 22 indicators, making it one of the fastest improvers across government. Two areas, management information and contract management, have been identified as still developing and these will be areas of focus in the 2018-19 improvement plan.

37. Approval is required by the head of the spending department and by the Procurement and Commercial Department (if above the EU threshold). Ministers must also approve decisions to make any contract award or extension above £1 million.

38. Note that waivers are required to exempt a contract or contract extension from competitive processes that would otherwise apply. There are also circumstances where contracts can be extended without the need for a waiver. Contract extensions in general are discussed in paragraphs 4.85 to 4.89.

- 4.17 While we have not conducted our own assessment against each individual indicator, the peer review accords with our finding that DFID's reforms in recent years are moving the department's commercial approach in the right direction on multiple fronts. We also identified management information and contract management as the main lagging areas (both are analysed in more detail below). Some of the assessments (such as on the commercial pipeline) reflect preparatory work that is not yet operative. However, we concur that there have been improvements across a range of areas, including staffing, strategic sourcing, contractual terms and supplier relationships.
- 4.18 The results suggest that there is still some way to go towards DFID's objective of having a first-class procurement and commercial service. However, there has been an acceleration of progress.

Table 3: DFID's progress against UK government Commercial Operating Standards

Standard	Metric description	Trajectory from 2017 to 2018
Blueprints & resources	Improving commercial capability in departments	↗
	Changing the grade mix to reflect target operating model	↗
	Cost of commercial functions	↗
	The level of commercial interim staffing in departments is optimised	↗
Pipeline & planning	Extending contracts based on value for money considerations	↗
	Creating a comprehensive commercial pipeline (18 months minimum) of high risk or complex contracts	→
	Using management information to support effective demand and category management	→
SROs & expertise	Ensuring strong and effective commercial engagement	→
Early cross functional analysis of options	Commercial need is shaped in the department early, between the commercial function and business owner	↗
	Commercial options should be considered early and with the departmental commercial function	→
Maximising competition	Early engagement of suppliers	
	Work with suppliers to design and shape the market	↗
Contracting	Greater accessibility and awareness of commercial terms	↗
	Contracts will outline agreement on the cost of potential future options	→
	Appropriate risk allocation between parties	↗
	Departments will have a mechanism for tracking the deliverability of mobilisation obligations	→
	Transition arrangements	↗
Contract management	Contracts should deliver the outcomes anticipated	→
	Delivering effective contract management	→
	Commercial contract management competency	→
Supplier relationships	Run a departmental strategic supplier relationship management programme	→
	Understanding your supply chain	→

Source: DFID Commercial Operating Standards performance report, 2018 (not published).

The Supplier Review lent momentum to the reforms but risks having unintended results

- 4.19 In January 2017, the then International Development Secretary initiated a ‘root and branch’ review of supplier practices, which became known as the Supplier Review. Over a nine-month period, DFID suspended much of its routine procurement activity while it assessed how to respond to concerns raised by the International Development Committee and the International Development Secretary.
- 4.20 The package of reforms announced in October 2017 included some that had been in preparation for some time, such as measures on open-book accounting, supply chain transparency and early market engagement. The new measures included:
- Codes of conduct for DFID suppliers and staff, setting out the ethical standards expected of both. Suppliers must declare their compliance with these standards in advance of contract award and on an annual basis.
 - Eligible cost guidance, clarifying which types of expenses suppliers are allowed to charge to DFID.
 - New standard terms and conditions for DFID contracts, giving DFID new contractual rights to scrutinise costs and profits. Contracts will specify the level of profit that suppliers calculate they will make. DFID will have the right to recover from the supplier any profit achieved above the level agreed.
- 4.21 These measures were intended to address concerns raised in Parliament,³⁹ by ministers⁴⁰ and in the press that DFID did not have sufficient oversight of its contractors and might be vulnerable to anti-competitive practices.⁴¹ The new measures provide DFID with some useful tools to monitor supplier costs and profits. However, we have continuing concerns about the focus on supplier profit levels, as distinct from overall value for money.
- 4.22 First, we are concerned that the underlying problem that the Supplier Review was intended to solve has not been accurately identified. The former International Development Secretary announced her intention to prevent “excessive profiteering” by suppliers.⁴² As we noted in our 2017 procurement review, there is no accepted method of determining what is fair or excess profit in any given market. Ensuring a fair procurement process in a competitive market is the usual approach to ensuring that profits are reasonable. The available data (although not definitive) suggested that DFID’s supplier market is not hugely concentrated overall, although it may be in particular countries or niche areas.⁴³ We were therefore unable to find any hard evidence of excessive profits, and that remains the case.
- 4.23 Second, the new supplier profit clause does not directly address the issue of supplier profit levels. While it gives DFID a contractual right to recover profits over an agreed level, the actual level will vary from contract to contract depending on what the supplier is able to negotiate.
- 4.24 Third, to the best of our knowledge, the clause on recovering supplier profits is unproven in this marketplace. Its enforceability, both in legal and practical terms, will need to be tested. It may create incentives for suppliers to overstate their costs in order to conceal profits, which would work against DFID’s stated objective of increasing transparency. It is not possible at this stage to determine whether a focus on supplier profit will improve value for money or detract from it.

Poor consultation around the Supplier Review has heightened the risk of unintended consequences

- 4.25 To inform the Supplier Review, DFID consulted with other donors, public sector bodies and private sector organisations outside the development sector, in order to identify best practice. It did not consult with its own current suppliers and it put its regular supplier dialogue on hold. DFID told us that this was to allay concerns that discussion with suppliers would appear collusive in an environment of

39. *DFID’s use of private sector contractors, Eighth Report of Session 2016–17*, International Development Committee, April 2017, [link](#).

40. “Priti Patel accuses charities and aid contractors of ‘profiteering’”, Steven Swinford, *The Telegraph*, December 2016, [link](#).

41. *Tough new reforms on aid suppliers: 4 October 2017*, DFID, October 2017, [link](#).

42. *DFID’s use of private sector contractors: Eighth Report of Session 2016–17*, International Development Committee, April 2017, p. 6, [link](#).

43. *Achieving value for money through procurement – Part 1: DFID’s approach to its supplier market*, ICAI, November 2017, paras. 4.42 to 4.49, [link](#).

heightened media scrutiny. This lack of consultation caused unnecessary friction with suppliers and, in our view, ran contrary to Cabinet Office guidelines on consultation by excluding a stakeholder group (see Box 7).

Box 7: Consultation – the Gunning principles and Cabinet Office guidance

In 1985, the landmark judgment in *R v. London Borough of Brent ex parte Gunning* set out principles that government departments should follow when engaging in public consultations:

1. Consultation must take place when proposals are still at a formative stage.
2. Those involved in the consultation need to have sufficient information to respond meaningfully.
3. Adequate time must be given for consideration and response.
4. Decision-makers must demonstrate they have taken the responses into account.⁴⁴

These principles are reaffirmed in Cabinet Office guidance on consultation, which also states that consultations should include “the full range of people, business and voluntary bodies affected by the policy”.⁴⁵

- 4.26 It is too early to assess the full impact of the Supplier Review on DFID’s market, but the lack of consultation with the market heightened the risks of unintended negative consequences. In our key stakeholder interviews, we heard concerns that some of the new measures – particularly the supplier code of conduct and the new contractual terms – may discourage smaller firms and NGOs from competing for DFID contracts, potentially reducing competition and therefore value for money. Suppliers were also concerned at the extent of their obligations to ensure compliance with the new rules by subcontractors further down the delivery chain.
- 4.27 So far, these concerns have not resulted in any measurable reduction in competition for DFID contracts. There has been a modest increase in the average number of bids per tender to 3.3 for 2017-18, compared to 2.5 in 2015-16 and 2.9 in 2016-17,⁴⁶ but it remains short of DFID’s goal of four by April 2019. The improvements appear to have come about through DFID’s increased early market engagement, which stimulates supplier participation, but it is too soon to assess whether the figures will be impacted by the Supplier Review. However, DFID will need to monitor for the emergence of any unintended consequences, which may take time to emerge. To do so, it will need to re-establish its communication channels with current and prospective suppliers, as recommended by our 2017 procurement review.
- 4.28 There was also significant disruption during the process, as normal procurement functions were suspended. While some disruption may be inevitable with a major change process, it could have been minimised with better planning and communication. Some country offices, such as Nigeria, tried to mitigate the impact by using accountable grants to keep programmes operating. Even so, some programmes were significantly delayed as a result – such as the Support to National Malaria Programme (£146.3 million; 2008-16) – leading to gaps in the distribution of key supplies, such as anti-malaria bed nets.

DFID is reviewing its business processes to protect aid recipients from sexual abuse and exploitation

- 4.29 In early 2018, safeguarding aid recipients from sexual exploitation emerged as an area of acute concern following allegations relating to humanitarian operations by NGOs in Haiti after the 2010 earthquake.⁴⁷ At a Safeguarding Summit in March 2018, DFID announced a number of initiatives to tackle sexual exploitation including a review of its standards and codes of conduct. Some of these initiatives focus specifically on the NGO sector but others relate to commercial suppliers and multilateral partners. The new guidance on value for money for aid-spending departments states:⁴⁸

44. ‘The Gunning Principles’, *Involvement Online*, NHS, 2018, [link](#).

45. *Consultation Principles 2018*, Cabinet Office, March 2018, [link](#).

46. Data provided to ICAI by Procurement and Commercial Department.

47. ‘Oxfam Haiti allegations: How the scandal unfolded’, *BBC News*, February 2018, [link](#).

48. *UK Official Development Assistance: value for money guidance*, HM Treasury and DFID, May 2018, pp. 6-7, [link](#).

“Safeguards are a vital part of all development and humanitarian programmes. It is essential that robust safeguarding procedures and checks are built into the programme from the outset, and that we are confident that our partners and their collaborators are taking a similarly robust approach.”

It requires Senior Responsible Owners to ensure that partner organisations have appropriate policies and procedures in place to “expressly prohibit sexual exploitation and abuse”, including staff codes of conduct and policies on safeguarding, whistleblowing, risk management and modern slavery.

- 4.30 Pending the results of these initiatives, DFID’s procurement and contract management processes do not currently meet these standards. DFID’s Smart Rules note an overarching obligation to “avoid doing harm” and include a non-exhaustive list of possible unintended negative consequences from aid programming. However, they made no specific reference to sexual exploitation by individuals involved in delivering aid at the time of our review. By contrast, other ethical issues (bribery and corruption, fraud, terrorism financing, modern slavery and staff safety and security) receive much more detailed treatment.
- 4.31 The supplier code of conduct (for both contractors and grantees) and terms and conditions of contracting were adopted prior to the reporting of the Haiti scandal. These contained some relevant provisions, including:
- An overarching obligation to avoid conduct that might undermine DFID’s reputation.
 - The requirement for a workforce whistleblowing policy.
 - Ethical training for staff, including on modern slavery and human rights.
 - Suppliers’ duty of care towards their own personnel, which can include issues of workplace harassment.
 - ‘Social responsibility and human rights’ is one of six priority areas that are subject to key performance indicators and compliance checks, to reduce the risk of human rights abuses and exploitation of workers on UK aid programmes.
 - Suppliers are required to sign up to the UN Global Compact and to align with standards set down by the International Labour Organization and the Ethical Trading Initiative.
- 4.32 None of these provisions are specific to the risk of sexual exploitation of aid recipients by aid workers. They are much less prescriptive than, for example, DFID’s rules on bribery and corruption, which include a requirement that suppliers inform DFID’s internal fraud investigation unit of any suspicions or allegations through a specified phone number and email.⁴⁹
- 4.33 In the months since March 2018, DFID has appointed internal focal points for staff to report safeguarding concerns. The department is in the process of updating its supplier code and contracting terms and conditions, along with other core business processes, to include more robust safeguarding processes. As part of this process, during August 2018, DFID updated its supplier code to include specific clauses relating to sexual exploitation, abuse and harassment. These will come into effect for new contracts.

