

# DFID's Use of Contractors to Deliver Aid Programmes







Independent  
Commission  
for Aid Impact

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The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple ‘traffic light’ system to report our judgement on each programme or topic we review.

	<b>Green:</b> The programme performs well overall against ICAI’s criteria for effectiveness and value for money. Some improvements are needed.
	<b>Green-Amber:</b> The programme performs relatively well overall against ICAI’s criteria for effectiveness and value for money. Improvements should be made.
	<b>Amber-Red:</b> The programme performs relatively poorly overall against ICAI’s criteria for effectiveness and value for money. Significant improvements should be made.
	<b>Red:</b> The programme performs poorly overall against ICAI’s criteria for effectiveness and value for money. Immediate and major changes need to be made.

# Executive Summary

DFID uses private sector contractors to assist in delivering aid, accounting for 9% of its aid expenditure in 2011-12. Their roles range from procuring equipment to providing technical advice, to delivering programmes. This report focusses on contractor programme delivery, likely to remain an important option for DFID given its increasing budget and focus on fragile and conflict states.

We reviewed DFID's central procurement group (PrG) and five case studies of varying sizes with a combined contract value of £264 million: programmes in Bangladesh, Yemen and Nigeria; a global climate and development knowledge network; and due diligence on civil society organisations receiving DFID funds.

**Overall** *Assessment: Green-Amber* 

Our case studies show that contractors are an effective option for delivering aid. DFID has selected contractors that have delivered positive results at competitive fee rates. DFID's poor end-to-end programme management, however, has led to delays. Learning is not captured from contractors and used to inform future programming.

The reform of PrG has improved processes but is too slow and lacks prioritisation. As a result, decisions to use contractors are not guided by a strategic plan to deploy the right contractors, including major, niche and innovative new entrant organisations, to best effect.

**Objectives** *Assessment: Green-Amber* 

In the case studies, DFID's choices to use contractors were appropriate. The exception is the due diligence contract, which has led to a loss of DFID knowledge. DFID set clear, appropriate objectives which left space for innovative responses. DFID lacks a strategic plan, however, for when to consider using contractors in delivery and when to take advantage of a particular contractor's strengths. DFID has recently started to have closer dialogue with its major contractors; further progress is needed to make this fully productive.

**Delivery** *Assessment: Amber-Red* 

PrG is implementing a commercial reform plan across DFID but it is not prioritised and key weaknesses remain. The bid evaluation process is too rigid and simplistic, inhibiting balanced judgements. DFID's procurement processes for sophisticated programmes should be more effective. Its arms-length relationships with contractors limit their early involvement in shaping programmes. Contractors, for their part, should be less resigned to this status quo, helping to build up and foster purposeful relationships that add value through insight.

Our case study contractors demonstrated strong delivery capabilities, provided at competitive fee rates. In four cases, however, there were major mobilisation difficulties, exacerbated by weak DFID management over the programmes' lifecycles. DFID recognises that programme management has not been nurtured as a core skill and is setting up a cadre to promote capacity building. We doubt, however, that the budget is sufficient, given the scale of the challenge. DFID staff turnover breaks continuity too, lowering delivery effectiveness.

**Impact** *Assessment: Green-Amber* 

We saw promising signs of impact for intended beneficiaries, although in some cases evidence is yet to be proven. DFID and its contractors aim to leave sustainable legacies behind post-programme. Improving DFID's procurement and programme management processes would increase impact.

**Learning** *Assessment: Amber-Red* 

We saw good practice in programme design and knowledge gathering by contractors. This knowledge is often not extracted by DFID, however, which lacks a consistent process for feeding back insightful learning to inform future programmes.

## Recommendations

**Recommendation 1:** DFID should support its devolved delivery model with strategic guidance, informed by its sectoral experts, on when and how contractors of different sizes and specialisms can deliver most effectively. This should include a strategic partnering model for how best to use its major and SME contractors.

**Recommendation 2:** DFID should prioritise its commercial reforms, so that PrG can support more strategic decision-making on the use of contractors and develop more productive relationships with them.

**Recommendation 3:** DFID should update its bid evaluation process, strengthening the role of the programme's designers during procurement, to enable a more sophisticated and balanced assessment of costs, timings, risks and results.

**Recommendation 4:** DFID should develop a resourced plan for improving its programme management capability, to ensure end-to-end accountability for programme delivery and minimise disruption from staff rotations.

**Recommendation 5:** DFID should strengthen learning from contractor-delivered programmes, to feed into the design, procurement and delivery of other programmes.

# 1 Introduction

## Context

*DFID uses contractors to deliver a range of services.*

1.1 DFID'S contractors provide services ranging from day-to-day operational support (e.g. hotel and transport services) to providing advice and designing and delivering complex high-value programmes over many years. Figure 1 shows the year-on-year trends in the categories of contractor work that DFID tracks, with increases in programme delivery, fund management and monitoring and evaluation, with a fall in research and no change in technical assistance.








1.2 The contractors which work for DFID are often referred to as consultants, which can be confusing. The bulk of the input provided by contractors in fact relates to programme delivery, with only 8% comprising consultancy (classed as technical assistance in Figure 1).

1.3 DFID is increasingly working in fragile and conflict-affected countries. Inevitably, this means that DFID has to deliver complex programmes in places that can involve high levels of personal risk. It can be difficult and costly to attract and retain staff who are prepared to work in such circumstances over sustained periods. DFID has found that contractors, with their ability to source and manage local contractors, can be effective delivery partners in these environments.

*How DFID manages the input of contractors.*

1.4 The end-to-end management of programmes delivered by contractors requires the input of various parts of DFID to work effectively. This applies to complex programmes which can take several years to formulate, such as the CDKN case study discussed later in this report, and to relatively straightforward, simpler procurements.

**Figure 1: Categories of contractor work 2011-2012**

Type of aid	Value £ million	Number of contracts	Trend 2010-11 to 2011-12	Illustrations
Programme Delivery	178.6 (37%)	24		<ul style="list-style-type: none"> <li>Creating and managing physical assets, such as a new building</li> <li>Providing a service within those assets, such as medical care or drug management</li> <li>Being a managing agent, procuring and managing the delivery of services by third parties, including NGOs</li> </ul>
Technical Assistance	36.9 (8%)	44		<ul style="list-style-type: none"> <li>Providing strategic advisory services</li> <li>Providing consultancy support (management consultancy or specialist technical inputs)</li> </ul>
Fund Management	175.3 (36%)	13		<ul style="list-style-type: none"> <li>Administering funds or grants<sup>1</sup> on behalf of DFID (e.g. managing grant applications, recommending funding awards)</li> </ul>
Research	45.8 (9%)	12		<ul style="list-style-type: none"> <li>Conducting research for DFID in the early phases of planning for programmes</li> <li>Delivering research during delivery of aid programmes themselves</li> </ul>
Monitoring & Evaluation	16.9 (3%)	20		<ul style="list-style-type: none"> <li>Monitoring the progress during the delivery of programmes and monitoring their enduring impact afterwards</li> </ul>
Other	35.3 (7%)	22		<ul style="list-style-type: none"> <li>A myriad of smaller services such as transport, hotels and office support</li> </ul>
Totals	488.8	135		

<sup>1</sup> The term 'Fund Management' encompasses the total value of the funds including administrative fees.

# 1 Introduction

- 1.5 The process starts at DFID headquarters, with the setting of policies and priorities. DFID's annual departmental Business Plan then translates these into greater detail against which proposals for specific aid programmes come forward. These concepts and ideas originate both in-country and in the UK.
  - 1.6 As a concept crystallises and develops, the DFID programme team responsible for it (for example, a sectoral team in a country office) prepares a business case. This is based on a 'theory of change' assessment in which the programme designer sets out the causal chains from inputs (DFID funding) to development results (the outputs and impact of programmes), with the underpinning evidence and assumptions.
  - 1.7 Within the programme-specific business planning process, DFID's programme team considers the delivery route options, which typically include multilateral or bilateral aid channels, as well as self-delivery, NGO delivery or contractor delivery. The in-country team (or, for global programmes, the UK team) works with the central procurement group (PrG) or a Commercial Adviser to evaluate the contractor delivery channel option and to consider capability, capacity and value for money before proceeding. The business case makes a clear recommendation on which delivery option to use and, where contractors are to be used, the preferred procurement route.
  - 1.8 DFID's Quality Assurance Unit reviews high value or complex business cases. Ministers review those with values more than £5 million. On approval, if contractor delivery is chosen as the appropriate option, the programme then moves into the procurement phase. Here, the programme team works with PrG to prepare tender documents and approach the market.
  - 1.9 The tender documents contain two categories of criteria:
    - **technical criteria**, evaluated by the programme team, relating to how effectively the proposals deliver on DFID's specifications; and
    - **commercial criteria**, evaluated separately by PrG, including the price competitiveness of the proposals.
  - 1.10 When the country team (or UK-based budget holder) and PrG have identified a preferred bidder and have agreed the delivery methodology and associated prices, DFID signs the contract with the contractor and the delivery phase commences. DFID introduced a new step in the process in 2012: the Secretary of State (or a delegated Minister) now approves the appointment for contracts over £1 million. Previously such decisions were delegated to DFID officials.
  - 1.11 Soon after appointment, the contractor mobilises and prepares an inception report setting out the delivery plans in detail and proposing any refinement of the detailed objectives. The DFID programme team reflects these in the main control document for the programme, which is called a 'log frame' (short for logical framework).
  - 1.12 During delivery DFID's programme team monitors the contractor's performance through regular, often monthly, progress meetings and reports, annual reviews (which can lead to adjustment in the programme's log frame or business plan) and formal mid-term reviews, which can be conducted by external assessors.
- How much DFID spends on contractors*
- 1.13 In the financial year 2011-12, DFID awarded 135 contracts to 58 contractors, totalling £489 million; five contractors won 50% of the total value of the contracts awarded. Figure 2 on page 4 shows the contractors that won the most work in 2011-12.

# 1 Introduction

**Figure 2: The ten contractors winning the most work by value in 2011-12**

Organisation	Total contracts value (£ million)
Adam Smith International	66.3
Crown Agents	62.2
Voluntary Services Overseas <sup>2</sup>	54.6
British Council <sup>3</sup>	32.4
Maxwell Stamp	26.1
GRM International	25.4
Mott McDonald	17.3
DAI Europe	16.5
Charles Kendall & Partners	15.5
Mennonite Economic Development Associates of Canada	14.0

1.14 Several contractors have multiple contracts with DFID. Once a contractor builds up insight and expertise it often wins additional work. By way of illustration, Adam Smith International has 28 live contracts with DFID, Mott MacDonal, 27 and Coffey International, 20.

1.15 The total in-year expenditure profile, as opposed to contracts awarded, arises from an accumulation of numerous contracts awarded over many years. Figure 3 shows the in-year expenditure for the top ten contractors in 2011-12. The top 13 contractors account for 50% of the total expenditure, across a population of some 5,000 contractors, which includes a large tail of smaller organisations from around the world. The larger contractors are mainly international organisations that can operate globally, whereas the tail tends to comprise niche and country-specific providers. DFID reduced the number of

contractors that it funded in 2011-12, thus limiting expansion of its supplier community.

