

ICAI follow-up: Achieving value for money through procurement: DFID's approach to its supplier market

A summary
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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 of government, reporting to Parliament, and our mandate covers all UK official development assistance.

Individual review scores and what they mean



An adequate score means:

- Enough progress has been made in the right areas and in a sufficiently timely manner in order to address the core concerns underpinning ICAI's recommendations.



An inadequate score results from one or more of the following three factors:

- Too little has been done to address ICAI's recommendations in core areas of concern (the response is inadequate in scope).
- Actions have been taken, but they do not cover the main concerns we had when we made the recommendations (the response is insufficiently relevant).
- Actions may be relevant, but implementation has been too slow and we are not able to judge their effectiveness (the response is insufficiently implemented).

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Executive summary

ICAI's follow-up review is an important element in the scrutiny process for UK aid. It provides parliament and the public with an account of how well the government has responded to ICAI's recommendations to improve spending. It is also an opportunity for ICAI to identify issues and challenges facing the UK aid programme now and in the future, which in turn helps to inform subsequent reviews. This year, for the first time, we introduced a scoring element to the follow-up exercises. For each of the reviews we follow up, we provide a score of adequate or inadequate, illustrated by a tick or a cross.

This document is a summary focused only on the results of the follow-up of our review on achieving value for money through procurement: the Department for International Development's (DFID) approach to its supplier market. The full follow-up report of all our 2018-19 reviews, including overall conclusions from the process and details of our methodology and scoring, can be found on our website.

Findings

Achieving value for money through procurement: DFID's approach to its supplier market ("Procurement 1")

Good progress on three out of four recommendations, leading to a stronger approach to DFID's supplier market, although a disappointing failure to increase the number of local suppliers.



ICAI published the first of its two reports on how DFID achieves value for money through procurement in November 2017. This Procurement 1 report gave a green-amber score on how DFID interacted with its supplier market. It concluded that, after a slow start on market shaping, there was evidence of progress and a serious effort by DFID to get to grips with the challenges of achieving value for money through engagement with its supplier base. It offered four recommendations.

Table 1: ICAI's recommendations and the government response

Subject of recommendation	Government response
DFID should adopt a more systematic approach to 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.	Accepted
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.	Accepted
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 accepted

A stronger change management approach, with explicit objectives that are clearly communicated to staff. Plans should be supported by robust monitoring and management information arrangements, to enable full transparency, regular progress reporting and mitigation of potential negative effects.

Accepted

Recommendation 1: Adopt a more systematic approach to promoting the participation of local suppliers, including measures to encourage future prime contractors from developing countries

ICAI's review recommended that DFID promote the participation of local suppliers by identifying opportunities for them to compete directly for DFID contracts, increasing supervision of the terms on which prime contractors engage local suppliers, and inducing DFID's prime contractors to invest in building local capacity.

The actions undertaken by DFID have the potential to address a number of the concerns underpinning ICAI's recommendation. The department continues to seek new ways to engage with local suppliers and small and medium enterprises (SMEs), including greater use of social media, early market engagement, publication of its pipeline and a dedicated and monitored email address for potential contractors.

DFID has slightly diversified its contractors. In 2016-17, 92% of DFID contracts by value went to UK-registered suppliers and only 3% to suppliers in developing countries as prime contractors. In 2018-19, DFID increased its overseas bidders from 13% to 20%. However, the major non-UK bidders are from Western countries and sustained efforts will be required to recruit local, in-country supply partners. The actions DFID has taken, combined with the gathering of more systematic evidence, should help the department improve its analysis and tracking of local supplier participation, but this has not yet resulted in the increased use of local suppliers.

Recommendation 2: Develop clear plans for open-book accounting and improve fee rate transparency. Ensure plans are clearly communicated to the supplier market, to minimise the risk of unintended consequences

ICAI's 2017 report noted that DFID has had contractual rights for some time to access certain information on supplier costs and profits, but had not made use of these rights due to capacity constraints. The report was also concerned about risks of distorting market behaviour attached to the control of costs and profits, and recommended minimising such risks through clear communication with suppliers.