DFID needs to ensure clarity and consistency in its guidance

- 4.34 DFID’s procurement approach is set out in a range of internal and external procurement policies. These include a combination of broad principles and mandatory rules, as outlined in the Smart Rules, Smart Guides and other codes of conduct and information notes. The external rules and procedures are published on the ‘Procurement at DFID’ website.⁵⁰

49. *Standard Terms and Conditions – Service Contracts*, DFID, clause 46.8.

50. Procurement at DFID, [link](#).

- 4.35 However, as a result of the Supplier Review, DFID's commercial and procurement landscape is evolving rapidly. A significant number of new processes and policies have been created and incorporated into the Smart Rules or Guides although their impact remains to be seen.
- 4.36 We also find that there are issues with internal consistency within the Smart Rules and Guides – for example, 'DPOs' are variously referred to as Department Procurement Officer and Delegated Procurement Officers. DFID's new contract format also refers to 'Contract Officers', but it is not clear to whom this refers. There is also a lack of clarity as to what is mandatory and what is advisory – for example, the front page of every guide states that "nothing [in this guide] should be seen as mandatory" yet many go on to say in the body of the guide "DFID staff must...". We have concerns about version control, having observed some undated guides and staff using hard copies of out-of-date guides. Furthermore, with increasing numbers of Smart Guides which necessarily overlap, there is increased risk of contradiction or confusion.

Conclusions on relevance

- 4.37 DFID's commercial model and procurement approach has evolved in response to higher levels of expenditure and increased external scrutiny. While the pace of change was relatively slow up to 2015, it has since accelerated with a package of new initiatives. With the exception of two areas – management information and contract management – we find that these initiatives have addressed, or are in the process of addressing, the most important gaps in DFID's commercial approach.
- 4.38 Many of its efforts are not yet mature and DFID has some way to go to achieve its objective of a first-class procurement and commercial service. However, we find that the approach is consistent with UK government rules and guidance, and is aligned with ongoing efforts by the Government Commercial Function to drive up commercial standards.
- 4.39 The Supplier Review has lent additional momentum to these reform efforts, as well as introducing new measures designed to increase supplier transparency and accountability. It has clarified the expectations of suppliers and given DFID useful new tools for scrutinising costs. However, we are not convinced that the new contractual provisions on recovering excess profits are the right approach; the ongoing work to increase competition in the supplier market is a more suitable strategy for ensuring that profits remain fair.
- 4.40 We encountered concern among suppliers that DFID's procurement processes are becoming overly complex, and that this could have negative consequences for competition and diversity. The lack of consultation with suppliers has added to the risks of unintended consequences, which will need to be carefully monitored.
- 4.41 Overall, we judge that DFID's approach to procurement is appropriate to its objectives, meriting a **green-amber** score. However, many of the changes are novel and will need to be adjusted in light of experience.

Effectiveness: How well does DFID secure value for money through its tendering practices?

- 4.42 The findings in this section are based substantially on our in-depth review of 44 DFID contracts awarded from 2012-13 to 2016-17. Most of these contracts were let prior to the most recent procurement reforms. Where we note deficiencies in past practice, we also consider whether the causes are addressed in ongoing reforms.

A new strategic sourcing process has resulted in stronger procurement planning

- 4.43 Forward planning for procurement is recognised as good practice across government and industry. When planning programmes, DFID's *Procurement/Commercial Smart Guide* recommends identifying early on how resources and risks will be managed, how tenders will be assessed, what contractual arrangements are appropriate and how programme teams will work with suppliers.

- 4.44 For most of the contracts in our sample, we found decision-making about how to approach procurement to be inadequate. In accordance with standard UK government practice, DFID's prepares a business case at the beginning of each programme, which includes five interdependent assessments to determine whether the programme is justified and offers value for money. They include: a strategic case, setting out the need and rationale for the programme; an appraisal case, showing the expected economic return; and a commercial case, identifying which delivery options are available and which offer the best value for money.⁵¹
- 4.45 Across our sample of contracts, we found that the majority (82%, or 36 out of 44) set out their strategic and appraisal cases with an appropriate level of detail and a clear strategic rationale linked to DFID's objectives, some form of cost-benefit or similar economic analysis, and an adequate technical assessment of delivery options. The commercial cases were significantly weaker – only 32% (14 out of 44 contracts) contained a convincing assessment of the services required and the capacity of the market to deliver them, and suitable consideration of the options for sourcing, commissioning and contracting. Most would have benefited from pre-market engagement, to allow a more informed assessment of the market's capacity to deliver the services required, as well as more exploration of potential routes to market and more discussion of contract management issues. In the absence of informed decision-making, DFID proceeded without clarity as to which commercial option offered the best value for money. In our interviews, DFID staff, including in the Procurement and Commercial Department, acknowledged this shortcoming.
- 4.46 For example, the Ethiopia Land Investment for Transformation programme (£72.7 million; 2014-20) demonstrated a poor approach to sourcing. The contract was let before the business case was approved, which was poor practice (although the only instance in our sample). The documentation contains no evidence of pre-market engagement, no solid information on market conditions and no clear rationale for the choice of procurement approach or payment mechanisms or for subsequent decisions to extend the contract.
- 4.47 In 2017, DFID introduced a new strategic sourcing process to improve its procurement planning. For programmes above £10 million, programme teams work with the Procurement and Commercial Department to produce a sourcing strategy that analyses the market (including its capacity to supply the services, its competitiveness and whether it is open to new entrants) and makes strategic choices about which procurement approach is likely to offer the best value for money. (Appropriately, contracts under £10 million need only a "light touch sourcing strategy".) Sourcing strategies are signed off by the Procurement Steering Board and those over £10 million are approved by the Cabinet Office.⁵²
- 4.48 Six of the contracts in our sample included a sourcing strategy. We found that their commercial cases and their pre-procurement decision-making were significantly better. There were signs that preparing this analysis in advance had enabled programme teams to bring commercial considerations into the programme design, allowing them to consider not just how best to source the services required, but also how to package the services so as to make the most of what the market had to offer.
- 4.49 The Women's Integrated Sexual Health (WISH) programme (£209 million; 2017-20) is a pilot programme for the new strategic sourcing approach. This is the second phase of a centrally managed, cross-country fund providing family planning and reproductive health services. DFID conducted four early market engagement sessions – one in advance of the business case to inform programme design and three after to maximise competition. The sourcing strategy includes analysis of supplier capacity and expected levels of competition, based on information collected during the early market engagement sessions. It notes the likelihood of strong interest from NGOs and assesses the implications for the contracting model (especially the appropriate level of risk transfer through payment-by-results contracting, which we discuss below). It analyses the factors that will drive cost and value for money (for example the cost of medical supplies and of reaching hard-to-reach groups) and their implications for the procurement. It assesses options for splitting the procurement into

51. *Business Case Guide*, DFID Smart Guide, September 2017, unpublished.

52. *Smart Rules: Better Programme Delivery*, DFID, Version IX, April – October 2018, para. 3.3.6, [link](#). In October 2017, the threshold for Cabinet Office approval was increased from £5 million to £10 million in recognition of DFID's progress in improving its sourcing process.

parts (known as ‘lotting’) including by function, country or continent. It assesses the likely impact on competition and quality of delivery, ultimately opting for two multi-country lots in order to ensure an integrated package of services within each country while facilitating cross-county learning. It considers six sourcing options (including through a multilateral channel), opting for a restricted procedure because the deliverables were clearly defined on the basis of experience from the first phase. We find this to be a strong example of structured decision-making around sourcing.

- 4.50 Overall, the introduction of the new sourcing strategies has improved DFID’s understanding of costs, service drivers and market levers. Together with the new eligible cost guidance, this will help to increase transparency in contracting and to ensure that value for money assessments are made on hard evidence.

DFID continues to increase its early market engagement

- 4.51 In the past, DFID programme management staff were cautious about engaging with potential suppliers before a competitive tender, fearing that it would lead to a breach of the rules. In fact, both pre-market engagement (interaction with suppliers and potential suppliers around general issues) and early market engagement (dialogue on procurement options for specific programmes) are recognised as good procurement practice provided that all companies are treated equally and fairly.⁵³
- 4.52 Over our review period, DFID has undertaken early market engagement events on a contract-by-contract basis as the need has arisen. The majority of contracts in our sample did not demonstrate strong engagement with the marketplace, although we saw a marked improvement in recent years, confirming our finding from the 2017 procurement review.⁵⁴ Early market engagement is now routinely conducted, with details published on DFID’s supplier portal and circulated on Twitter (@DFIDProcurement). Suppliers interviewed during our visits to Tanzania and Nigeria expressed the view that this had improved communication and collaboration.
- 4.53 One indicator of effective early market engagement should be an increase in the average number of bidders for tenders. As noted above, there has been a steady increase from 2.5 in 2015-16 to 2.9 in 2016-17 and 3.3 in 2017-18, against a target of four by April 2019. While it is likely that increased early market engagement has contributed to this, other market shaping initiatives will also be required, as we discussed in our 2017 procurement report.
- 4.54 Our previous review also identified DFID’s failure to publish an accurate pipeline of future procurement opportunities as a significant barrier to market entry.⁵⁵ We recommended that DFID accelerate its efforts to address this. In its response, DFID noted that it already used social media and digital platforms to advertise procurement opportunities, but indicated it was working on other changes that it claimed would increase the visibility of procurement opportunities.⁵⁶ DFID subsequently published an offline spreadsheet of pipeline opportunities dated 31 July 2018. The publication of a pipeline is still not adequate, however, owing to weaknesses in DFID’s management information system (see paragraphs 4.68 to 4.72).

DFID does not always choose the most appropriate procurement process

- 4.55 UK and EU legislation permit a range of procurement approaches (see Table 4). DFID needs to make an informed decision as to which approach is likely to produce the best outcome for each programme. This is a complex judgement that needs to be made by a suitably qualified person as one element of a sourcing strategy. Across our contract sample, one of the consequences of weak sourcing processes was a failure to choose the most appropriate procurement procedure, causing issues later in the lifecycle of the contract.

53. *Early Market Engagement Principles and Examples of Good Practice*, Office of Government Commerce (now Crown Commercial Services), 2009, [link](#).

54. *Achieving value for money through procurement – Part 1: DFID’s approach to its supplier market*, ICAI, November 2017, para. 4.11, [link](#).

55. *Achieving value for money through procurement – Part 1: DFID’s approach to its supplier market*, ICAI, November 2017, [link](#).

56. *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, DFID”, December 2017, [link](#).