**Figure 3: Cumulative expenditure in 2011-12 for the top ten contractors**

Organisation	Total expenditure (£ million)
Crown Agents	100.7
Adam Smith International	44.9
Mott McDonald	29.7
PwC	24.4
Cambridge Education	21.0
GRM International	20.1
Abt Associates Inc	18.0
Maxwell Stamp PLC	15.7
British Council	15.4
HTSPE Ltd	13.0

1.16 Figure 4 on page 5 shows DFID's recent and projected expenditure on contractors. The figures for 2012-13 onwards are DFID estimates. DFID estimates that the levels of contractor expenditure for 2013-14 will be £1.2 billion, although this depends on estimates from country-led business cases which are still to be finalised. The spending on contractors expressed as a percentage of DFID's total spending has varied over time – falling from 11.9% to 7.4% and is now beginning to climb again. With DFID's overall budget rising to £10.5 billion in 2013-14, the percentage of the total aid budget delivered by contractors will be a function of the programme-level decisions to use this channel versus other models of delivery.

<sup>2</sup> VSO is also currently in receipt of a three-year Strategic Grant Agreement from DFID worth £78 million.

<sup>3</sup> The British Council also receives a core grant from the Foreign and Commonwealth Office, worth £180.5 million in 2011-12.

# 1 Introduction

**Figure 4: Contractor expenditure profile from 2007-08 (£ billions)**

Year	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Contractor Spending	0.6	0.7	0.6	0.6	0.7	0.9	1.2
Total Spending	5.2	5.6	6.7	7.5	7.8	7.9	10.5
Contractor spending as % of total	11.5	11.9	8.2	7.4	8.6	11	11.4

1.18 The review commenced in November 2012 and the field work concluded in February 2013.

## Review methodology

1.17 During this study, we:

- reviewed five case study programmes in detail, as set out in Figure 5 on page 6. We examined records and reports, carried out interviews with DFID, contractor staff and third parties and visited one of the programmes in the field (in Bangladesh) to view the impact on intended beneficiaries at first hand;
- conducted an anonymous survey for DFID and its contractors to contribute further to specific questions. The annex contains selected results from this survey, with the full results available on the ICAI website;<sup>4</sup>
- reviewed relevant corporate DFID processes, including programme management and procurement; and
- ran workshops with interested parties from the contractor community, including British Expertise, the Development Forum and the Small Contractors' Forum, to understand their perspectives.

<sup>4</sup> [www.independent.gov.uk/icai/publications](http://www.independent.gov.uk/icai/publications)

# 1 Introduction

**Figure 5: Our five case studies**

Description	Overview	Time span	Contractor (s)	Value £ million	Continuity
<b>Bangladesh Chars Livelihoods Programme Phase 2 (CLP2)</b>	<p>A seven-year programme to alleviate extreme poverty for 250,000 people living on erosion-prone sandy islands (called Chars) in wide rivers.</p> <p>The primary role of the contractor is delivery of a design concept that was proven in Phase 1.</p> <p>Maxwell Stamp uses a 'managing agent' model, employing some 18 local NGOs to support delivery.</p> <p>Maxwell Stamp's Phase 1 contract was its first major livelihoods project. By the award of Phase 2, its track record was proven.</p>	2009-16	Maxwell Stamp PLC and 18 NGOs	79	Maxwell Stamp delivered Phase 1 and is now delivering Phase 2
<b>Nigeria 'Paths 2' (Partnerships for Transforming Health Systems)</b>	<p>A combination of health sector reform at federal and state levels (approximately 70% of funding) and direct intervention in the field (30%), to reach local communities.</p> <p>Under a separate agreement, Crown Agents is responsible for equipment and other purchases including drugs for clinics and hospitals.</p>	2008-15	ABT Associates (and Crown Agents)	105	HLSP Ltd delivered Phase 1
<b>Yemen Ministries of Policing and Justice</b>	<p>A project designed to bring best practice reforms into both Ministries and create physical assets (such as a new Police library) in support of the reforms.</p> <p>GRM provided project management and technical expertise and delivered the programme.</p>	2008-13 (terminated 2012)	GRM International	7	Single phase only
<b>CDKN</b>	<p>A programme to enhance developing country access to high quality, reliable and policy-relevant information on climate change and development.</p>	2010-15	PwC and a consortium of five others <sup>5</sup>	72.5	Single phase, with extension options
<b>CSO Due Diligence</b>	<p>An outsourced contract, in which DFID gains assurance about the financial and management capabilities of civil society organisations to which it is about to award funding.</p>	2010-13	KPMG	1	Single phase, with extension option

<sup>5</sup> Fundación Futuro Latinoamericano, INTRAC, LEAD International, the Overseas Development Institute, and SouthSouthNorth



## 2 Findings

### Objectives

Assessment: Green-Amber 

2.1 In this section, we examine the way in which DFID set the objectives for our case study programmes and conducted cost benefit analysis in reaching its preferred solutions. We also look at how effective DFID's objectives were in eliciting responses from the contractor market.

#### Objectives and contractor bids

*DFID uses its new business case approval process to consider the value for money aspects of intended aid programmes, together with the options for delivery.*

2.2 When the five case studies examined in this review came into being between 2007 and 2008 DFID's emphasis was more on achieving specific inputs and outputs, rather than outcomes.

2.3 DFID modified its programme approvals process in 2010, introducing the concept of business cases. This brought a fuller assessment of the different factors affecting value for money via the 'five case appraisal model'<sup>6</sup> now used by most UK government departments.

*DFID followed good practice in the way it defined the objectives for the five case studies.*

2.4 DFID carefully considered the potential delivery options in all cases. The options included delivering the work on an in-house basis, using a multilateral or bilateral aid mechanism, appointing a civil society organisation and using an independent commercial contractor.

2.5 DFID first examined the in-house delivery possibilities against the external options and, for good reasons, chose its preferred course of action. DFID also evaluated the full range of possibilities for external delivery options, concluding that the contractor-delivered options were the best way forward.

2.6 With hindsight, those decisions have mostly been proven to be right, with one borderline situation in the case of the CSO Due Diligence contract, as indicated in Figure 6.

**Figure 6: Assessment of DFID's objectives in the five case studies**

Finding / observation
<b>Bangladesh.</b> The objectives were clearly set out. The chosen managing agent route was appropriate, given the lack of local delivery expertise and concerns about governance and fiduciary risk, particularly in remote areas over long time periods.
<b>Nigeria.</b> The objectives were clearly set out. The decision to use an international contractor was appropriate given the specialist expertise required for the federal and state government reform programmes and in view of the endemic corruption concerns.
<b>Yemen.</b> The objectives were clearly set out. It transpired that these were not fully signed up to by the Yemeni government, later causing significant difficulties. Nevertheless, the choice of using a contractor delivery model was valid, given the nature of the work and the challenging security conditions.
<b>CDKN.</b> The objectives were clearly set out for this ground-breaking concept. An aim was to access relationships and build from a pre-existing strong global network to create the new technical capability. As such, the objectives were less centred on sustainable impact but more on short- to medium-term outputs. In partnership with CDKN and other government departments, DFID is considering the long-term strategy for this global network, following its successful launch and mid-term review.
<b>CSO Due Diligence.</b> The objectives were clearly set out. The contractor is doing what was intended. The choice of delivery model, however, is questionable in hindsight, as the additional interface has created problems and because most of the real learning and insight with regard to CSO capabilities now resides outside of DFID, with the a relatively weak feedback process.

<sup>6</sup> The standard approach involves separate assessments of the Strategic Case, the Economic Case, the Commercial Case, the Financial Case and the Management Case, in the UK Government's Treasury 'Green Book' guidelines.

## 2 Findings

*The way DFID set the objectives in the five case studies produced strong interest and acceptable bid responses from contractors.*

- 2.7 Setting objectives for a third party contract requires balance: being too prescriptive early on can stifle innovation, while a lack of specificity can result in bids from the wrong kinds of organisations and misjudged bids.
- 2.8 We found that the objectives for the five case studies were clearly set out – typically in around ten or so pages of information within the broader Project Memorandum document, which also explained the context for the work, its rationale and any relevant constraints in terms of timing or approaches. The objectives were relatively high level but were clear enough and not overly prescriptive, leaving the contractors with a good degree of leeway in which to prepare their bids and offer innovative ideas.
- 2.9 The objective-setting and procurement processes proved effective in bringing forward sufficient numbers of contractors interested in bidding. In turn they submitted detailed, thorough and competitive responses.
- 2.10 Our anonymous survey showed an interesting difference of opinion between DFID and its contractors about the level of detail relating to the objectives (as set out in the Annex). Contractors would generally prefer more detail and definition in DFID's programme objectives.
- 2.11 Workshop discussions with the contractors suggest that, in practice, contractors find it hard to pitch their bids accurately and, while some obviously succeed, their view is that many bids miss the mark due to the high-level nature of the information that DFID provides at the outset. Contractors would value more detail in the briefing documents, especially relating to the relative priorities that DFID attaches to particular objectives and an indication of the expected budget (or a range), in order to pitch concepts and programmes broadly in line with expectations.
- 2.12 Our conclusion is that DFID's relatively high-level approach does produce effective responses from

contractors. Depending on the nature of the programme, however, some additional detail in the objectives and bid information would help contractors to produce better focussed bids without unduly constraining the potential for innovation.

### Lack of strategic guidance

- 2.13 We find that DFID makes decisions to use contractors to deliver services on a case-by-case basis. It lacks strategic guidance, however, on how to use contractors to best effect, including the circumstances in which contractors should be used and which contractor skills are most valuable. Such guidance would provide a framework within which devolved DFID teams could make more informed decisions on individual programmes. At present, PrG is rightly trying to widen its reach to support the technical teams who originate the concepts underpinning programmes. Some strategic guidance would support this process.
- 2.14 In addition, DFID's major contractors have multiple contracts with DFID and receive significant levels of funding (see Figures 2 and 3 in the Introduction). While DFID has recently taken steps to engage further with its major contractors (discussed further under Delivery), it does not have a strategic partnering model guiding the use of its major and niche SME contractors, based on an understanding of their relative strengths. This would help DFID's programme teams, in conjunction with PrG, to make more informed decisions for individual programmes on whether to engage contractors and, if so, which one to use.

### Delivery

Assessment: Amber-Red



- 2.15 This section considers the way in which DFID manages its contractors delivering aid programmes. It examines the role of PrG generally, exploring changes that have taken place since our case study programmes started. It then looks at DFID's management of those case study programmes and the effectiveness of contractor delivery.

## 2 Findings

### DFID's commercial reform programme

*DFID and PrG changed their approach, following an OGC review.*

2.16 The Office of Government Commerce's (OGC's) 2008 procurement capability review<sup>7</sup> highlighted several priorities. The main concerns at the time were:

- limited procurement vision;
- narrow procurement focus;
- supplier performance not rigorously managed;
- a rigid approach;
- a lack of purposeful management information (noting that there were plenty of data); and
- no consistent means of identifying or quantifying reputational or commercial risk from using third parties.

2.17 Since then, DFID has appointed a new Head of Procurement and, in turn, other procurement staff. All PrG senior staff now have CIPS<sup>8</sup> qualifications.

2.18 There has been positive progress since 2008. For example, PrG has been providing more support to DFID by:

- engaging with those originating and commissioning programmes, to influence thinking and support the early choices about the procurement route; and
- developing a new role of Commercial Adviser, to provide direct commercial input in-country. The Commercial Advisers are appointed by and report to the relevant country office, with a professional development and co-ordination relationship with PrG. There are Commercial Advisers in place covering Bangladesh, Nigeria, Ethiopia and Sudan and a UK-based team. PrG ran a

seminar in December 2012 to review the learning so far and to plan future expansion of this network. The conclusion from the seminar was that the role is valuable, that in-country staff find it useful and that it provides a 'bridge' between PrG and the local country offices through which bids can be discussed and co-ordinated, and knowledge transferred. DFID plans to recruit several more Commercial Advisers in the next year.

2.19 Our view, having interviewed two of the Commercial Advisers in the course of the case study reviews, is that the concept makes good sense and adds value. Giving immediate face-to-face commercial advice to local teams when they are considering their early designs and procurement options is a good thing and we support DFID's plans to expand this arrangement in other countries.