Since ICAI's review, DFID has introduced tougher scrutiny of costs through new clauses in contract terms and conditions that allow the department to inspect costs, overheads, fees and profits of supply partners. DFID has developed a robust open-book accounting¹ process to enable better scrutiny and control of costs by its supply partners. It also created an eligible cost policy and a template to help suppliers identify the types of costs eligible for inclusion within their bids. 2019 was the first year of monitoring profit levels, which provided DFID with details about the range of profit declared by suppliers. Profit levels are monitored by the programme's senior responsible officer (SRO) and commercial delivery manager.

DFID created a fee rates database in 2016. This is a database of all fees proposed in tenders, with currently over 23,000 entries. Using the database, DFID actively monitors and benchmarks fee rates against other global organisations, and by geography, sector and job family. As a result, it has recently applied a fee rate ceiling to around 22% of contracts: tenders that exceed this maximum rate are automatically excluded from technical evaluation. This has helped DFID to control prices better.

To communicate the fee rates approach to suppliers, DFID has improved its online guidance and FAQs and made the commercial cost template easier to complete for potential suppliers.

Recommendation 3: Improve communications and engagement with its supplier market

The 2017 review found that weaknesses in DFID's approach to its supplier market were partly due to poor communication, and a lack of early market engagement and a comprehensive pipeline of opportunities. It recommended that: "DFID should accelerate its efforts to improve communication of pipeline opportunities

¹ Open-book accounting refers to a set of measures in public procurement intended to increase purchaser understanding of supplier costs and profits where suppliers share information about their costs and profits for specific contracts.

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.”

DFID only partially accepted this recommendation, noting that it was already improving its communications with the supply market and that its Key Supplier Management Programme did not provide preferential treatment to key suppliers. It has nevertheless made good progress on addressing the concerns underpinning ICAI’s recommendation. DFID now uses a variety of communication channels, including greater use of social media, particularly Twitter, to communicate pipeline opportunities to the market. It also hosts early market engagement events in the UK, online and in partner countries, and works with other government agencies to host Open for Business events across the UK.

DFID launched its Strategic Relationship Management (SRM) programme in early 2018. There are currently 42 supply partners covering 80% of DFID annual spend through 346 contracts. This is significantly wider than the previous Key Supplier Management Programme, which covered 14 organisations in 2016-17.

Guidance on the SRM programme is now given to all DFID staff members, identifying what can and cannot be discussed during supply partner meetings. Staff are required to read this guidance and declare that they have read and understood it. It is updated annually and there is, in addition, a corporate compliance regime in place to ensure that all internal processes and procedures are followed. This reduces the risk of challenge from supply partners of preferential treatment.

Recommendation 4: A stronger change management approach, clearly communicated to staff and supported by robust monitoring and management information arrangements

ICAI’s 2017 review noted that DFID struggled to demonstrate the effectiveness of its reform initiatives for two reasons: the expected benefits have not been clearly articulated, and the initiatives have not been designed to include monitoring mechanisms to facilitate continuous learning. ICAI recommended that DFID adopt a systematic change management approach, clearly communicated to all staff. DFID accepted this recommendation, and has undertaken a range of useful activities:

- introducing a new Commercial Board to strengthen its governance processes
- establishing a review mechanism by non-executive directors
- developing an annual procurement and commercial report
- improving its monitoring and management information arrangements, particularly relating to the financial health of its key supply partners.

In all, these actions mean that DFID has strengthened its governance and oversight of the commercial reform programme, particularly through introducing a Commercial Board. It is now engaged in regular feedback sessions with supply partners through a variety of online and face-to-face mechanisms.

Conclusion

DFID has progressed significantly with its use of open-book accounting and monitoring and management of fee rates. The department has made use of a number of communication channels to promote new suppliers, support SMEs and local suppliers, and encourage overseas bidders. These changes have resulted in ongoing improvements to supplier market management. However, we are yet to see an increase in the number of local suppliers from developing countries.



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For information about this report or general enquiries about ICAI and its work,
please contact:

Independent Commission for Aid Impact
Wales Office
Gwydyr House
Whitehall
London SW1A 2AU
020 7270 6736

enquiries@icaei.independent.gov.uk