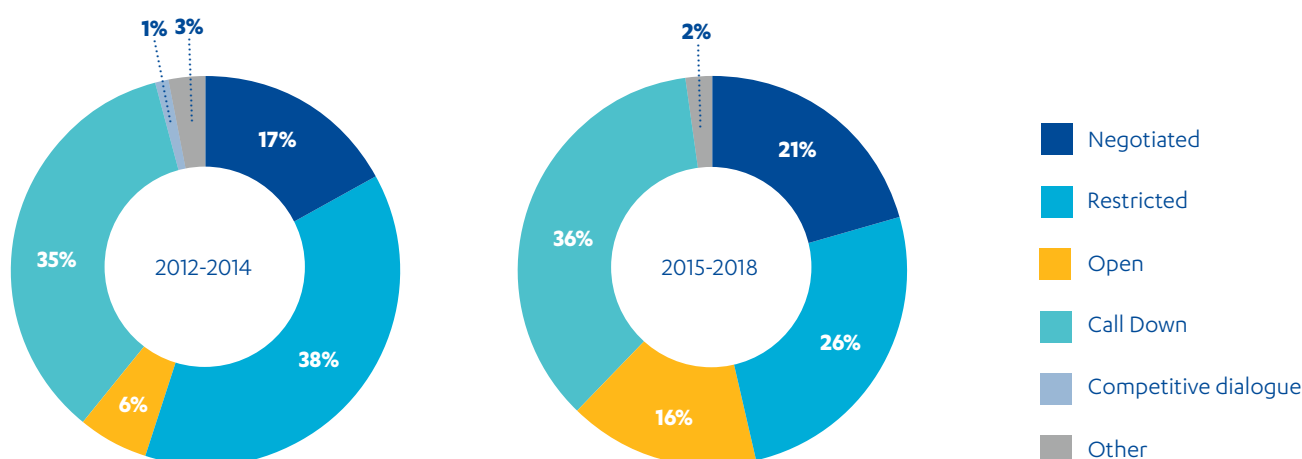
Table 4: Procurement procedures outlined in Public Contracts Regulations 2015

Procurement procedure	Details
Open procedure	Any party that responds to the tender notice receives a full set of programme documentation and is invited to tender, without pre-qualification or shortlist. The winning bid is accepted without negotiation.
Restricted procedure	Interested parties respond to a selection questionnaire. Shortlisted candidates are then invited to bid. Contract negotiations are again prohibited.
Competitive dialogue procedure	Following a pre-qualification process, shortlisted candidates are invited into a process of dialogue, during which any aspects of the project may be discussed and solutions developed. Dialogue continues until the procuring authority identifies one or more solutions that satisfy its requirements. It then closes the dialogue in order to invite final tenders.
Competitive procedure with negotiation	As with the Competitive Dialogue Procedure, except that the negotiation process can continue until the contract is signed.
Innovation partnerships	Commonly used for research and development activities. The procuring authority calls for tenders on the basis a statement of need, without knowing in advance what specific services it requires. There is a negotiation phase before contracts are signed with one or multiple suppliers.
Negotiated procedure without prior publication	Contracting authorities enter into a negotiated phase without prior publication where no tenders, suitable tender, requests to participate or suitable requests are submitted by candidates during an open or restricted procedure.

4.56 Our contract assessments, stakeholder consultations and analysis of DFID data show that DFID relies mainly on restricted procedures, although there has been an increase in the number of open procedures since 2015. DFID also makes use of framework agreements, where suppliers prequalify through a competitive procedure and are selected for call down contracts through mini-competitions (see our analysis of DFID's use of framework agreements in our 2017 procurement review⁵⁷). These are better suited to common goods and services where the requirements can be precisely defined in advance. For more complex contracts where the specific services required are not yet known, it is usually more appropriate to use a negotiated procedure, where the department enters into dialogue with bidders to refine their offer (the 'negotiated' or 'competitive dialogue' process).

4.57 Prior to 2015, only 17% of tenders were undertaken via the more complex negotiated or competitive dialogue procedures (see Figure 4), with a slight upwards trend since 2015.

Figure 4: Proportion of contracts let by procurement procedure type



57. Achieving value for money through procurement – Part 1: DFID's approach to its supplier market, ICAI, November 2017, paras. 4.74 to 4.81, [link](#).

- 4.58 The use of negotiated options is less than what we would expect to see, given the services that DFID procures. For many of DFID's programmes, it is not possible to define the required services or intended outputs precisely at the time of the procurement. The supplier is required to complete the design of the programme, as well as implement it. In these circumstances, choosing a negotiated process allows DFID to enter into dialogue with two or more potential suppliers, to build up a stronger understanding of the expertise they offer, the options for scoping the services and what commercial terms are likely to be most appropriate (see Box 8 for a positive example). By contrast, when DFID opts for an open or restricted procedure, it is required to define the service or outputs in an overly restrictive way, requiring costly contract amendments. While the negotiation process can be time consuming, in the right circumstances it can lead to better value for money.
- 4.59 One factor that may be restricting the use of negotiated processes is unrealistic timetables. For the first phase of the Girls' Education Challenge (GEC) (£672 million; 2012-18),⁵⁸ the initial procurement of the fund manager failed to produce a strong enough candidate, requiring the tender to be re-run. To minimise the delay, DFID opted for an accelerated restricted procedure. The successful bidder was then given less than two weeks from contract award to the launch of the first funding window to make key decisions about governance arrangements and funding mechanisms. According to an external review, this "caused confusion for applicants and grantees that had knock-on effects throughout the commissioning and baseline process".⁵⁹ We found other instances where DFID prioritised adhering to timetables over good procurement practice.
- 4.60 It is too early to assess whether the new strategic sourcing process will resolve this issue, but in principle it is the right way to ensure better procurement choices.

Box 8: A positive example of sound procurement choices

The **Partnership to Engage, Reform and Learn programme** (£39 million; 2016-21) supports governments in Nigeria at the federal and state levels with core planning and budgeting processes. It is a complex programme operating in a high-risk environment. The business case summarises the results of research into the capacity of the supplier market and opts to split the procurement into three components in order to attract suppliers with a range of strengths. DFID decided to follow a negotiated procedure, giving it an opportunity to hone the programme design in dialogue with potential suppliers before letting the contract. The commercial case evidences structured decision-making around the procurement method. While it is never possible to link programme performance directly to procurement, DFID Nigeria tells us that the programme has so far exceeded its output targets and is expected to achieve good results.

DFID has built up its commercial capability, but this will need to be an ongoing process

- 4.61 In 2015, DFID undertook an internal commercial capability review, overseen by the Chief Commercial Officer and HM Treasury. This review looked at commercial capability both in the Procurement and Commercial Department and across the organisation, against the competencies set out in DFID's Commercial Maturity Model (see Box 9). It identified significant gaps in DFID's capacities and capability.
- 4.62 Since then, DFID has made a sustained effort to build its procurement capability. It has substantially expanded the size of the Procurement and Commercial Department, from 41 staff in 2010-11 to 121 in August 2018. It has made efforts to recruit more senior procurement experts, including from the private sector. It has provided commercial leadership training to all senior civil servants and appointed commercial delivery managers to work with programme teams. It introduced a new Procurement Steering Board to oversee DFID's compliance with commercial controls and to guide organisational

58. The effectiveness of the Girls' Education Challenge in phase one was assessed in another ICAI review: *Assessing, staying and succeeding in basic education – UK aid's support to marginalised girls*, ICAI, December 2016, [link](#).

59. GEC Process Review Report: *Evaluation Manager Girls' Education Challenge Fund*, Coffey, February 2016, [link](#).

learning and the development of greater commercial acumen. It has also elevated the procurement function within the departmental hierarchy, with the head of procurement now a member of the Investment Committee, which is responsible for ensuring value for money across the department. Through our key stakeholder interviews, we found that the rationale for and objectives of these reforms were well understood across the department and supported by senior management.

Box 9: Building DFID's commercial maturity

DFID's 2015 Commercial Maturity Model sets out the functions and capabilities that DFID needs to acquire to achieve its goal of developing a first-class procurement and commercial service. These are set out in four areas, as follows:

- **Strategy and Leadership:** Change the mind-set of the organisation to make commercial acumen a more integrated responsibility for all.
- **People, Technology & Tools:** Substantial investment in commercial capability across the organisation, and improve the availability and accuracy of commercial information, through better use of digital technology.
- **Governance & Organisational Interface:** Strengthen DFID's strategic commercial focus and commercial governance of key programme investments.
- **Programme Delivery:** Fully integrate commercial considerations into policy development and programme design, ensuring commercial decision-making is by design; be an intelligent customer by engaging earlier and in smarter ways with DFID's potential delivery partners to maximise commercial effectiveness; and further strengthen the commercial oversight/management procedures in place with delivery partners.⁶⁰

- 4.63 While capacity has increased significantly, DFID's level of commercial ambition has also grown, through initiatives such as open-book accounting and payment-by-results contracting. This means that capacity development is a continuing requirement.
- 4.64 It is a challenging environment for external recruitment and the Procurement and Commercial Department has had to rely on temporary staff to fill up to 10% of commercial positions on occasions. Recruitment is made more difficult by a trend of rising salaries for procurement professionals in both the private and not-for-profit sectors, which, according to the Procurement and Commercial Department, generally pay more than DFID can offer. One independent expert that we interviewed informed us that salaries for procurement professionals are rising faster than those in the economy as a whole, and that those with recognised qualifications are able to demand a 'pay premium'. Employers are also willing to pay more for professionals with 'soft skills', as required by DFID. Given this, DFID has been fairly successful at recruiting procurement experts, but is likely to face continuing challenges with staffing its procurement function to the level required.
- 4.65 DFID continues to roll out training programmes to increase commercial knowledge across the department. Each spending department is now required to work with the Procurement and Commercial Department to produce a commercial Capability Improvement Action Plan. All office and department heads have attended either a mandatory commercial leadership course (for senior civil servants) or a commercial overview (for Senior Responsible Owners of individual programmes). So far, more than three-quarters have completed the training. DFID has supplemented the training with a commercial leadership programme handbook. The 2018 peer review of DFID's commercial function found its commercial capability had improved compared to the previous year but that it still has some way to go to reach the desired level.

60. Investment Committee Item 4 Procurement Commercial Update, DFID, September 2016, unpublished.

- 4.66 DFID has introduced commercial delivery managers to support country offices and other spending departments with commercial advice and input into programme design and management. During our Nigeria visit, we observed that the commercial delivery manager formed a valuable link between programme managers and the Procurement and Commercial Department, resulting in a more integrated procurement function. Staff in Tanzania noted the importance of having a commercial delivery manager able to adapt DFID's procurement rules to the local context. However, in 2017, the commercial delivery manager role was reduced to a shared position across country offices, present in-country for only six weeks a year, which resulted in a noticeable drop in procurement capacity.
- 4.67 The value of in-country commercial support is shown in the experience of the Improving Rural Access in Tanzania contract (£35.4 million; 2014-18). The country team underestimated the time required to mobilise the contract, resulting in delays in inception and a negative first annual review. However, the contract was improved and ultimately became successful as a result of intervention by the commercial delivery manager. If this support had been available earlier, the contract would have proceeded more smoothly. It is a common pattern in DFID Tanzania and across the department that a lack of commercial preparatory work leads to delivery problems and higher costs during implementation, suggesting a need for more commercial support.