2.20 PrG has also made a major change in its approach to the way it procures contractors. In line with many UK government departments, PrG has created several different pools of pre-qualified contractors capable of delivering services in particular areas such as global nutrition, reproductive health and wealth creation. PrG has established nine such pools, often referred to as frameworks. PrG consulted with contractors before establishing these frameworks and enabled both large and small contractors to win places on them.

2.21 An advantage of using frameworks in this way is that, with the contractors' capability and financial stability already proven, DFID can cut out one of its two procurement stages. This reduces bidding time, typically by between one and three months depending on the size of the bid, thus delivering aid to beneficiaries more quickly and reducing both DFID's and bidders' administration costs.

2.22 A disadvantage is that it is hard for new entrants to break into this sort of arrangement. Maxwell Stamp, for example, is a contractor that DFID now regularly uses. At the time of the Bangladesh Chars Phase 1 bid in 2003, however, Maxwell Stamp had never delivered a major livelihoods

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[http://webarchive.nationalarchives.gov.uk/20110822131357/http://www.ogc.gov.uk/documents/DFID\\_report.pdf](http://webarchive.nationalarchives.gov.uk/20110822131357/http://www.ogc.gov.uk/documents/DFID_report.pdf)

<sup>8</sup> Chartered Institute of Purchasing and Supply

## 2 Findings

programme and might have struggled for a place in these pools.

2.23 A key challenge with the use of any such framework, particularly when delivering complex programmes around the globe, is that the relevant framework may not contain the right mix of capabilities for all eventualities in the required country and the choice may in fact become quite limited – which could lead to sub-optimal results. PrG correctly retains and exercises the option to follow a traditional openly tendered two-stage procurement route if it feels that the frameworks would constrain the breadth of choice significantly.

2.24 Although PrG has made good progress in these areas, there are others where progress has been limited or poor.

*PrG's relationships with contractors are too arms-length and mechanistic and focus disproportionately on costs.*

2.25 PrG has struggled to introduce a Key Supplier Management programme<sup>9</sup> across DFID, in which selected contractors not only follow global agreements with DFID for the provision of their services but also add value by offering ideas and suggestions in response to corporate policy objectives. PrG's attempt to set up a Key Supplier Management programme 18 months ago stalled. PrG's explanation was that there were too many other priorities in DFID's commercial reform programme at the time. Our conclusion is that, in addition to this, this sort of supplier engagement programme may require commercial and supplier relationship management skills that PrG does not currently hold in-house. We also believe that DFID would gain considerable value from encouraging contractors to submit unsolicited proposals, based on their own insights, local knowledge and their broad understanding of DFID's priorities.

2.26 PrG has recently started re-engaging with its top 12 contractors to explore ways of improving value

for money. This may form the basis of a more productive relationship in the future, but contractors universally report that DFID's focus remains on reducing delivery and overhead costs rather than in working productively together to seek synergies and get best value. Our workshop with contractors in March 2013 showed that relationships have deteriorated further since DFID issued a 'Code of Conduct' in January 2013 which suppliers interpreted as an unfair criticism.

2.27 DFID publishes its future anticipated pipeline of work on its website and holds supplier briefing days at intervals. These communication activities are not, however, the same as fostering genuinely productive relationships. The net result is that PrG has not managed to create relationships with its suppliers that add value to DFID, particularly in seeking ideas and inputs that might shape programme concepts and broad approaches. While PrG's priority to date has been reforming the procurement process, not building up the relationships, it is aware that this is an urgent area for attention.

2.28 Small providers, in particular, report a significant distancing by PrG, which is now concentrating on managing relationships with its larger contractors. It is often the small suppliers which, working in consortia with the larger suppliers, write or contribute to the technical proposals underpinning the major bids. Their new remoteness is to DFID's disadvantage as they are less able to gauge and judge the technical solutions that will best meet DFID's requirements.

2.29 The mechanics and theory underpinning PrG's bid evaluation process have not kept pace with the advances made across DFID in understanding of value for money. The bid evaluation process does not enable insightful balanced judgements between economy, efficiency and effectiveness factors, particularly between input costs, outputs, risks and beneficiary impacts (outcomes). This evaluation process is in urgent need of an update.

2.30 PrG and the DFID programme team assess contractors' bids separately, awarding points for pre-defined commercial and technical criteria

<sup>9</sup> This is the discipline of strategically planning for and managing all interactions with third party organisations that supply goods and/or services to an organisation in order to maximise the value of those interactions. In practice, this entails creating closer, more collaborative relationships with key suppliers in order to uncover and realise new value and reduce risk.

## 2 Findings

respectively. Historically, 20% of the points related to commercial criteria and 80% to technical criteria.

- 2.31 The balance is now changing, however, towards 40/60 or even 50/50. DFID says that this is a benefit of establishing the frameworks as, having pre-qualified each pool, the weighting on prices can increase. The contractors agree that the frameworks may obviate the need for some of the administrative pre-qualification steps but told us that the increased pressure on input prices now means that they are unable to offer their most experienced resources to DFID. Our view is that the increased emphasis on cost is reasonable for the simpler procurements but, for the complex ones, the critical issue remains the technical assessment (i.e. which pre-qualified provider can best deliver the requirements). The existence of the frameworks does not, therefore, provide sufficient justification for the significantly decreased weighting of the technical criteria.
- 2.32 Contractors report low understanding and insight by PrG of their business models, citing a recent survey by PrG enquiring how much below £1,500 their bids cost to prepare. We reviewed a sample of contractors' bids and found that they cost more than £40,000 to prepare on average.
- 2.33 In the long run, DFID pays for contractors' bidding costs because they are recovered through the fee and overhead mechanisms. It would be in DFID's interest to tackle and reduce the costs of bidding, when developing its new supplier management approach, minimising nugatory work and maximising insight.

*PrG's procurement processes need to be improved to allow DFID to make more informed decisions.*

- 2.34 While some of DFID's procurement activities are relatively straightforward, for example for the purchase and distribution of mosquito nets, others are highly complex. For the simple procurements, the use of the pre-agreed frameworks makes good sense: saving time and targeting suppliers that provide straightforward products and services. For the more complex programmes, our view is that a single-step

procurement process, with little ability to interact and hone the solution, is probably inappropriate.

- 2.35 The more complex procurements would benefit from structured interactions between a programme's designers or decision-makers and the potential providers in the run-up to asking for final priced offers. The objective of this engagement would be greater mutual understanding, enabling evolution of the approach and methodology, innovation and maximised impacts. It would also lead to more accurate pricing.
- 2.36 We found from our five case studies and interviews that DFID's technical teams and PrG engage in extensive negotiations with contractors after their bids have been submitted in the single-stage procurement process. This is the point at which contractors' prices are meant to be binding and the solution capable of implementation. DFID's evident desire to negotiate in this way suggests that the single-stage procurement approach on the more complex programmes is not working effectively and that more dialogue prior to contractors submitting bids would be beneficial.
- 2.37 A more flexible procurement procedure that enables a degree of solution development and evolution would enhance DFID's confidence in the emerging proposals before obtaining final fixed prices. For DFID's more complex procurements, the EU Competitive Dialogue<sup>10</sup> procedure is probably preferable. The time invested in this more comprehensive procurement activity would produce better-judged bids, do away with the current post-bid negotiation phase and shrink the costly delays, discussed later in this report, which typically develop when programmes mobilise. Our view is that a Competitive Dialogue approach would lead to a net cost saving and faster delivery of aid to beneficiaries.

<sup>10</sup> This is 'a flexible procedure which preserves not only competition between economic operators but also the need for the contracting authorities to discuss all aspects of the contract with each candidate': *Explanatory Note – Competitive Dialogue – Classic Directive*, European Commission, [http://ec.europa.eu/internal\\_market/publicprocurement/docs/explan-notes/classic-dir-dialogue\\_en.pdf](http://ec.europa.eu/internal_market/publicprocurement/docs/explan-notes/classic-dir-dialogue_en.pdf)

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2.38 DFID has used the European Union Competitive Dialogue process on three occasions. The main learning points related to the skills needed within PrG to run these sophisticated types of procurement and the need within DFID's programme teams for an experienced person to be the 'intelligent buyer', helping shape the procurement as it develops. DFID should address these resource constraints if this technique is to be used in the future. Our balanced view, taking all of the above into account, is that DFID should use Competitive Dialogue more frequently on the more sophisticated aid programmes.

*PrG's reform plan makes sense but is not sufficiently prioritised.*

2.39 At a more strategic level of consideration, our view is that PrG's reform programme is pointing in the right direction. We find, however, that it lacks sufficient focus and prioritisation, attempting to achieve too much on multiple fronts. PrG would benefit considerably from prioritising its plans and allocating resources accordingly.

2.40 The lack of a clear vision for PrG's reform activities and of an accompanying resourced plan has been compounded by a growing level of procurement activity under DFID's increasing aid programme. This combination has placed high demands on scarce resources, all contributing to many of the observations above.

### **DFID's oversight of case study delivery**

*DFID's programme management capability is weak, resulting in significant delays and wasted costs, although steps are beginning to be taken to address this.*

2.41 The five case studies in this review all suffered in varying degrees from a lack of end-to-end programme management responsibility and accountability. The worst affected were the Yemen, Bangladesh and Nigeria programmes. The biggest and probably most costly delays set in soon after programmes left PrG and began their mobilisation phases. In several cases, these

took up to a year to resolve and involved DFID serving 'Performance Improvement Notices'.<sup>11</sup>

2.42 On the **Yemen project**, which was eventually terminated due to country-wide instability, DFID did not follow through PrG's perceptive concerns, which were subsequently proved to be right, about the contractor's proposed resources. DFID also allowed the work to start with very loosely defined outputs and measures in the log frame. Delays resolving these issues were both predictable and avoidable. The mobilisation period was further affected by poor DFID in-country programme management staff continuity, with key gaps occurring at a difficult time for the whole mobilisation phase. Further, it turned out that DFID's Yemeni stakeholders were not aligned on the need for the programme. The Policing Ministry welcomed the support but the Justice Ministry did not. The misjudgement about the level of stakeholder support was a primary factor behind the contractor's subsequent delivery difficulties.

2.43 On the **Bangladesh project**, the winning contractor (Maxwell Stamp) was also the contractor for Phase 1, so there should have been good continuity between the two phases. Significant problems developed though, because the Phase 1 team was still completing its current contract and could only contribute in a limited way to the design of Phase 2. That design proved unacceptable to DFID Bangladesh. Further, there was a great deal of difficulty identifying intended beneficiaries for the Phase 2 programme due to weak surveys and an overreliance on national statistics. In the end, DFID Bangladesh intervened and supported Maxwell Stamp by carrying out some of the design work itself, reducing their fees accordingly.

2.44 On the **Nigeria project**, the successful bidder was Abt Associates, replacing HLSP Ltd. A significant delay set in during the handover process, because Abt Associates struggled to find suitable resources at local level. Further, the

<sup>11</sup> DFID issues a Performance Improvement Notice when a contractor's performance falls a long way short of the progress or quality stated in the bid document. Failure to achieve rapid and significant improvement can lead to termination of the contract or to changes in scope.



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appointment of Crown Agents to set up and run the Revolving Drug Fund took place after Abt's appointment, meaning a significant catch-up effort was required to bring this work into line with the main programme.

2.45 The **CDKN project** mobilisation was also slow. This was partly due to the novel and challenging nature of the concept, which inevitably took time to gain credibility and momentum. The resignation of CDKN's CEO early on, resulting in an interim CEO being deployed before a permanent replacement arrived, also contributed to slow mobilisation. Consequently the early years' expenditure and country roll-out rate were much lower than planned; the under-spend created budgeting problems for DFID.