The lack of a suitable procurement information system remains a constraint on DFID's capacity

- 4.68 In our 2017 procurement review, we noted that DFID's market creation activities and its ability to publish pipeline information were held back by an inadequate management information system that is unable to generate the data needed for leadership and learning purposes. This remains the case. DFID still has multiple and ageing information systems, both online and offline, which do not interface or integrate with each other. One consequence for procurement and contracting is that there is no single repository or audit trail from concept through procurement to delivery and contract closure. This means that DFID systems are unable to generate the quality of data and the level of transparency demanded by ministers, creating reputational risks for the department.
- 4.69 Among the gaps in the current information system are essential data sets for managing contracts and supplier performance with key suppliers, collation of pipeline information, and compilation of suppliers' fees and supply chains (currently stored in offline spreadsheets). Payment information cannot readily be linked to contracts, while information on contracts below the EU threshold, which are managed by country offices, is recorded on a separate system. The impact and additional resources required to manage these processes manually has been estimated by DFID at £2.2 million per year, which includes 10% of total staff time in the Procurement and Commercial Department.⁶¹
- 4.70 The World Bank identifies digitisation of procurement as critical to creating a level playing field among suppliers and supporting more transparent and evidence-based procurement.⁶² The National Audit Office has also reiterated the need for government to improve the data it holds about contracts and suppliers, to enable it to establish benchmarks and share information across departments.⁶³
- 4.71 DFID approved a business case for the purchase of an integrated procurement information system in 2017 and undertook a tender through the Crown Commercial Services Digital Framework. A potential supplier was engaged, but the proposed system failed the 'proof of concept' stage and the work was discontinued. The Cabinet Office recently advised that DFID adapt a system already in use in other departments.
- 4.72 We are concerned that this issue has not been pursued with greater urgency by DFID. The benefits of recent improvements in the commercial sphere need to be underpinned by timely and accurate data. A new management information system and procurement portal are both crucial and urgent.

61. DFID Commercial Platform – Business Case, September 2017, unpublished.

62. *The Future of Contract and Commercial Management*, International Association for Contract & Commercial Management, 2016, p. 7, [link](#); and *Benchmarking Public Procurement 2017: Assessing public procurement regulatory systems in 180 economies*, World Bank Group, 2016, [link](#).

63. *Commercial and contract management: insights and emerging best practice*, National Audit Office, November 2016, p. 14, [link](#).

Conclusions on the effectiveness of DFID's tendering practices

- 4.73 The reforms that DFID has implemented in recent years are beginning to strengthen its procurement capacities and practices in a range of areas. While older contracts show significant weaknesses in their commercial cases, the introduction of the new sourcing process has resulted in much stronger decision-making about routes to market. In more recent contracts, we found positive examples of DFID analysing how to structure its contracts so as to get the best value from its suppliers.
- 4.74 Early market engagement has increased and there is early evidence that it is promoting more competition. Across our sample, we found that DFID did not always make appropriate choices of procurement approach, relying too much on options that are better suited to 'off-the-shelf' goods and services than to complex aid programmes. This may be changing as a result of the new strategic sourcing process.
- 4.75 DFID has made a sustained effort to build its procurement capacity in recent years, through recruitment, training and management innovations, and has made visible progress in the past year. It still has some way to go to embed commercial awareness and capability across the department, and making full use of new tools introduced through the Supplier Review will place extra demands on staff. As we pointed out in our 2017 procurement review, the lack of a suitable procurement information system remains a significant weakness, exposing DFID to reputational and value for money risks. Overall, however, we find that procurement capacity has clearly grown in recent years, enabling DFID to set more ambitious commercial goals.
- 4.76 These findings suggest that the weaknesses in DFID's procurement evident towards the beginning of the review period are in the process of being addressed, with significant improvement in recent practice. While there is still some way to go to achieve DFID's ambitions, we are satisfied that this merits a **green-amber** score.

Effectiveness: How well does DFID secure value for money through its contracting and choice of payment mechanisms?

The contract management function in DFID is poorly defined

- 4.77 DFID has well-established processes for managing its programmes, set out in its Smart Rules. For each programme, a Senior Responsible Officer is formally responsible for ensuring effective use of public funds, supported by one or more programme managers. The process includes annual reviews of whether programmes are achieving their intended outputs and outcomes and offering value for money. Programmes that fail to achieve their targets are subject to improvement measures. We recently reviewed how well DFID achieves value for money through its programme management.⁶⁴
- 4.78 Contract management is a subset of programme management. It includes monitoring whether suppliers comply with contractual terms, budgets and timetables, and whether the contract is performing well from a commercial perspective. It includes regular interaction with suppliers to ensure that the relationship remains productive. Without active contract management, there is a risk that, even if a programme delivers its objectives, the contractor may benefit at the expense of the procuring authority.
- 4.79 For DFID, we find that the commercial and contractual aspects of programme management are not well developed. Senior Responsible Owners and programme management teams hold the contract management function, with support and advice from the Procurement and Commercial Department. In addition, there is now a network of commercial delivery managers available to support programme management teams. However, contract management processes and responsibilities are not well defined. There is no separate Smart Guide on contract management. While the subject is referred

64. DFID's approach to value for money in programme and portfolio management: A performance review, ICAI, February 2018, [link](#).

to in the Procurement/Commercial Smart Guide and in other documents, the complete contract management process is not described anywhere. Nor is it given enough emphasis in the programme management training offered to Senior Responsible Owners.

- 4.80 National Audit Office guidance states that overall responsibility for contract management should rest with a senior official, responsible for driving organisation-wide contract management performance.⁶⁵ At the time of our review, within DFID, there was no such official, and this oversight appeared to be shared between the Procurement and Commercial Department and the Better Delivery Department, which is responsible for the Smart Rules and Guides.⁶⁶ DFID has not taken the steps recommended by the National Audit Office for making sure that the contract management functions are assigned to appropriate people (see Table 5). In interviews, senior Procurement and Commercial Department stakeholders explained that DFID's devolved structure across country offices makes it difficult for the Procurement and Commercial Department to lead on contract management. Their view was that contract management should remain with programme teams, with the Procurement and Commercial Department in a capacity-building role. However, they acknowledged that the function needed to be better resourced.
- 4.81 Across our sample of 44 contracts, we found little evidence of active contract management processes of the kind defined by the National Audit Office. DFID has in recent years introduced mandatory delivery plans to support programme management, which were present in just under half of our sample. These identify risks and delivery challenges, identify actions that need to be taken in response to changes in context or performance issues, and outline an approach to performance monitoring. We found that these had been helpful in promoting more effective programme management, but were not explicitly linked to commitments and performance requirements under the contracts.
- 4.82 The lack of a formal contract management process means that DFID is left reacting to performance issues with suppliers, rather than using performance incentives, risk transfer and other contract management tools proactively to prevent problems from occurring. For example, the Nepal Rural Access Programme started poorly, following inadequate early market engagement. DFID later introduced a performance management framework, with more appropriate payment mechanisms, clearer risk allocation to the supplier and other controls, which in due course turned around the performance. These measures should have been in place from inception, rather than introduced following a poor annual review score. A similar trajectory occurred with the Human Development Innovation Fund in Tanzania (see Box 10) and the Tax and Audit Advisory Services programme in Ethiopia. This leaves DFID holding too much of the risk of poor performance in the early phase of its contracts.
- 4.83 This lends support to the observations of the International Development Committee that:
- "DFID's due diligence of contractors appears to focus excessively on the bidding stage and not enough on the implementation stage. There are examples to suggest this may have skewed the incentives of contractors to focus on winning contracts, not delivering them."⁶⁷
- 4.84 DFID acknowledged in a 2017 report that its contract management was not at the desired level.⁶⁸ Contract management competency was also one of two areas of weakness identified in the 2018 cross-government peer review. DFID informs us that it has updated its Programme Delivery Competency Framework and is in the process of enhancing commercial training and education for frontline programme teams. There is no timeframe set for DFID to achieve its desired standard.

65. Good practice contract management framework, National Audit Office, December 2016, p. 8, [link](#).

66. After undertaking the work for this review, DFID appointed the Director of Finance and Delivery, the senior officer with responsibility for contract management in addition to his existing responsibilities. Although we have not assessed the effectiveness of this appointment, we are pleased that responsibilities have begun to be made clearer.

67. *DFID's use of private sector contractors, Eighth report of Session 2016-17*, International Development Committee, March 2017, p. 40, [link](#).

68. *Government Commercial Operating Standards: Assurance statement to the Cabinet Office*, DFID's statement to the Cabinet Office, March 2017, unpublished.

Table 5: The National Audit Office on ‘people’ aspects of contract management

National Audit Office guidance	Contract management in DFID
<ul style="list-style-type: none"> The contract manager⁶⁹ should have continuity, with an appropriate handover from staff handling the tendering and contract award process. 	<ul style="list-style-type: none"> The procurement and contract management function is split across different personnel, without continuity or clear role definition.
<ul style="list-style-type: none"> The contract manager should have a detailed knowledge of the contract and other relevant issues, such as service level agreements and ongoing supplier performance. 	<ul style="list-style-type: none"> Programme managers review programme performance but there is no formal analysis of contract performance. In general, the distinction between programme management and contract management is poorly understood.
<ul style="list-style-type: none"> The contract manager should have the appropriate skills (both specific contract management skills and more general commercial awareness and expertise), with access to relevant training and development. Experienced contract managers are utilised on key contracts. 	<ul style="list-style-type: none"> DFID acknowledged in its 2017 report that its use of contract management was not at the desired level in part due to a lack of commercial acumen in programme managers. It is addressing this through commercial training for front line programme teams, a new commercial leadership programme handbook, and the Smart Rules and Guides on Procurement/Commercial.
<ul style="list-style-type: none"> Contract managers should have accurate job descriptions, their roles are positioned at an appropriate level and salary, and there is a career path for contract management staff. 	<ul style="list-style-type: none"> Contract management is subsumed within programme management and assigned to individuals without regard to seniority and skill level.
<ul style="list-style-type: none"> Contract managers should have clear objectives and reporting lines and their performance should be managed through reviews and appraisals. 	<ul style="list-style-type: none"> Contract management roles are not defined within DFID, no objectives are set and outcomes are not measured.⁷⁰
<ul style="list-style-type: none"> The contract manager should have the appropriate level of delegated authority to manage the contract effectively. 	<ul style="list-style-type: none"> As the contract manager role is not defined in DFID, there is no delegated authority.

Sources: *Good practice contract management framework*, National Audit Office, December 2016, [link](#); ICAI assessment of DFID’s practice.

Contracts are frequently amended or extended beyond their advertised length and values

- 4.85 Our assessment of 44 contracts – some of which are ongoing – found that 34 had been subject to formal amendment, with an average of three amendments each and as many as seven in some cases. Amendments range from changes to key personnel to changes to inception phases through to extensions in budgets or timetables.
- 4.86 Formal contract amendment is a time-consuming process. A well-designed contract allows a level of flexibility in order to limit the need for amendment. The frequency of amendments suggests that DFID is defining contractual obligations too rigidly – possibly as a result of choosing the wrong procurement method or contract model. Had appropriate contract management processes been

69. The National Audit Office guidance does not assume that the contract manager responsibilities should be in a stand-alone role.