2.46 The general pattern emerging from these mobilisation difficulties is that the delivery of aid became delayed and the contractors' efforts were neither fully effective nor efficient. As outlined above, there was no single cause but a series of contributory factors, including:

- issues correctly identified by DFID during the procurement phase not being followed through into mobilisation;
- lack of understanding and correct resourcing by the contractors;
- surprise at the timing of the contract award, with the contractor not realising that an award was imminent; and
- DFID staff continuity problems, with staff changeovers often taking place at the start of mobilisation.

2.47 Our view is that, of all the topics raised in this report, DFID's greatest opportunity to reduce costs and improve value for money lies in improving the project management of the mobilisation phase. By that point, the contractors are committing significant resources and any delays inevitably have major cost implications.

2.48 The underlying issue is weak lifecycle programme management. DFID does not assign 'whole life' responsibility for management of programmes, so each tends to move through a

series of discrete phases, involving different teams, in a stop-start manner. Each progresses from its initial business case stage, through to procurement, mobilisation and delivery without enduring programme management accountability and responsibility.

2.49 A subset of programme management is commercial and contract management. This is the activity and skill set required to design projects, understand markets, select partners in a commercially astute way and then manage contractor performance and relationships effectively during delivery. We saw reasonable evidence of such skills on the CSO Due Diligence contract, but not with the other case studies. These are fundamental commercial skills that should be relevant to all staff in DFID engaging with contractors.

2.50 DFID is recruiting a Programme Management Head of Profession. The job description shows this to be a facilitation role, to create a networked centre of excellence in DFID that will increase professionalism and transfer best practice and learning between teams and groups.

2.51 The new Head of Profession will face a significant challenge as none of the DFID programme managers on the case studies held relevant programme management qualifications and the general level of awareness in this area is low. Programme management has not been nurtured as a core skill within DFID. Turning that situation around by systematically upgrading competencies will take several years.

2.52 We were told that the supporting budget for the new Head of Programme Management is expected to be of the order of £90,000 a year which will, in our view, be inadequate given the large number of DFID staff responsible for managing programmes across the department. Lord Browne of Madingley's recent paper<sup>12</sup> illustrates these challenges more fully, including the scale of the effort required to develop and

<sup>12</sup> *Getting a grip: how to improve major project execution and control in government*, Lord Browne of Madingley, 26 March 2013, <https://www.gov.uk/government/publications/government-lead-non-executive-annual-report-2011-12>

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foster a robust programme management and governance approach.

- 2.53 Staff rotating between posts is a characteristic of the UK civil service. DFID staff move regularly as planned rotations, issues and opportunities arise. The benefits include organisational resilience and breadth of individuals' experience. For complex, long-running programmes, however, the drawbacks can be significant.
- 2.54 The case studies in this review, other than the CSO Due Diligence contract, suffered from significant breaks in continuity when staff rotated between posts (either within country, or between countries). At its simplest, no matter how good the handover briefing process, project 'memory' is lost with contractors experiencing reinterpretation of the contract's intent. At its worst, the handovers are mistimed: on the Yemen project, there was no DFID project manager for four months, at a crucial point when the contractor was struggling to address its own performance challenges and needed support.
- 2.55 DFID does not have plans to lengthen the period of programme manager appointments, to align them with programme durations. This is a major concern, given the evidence seen in these case studies.
- 2.56 Contractors can also help to make a difference to overall programme delivery, particularly in the vital early phase, by taking care with the mobilisation planning and associated resourcing. Although held at arm's length by the bidding process, contractors should make every effort to engage to find out more about the type of resources envisaged by DFID and the skill sets required.

*DFID's governance arrangements are robust and effective with an unusual change control process reflecting its devolved model.*

- 2.57 Combinations of corporate boards and programme-specific boards govern the five case studies examined in this review. The corporate boards are populated with members of DFID's central senior management, including PrG where relevant. The programme boards are usually

populated by the DFID programme manager, PrG as appropriate, the contractor and key stakeholders such as national government representatives. This combination of governance works well and is supported by comprehensive reporting arrangements comprising monthly progress reports and log frame updates.

- 2.58 A characteristic seen on all of the case studies is a high level of change and adjustments made through the life of the programme. This is predictable, as there is inevitably a high degree of risk and uncertainty at the outset. Little is known about the actual conditions and about which techniques will work and which will not. Government personnel in developing countries can change at short notice, closing down some aid avenues and opportunities while opening up others.
- 2.59 Against this background of uncertainty, risk mitigation and change we found, unexpectedly, that very few contract amendments are recorded for the five case studies in this review (Figure 7).

**Figure 7: Case study contract amendments**

Contract	Number of amendments
Bangladesh	4
Yemen	2
CSO Due Diligence	0
CDKN	3
Nigeria	3

- 2.60 We found that the true change control process takes place through a different mechanism, namely the annual budget and the log frame. As the scope inevitably changes, DFID adjusts the coming year's budget and accompanying contractor's workplan to drive the priorities, timings, concentration of effort and exact scope.



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The log frames may also be adjusted in that process.

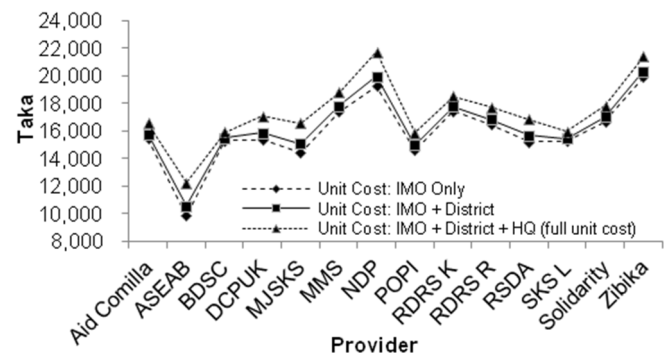
- 2.61 All of the above is outside of PrG's Contract Amendment process. This is unusual: most change control systems in government and the private sector capture all of the changes in one place whether they have a budget implication or not. In DFID, the Contract Amendment process is primarily for budget changes and other (i.e. the bulk of the) changes are often handled in separate local systems. Given the devolved project management model that DFID operates, this is understandable and practicable, although DFID should continue to exercise vigilance to ensure that there is integrated scope, budget and timetable transparency and control, especially on bigger programmes.

### Contractors' costs

- 2.62 Contractors' cost structures vary considerably, depending on the nature of the contract. Some are predominantly fee-based. Others have low fees and proportionally higher delivery costs involving sub-contracted services, purchases of equipment, drugs and materials and, in some cases, construction projects. Some projects require significant numbers of expatriate staff to operate overseas, while others make greater use of local staff.
- 2.63 On the **Bangladesh** project a small group of expatriate experts, five on average, leads a combined local workforce of approximately 900 people delivering the aid programme. This model results in considerable knowledge transfer and minimises relatively expensive management costs. It was practicable because local NGO resources could be mobilised and trained at scale over the long life of the programme.
- 2.64 Maxwell Stamp, the lead contractor on the Bangladesh case study, monitors and benchmarks the costs of delivering similar work by its various NGO sub-contractors, enabling it to investigate variances and take action as necessary. Figure 8 illustrates the variation in the NGOs' unit cost of raising households above the expected flood levels. Variances can arise due to

different NGO efficiency and physical factors such as accessibility. We saw that Maxwell Stamp use this information as a starting point to investigate true underlying performance levels.

**Figure 8: NGOs' costs of raising households above expected flood levels**



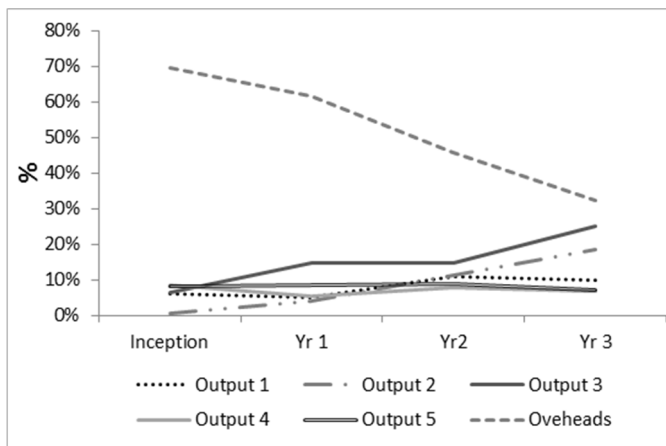
- 2.65 At the other end of the scale, on the **CSO Due Diligence** project, all of the costs are expended on KPMG's fees and expenses. This is essentially an outsourced service. It is London-centric, although staff in KPMG's local offices become involved if the grant applicants' offices are overseas.
- 2.66 The other three projects lie between these extremes. On the **CDKN** project, a contract limit ensures that 75% of the expenditure is directed to suppliers, including local providers, outside of the six alliance contractors with the remaining 25% of expenditure for use by the alliance contractors themselves. On the **Yemen** project, the expenditure was on a combination of expatriate and local resources. On the **Nigeria** project, the balance changed over time: initially the health system governance reform work needed predominantly expatriate input (as external expertise was the critical gap to be filled) but local resources now deliver the bulk of the input because the emphasis has shifted to delivering direct support to beneficiaries in the five supported states.
- 2.67 We saw that DFID scrutinised input costs carefully at the time of the bids, taking pains to understand the contractors' cost structures and balance of resources. DFID analysed the

## 2 Findings

contractors' cost submissions and compared them with other benchmark data. We saw a strong emphasis on input cost comparisons.

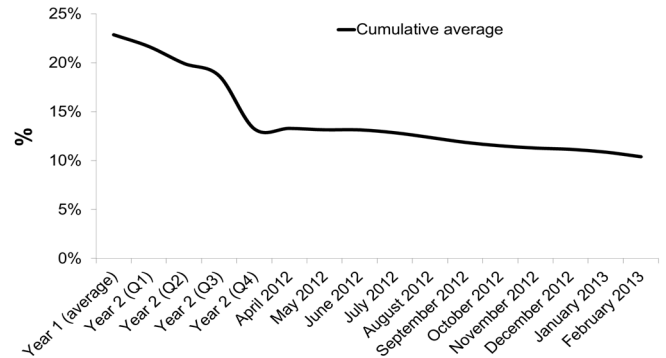
2.68 As programmes progress through the delivery phase, DFID's scrutiny of costs continues. For example, on the **Nigeria** project, DFID has been concerned to reduce the expatriate cost element at each stage and transfer the balance to local provision. Figure 9 shows how the cost profile has changed over time to reduce the relative cost of overheads compared to the cost of delivery.

**Figure 9: Nigeria case study – the relative costs of overheads versus output delivery**



2.69 The CDKN programme follows a similar pattern to that found on the Nigeria case study. The set-up costs were initially significant but, as the amount of productive work rose over time, the relative effort on managing the service fell, as shown in Figure 10.

**Figure 10: CDKN management fees as a percentage of total output**



2.70 We saw strong evidence of DFID scrutinising and testing value for money during delivery. DFID commissions short, sharp studies to examine value for money on its live programmes. These identify concerns and make recommendations. We saw evidence of action being taken on the Nigeria project to improve value for money after the initial reports identified several concerns. We saw similar scrutiny of the Bangladesh project. DFID supplements these value for money studies with country-specific Commercial Capability Reviews, thus providing an additional level of scrutiny, support and capacity building.

2.71 Based on fee price benchmarks from the government's most recent major consultancy procurement exercise (called Consultancy One), on other benchmarking and on price comparison data provided by contractors and also from our own experience, we saw, across the five case studies, that DFID obtains highly competitive prices from its contractors. DFID also continues to maintain a detailed and enduring interest in costs and value for money as programmes move forward through their delivery phases.

2.72 Our conclusion about value for money is that the main improvement area lies less in bearing down still further on costs - which are already highly competitive - but in joining up the overarching approach to programme management. DFID's biggest cost saving opportunity is in better project management of the mobilisation phase, where

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potentially up to a year's delay (and therefore costs) can be avoided on many programmes.

### Impact Assessment: Green-Amber

2.73 This section examines the impact being made by our five case study programmes.

2.74 Our case studies illustrate the wide range of circumstances in which DFID uses contractors to support or deliver aid programmes. At one end of the scale, illustrated by the Bangladesh example, the contractor delivers aid directly to beneficiaries in the field. Other programmes, such as in Yemen and Nigeria, are designed to create impact through political or governance reform combined with local interventions. CDKN is designed to create impact by establishing a global enabling mechanism for the delivery of demand-led requests for research, technical assistance and advice, partnership and negotiations support and knowledge management. The CSO Due Diligence contract contributes to the effectiveness of DFID's aid spending through CSOs by ensuring that DFID only gives money to organisations with adequate capabilities and by encouraging performance efficiency gains.

2.75 As such, the nature of the impacts observed in the case studies varies considerably, for good reasons, from one case to another.

#### Bangladesh case study

*This programme is delivering high impact – yet it could have delivered this quicker, with better value for money, had DFID allowed funding to be pulled forward.*

2.76 This programme aims to lift 250,000 people who live on erosion-prone sandy islands in wide rivers permanently out of extreme poverty. Maxwell Stamp, the contractor that delivered Phase 1 of this programme and now delivering Phase 2, identifies extremely poor people, usually in groups of around 25 and includes them in the Chars 2 Livelihoods Programme (CLP). Maxwell Stamp and its 18 NGOs then take the groups through an 18-month intervention sequence.

2.77 Figure 11 shows the delivery sequence and participant numbers. DFID awarded the funding in pounds sterling and the programme will, in fact,

reach some 290,000 people, as exchange rates have moved favourably during the contract. The final adjustments will be confirmed in phase 2.5.

2.78 The Bangladesh case study is recognised as an international exemplar, with Phase 1 winning a top award by British Expertise in 2008/9.<sup>13</sup> The CLP reports case studies and statistics on the impacts achieved on its website<sup>14</sup> to help other research organisations to learn.

**Figure 11: Bangladesh CLP programme phases**

Phase	2.1	2.2	2.3	2.4	2.5	2.6
Households	5,004	12,109	17,435	16,423	12,000 + 5,000	4,029
Start date	05/10	11/10	10/11	10/12	10/13	10/14
Status	100%	100%	100%	Live	From 10/13	From 10/14

2.79 Having got through the difficult mobilisation phase described earlier, the Bangladesh case study is now demonstrating strong impacts, directly reaching the intended beneficiaries. The programme deploys a range of interventions including: an initial asset transfer (often a cow); health education; social education, including community formation; agricultural training; provision of latrines and water pumps; and the construction of plinths that enable people and their livestock to live above typical flood levels.

2.80 On our field visit, we saw evidence of the CLP's impacts at first hand. Villagers who had been through the programme were noticeably healthier and lived in more sustainable ways than those yet to start.

2.81 Maxwell Stamp tracks many measures of impact, including how people spend their money. Figure 12 on page 18 shows that, before the programme, people spend relatively more money on food than those who have completed it. They spend significantly less than their counterparts on

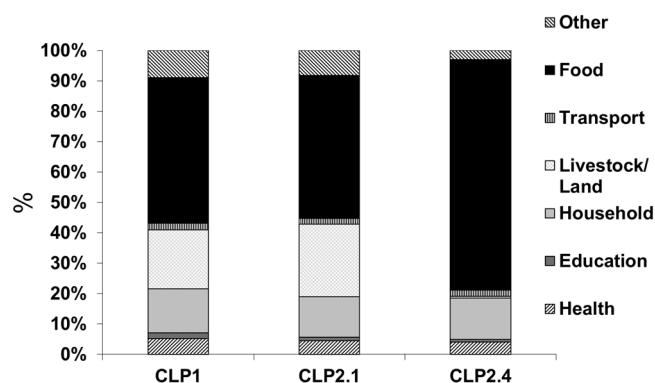
<sup>13</sup> [http://www.britishexpertise.org/bx/upload/Awards/08\\_Award\\_Winners.pdf](http://www.britishexpertise.org/bx/upload/Awards/08_Award_Winners.pdf)

<sup>14</sup> <http://www.clp-bangladesh.org/>

## 2 Findings

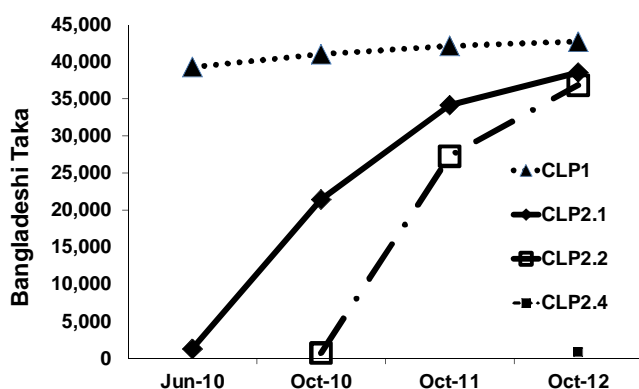
livestock and land, as their immediate focus is on buying food to eat.

**Figure 12: Bangladesh CLP expenditure destination as a percentage of total expenditure before (Phase 2.4) and after (Phases 1 and 2.1) the programme**



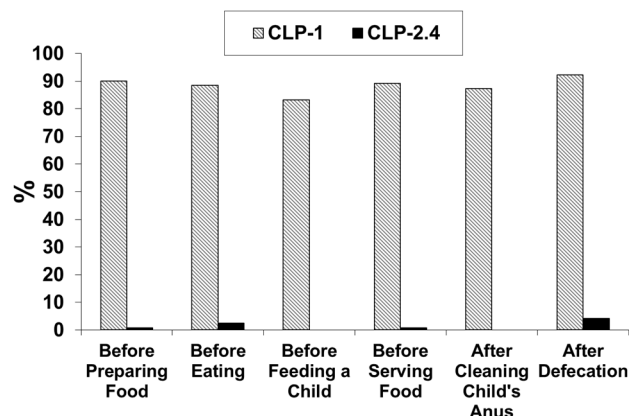
2.82 Maxwell Stamp tracks the value of villagers' assets over time. Figure 13 shows the value rising steadily and continuing to grow after the programme is complete.

**Figure 13: Bangladesh CLP value of productive assets for each phase**



2.83 A large area of impact has been in the field of health education. CLP participants have significantly changed their hand washing habits, from virtually zero to around 90% on a number of important measures. Figure 14 shows the different habits of those who have been through the programme (CLP 1) and those who are just starting (CLP 2.4). Other interventions, such as the provision of water pumps and latrines, all combine to create a coherent, sustainable impact on people's health.

**Figure 14: Bangladesh CLP impact: percentage of women reporting hand washing at key times**



2.84 Despite the evident success delivering this programme, we found that the Bangladesh case study could have delivered its impact faster or more widely if it had not been constrained by the annual budget limit imposed by DFID. Maxwell Stamp's core infrastructure (i.e. its people, vehicles, accommodation and its 18 NGO partners) has greater capacity to deliver aid than DFID is utilising. For example, the Australian Government contributed an additional 15 million Australian Dollars<sup>15</sup> to the programme, which Maxwell Stamp was able to absorb without increasing staff or its overhead costs. Progress is regulated not by field capacity but by the budget expenditure envelope set by DFID each year.

2.85 Discussions during our field visit indicated that the same or greater impact could have been achieved potentially a year earlier within the defined aid budget had the annual spending limit been higher. This would have been better value for money, with the overhead costs borne for less time and more of the expenditure directed towards beneficiaries.

*The programme has a strong focus on sustainability*

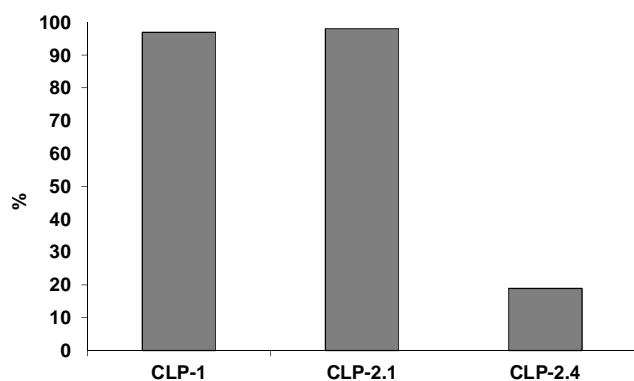
2.86 Much of the impact is demonstrably sustainable. For example, households from phase 1 still ensure there is soap or ash near water pumps and latrines. Figure 15 on page 19 compares the behaviours of phase 2.4 (about to start) with the

<sup>15</sup> Equivalent to UK £9.1 million in May 2011

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average from phase 1 (2003-2009) measured this year.

**Figure 15: Bangladesh case study; Percentage of households with soap next to their water pump**



2.87 To 'graduate' from the CLP programme, participants must demonstrate success on at least six of the ten measures shown in Figure 16. The contractor continues to monitor progress after graduation, considering those not graduating for further support if still within the remit and scope of the CLP programme.

**Figure 16: Bangladesh graduation criteria**

Graduation criteria <sup>16</sup>	
<b>Income / expenditure / consumption</b>	Household has more than one source of income during the last 30 days. Household achieves acceptable food and consumption score.
<b>Nutrition</b>	Household has access to clean water. Household has access to a sanitary latrine Presence of ash / soap near to water point or latrine.
<b>Asset base</b>	Productive assets worth more than 30,000 Taka <sup>17</sup>
<b>Status of females</b>	Participant is able to influence household decisions regarding sale / purchase of large investments e.g. cattle.
<b>Vulnerability</b>	Homestead is above known flood level Household has cash savings of more than 3,000 Taka <sup>18</sup>
<b>Access to services</b>	Household has membership of a social group.

2.88 We found that the contractor is actively considering the post-programme arrangements. The people benefiting from this aid programme live in very remote areas, not currently supported by government in terms of health, education and policing systems. Maxwell Stamp is seeking to identify enduring solutions beyond the life of the programme with local NGOs (see Figure 17 on page 20) who could help fill this gap, if required, in the short to medium term.

<sup>16</sup> [http://www.clp-bangladesh.org/pdf/the\\_clps\\_graduation\\_criteria.pdf](http://www.clp-bangladesh.org/pdf/the_clps_graduation_criteria.pdf)

<sup>17</sup> Approximately UK £250

<sup>18</sup> Approximately UK £25

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### Figure 17: Sustainability of services – Bangladesh CLP

The CLP works to make such activities sustainable over the long term by bringing in partners who can improve on the services or take them over. For example, the human health project is being progressively replaced and absorbed by BRAC, an NGO. In animal health, the CLP is developing a cadre of freelance livestock service providers (or paravets) who already exceed 500 and operate as small private enterprises. In education, the CLP recently transferred 25% of its learning centres to partner organisations that have independent funding to continue the schools. It is also discussing with the Government of Bangladesh the establishment of mass learning centres to the chars and, to date, seven have been assigned. The CLP is working with other partners (British Council and BRAC) to take over CLP learning centres or to open new ones.