70. While the programme delivery capability framework covers some aspects of contract management, it is not comprehensive and does not mention the term ‘contract management’.

in place, most of these changes could have been addressed more cost-effectively without formal amendment.

- 4.87 A quarter of the contracts were extended beyond their planned budget or duration – in some cases substantially. For example, the Humanitarian and Emergency Operations Support Service (£35.7 million; 2011-17) supports DFID's capacity to deploy people, supplies and services in humanitarian emergencies, supplementing the standing capacity in the Conflict, Humanitarian and Security Department and the Stabilisation Unit. The contract was extended three times over its original value (from £9.7 million to £28.3 million), with ministerial approval.⁷¹ This was due to a higher level of emergency humanitarian response than anticipated, linked to sudden-onset crises, such as the Ebola response in Sierra Leone and the conflict in Yemen, and an overall increase in the number of locations that needed support. Given the inherent uncertainty, it would have been better to provide the breadth and depth in the contract to allow unforeseen challenges to be met within the contract.
- 4.88 Within the past five years, DFID's 711 contracts have been extended by a total of £2 billion in value. As well as being costly to administer, this means that programmes may have been procured on incorrect assumptions, which distorts the competitive bidding process and creates a value for money risk.
- 4.89 According to DFID staff in our case study countries, a common reason for contract extension is that the department is often unwilling to commit funds for the expected length of the programme, due to the UK government's spending review cycle and shifting ministerial priorities. This is a common problem for bilateral donors. From a contract management perspective, it would be preferable to issue longer contracts with break clauses than short ones requiring frequent extension. We would expect DFID's new thematic approach to explore the question of what length of contract is appropriate for different market segments, in order to achieve the desired outcomes for the best value.

Inception phases are often too short for adequate preparation and planning

- 4.90 DFID programmes commonly have inception periods where suppliers engage in preparatory work for the programme, such as background research to set baselines, stakeholder consultations, and negotiation with DFID over milestones and targets, before commencing implementation. These processes are important for setting the programme on a solid foundation.
- 4.91 Across our sample, we found that inception phases are often inappropriately short. They are often set by DFID without consultation at one to three months, when six to twelve months would have been more appropriate. Furthermore, suppliers routinely take longer than expected to deploy and begin their inception work, often due to delays in completing contract negotiations, further truncating the inception period. Though DFID often extends inception phases, the practice opens up a risk that key preparatory processes are not well planned and delivered, as contractors rush to meet unrealistic deadlines. Suppliers also told us that changes to inception periods can disrupt their staffing plans if it causes the appointment of staff for the delivery phase to be delayed.
- 4.92 For example, in Nigeria, the inception phase for the Women for Health Programme (£38.2 million; 2012-20), which trains female health workers, was extended twice – from six to nine and ultimately ten months. The programme found that the national institutions for training health workers were weaker than anticipated and that the inception phase was inadequate for the amount of work required to prepare them to be programme partners. According to the Senior Responsible Owner, the programme team would have preferred a longer inception phase or greater flexibility in allocating activities across the inception and delivery phases.

71. The contract was also extended by six months when the procurement of the next phase of the programme was successfully challenged due to an error in the original procedure which was accepted by DFID.

Box 10: An example of a poorly managed inception process

The **Human Development Innovation Fund** (£29 million extended to £39 million; 2013-18) in Tanzania was designed to promote innovation in the delivery of public services in health, education, and water and sanitation. It took the form of a ‘challenge fund’, with small and medium-sized enterprises invited to compete for funds by submitting proposals involving new technologies and innovative approaches.

The supplier was contracted for an inception period of three months, during which it was required to design and put in place all the detailed systems, processes and governance arrangements for the fund. The time was found to be inadequate and was extended by a further three months. The supplier faced challenges in fielding a suitably qualified team. A DFID annual review concluded that there should have been more robust checking of the supplier’s ability to secure the team named in the bid.⁷² The review also found inadequate governance and management arrangements, a lack of shared vision for the programme and no agreement on appropriate criteria for scoring funding applications. As the share of budget available for grants was not ringfenced from management costs, the higher management costs incurred during the inception phase impacted on the value of funding reaching the implementers. The demand for innovation grants ultimately proved to be much larger than anticipated and DFID decided to extend the contract by £10 million, or 33%.

Eventually, the programme was brought back on track and in later annual reviews was judged to be performing well. However, there is clear evidence that a lack of market testing during the procurement, poor planning of the inception period and a lack of formal contract management process caused both delays and additional management costs, at the expense of the programme’s core activities.

Progress on flexible and adaptive programming will require more innovative approaches to tendering and contract management

- 4.93 DFID has set itself the objective of introducing a more flexible approach to programme management, to allow for learning and adaptation through the life of its programmes.⁷³ This means giving suppliers the ability to experiment with different activities and outputs in pursuit of an agreed set of outcomes. We have explored its progress in this area in other reviews, such as *DFID’s Governance work in Nepal and Uganda*.⁷⁴
- 4.94 We heard concerns from stakeholders both within and outside the department that, while DFID is seen as generally more flexible than other donors, its contracting processes are not necessarily in line with this. Many DFID contracts link supplier payments to output milestones, which locks programmes into pre-defined activities that can only be changed through contract amendment. DFID advisers in country offices are supportive in principle of adaptive working, yet a number told us that they felt that the Procurement and Commercial Department was unwilling to build the flexibility required into contracts. The Procurement and Commercial Department informed us that this was not the case. This highlights a potential disconnect between the central function and DFID field staff. According to the National Audit Office, government is better placed to manage uncertainty if it plans for flexibility from the outset – for example, through more open-ended specification of services or the inclusion of decision points on the pricing of future options.⁷⁵
- 4.95 We did not find such techniques being used in the contracts in our sample. Instead, the pattern was to resort to frequent contract amendment. Other ICAI reviews have highlighted programmes that have been designed to facilitate adaptive management, but these are exceptions to DFID’s usual contracting practice.

72. Human Development Innovation Fund (HDIF) Programme (Tanzania) Annual Review, DFID, December 2014, [link](#).

73. Putting theory into practice: How DFID is doing development differently, Overseas Development Institute, February 2017, [link](#).

74. DFID’s governance work in Nepal and Uganda, ICAI, June 2018, [link](#).

75. Commercial and contract management: insights and emerging best practice, National Audit Office, November 2016, p. 64, [link](#).

- 4.96 A review of the Girls' Education Challenge⁷⁶ and of two adaptive governance programmes in Nigeria⁷⁷ have both warned that overly bureaucratic processes for changing milestones and contracts can create disincentives to innovate. One grantee under the Girls' Education Challenge in Nigeria told us that its contract with the fund manager even prevented it from moving funds between budget lines. The Bond NGO network's Commercial Contracts Working Group warned in a December 2017 letter to the Secretary of State that inflexibility in contracts risked stifling innovation and flexibility.⁷⁸

"Projects have found contradiction in being encouraged to learn as they go and respond to achieve outcomes, while being held accountable for the delivery of output milestones. Many have pointed out the process for changing activities is too bureaucratic to encourage this kind of adaptive management."

Does 'skin in the game' improve the level of play? The experience of Payment by Results (PbR) on the Girls' Education Challenge (GEC) programme, DFID

"Many of the current operational systems in place in donor organisations and suppliers (as well as supplier incentives) have been established to ensure accountability, compliance and value for money. These systems rely on pinning down details of work plans, budgets and personnel inputs up front and delivering against these, and this approach inherently closes down the space and flexibility required for adaptive planning. In contrast to this, adaptive programmes need to develop operational management systems that continue to deliver accountability to the donor, while at the same time supporting rather than undermining the programme's ability to be adaptive."

Helen Derbyshire and Elbereth Donovan, Adaptive programming in practice: shared lessons from the DFID-funded LASER and SACI programmes

- 4.97 If DFID is to achieve its objectives to support adaptiveness in its programming while enforcing the heightened supplier accountability requirements following its Supplier Review, DFID will need to ensure that greater flexibility is applied in its contractual terms to enable adaptiveness. These objectives are not necessarily incompatible but can undermine each other if not applied appropriately. Achieving them both will require a higher level of commercial and contracting acumen to be achieved and maintained, not only among Procurement and Commercial Department staff but also across all those responsible for the effective delivery of programmes.

DFID's use of payment-by-results contracts is appropriately cautious

- 4.98 'Payment-by-results' contracts are those where some payments are made following the delivery of agreed results (outputs or outcomes).⁷⁹ DFID uses this payment mechanism to encourage better supplier performance and improve value for money. In principle, it can incentivise suppliers to deliver more efficiently, be more flexible and innovative in their pursuit of results, and generate stronger evidence on results.⁸⁰ However, DFID also recognises that it is a complex and challenging approach to use and that care must be taken to avoid creating perverse incentives (see Box 11).⁸¹
- 4.99 While payment-by-results is becoming more common in the international development sector, it remains a relatively new instrument and evidence of what works in which circumstances remains limited. A 2015 National Audit Office report on its use across the UK government noted that it was only suitable in certain conditions and that inappropriate use posed risks for service quality or value for money. It also noted that payment-by-results is a technically challenging form of contracting and that commissioning departments should make sure they devote the necessary time and skills to it.⁸² Based on the National Audit Office analysis, complex aid programmes in volatile contexts are not obvious

76. *Does 'skin in the game' improve the level of play? The experience of Payment by Results (PbR) on the Girls' Education Challenge (GEC) programme*, Joseph Holden and John Patch, DFID, January 2017, pp. 8-9, [link](#).

77. *Adaptive programming in practice: shared lessons from the DFID-funded LASER and SAVI programmes*, Helen Derbyshire and Elbereth Donovan, August 2016, [link](#).

78. Letter from the Bond Commercial Contracts Working Group to the International Development Secretary, December 2017, unpublished.

79. *Outcome-based payment schemes: government's use of payment by results*, National Audit Office, June 2015, [link](#).

80. *DFID's evaluation framework for payment by results*, DFID, 2014, [link](#).

81. *A Smart Guide to payment-by-results contracting*, DFID, December 2015, unpublished. The Guide correctly notes that input-based contracts can also generate unhelpful incentives.

82. *Outcome-based payment schemes: government's use of payment by results*, National Audit Office, June 2015, pp. 4-5, [link](#).

candidates for payment-by-results, as results are often uncertain and difficult to measure or attribute to the work of the supplier. Given the paucity of evidence on its use in development programmes, the International Development Committee has urged caution in its use, particularly in fragile contexts.⁸³

“[Payment-by-results (PbR)] contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money.”

Outcome-based payment schemes: government's use of payment by results, National Audit Office

Box 11: The Girls' Education Challenge experience with payment-by-results contracting

The Girls' Education Challenge is a large programme providing grants to NGO to pursue innovative solutions to educating marginalised girls. An internal review by the programme of its experience with payment-by-results contracting identified the following lessons:

- Dangers of risk transfer to small organisations with limited financial resources. “NGOs face a real and significant level of risk if they do not achieve results, and in large part they cannot cope well with this risk. It has the potential to lead to the insolvency of smaller organisations or negatively impact the broader operations of organisations, including larger NGOs, where financial reserves are limited.”⁸⁴
- Outcomes related to innovation and learning are inherently difficult to measure.
- There is mixed evidence on whether payment-by-results creates incentives for adaptive programming, as programmes cannot adapt if suppliers are accountable for delivery of pre-defined milestones.
- Poorly designed milestones can incentivise a focus on short-term results rather than systemic change.