*Source: Maxwell Stamp*

### Nigeria case study

*The directional indicators about impact are positive but the sustainability and degree of real change are less obvious at this stage.*

2.89 The programme's purpose is 'to improve the planning, financing and delivery of sustainable and replicable pro-poor services for common health problems in up to six states'. Five outputs contribute to achieving the purpose and goal of the programme:

- stewardship role for health at national level strengthened;
- state systems to support appropriate health services improved;
- delivery of, and access to, sustainable, appropriate health services and supplies improved;
- ability of citizens and civil society to increase the accountability and responsiveness of the health system improved; and
- capacity of citizens to make informed choices about prevention, treatment and care strengthened.

2.90 Impact in the Nigeria case study is hard to assess for two reasons. First, the bulk of the work so far

has been focussed on federal and state-level governance reforms in the health sector; it is inevitably harder to measure progress on this type of work. Second, the baseline data is weak, particularly relating to the pre-Phase 2 position in the five supported states.

2.91 DFID has scrutinised the programme's impact at regular intervals. Moving from a position of significant initial concern three years ago) the programme's latest review shows a more favourable position in terms of reported impact.

2.92 DFID's most recent examination of the Paths 2 project, in December 2012, showed increasing impact levels and urges devoting most of the resources in the future away from the state-level reform work and into the detailed support activities that reach beneficiaries directly. The report noted that progress against all outputs has been good, and in some cases very good.

2.93 Figure 18 shows the progress achieved on health system reforms, illustrating both the progress made and the challenges arising from the paucity of data.

**Figure 18: Progress in the state level reforms**

	Indicators	Base-line 2009	Mile-stone 2012	Progress 2012
1.1	Quality of Federal budgeting and planning process	1	6	7
1.2	Number of new and revised federal policies, plans and legislation developed and reforms initiated with PATHS2 support	0	7	10
1.3	Number of states, including non-focal states, with HRH policies, structured and systems (HRIS) developed	0	2	4
1.4	Number of states with evidence of increased capacity for NHMIS as a result of PATHS2 support	No base-line	No mile-stone	No info

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- 2.94 The anecdotal feedback in our interviews confirmed a positive story. These suggest that reform of the federal and state governance systems is going well, albeit still settling down. This feedback is consistent with the mid-term review and with the recent Annual Review, which noted positive progress built on a foundation of good, trusting relationships between all parties, including those involved in the structural governance reforms. DFID finds it hard to be precise about the true impact from Paths 2, due to the attribution of benefits from other parallel reform programmes. DFID has calculated that the cost per life year saved is in the range of £86 to £206, depending on assumed attribution.<sup>19</sup>
- 2.95 The programme teams delivering the Nigeria case study agree that the work is behind plan but, while challenging, see no major issues in its eventual delivery. The true measure of impact at this level will be whether the new healthcare systems remain in place over time and whether they operate as intended. DFID's challenge now is to develop effective measures to provide a more robust basis for managing the programmes as a matter of urgency.
- 2.96 In terms of direct delivery on the ground, one of the successes of the PATHS 2 programme has been the 'Drug Revolving Facility' (DRF). This is a financing and management method that ensures the sustainable availability of good quality and affordable drugs in which, after an initial capitalisation, drug supplies are replenished with revenues collected from the sales of drugs. This technique is useful when there are inadequate government or donor funds available to sustain the supply of health commodities.
- 2.97 In Nigeria, DRFs have been in existence across the various states since early 80s. All struggled to survive, however, without on-going grants. By the time the present DRF round started in 2005-06 with the support of DFID in all the states that PATHS2 and its predecessor programmes were operating, there were practically no drugs available.
- 2.98 Today, there is a plentiful supply of drugs and the DRF is on a sustainable independent financial footing. Crown Agents runs the process on behalf of DFID and has created a highly competitive market for quality assured drugs in which some 60 suppliers compete to fulfil orders from hospitals and dispensaries.
- 2.99 Figure 19 shows DFID's assessment of the main factors behind the successful delivery of this programme, with which we agree.

### Figure 19: DRF success factors

Strong political support, with policy and practical support (eg physical strengthening of stores).

Demand-led responsive approach – giving doctors the ability to order what patients need.

Affordability – creating a competitive market drove down costs (60% cheaper than private pharmacies).

Uniform provision of services – covering both primary and secondary healthcare facilities.

Harmonised approach under the State Sustainable Drug Supply System committee which manages and coordinates stakeholder interests.

Effective Central Medical Stores – following international best practice and quality assurance processes.

Provision in the funding mechanism for logistics, transport, breakages and damage. The DRF price strategy includes a managed mark-up to enable free treatment of the very poor.

Strong monitoring and management.

Active community engagement, with health committees chaired by community representatives.

2.100 In Jigawa State, turnover of the DRF grew from £0.3 million in 2008 to £2 million in 2012, while the fund has remained successfully capitalised.

2.101 Similarly, the impact of the work taking place with communities is going well, even though the programme is approximately a year behind plan and the early data are only now emerging. For

<sup>19</sup> DFID 2012 Annual Review PATHS2

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example, Kaduna State, one of the more advanced in the programme, is reporting early successes in terms of infant and maternal mortality rates. These arise through local community interventions designed to prevent three sources of critical delay in accessing medical care at childbirth, including:

- not waiting for the husband to return before deciding to go to hospital (via a community training and support programme);
- getting to hospital more quickly (via a new network of volunteer taxis); and
- getting quicker treatment on arrival (because DFID's funding enables immediate payment to access the staff and the revolving drug system).

2.102 With the Nigeria programme now beginning to deliver and demonstrably achieving its intended results, the most significant remaining issue is one of sustainability in the long term. The programme is scheduled to close in 2014 and there is a national election due in 2015. DFID is already considering options for providing continuity of support throughout this delicate period in order to help stabilise and sustain the benefits into the early part of the next parliamentary cycle.

2.103 Overall, our view about this case study is that the contractor is now delivering results both with the federal and state reform aspects of the programme and with the direct interventions within communities. We are not convinced, however, that DFID is fully able to assess impact, as the baseline data are still incomplete in several respects.

### CDKN case study

*CDKN is a valuable resource for target countries and organisations but its impact is hard to assess and its long-term operational model is undetermined.*

2.104 DFID awarded the contract to build and roll out the CDKN network to PwC, who in turn lead a central consortium of five other contractors. PwC manages and administers the roll-out of the

CDKN network and is responsible for its financial and operational management.

2.105 CDKN is an enabling contract, designed to provide a way for poorer countries to commission relevant climate and development-related research, technical assistance and advice, partnership and negotiations support and knowledge management. According to one interviewee, 'now developing countries can commission the research they actually want, rather than having ideas from developed countries imposed on them'.

2.106 CDKN has established its network in 46 countries, with a combined population of 2.6 billion, of which approximately 60% of the population are below the poverty line. As the programme has progressed, DFID and CDKN have had to adjust to the essentially experimental nature of the delivery phase to the reality of the situation on the ground on a country-by-country basis. CDKN originally aspired to a target of 60 countries by 2015 but this is now lower, with the view being that it is better to reach fewer countries in more depth than spread the impact too thinly. Given the current budget, CDKN expects to deliver results in about 30 countries by 2015 at about an average of £ 1-2 million per priority country of which there are currently 12.

2.107 CDKN reports that the most significant changes to date have been in the countries shown in Figure 20 on page 23. Many of these are low income, highly vulnerable countries. CDKN expect another four countries to join this group by the end of the calendar year.



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**Figure 20: CDKN's main areas of delivering results March 2013**

Individual countries (16)	
<b>Africa (6)</b>	Gambia, Ghana, Ethiopia, Kenya, Rwanda, Uganda
<b>Asia (4)</b>	Bangladesh, India, Indonesia, Pakistan
<b>Latin America and Caribbean (6)</b>	Barbados, Belize, Colombia, Ecuador, El Salvador, Suriname
CARICOM countries (12)	
Antigua & Barbuda, Bahamas, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Trinidad and Tobago	

2.108 Now that the CDKN network is up and running, insights are beginning to emerge about its impact. The demand-led nature of CDKN's service model is working successfully and is appreciated by beneficiary countries, with 260 separate contracts currently live covering the full range of CDKN's output areas.

2.109 Initially, much of this work was won by international suppliers but the latest position shows evidence of local capacity building, with approximately 40% of the work being won by suppliers from developing countries. Some of these are small pieces of work targeted at particular situations and others are more generic pieces of research aimed at policy-setters in government. There is broad agreement that, after a slow start, the CDKN solution is providing high quality work that the users find relevant. CDKN assesses the quality of the research and other outputs it funds using independent evaluation techniques (e.g. citation frequency). CDKN's quality surveys also show strong, favourable responses.

2.110 Interviews with DFID and with CDKN's users and beneficiaries present a consistent view that the choice of a 'Big 4' consultancy firm has contributed to the results achieved to date. PwC was able to leverage its international network of contacts and resources in establishing the

network to the strong benefit of CDKN. Its brand name helped to create momentum and credibility, according to interviewees.

2.111 The governments of Kenya and Ghana are among the early adopters of the network and their support could prove instrumental in the eventual take-up and acceptance of this global facility.

2.112 The question that DFID is now addressing relates to CDKN's future operating model and its long-term objectives. Under the current arrangements, DFID supports CDKN through an overall budget within which annual contributions are agreed and through close participation in its management and governance processes. When the contract concludes in March 2015, there needs to be a clear, sustainable vision about its future and a corresponding operational plan in place. While CDKN's initial impact is beginning to emerge, albeit quite difficult to measure, its long-term enduring operating model and intended impact are far from clear.

### Yemen case study

*Prior to termination, there was evidence of reasonable impact on Police reform but less so with Justice reforms.*

2.113 This contract was terminated in mid-stream due to countrywide instability and it is not possible to say whether the intended impact would have been delivered by the contractor, GRM International.

2.114 DFID set the programme up without sufficient detail in terms of outputs and intended impacts and, in the early years, it was hard to judge progress. Figure 21 on page 24 is an extract from the mid-term review, which illustrates these difficulties.

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### Figure 21: Extract from the Mid-Term Review

“The Year 1 Annual Review assessed the programme as “purpose unlikely to be achieved but a few outputs likely to be achieved”. In fact there were no milestones for the review which made gauging progress somewhat problematic. The Year 1 review recommended that the log frame be revised with clearer project outputs and specific milestones identified”

- 2.115 The 2009 Annual Review judged the programme as unlikely to achieve its purpose. High-level political support for the programme was waning, especially on the Justice side of the programme. At the time, DFID felt that the programme was recoverable and could be put back on track. The contractor worked with DFID to implement a programme improvement plan designed to shrink risk and preserve the intended impacts.
- 2.116 GRM's major achievements in 2010 were the conduct of a baseline survey (achieved against a background of reluctance by the host government), the delivery of a significant volume of training and the refurbishment of Mae'en police station, all of which indicated the potential for success.
- 2.117 Throughout its life, however, the programme suffered from the stakeholders, particularly on the Justice side, not supporting the programme or having the necessary appetite to contribute effort towards it. Consequently, DFID and the contractor re-focussed activities onto the most productive areas.
- 2.118 By the time the programme was suspended, the Policing side was beginning to achieve the intended results and had gained acceptance in the central Ministry, in local police stations in the pilot area and with the mountain communities those police stations were serving.
- 2.119 We saw that some of the programme aspirations were quite modest. For example, one aim was to increase the percentage of citizens saying they were satisfied with Police and Justice performance from the 2010 baseline of 25% by an additional 4% by 2012.
- 2.120 The Justice side of the programme was unable to make significant progress. This dragged down DFID's performance rating assessment in the annual review and the overall programme was poorly rated. It is very hard to say with hindsight whether this part of the programme would ever have delivered its intended impacts. Our review shows that the root cause of this difficulty was DFID's under-appreciation of the lack of stakeholder support on the Justice side of the programme. This was exacerbated by GRM's initial staffing decisions and some other avoidable communication problems.
- 2.121 Following a deterioration in the security situation, in March 2011 the Foreign and Commonwealth Office instructed all bar three UK officials to leave. DFID worked with GRM to keep the project alive and preserve the prospects of achieving the intended impact. Rather than stopping work altogether, DFID kept the programme going by maintaining four Yemeni staff in the Sana'a office and arranging for British staff to work remotely. In July 2011 DFID and GRM agreed this was not working and the programme was suspended for 12 months until it was finally terminated in July 2012 on the instructions of DFID's Head of Middle East and North Africa Department.
- 2.122 Our conclusion about this case study was that it was poorly conceived, and that GRM had little chance of completing it satisfactorily, particularly on the Justice element. GRM itself had its own problems but the dominant issue was DFID's failure to establish local stakeholder support.