The review concluded that payment-by-results can play an important role in driving accountability and ensuring a focus on results, but needs to be carefully designed.

Source: *Does 'skin in the game' improve the level of play? The experience of Payment by Results (PbR) on the Girls' Education Challenge (GEC) programme*, J. Holden & J. Patch, January 2017, [link](#).

4.100 We find that DFID is indeed cautious in its use of payment-by-results. While the majority of contracts now include a payment-by-results element, the proportion of funds at risk is often small, adding an extra performance incentive while limiting the risk of disruption to the programme. Furthermore, payments are usually linked to activities or outputs that are within the control of the contractor, rather than to outcomes – although sometimes payments are linked to baskets of indicators that include both.

4.101 In our sample, 30 out of the 44 programmes included a payment-by-results element. Typical examples include:

- The **Teacher Development Programme** (£34 million; 2013-19) in Nigeria, where 25% of fees are paid on achievement of output-based milestones agreed during the inception phase.
- The contract for the managing agent of the **Education Quality Improvement Programme in Tanzania** (£48 million; 2013-18), where 20% of fees are linked to output-based milestones.
- **Increasing Economic Opportunities for Marginalised Youth in Northern Nigeria** (£32 million; 2015-21), where 25% of fees were linked to output-based milestones.

83. UK aid: allocation of resources: interim report, Third Report of Session 2015-16, International Development Committee, March 2016, pp. 22-23, [link](#). UK aid: allocation of resources, Seventh Report of Session 2016-17, International Development Committee, March 2017, p. 17, [link](#).

84. Does 'skin in the game' improve the level of play? The experience of Payment by Results (PbR) on the Girls' Education Challenge (GEC) programme, Joseph Holden and John Patch, DFID, January 2017, [link](#).

- 4.102 A more ambitious example is the **Partnership to Engage, Reform and Learn Programme**, which provides governance support to federal and state governments in Nigeria (see Box 8 above). One of the supplier contracts involves a 100% payment-by-results element and a second involves 53%. Payment milestones and outputs are categorised by the degree to which they are within or outside the control of suppliers. The contract begins with milestones largely within the supplier's control with later milestones more reliant on the achievement of programme outcomes. They have been set with a level of flexibility around external risks (for example the risk of an election delaying implementation). The suppliers we spoke to (including subcontractors) stated that discussions with DFID through the negotiated procurement process had resulted in targets that were clear and realistic. DFID Nigeria saw this as a good example of risk transfer but was nonetheless keeping a close watch to ensure that suppliers did not focus on the milestones at the expense of the broader results picture.
- 4.103 It is not possible to make an objective assessment of whether payment-by-results has in fact improved supplier performance in ongoing contracts. However, in a number of cases, both DFID and its suppliers told us that it had helped to align their efforts around a common set of objectives.
- 4.104 We came across only a single case where risks were passed to a supplier that could have put the delivery of the programme at risk without creating a meaningful performance incentive. In this instance, however, DFID had worked with the supplier to prevent any adverse impact (see Box 12).

Box 12: Challenge with payment-by-results contracting in Tanzania

The **Addressing Stunting in Tanzania Early Programme** (£33 million; 2015-20) is designed to reduce the prevalence of stunting in Tanzanian children under five years old. Approximately £21 million is spent through an international NGO, with 30% of fees and expenses payable against milestones. Lengthy negotiations with the supplier pushed back the contract start date. This led to pressure on the supplier to foreshorten the inception work (including research to establish baselines) in order to recover lost time.

The payment-linked milestones include changes in behaviours by national bodies, health facilities and communities. For example, one key performance indicator is: "Increased knowledge of pregnant women, caregivers of children under two years of age, household and community decision-makers on [infant and young child feeding, early childhood development, hygiene and health practices] in target regions." To achieve this indicator, the supplier would be required to build a deep understanding of social norms and barriers to change and identify effective interventions to address them. The supplier expressed the view that, owing to the short inception period, DFID had underfunded the background research necessary to understand the issues and set baselines for measuring change. This left both the supplier and the programme exposed to unnecessary risk. In the end, DFID and the contractor worked together to apply the performance indicators in a sensible way, and there appears to have been no adverse effect on programme performance.

- 4.105 We heard concern from NGO representatives that payment-by-results might discourage smaller organisations from pursuing DFID contracts. Smaller NGOs may not have the cash flow needed to manage the risk of delayed or cancelled payments. DFID is aware of this risk. We saw some examples of recent sourcing strategies where DFID, having identified through its early market engagement that NGOs were among the potential bidders, had increased the proportion of input-based funding in order to allow them to compete.
- 4.106 Overall, we find that DFID takes a cautious approach to payment-by-results, limiting the proportion of payments that are at risk and linking them to outputs that are largely within suppliers' control. Given the challenges associated with this payment mechanism, this caution is appropriate. There is still limited evidence as to whether DFID's use of payment-by-results in fact leads to better supplier performance. For some contracts, DFID and suppliers felt that it had encouraged them to align behind agreed priorities. On the other hand, it can also suppress flexibility and innovation by tying payment to pre-defined activities. Choosing the right payment mechanism is a complex judgement in each individual case, based on careful analysis of market conditions and supplier incentives. DFID is

beginning to build this knowledge, but payment-by-results remains a new field where further learning is required.

Conclusions on effectiveness of contracting and choice of payment mechanisms

- 4.107 Contract management is a notable gap in DFID's systems. While the programme management function is well established, the commercial and contractual aspects are not well defined or understood. At the time of our review, there was a lack of clear ownership of contract management in the departmental hierarchy, the guidance was not explicit enough and not enough commercial support was available to country offices. This gap has been acknowledged by DFID. It can leave the department reacting to performance issues, rather than managing performance in a structured way from inception onwards.
- 4.108 We find that contracts are frequently amended beyond their planned budget or duration owing to inappropriate contracting choices, which is costly and disruptive. Difficult and complex programmes frequently have inception periods that are too short. While short inception periods may occasionally be suitable, the inception periods should be based on the needs of the programme. There are elements of DFID's contracting practices that work against its stated goal of more flexible and adaptive programming.
- 4.109 DFID takes a cautious approach to payment-by-results contracting, given the complexities of applying it effectively to complex programmes in difficult environments. We find that it is aware of the risks and managing them effectively, minimising any detrimental effects. However, in most cases, we are not convinced that DFID has the detailed knowledge of supplier incentives that would enable it to design an effective payment-by-results mechanism.
- 4.110 Overall, contract management is an area of weakness that is not being convincingly addressed in DFID's ongoing reforms, meriting an **amber-red** score.

5. Conclusions and recommendations

Conclusions

- 5.1 DFID has made a sustained investment in building up the Procurement and Commercial Department and raising commercial awareness across the organisation. There has been an acceleration of reforms since 2015, including more detailed analysis of market conditions and procurement options, increased early market engagement and new terms and conditions of contracting that make suppliers more accountable for their conduct and give DFID greater visibility over costs and profits. Some of these initiatives are well established but others are recent and will need to be refined over time.
- 5.2 To achieve DFID's ambition of building a first-class commercial capacity, there will need to be a continuing process of capacity development and cultural change across the department. However, the positive changes we have observed in DFID's procurement practice over the review period merits an overall **green-amber** score.
- 5.3 We find three main areas of weakness in DFID's procurement systems:
- DFID lacks the management information to support informed procurement decisions and has made slow progress on addressing this gap.
 - The contract management function remains poorly defined and under-resourced.
 - There is a risk that DFID's approach to ensuring supplier accountability is inadvertently limiting the innovation and flexibility that is often the key to achieving good development results.
- 5.4 We also find that the Supplier Review caused a substantial reduction in communication between DFID and its suppliers that is not helpful for achieving its objectives. The following recommendations are intended to support DFID's ongoing efforts in these areas.

Recommendations

Recommendation 1: Before the next major revision of its supplier code and contracting terms, or future changes that may materially affect suppliers, DFID should conduct an effective consultation process with its supplier market, to ensure informed decisions and minimise the risks of unintended consequences.

Problem statements:

- In our review of DFID's approach to its supplier market, we recommended that DFID adopt a stronger change management approach for the next phase of its commercial reform plans, with robust monitoring arrangements and measures to mitigate unintended consequences (see Table 6). Our second review reaffirmed this and highlighted the risks of unintended consequences.
- There was little or no consultation with suppliers during the Supplier Review, leading to a loss of feedback and market intelligence, and a greater risk of unintended consequences arising from reforms.
- DFID has been updating its supplier code and contracting terms and conditions, along with other core business processes, to include more robust safeguarding processes. This provides an opportunity for the department to rebuild the relationship with its suppliers.

Recommendation 2: DFID should accelerate its timetable for acquiring a suitable management information system for procurement, to ensure that its commercial decisions are informed by data.

Problem statements:

- DFID's current management information system is fragmented, antiquated and not fit for purpose.
- DFID lacks the data it needs to make informed commercial decisions.

- While this gap has been acknowledged by the Procurement and Commercial Department for a long period and an off-the-shelf solution identified, the time taken to address it has been unacceptably long.

Recommendation 3: DFID should 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. The new regime should include appropriate adaptive contract management techniques, to ensure that supplier accountability is balanced with the need for innovation and adaptive management in pursuit of development results.

Problem statements:

- DFID's contract management system is poorly defined and under-resourced. This gap is not being addressed in ongoing reforms.
- Contrary to National Audit Office guidance, DFID lacks a single official responsible for contract management.
- DFID lacks appropriate training and guidance for staff on contract management.
- DFID is overly reliant on formal contract amendment to adjust programme activities and outputs, potentially creating disincentives for suppliers to innovate and employ adaptive management.

Table 6: Recommendations from ICAI's first procurement report on DFID's approach to its supplier market

Recommendation	DFID response
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
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
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
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

Sources: *Achieving value for money through procurement – Part 1: DFID's approach to its supplier market*, ICAI, November 2017, p. 40, [link](#); DFID's response to the Independent Commission for Aid Impact (ICAI) recommendations on *Achieving value for money through procurement – DFID's approach to its supplier market*, DFID, December 2017, [link](#).

Annex A: Glossary

Category management: a process of segmenting the areas of organisational spend on bought-in goods and services into discrete groups of products or services, such as vaccines, construction work or evaluation services. These discrete groups, or categories, can be analysed in order to increase value for money, reduce supply chain risk or secure increased innovation from the supply chain. DFID is developing a category management process called Thematics.

Commercial Maturity Model: DFID's Commercial Maturity Model is a tool for assessing and categorising the level of progress DFID has made against a number of broad recommendations for commercial best practice.

Contract management: the process of managing contract creation, execution and analysis that ensure the terms and commitments of contracts are adhered to, and that the programme is delivered within the agreed timetable and budget to maximise financial and operational performance and minimise risk.

Eligible Cost Guidance: DFID's guidance, introduced in October 2017, which outlines eligible expenditure of all directly procured contracts. Suppliers are expected to adhere to this guidance when submitting bid or grant applications.

Open-book accounting: refers to a set of measures in public procurement intended to increase purchaser understanding of supplier costs and profits. It removes one source of information imbalance between the parties, and can lead to improved procurement outcomes and better contract management.

Payment-by-results: a form of aid financing which aims to increase efficiency and improve performance by making some portion of payment to suppliers contingent upon independent verification of results.

Pipeline: upcoming procurement opportunities.

Programme management: the systematic management of projects to achieve beneficial change. In DFID, programme management processes are outlined in the Smart Rules. These include monitoring of suppliers' performance through formal meetings and annual reviews, with processes in place for identifying and rectifying programmes that fail to hit targets.

Supplier relationship management: the identification and use of the most appropriate approaches with which to manage a supplier or groups of suppliers to maximise value to the organisation and minimise risk.

Strategic sourcing: the process of identifying and generating options for sourcing a product, service or category and creating an agreed sourcing strategy that will increase value for money, reduce supply chain risk or secure increased innovation from the supply chain.

Annex B: Details of contract sample

Contract	Nigeria Infrastructure Advisory Facility (NIAF2)
Benefiting country	Nigeria
Award year	2011
Duration	2012 – 2016
Original contract value	£48m
Background	NIAF2 is a flexible demand driven facility designed to accelerate the processes of change by improving access to technical assistance to improve the processes and evidence base guiding infrastructure policy, decision-making, project selection and execution.

Contract	DFID Humanitarian and Emergency Operations Support Service
Benefiting country	Global
Award year	2012
Duration	2012 – 2017
Original contract value	£28.3m
Background	The programme underpins the UK's response in a crisis (and support for a wider international response) as well as supporting capacity development between disaster responses. This includes building the UK's ability to deploy people, supplies and services (the UK's Response Capability); international capability to do the same (International Response Capabilities) and efforts to prepare DFID Country Offices and national actors to respond (National Response Capabilities).

Contract	Rural Access Programme (RAP)
Benefiting country	Nepal
Award year	2013
Duration	2013 – 2019
Original contract value	£47.3m
Background	RAP will increase the economic opportunities available to the poorest and most vulnerable people in seven of the remotest districts in Nepal. Firstly, by providing employment for the poor maintaining rural roads and constructing economic infrastructure. Secondly, by developing agricultural and other small businesses to put in place the foundations for sustainable economic growth in the area.

Contract	Delivering Reproductive Health Results Through Non-state Providers
Benefiting country	Pakistan
Award year	2012
Duration	2012 – 2017
Original contract value	£16.8m
Background	The UK is supporting non-state providers to deliver reproductive health results. This project aims to improve maternal and newborn health by reducing unintended and high-risk pregnancies in poor and under-served urban and rural areas in southern Punjab, northern Sindh, Khyber Pakhtunkhwa and Federally Administered Tribal Areas.

Contract	Ethiopia Land Investment Transformation Programme (LIFT)
Benefiting country	Ethiopia
Award year	2013
Duration	2013 – 2020
Original contract value	£68.2m
Background	The objective of the LIFT programme is to improve the incomes of the rural poor and to enhance economic growth, through second level land certification, improved rural land administration systems, cross-cutting policy reviews, and development of the rural land sector to enhance productivity and investment.

Contract	Private Enterprise Programme Ethiopia (PEPE)
Benefiting country	Ethiopia
Award year	2013
Duration	2013 – 2020
Original contract value	£43.4m
Background	The performance of the manufacturing sector in Ethiopia remains below the Sub-Saharan African average. Responding to these challenges, PEPE is a seven-year multi-sector initiative funded by DFID to create jobs and increase incomes, with particular emphasis on impact for women and green growth.

Contract	Improving Reproduction, Maternal and Newborn Health (IRMNH)
Benefiting country	Sierra Leone
Award year	2013
Duration	2013 – 2017
Original contract value	£24.9m
Background	The IRMNH programme is aimed at building capacity both in the public and private sectors to deliver a nationwide, comprehensive package of reproductive, maternal and newborn healthcare services across Sierra Leone and to increase utilisation of these services among women and young people.

Contract	School Construction and Rehabilitation Components
Benefiting country	Pakistan
Award year	2014
Duration	2014 – 2020
Original contract value	£163m
Background	DFID plans to invest in the Khyber Pakhtunkhwa Education Sector Programme (KESP) to support the government of Khyber Pakhtunkhwa to deliver education reform through the Education Sector Plan. The Australian Department of Foreign Affairs and Trade is also contributing to KESP through a Development Partnership Agreement. KESP aims to support more children to stay in school for longer while learning more.

Contract	Nigerian Maternal, Newborn and Child Health (MNCH2) Programme
Benefiting country	Nigeria
Award year	2014
Duration	2014 – 2019
Original contract value	£85.9m
Background	MNCH2 is a five-year project aiming to improve maternal, newborn and child health and routine immunisation across six states in Northern Nigeria: Kano, Kaduna, Katsina, Zamfara, Jigawa and Yobe. The programme will deliver essential healthcare for pregnant women, newborns and children, and will improve health system coordination through health sector planning and financing and increased demand for, and access to, high quality health services.

Contract	Private Sector Development in Democratic Republic of Congo (DRC)
Benefiting country	Democratic Republic of Congo
Award year	2014
Duration	2015 – 2020
Original contract value	£34.99m
Background	This programme uses a flexible portfolio approach able to amend, augment, append or abandon interventions in response to emerging opportunities and risks. Instead of rigidly adhering to a linear theory of change, this approach seeks to achieve change (improved incomes of the poor through private sector development) via multiple possible components (business environment reform, improved access to finance, market development, and reduced corruption).

Contract	Supporting Nutrition in Pakistan
Benefiting country	Pakistan
Award year	2016
Duration	2016 – 2021
Original contract value	£45.8m
Background	This programme provides support for food fortification and non-health sector nutrition interventions through a World Bank, nutrition Multi-donor Trust Fund (MDTF). The outcome of this combined programme of support to food fortification and the WB MDTF is improved access and consumption of sufficient, nutritious and safe food for women of childbearing age and children to improve their nutritional status.

Contract	Tax and Audit Advisory Services Programme (TAUT)
Benefiting country	Ethiopia
Award year	2015
Duration	2015 – 2018
Original contract value	£7.2m
Background	The programme provides support for tax, audit and anticorruption functions. It aims to support the Ethiopian government to increase domestic revenues, and to drive efficiency gains in the public sector through greater financial accountability. It aims to play a key role in supporting Ethiopia to self-finance and deliver its ambitious Growth and Transformation Plan.

Contract	Partnership to Engage Reform and Learn (PERL) – Lot 1 Accountable, Capable and Responsive Government
Benefiting country	Nigeria
Award year	2016
Duration	2016 – 2021
Original contract value	£39.98m
Background	PERL is a five-year Public Sector Accountability and Governance Programme. Its focus is to reform how the government of Nigeria organise its core business of making, implementing, tracking and accounting for policies, plans and budgets used in delivering public goods (economic stability and an enabling environment for private enterprise so as to promote growth and reduce poverty) and services to the citizenry. It will also support citizens themselves engaged with these processes.

Contract	Facility for Oil Sector Transparency and Reform (Phase II) (FOSTER)
Benefiting country	Nigeria
Award year	2016
Duration	2016 – 2021
Original contract value	£19m
Background	FOSTER partners with groups across the oil and gas sector to strengthen how Nigeria's key extractive sector is managed, help Nigeria prevent revenue losses, and minimise negative impact of the industry on local communities. This programme aims to be catalytic in creating and maintaining the drive for reform. This involves partnering with a range of stakeholders including those working to reform the sector within the Nigerian government, the national oil company, the private sector, and non-government organisations pushing for reform.

Contract	Impact Evaluation of the Samarth-Nepal Market Development Programme (NMDP)
Benefiting country	Nepal
Award year	2017
Duration	2017 – 2019
Original contract value	£996,000
Background	The programme follows the market systems approach Making Markets Work for the Poor, which seeks to improve the underlying poor performance of rural sectors, leading to opportunities for better access and improved growth for poor and disadvantaged people. The programme works in rural sectors such as agriculture, livestock and tourism, and cross-sectoral issues such as gender and social inclusion, mechanisation and media.

Contract	Rural Water Supply and Sanitation Programme
Benefiting country	Tanzania
Award year	2014
Duration	2014 – 2017
Original contract value	£150m
Background	The government's Ministry of Water has developed a second phase of the Water Sector Development Programme (WSDP) to increase access to water and sanitation for rural populations, improve sustainability and strengthen the institutional delivery, building on the lessons learnt under the first phase of WSDP. DFID's Rural Water Supply and Sanitation Programme provides financial support to the government's WSDP.

Contract	Kenya Extractives Programme (K-EXPRO)
Benefiting country	Kenya
Award year	2016
Duration	2016 – 2021
Original contract value	£24m
Background	The programme promotes the generation of a tax base that can pay for services, create more jobs in new industries, stimulate new export earnings and minimise the likelihood of conflict and adverse impacts arising from the extractives sector.

Contract	Technical Assistance for Implementation of DFID Nepal National Health Sector 3
Benefiting country	Nepal
Award year	2017
Duration	2017 – 2020
Original contract value	£15m
Background	The objective of the NHSP3 programme is to improve the health of women, children, the poor and socially excluded in Nepal, including by restoring health services in areas affected by the 2015 earthquake, and improving the quality and governance of health services nationwide. Overall, the UK's investment will contribute to the delivery of the Nepal Health Sector Strategy 2015-20.

Contract	Humanitarian Emergency Response Operations and Stabilisation Programme (HEROS)
Benefiting country	Global
Award year	2017
Duration	2017 – 2022
Original contract value	£330m
Background	The programme will provide humanitarian emergency response operations management and stabilisation support to DFID and the Stabilisation Unit. It will enable DFID to respond rapidly, at scale, to global humanitarian disasters and support work on protracted crises, chronic emergencies and humanitarian reform.

Contract	Procurement of Goods for MNCH2
Benefiting country	Nigeria
Award year	2017
Duration	2017 – 2018
Original contract value	£26m
Background	MNCH2 is a five-year project aiming to improve maternal, newborn and child health and routine immunisation across six States in Northern Nigeria: Kano, Kaduna, Katsina, Zamfara, Jigawa and Yobe. The programme will deliver essential healthcare for pregnant women, newborns and children and will improve health system coordination through health sector planning and financing and increased demand for and access to high quality health services.

Contract	Establishment and Management of an Ebola Essential Health Care Supply Chain Platform
Benefiting country	Sierra Leone
Award year	2015
Duration	2014 – 2020
Original contract value	£416m
Background	The Supply Chain Platform project aims to support the delivery of the UK's other Ebola Response projects by setting up an effective in-country supply chain to provide medical consumables, equipment and pharmaceuticals. The primary recipients of these items are the Ebola treatment centres, community care centres and laboratories; once established, the platform was also used to deliver ad hoc or emergency support to help deliver UK objectives across the Ebola Response.

Contract	Mobilising for the Millennium Development Goals (MDGs) Programme (M4D)
Benefiting country	Nigeria
Award year	2012
Duration	2012 – 2018
Original contract value	£16.8m
Background	The project will work with 650,000 people in 270 community groups within nine local government areas in Kano, Kaduna and Jigawa. The programme will work with the government of Nigeria's MDG conditional grant scheme (MDG/CGS) and add value by tackling social exclusion and marginalisation. By working with the MDG/CGS, the programme will prepare the way for replication and scaling up the approach.