### CSO Due Diligence case study

*This outsourced service contract is working much as intended, though with some potential negative consequences.*

- 2.123 The purpose of this out-sourced service, run by KPMG, is to carry out due diligence reviews on organisations that have successfully applied for a grant. The aim is to reduce the risk of subsequent non-performance through financial collapse or

## 2 Findings

management weaknesses and to encourage performance improvement and efficiency gains.

2.124 DFID uses a number of fund managers to assess applications and administer the distribution and monitoring of grants on its behalf. When the application process run by the fund manager is complete and an application is ready for DFID's approval, DFID identifies where due diligence by KPMG is required. The fund manager notifies KPMG who then reviews the grantee's management and financial control processes. KPMG then provides a report to DFID and the relevant fund manager highlighting any issues.

2.125 A positive impact of this contract, which has a value of £1.1 million spread over three years, is that six out of 106 awards have been rejected, based on KPMG's due diligence advice, amounting to some £2 million in a portfolio total of £106 million. These are re-allocations rather than savings, as the grants then went to other organisations that met DFID's grant criteria. DFID is pleased with the level of service provided by KPMG and relies on its reports.

2.126 An indirect positive impact is that CSOs prepare well for the KPMG reviews, which is good for DFID as it raises standards. Several interviewees commented that the findings and recommendations from the reviews were relevant and useful and had been taken on board within wider normal operating procedures.


2.127 The service has some negative impacts, partly due to DFID's design of the arrangement. When an organisation makes multiple applications it has to go through the same due diligence process every time. The companies that we spoke to said that this is a waste of KPMG's and their own time and therefore costs. DFID and KPMG are aware of this and are considering a simplification to the level of scrutiny should an organisation make several applications in succession.

2.128 The second negative impact arises by introducing another organisation, with its associated interfaces, into the overall decision chain. This can introduce very significant, sometimes inexplicable, time delays into the process. One

CSO that we interviewed had missed an entire growing season in Tanzania due to more than a year's delay (without clear reasons or adequate communication) in the grant application process.

2.129 Overall, the contractor in this case study is delivering what was asked for and there has been positive impact. There could have been more focussed impact, however, had DFID designed the process better.

### Learning

Assessment: Amber-Red 

2.130 This section examines the learning processes associated with contractor-delivered programmes. DFID has several distinct learning opportunities: first, about the delivery of the outcomes intended in a given programme; second, about the use of contractors as a channel to solve certain types of problem; and third, about the performance of individual contractors.

### Monitoring and evaluation in the case study programmes

2.131 We found that DFID has strong monitoring and evaluation (M&E) processes in place across the five case studies. DFID deploys independent specialists to carry out the M&E work on its behalf. We reviewed the M&E reports for the five case studies and found them to be detailed, incisive and helpful.

2.132 The Bangladesh case study illustrates the array of techniques and measures that DFID deploys in monitoring and evaluating impact. At a governance level, DFID Bangladesh operates:

- monthly, quarterly and annual reporting cycles;
- a mid-term contract review;
- value for money studies, with the most recent commissioned in 2012; and
- the normal log-frame process.

2.133 At a project level, the contractor Maxwell Stamp carries out substantial detailed monitoring and evaluation, to a level far greater than DFID

## 2 Findings

requires but which it considers necessary to direct and adjust the effort in the programme.

2.134 Our review showed that a comprehensive reporting regime is in place in Bangladesh and that local government stakeholders have active roles in the governance arrangements.

2.135 Generally the biggest challenge lies in the inherent difficulty in establishing a relevant baseline position before work starts. Most of the projects either take place in remote locations in which measuring the baseline is costly, difficult and time-consuming, or are unique and lacking meaningful comparator positions. For example,

- in the Bangladesh Phase 2 study, the choice of the exact catchment areas for Phase 2 was made quite late in the day, due to the design difficulties referred to earlier in the report. Consequently, work started without a robust baseline position;
- in the Yemen programme, the baseline was not defined, due to the initial unwillingness of the host country government; and
- with CDKN, it was effectively impossible to establish a realistic baseline, as CDKN's service is unique and only limited comparators were possible.

2.136 In Nigeria, the baseline was only partly defined at the outset. This affected the whole programme, as it was hard to measure success and thus decide where best to allocate resources.

2.137 DFID's annual review of the Nigeria case study in 2010 noted that the log frame needed redefinition. This need arose first as a result of the slow mobilisation, secondly because the scope was adjusted to reflect conditions on the ground in Nigeria and thirdly because the details were only high-level in the first place.

2.138 We examined the latest log frame, dated October 2012 and found that it does not yet give a robust basis for measurement and control. It remains at too high a level of detail. DFID is attempting to track results, with progress being monitored against each of the five main outputs in some

detail. DFID is, however, well aware of the weaknesses due to the lack of poor baseline data. As such, the log frame's usefulness as a management tool is weakened.

### **Learning opportunities flowing from programmes**

*Learning is substantial but generally confined within the programmes, not reaching other parts of DFID.*

2.139 The contractors in our five case studies naturally had far greater insights and learning about their programmes than DFID did. The challenge is to distil that learning and feed it back into DFID, to inform policy makers, programme designers and PrG.

2.140 Interviews with DFID staff show a low level of learning being disseminated from the contractors to the local DFID programme teams and, in turn, to headquarters. Two contractors reported offering learning and feedback seminars, with little or no take-up from wider DFID staff.

2.141 DFID's M&E process provides another potential learning source in the case studies. We found, however, that while this information is made available, it is not presented in an accessible way that highlights patterns of learning points that others might take up or find useful.

2.142 The CSO Due Diligence review service is a particular concern from the learning perspective. The review process run by KPMG yields significant insights about the operations, management characteristics, financial strengths and cultures of the organisations applying for CSO grants. While KPMG's reports are comprehensive on each grant applicant, leading to a pass or fail recommendation, the real learning and insight inevitably now resides outside DFID. The learning loop back into DFID is weak.

2.143 Our view is that DFID should take the opportunity, when this contract expires in 2014, to re-design it not only to minimise process delays but to ensure a stronger learning cycle back into the centre. Doing this would increase corporate knowledge and enable DFID to create more impact through these insights.

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2.144 Some wider corporate initiatives, however, are beginning to ensure that learning reaches DFID. For example:

- the newly formed Commercial Adviser group has met once since its formation in mid-2012 to share experiences and lessons learned; and
- the programme management conference at the end of 2012 brought 70 people together to share learning amongst different programmes.

2.145 Other than these recent initiatives, however, we found no evidence of systematic ways for the learning experiences to find their way back into the corporate policy and decision making processes.

*DFID does not have a way of assessing and learning whether contractors are a better way of delivering aid than other channels open to it.*

2.146 As mentioned in the introduction, DFID uses hundreds of contractors each year to help deliver its aid programmes.

2.147 Beyond consideration of individual business cases DFID does not, however, have an overall process for assessing how the use of contractors compares with other channels for delivering aid, for example multilateral channels, direct CSO awards or self-delivery. There is no process which draws all the learning together and no process for setting strategic guidelines about the future circumstances in which using contractors would be advantageous.

*DFID has been constrained by EU procurement regulations and Cabinet Office limitations about basing procurement choices on past performance. The position, however, is changing and DFID is preparing for that.*

2.148 EU regulations have a significant influence on all procurement activity carried out in the UK by government departments. The Cabinet Office helps to form a definitive UK-wide position on many of these regulations, by issuing Guidance Notes from time to time.

2.149 Before 2012, the Efficiency and Reform Group of the Cabinet Office did not clarify how government departments could base procurement choices on past performance of contractors. The position changed in November 2012, however, when the Cabinet Office published a policy note<sup>20</sup> setting out government policy to ensure that bidders' past performance is taken into account in certain government procurements, including information and communications technology, facilities management and business process outsourcing.

2.150 Whether the term 'business process outsourcing' applies to the way in which DFID uses its contractors is a grey area. PrG is taking steps to clarify the position and meanwhile is preparing for the possibility that past performance can be taken into account when appointing contractors. Anticipating that change, DFID is collecting (but not yet using) performance data on individual contractors' performance.

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<sup>20</sup> <https://www.gov.uk/government/publications/procurement-policy-note-09-12-taking-account-of-bidders-past-performance>

# 3 Conclusions and Recommendations

- 3.1 The evidence from the five case studies is that contractors are an effective option for DFID to use in helping to deliver aid programmes. The strategic shift towards delivering more aid in fragile and conflict contexts is likely to increase the applicability of this delivery option, as many contractors have greater freedom to operate than DFID. The current arrangements have built up gradually over the years, with large contractors and smaller niche specialists working with DFID to plan, manage and deliver aid, sometimes in highly challenging circumstances.
- 3.2 In our case studies, DFID generally articulated its requirements, determined its procurement strategy, approached the market and obtained bids at competitive prices. The contractors, after significant and, in all likelihood, avoidable and costly mobilisation difficulties originating both within DFID and in the contractors, then went on to deliver programmes broadly as intended.
- 3.3 There are various factors, however, which reduce effectiveness. The arms-length relationship and remoteness between PrG and its contractors are barriers to real partnership and learning and, in our view, are the main reason why contractors fail fully to understand or optimise solutions and run into difficulties when mobilising. DFID needs to find a way of enabling both its large and small contractors to add more value, by contributing to initial approaches or shaping ideas.
- 3.4 It is also a key weakness that DFID itself does not have sufficient informed buyers within its ranks who understand the capacities of the potential players. When PrG does manage to facilitate more productive, trusting relationships with its contractors, those in the centre need to be receptive to such input and need to be commercially astute. The interviews revealed a strong reluctance to allow such interaction, for fear of compromising competitive processes later. Other UK Government departments have, however, found acceptable ways of achieving early engagement without compromising competitive integrity and DFID should aim to follow their example.
- 3.5 The lack of end-to-end programme management accountability and responsibility is also a concern, exacerbated by resourcing gaps that arise when people change posts. While the appointment of a Head of Profession in Programme Management is undoubtedly a step in the right direction, we doubt whether the allocated budgets for headcount and training will make a significant difference, given the scale of the department-wide capability gap in this area.
- 3.6 It is noticeable that DFID lacks strategic guidance relating to its use of contractors. DFID would benefit from establishing such guidance, including setting out:
- the circumstances in which contractors should be used in the future;
  - the volumes of work (or ranges) expected to be delivered through this channel;
  - specific priorities for the skills sought or the types of work intended; and
  - the nature of the intended relationships, including early engagement pre-programme and knowledge transfer objectives.
- 3.7 Clearly, individual decisions to use a contractor to deliver a particular programme will need to take into account the context, as well as this guidance. Setting out such a plan would give PrG a better chance of establishing the right sort of contractor community: one that encourages innovation and new entrants and that can grow in line with DFID's corporate needs over the years and fulfil the anticipated demand patterns.
- Recommendation 1:** DFID should support its devolved delivery model with strategic guidance, informed by its sectoral experts, on when and how contractors of different sizes and specialisms can deliver most effectively. This should include a strategic partnering model for how best to use its major and SME contractors.
- 3.8 Our review found that PrG's reform programme is broadly heading in the right direction but it lacks focus. It has probably lacked senior support over the years too but the recent engagement by the

# 3 Conclusions and Recommendations

Secretary of State in may improve the value for money achieved with contractors.