Contract	Growth & Employment in States Support to the Wholesale and Retail Industry (GEMS 4)
Benefiting country	Nigeria
Award year	2012
Duration	2012 – 2017
Original contract value	£16.8m
Background	The programme aims to increase growth and employment across six sectors of the Nigerian economy, as well as through business environment reform. The DFID-funded sector portfolio comprises: GEMS 1 - Meat and Leather; GEMS 2 - Construction and Real Estate; GEMS 3 - the Business Environment, which began in August 2010; and GEMS 4 - Wholesale and Retail. The World Bank Growth and Employment component covers sectors including tourism, hospitality, entertainment, ICT and light manufacturing.

Contract	Fund Manager for the Girls' Education Challenge Fund (GEC)
Benefiting country	Global
Award year	2012
Duration	2012 – 2020
Original contract value	£32.6m
Background	The GEC funds NGOs, charities and the private sector to find innovative ways of getting girls in school, and ensuring they receive a quality of education to transform their future. It aims to lever additional support and funds to enable the girls to complete the whole cycle of education. Through the GEC, up to 1 million marginalised girls across 18 countries will be able to complete a full cycle of education and demonstrate learning.

Contract	Clearance of MDA Neglected Tropical Diseases (NTD) Drugs for Nigeria
Benefiting country	Nigeria
Award year	2013
Duration	2013 – 2017
Original contract value	£200,000
Background	The UK is providing funds to implement an integrated programme in Nigeria to control seven NTDs; blinding trachoma, schistosomiasis, lymphatic filariasis, onchocerciasis and soil transmitted helminths (hookworm, whipworm and roundworm). The targeted NTDs are preventable with proven, cost-effective interventions, such as mass drug administration, which involves distributing four drugs once or twice a year to prevent the seven diseases.

Contract	Integrated Programme Approach to Control a Range of Neglected Tropical Diseases (NTDs) in Nigeria (UNITED)
Benefiting country	Nigeria
Award year	2013
Duration	2013 - 2017
Original contract value	£14.1m
Background	The UK is providing funds to implement an integrated programme in Nigeria to control seven NTDs; blinding trachoma, schistosomiasis, lymphatic filariasis, onchocerciasis and soil transmitted helminths (hookworm, whipworm and roundworm). The targeted NTDs are preventable with proven, cost-effective interventions, such as mass drug administration, which involves distributing four drugs once or twice a year to prevent the seven diseases.

Contract	Teacher Development Programme (TDP)
Benefiting country	Nigeria
Award year	2013
Duration	2013 – 2019
Original contract value	£34m
Background	In six states in Nigeria, DFID aims to contribute to improving the quality of teaching in primary and junior secondary schools and in Colleges of Education. The programme plans to improve the skills of 66,000 teachers. In turn, for every year they continue as teachers, they will improve the learning outcomes of over 2.3 million students.

Contract	Managing Agent of the Education Quality Improvement Programme in Tanzania (EQUIP-T)
Benefiting country	Tanzania
Award year	2013
Duration	2013 - 2018
Original contract value	£48.6m
Background	EQUIP-T aims to enable existing government systems to improve the quality of education, especially for girls, and develop an approach ready for national scale-up. It plans to deliver teacher training, management and leadership training, capacity building of council education officers and officials, improved data and targeted measures to support girls' transition.

Contract	Human Development Innovation Fund Tanzania (HDIF)
Benefiting country	Tanzania
Award year	2013
Duration	2013 – 2018
Original contract value	£29.5m
Background	HDIF is a five-year challenge fund programme in Tanzania. HDIF aims to identify and support innovative and market-driven solutions that have the potential to create social impact in education, health, and water, sanitation and hygiene (WASH) across Tanzania.

Contract	Procurement of Goods for the Women for Health Programme in Nigeria
Benefiting country	Nigeria
Award year	2013
Duration	2012 – 2017
Original contract value	£334,000
Background	The Women for Health Programme aims to increase women and children's access to health services in areas of high unmet need. Its main purpose is to increase the number of female health workers in training, and serving health facilities and rural communities, with 7,000 females trained or in training as health workers in Northern Nigeria by 2017.

Contract	Procurement of Equipment for the Teacher Development Programme (TDP) in Nigeria
Benefiting country	Nigeria
Award year	2014
Duration	2014 - 2019
Original contract value	£710,322
Background	In six states in Nigeria, DFID aims to contribute to improving the quality of teaching in primary and junior secondary schools and in Colleges of Education. The programme plans to improve the skills of 66,000 teachers. In turn, for every year they continue as teachers, they will improve the learning outcomes of over 2.3 million students.

Contract	Technical Assistance for Improving Rural Access in Tanzania
Benefiting country	Tanzania
Award year	2014
Duration	2014 – 2018
Original contract value	£966,315
Background	The UK is helping to improve rural access in Tanzania. The programme focuses on repairing and improving rural roads, improving value for money, managing fiduciary risk and maximising the impact of rural roads in Tanzania. This programme uses existing, functioning delivery mechanisms to help build capacity, deliver value for money and reduce transaction costs.

Contract	Reducing Maternal & Neonatal Death in Kenya
Benefiting country	Kenya
Award year	2014
Duration	2015 – 2017
Original contract value	£8.2m
Background	DFID is contributing to scaling up training for all maternity care providers, health systems strengthening and demand-side activities, national health systems strengthening support and overall programme oversight, operational research and monitoring, independent review, evaluation and contingency.

Contract	Ilm Ideas 2 Fund Manager for Education
Benefiting country	Pakistan
Award year	2015
Duration	2015 – 2019
Original contract value	£24.1m
Background	Ilm Ideas 2 aims to generate evidence-based solutions to end Pakistan's education emergency. It aims to generate, identify, support, evaluate and take to scale ideas and approaches that have the potential to increase enrolment of out-of-school children and young people, improve learning outcomes and improve the accountability of teachers, schools and politicians.

Contract	Addressing Stunting in Tanzania Early (in the under 5s) (ASTUTE)
Benefiting country	Tanzania
Award year	2015
Duration	2015 – 2020
Original contract value	£21.3m
Background	DFID is supporting interventions designed to invest in human capital by improving early childhood development and reducing the prevalence of stunting (low height for age) in children under five years of age in Tanzania. It aims to open up a national debate about the care of young children and strengthen the institutional, planning, budgeting and programme implementation capacity of local government authorities in the target regions.

Contract	Increasing Economic Opportunities for Marginalised Youth in Northern Nigeria
Benefiting country	Nigeria
Award year	2015
Duration	2015 – 2021
Original contract value	£32.6m
Background	This programme seeks to enable 68,000 marginalised young people to find full time skilled employment or self-employment by 2021. It is designed to intervene in both the supply and demand sides of the labour market, increasing both the human capital and productivity of marginalised youth while also working to increase the demand for labour among businesses in the North.

Contract	Private Sector Development Project in DRC: Market Development Component Scale-Up
Benefiting country	Democratic Republic of Congo
Award year	2014
Duration	2014 – 2017
Original contract value	£43.4m
Background	This programme uses a flexible portfolio approach able to amend, augment, append or abandon interventions in response to emerging opportunities and risks. Instead of rigidly adhering to a linear theory of change, this approach seeks to achieve change (improved incomes of the poor through private sector development) via multiple possible components (business environment reform, improved access to finance, market development, and reduced corruption).

Contract	Tanzania Family Planning Outreach
Benefiting country	Tanzania
Award year	2015
Duration	2015 – 2018
Original contract value	£6.3m
Background	DFID Tanzania is implementing Phase II of a Family Planning Outreach Programme over four years to continue to increase family planning use in Tanzania. The programme has specifically set out to increase women's use of comprehensive family planning and availability of comprehensive post abortion care and gender-based violence services across Tanzania.

Contract	Procurement of goods/equipment for MNCH2
Benefiting country	Nigeria
Award year	2015
Duration	2015 – 2016
Original contract value	£4m
Background	MNCH2 is a five-year project aiming to improve maternal, newborn and child health and routine immunisation across six States in Northern Nigeria: Kano, Kaduna, Katsina, Zamfara, Jigawa and Yobe. The programme will deliver essential health care for pregnant women, newborns and children and will improve health system coordination through health sector planning and financing and increased demand for and access to high quality health services.

Contract	Procurement of Bed Nets for Tanzania LLIN Mass Campaign in Tanzania Mainland and Zanzibar
Benefiting country	Tanzania
Award year	2015
Duration	2015 – 2016
Original contract value	£4.8m
Background	DFID aims to purchase, ship, clear and distribute almost 2.7 million nets for Mainland Tanzania (2.2 million nets) and Zanzibar (approximately 460,000 nets).

Contract	Dar es Salaam Urban Jobs Programme
Benefiting country	Tanzania
Award year	2016
Duration	2016 – 2017
Original contract value	£134,741
Background	This programme aims to catalyse sustainable change in sectors that have the potential to generate jobs and incomes for thousands of poor people, particularly women and youths. The programme will commence with activities in the manufacturing, waste and childcare sectors.

Contract	Phase 2 of Global Mine Action Programme
Benefiting country	Global
Award year	2014
Duration	2016 – 2017
Original contract value	£11.5m
Background	This programme will provide support to clear landmines and explosive remnants of war, and to reduce the risks posed by contaminated land, in up to eleven countries worldwide. The programme will consist of two phases: Phase 1, which continues programmes in Mozambique, Vietnam, Cambodia, Laos, Sri Lanka; and Phase 2, involving scoping work and programme implementation, as appropriate, in other countries severely affected by mines, namely Burma, Somalia, South Sudan, Sudan, Yemen and Zimbabwe.

Contract	Support to National Malaria Programme – SuNMaP
Benefiting country	Nigeria
Award year	2018
Duration	2018 - 2022
Original contract value	£34.3m
Background	This programme aims to assist the Nigerian government in malaria prevention and treatment through improvements in capacity, project planning and coordination, drug and net distribution and demand creation. In partnership with Nigeria's National Malaria Control Programme, Malaria Consortium is implementing SuNMaP in ten states.

Contract	Partnership to Engage Reform and Learn (PERL) – Lot 2 Engaged Citizens Programme
Benefiting country	Nigeria
Award year	2016
Duration	2016 – 2021
Original contract value	£39.98m
Background	PERL is a five-year Public Sector Accountability and Governance Programme. Its focus is to reform how the government of Nigeria organises its core business of making, implementing, tracking and accounting for policies, plans and budgets used in delivering public goods (economic stability and an enabling environment for private enterprise so as to promote growth and reduce poverty) and services to the citizenry. It will also support citizens themselves engaged with these processes.

Annex C: Interviews by category

For this review, we conducted a total of 134 interviews with a range of different stakeholders, including:

- 36 interviews with DFID staff based in London and East Kilbride, including from the Procurement and Commercial Department and the Better Delivery Department.
- 41 interviews in Tanzania with a total of 20 DFID staff, 12 government officials and 35 DFID service providers.
- 57 interviews in Nigeria with 36 DFID staff, 40 DFID service providers and 12 government officials.

We also conducted a roundtable in London with 28 current and former DFID service providers.



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