3.9 PrG would benefit most of all by narrowing its priority reforms down to some key areas. We are not offering new recommendations for PrG to add to its already-full agenda; instead we believe that PrG should concentrate on:

- fostering more productive relationships with contractors (both large and small), so that PrG becomes both an enabler for early creativity and a manager ultimately of the ensuing competitive process;
- using a more interactive procurement process, such as Competitive Dialogue, on the complex programmes, to help designers to refine their concepts and to improve bidders' insights before committing final prices; and
- in the light of the roll-out of Commercial Advisers to countries, considering and re-balancing the nature and skills of the resources required in the centre. Our view is that PrG is under-resourced and would benefit from bringing in more people with stronger commercial experience, preferably gained in the aid sector.

**Recommendation 2:** DFID should prioritise its commercial reforms, so that PrG can support more strategic decision-making on the use of contractors and develop more productive relationships with them.

3.10 DFID's bid evaluation process needs to come into line with the advances in thinking across the department over the last few years in the understanding of value for money. The bid evaluation process is over mechanistic and constraining, does not enable balanced judgements amongst the key value for money drivers and would benefit from being upgraded. This is important because, on the more complex bids, the contractors often submit a range of ideas and making comparisons between dissimilar approaches can be difficult. A more insightful evaluation model, enabling structured trade-off, would help significantly in contractor selection.

**Recommendation 3:** DFID should update its bid evaluation process, strengthening the role of the programme's designers during procurement, to enable a more sophisticated and balanced assessment of costs, timings, risks and results.

3.11 The evidence from the case studies revealed significant shortcomings in DFID's programme management capability. The imminent appointment of a Head of Profession in this area will help but the role will need significant funding support in order to be effective.

3.12 Changing the culture towards better programme management will need to spread not only across the central concept design and procurement approaches but also across the project lifecycle, including in-country delivery phases.

3.13 Staff rotations are major impediments to effective programme delivery. Contractors are better at aligning resources to their delivery commitments. Long-running programmes need better DFID staff continuity. Comprehensive, enduring programme management responsibility would make a major difference to DFID's delivery results. Taking a programme-centric approach to staff deployment would help.

**Recommendation 4:** DFID should develop a resourced plan for improving its programme management capability, to ensure end-to-end accountability for programme delivery and minimise disruption from staff rotations

3.14 Our final conclusion is that DFID is not making the best out of its learning opportunities with regard to contractor-delivered programmes. The significant learning within the contractor organisations does not make its way in a meaningful manner back to DFID staff in different departments or in country offices that are designing or procuring similar programmes. The contractors make the data available but that is not the same as DFID capturing the real learning points and then communicating and embedding them more widely. Our conclusion is that without this feedback process DFID is missing a major opportunity to learn about the best and worst experiences in working with contractors.

# 3 Conclusions and Recommendations

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**Recommendation 5:** DFID should strengthen learning from contractor-delivered programmes, to feed into the design, procurement and delivery of other programmes.



# Annex

**Figure 23: Total Official Development Assistance (ODA) flows by country<sup>21</sup> and via private entities<sup>22</sup>.**

Donor	Total ODA net disbursement (£ million)	ODA channeled through private entities (£ million)	% via private entities
Ireland	607	174	29%
Netherlands	4,215	951	23%
United Arab Emirates	490	109	22%
United States	20,546	4,303	21%
Luxembourg	272	50	18%
Sweden	3,723	623	17%
Spain	2,773	457	16%
Canada	3,626	472	13%
Norway	3,278	422	13%
Switzerland	2,044	262	13%
Finland	934	114	12%
Denmark	1,947	188	10%
New Zealand	282	29	10%
<b>UK</b>	<b>9,190</b>	<b>768</b>	<b>8%</b>
Australia	3,311	251	8%
Germany	9,363	635	7%
Austria	738	42	6%
Czech Republic	166	11	6%
Belgium	1,865	96	5%
Italy	2,874	74	3%
Portugal	467	13	3%
Korea	882	15	2%
Japan	7,196	89	1%

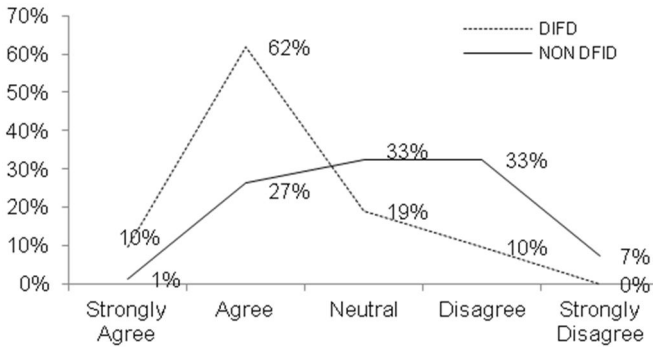
<sup>21</sup> <http://stats.oecd.org/Index.aspx?DataSetCode=DACSECTOR>

<sup>22</sup> Defined as commercial companies and non-profit-making organisations, OECD glossary of statistical terms  
[http://books.google.co.uk/books?id=qySY5k1q\\_WQC&pg=PA550&lpg=PA550&dq=oced+glossary+%22private+entities%22&source=bl&ots=ISoxUPf2VV&sig=w48bKNgS4yrPkjbi0nfU89sL-q0&hl=en&sa=X&ei=YJBmUZPKD8WOO4iVgOqF&ved=0CHAQ6AEwCQ#v=onepage&q=%22private%20entities%22&f=false](http://books.google.co.uk/books?id=qySY5k1q_WQC&pg=PA550&lpg=PA550&dq=oced+glossary+%22private+entities%22&source=bl&ots=ISoxUPf2VV&sig=w48bKNgS4yrPkjbi0nfU89sL-q0&hl=en&sa=X&ei=YJBmUZPKD8WOO4iVgOqF&ved=0CHAQ6AEwCQ#v=onepage&q=%22private%20entities%22&f=false)

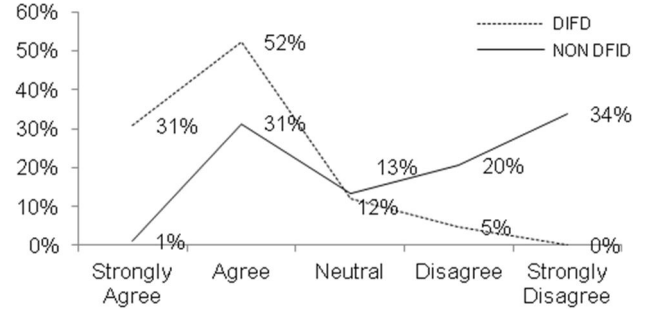
# Annex

Below is a selection of responses to our anonymous survey of DFID staff and contractors. The full results and the methodology are available on our website.<sup>23</sup>

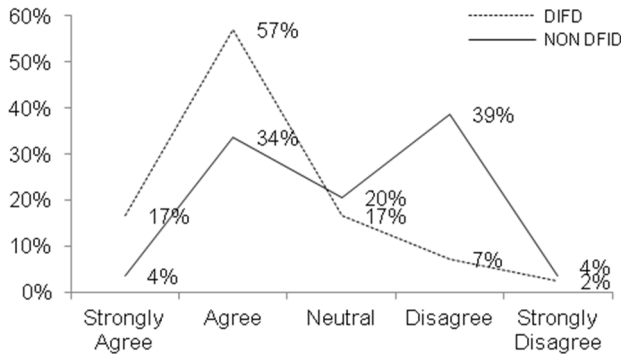
**Q14. The current DFID procurement approach provides contractors with sufficient information to enable them to make well-judged bids.**



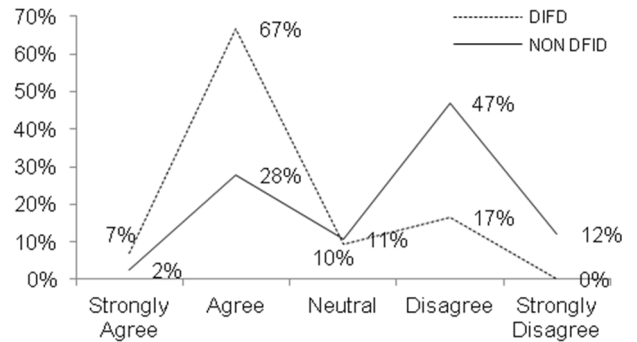
**Q19. The current DFID procurement approach provides sufficient openness and transparency throughout the bidding process.**



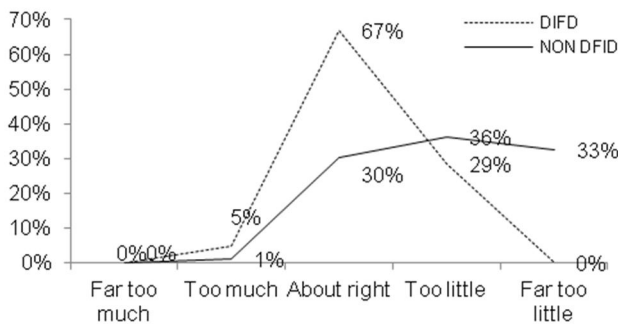
**Q15. The current DFID procurement approach clearly sets out programme objectives i.e. outcomes, outputs, impact and timescales within the tender documentation.**



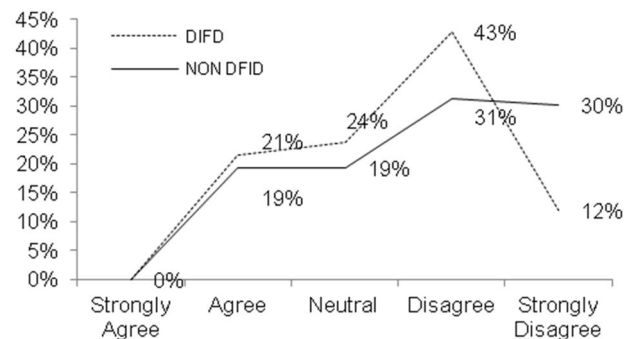
**Q20. The current DFID procurement approach provides sufficient "scoreable" insight and clarity about the technical and commercial elements of each bid."**



**Q16. The current DFID procurement approach enables an amount of interaction during the tendering process that is...**



**Q34. DFID operates an effective feedback loop regarding specific contractor performance on individual programmes.**



<sup>23</sup> [www.independent.gov.uk/icai/publications](http://www.independent.gov.uk/icai/publications)

# Abbreviations

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CDKN	Climate & Development Knowledge Network
CLP2	Chars 2 Livelihood Programme
CIPS	Chartered Institute of Purchasing and Supply
CSO	Civil Society Organisation
DFID	Department for International Development
ERG	Efficiency and reform Group (part of the Cabinet Office)
HRH	Human Resource for Health
HRIS	Human Resources Information System.
ICAI	Independent Commission for Aid Impact
M&E	Monitoring and Evaluation
MTR	Mid Tern Review
NHMIS	Nigeria Health Management Information System
NGO	Non-Governmental Organisation
OGC	Office of Government Commerce
PrG	DFID's central Procurement Group
PATHS2	Pathways to Health – Phase 2
SME	Small to Medium Enterprise

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