

International Development Committee

Oral evidence: DFID's Allocation of Resources, DFID's use of contractors HC 261 Monday 6 June 2016

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Members present: Stephen Twigg (Chair); Fiona Bruce; Mrs Helen Grant; Jeremy Lefroy

Questions 159-239

Witnesses: *Ian Birrell*, Contributing Editor, The Mail on Sunday, and *Claire Provost*, Fellow, Centre for Investigative Journalism, gave evidence.

Q159 Chair: Good afternoon and welcome to this evidence session on DFID's use of contractors, which is part of our inquiry into the allocation of resources by the Department. The way that we are conducting the evidence session this afternoon is that we have two panels. My intention is to run each for about an hour. I welcome the first of our two panels. We have eight questions for you, if we could just bear that in mind in terms of the maths of using up an hour and how much time each question takes. Different members of the Committee will lead off. Our usual practice is that we will put a first question to you, but please, when answering a question for the first time, introduce yourself and a little bit of background about your interest in the subject.

Let me start with a general question to both Ian and Claire. Can each of you say: do you object to the principle of the use of the private sector to deliver aid, or is your critique more about the specific ways in which DFID decides when and how to use contractors? Claire, do you want to go first?

Claire Provost: My name is Claire Provost. I am a fellow at the Centre for Investigative Journalism in London. Previously, I worked at *The Guardian*. I have spent a lot of the last five years looking at DFID's spending and trying to understand where the money goes. Unfortunately, we do not have someone here today but, maybe in the future, for the Committee, it would be good to hear evidence from people in developing countries. I can really only speak from the perspective of a researcher in the UK trying to figure this out from the UK perspective.

On the question, I certainly do not have, but I do not think it is useful to have a generalised objection. It is very much about the specifics, and there is one specific that I am most interested in: whether or not DFID has the balance right between using large contractors that are based in the UK and other donor countries, and using contractors that are based in developing countries. The reason why I have that objection is because, while it is still

difficult, in many cases, to follow the money and DFID's spending and see where exactly this money is going, there is really a wealth of evidence about the benefits of contracting directly with companies in developing countries in terms of job creation and building local capacity. It is also an approach that has a built-in exit strategy in it, in terms of building up local, sustainable solutions, self-sufficiency and capacity, et cetera.

I have a major objection and concern about whether or not that is happening enough, and the data that we have on DFID contracts suggests that it really is not. Even in DFID's last annual report, for 2014-15, it said explicitly that "British companies have continued to be very successful" in winning different contracts, "winning over 90% of contracts awarded". If that is the case, that is an extraordinary figure, especially 15 years after the UK untied aid. Untying aid was something that the UK has been applauded for over and over again. It is something that sets the UK apart from other donors, in the fact that it was a leader on that agenda.

From the beginning, the OECD's recommendation on untying aid explicitly said that untying aid should happen just not on paper but also in practice. As early as last October or November, the OECD, in its last report on untying aid, specifically called out the UK, among a number of other donor countries, asking them why it is the case that a very high share of contracts—volume or value—are still awarded to suppliers in the donor country. There are other donors, such as France and Japan, that do not have that statistic: for France, it is 34% French companies; for Japan, it is 23% Japanese companies—according, of course, to the data that is submitted to the OECD. Until books are completely opened, it is hard to scrutinise this independently.

Q160 Chair: Thank you very much indeed. We are going to pursue a number of the points that you raised in supplementary questions, but that was a great opening answer. Ian, over to you.

Ian Birrell: I would second exactly what was said: that it is just a new form of tied aid. I guess my issue is slightly more profound than that. I have no problem with the concept of outsourcing. I was a speechwriter for David Cameron, so it would be quite strange if I did. I have also advocated it within the health service as well. What I have a problem with is people who pretend they are part of the poverty industry but who are making excessive profits off the back of, allegedly, trying to solve development problems. We are seeing some pretty gross profiteering going on among some of the biggest private contractors, and the data shows that.

I think it is the legacy of the 0.7%, which is possibly the stupidest policy that has been passed in the last five years. It is noticeable that Britain's most recent Nobel prize-winner, Professor Angus Deaton, the economist and World Bank expert, shares this view. He also thinks that a lot of foreign aid is just another form of neo-colonialism. With cold logic, he has pointed out that aid is not needed when conditions for development are present; yet, when they are there, it is almost certainly corrosive to good development. He shredded the idea of a fixed aid target, highlighting its complete lack of logic and showing that it really only serves domestic purposes. This is something that I have seen.

The legacy of this is that, when you have to dole out more and more money all the time, inevitably someone has to dole it out. DFID now has fewer staff than it did in 2004, when

it was handing out less than a quarter of the budget that it has today. They are under pressure to dole out money, and everyone knows that—people inside and outside DFID know that—but the legacy of this is that you get a bunch of fat cats feeding at the dish. We see it with charities, which are beginning to get infected with the same thing, with increasingly inflated salaries. You have to wonder why Save the Children, for instance, needs 28 staff in London alone on six-figure salaries and a boss on £235,000. You wonder why Oxfam, which now employs 10,000 people around the world, while going on about inequality, has a boss in America on over \$500,000 a year. You see much worse in the private sector. A small group of companies have seen their profits, their turnover, their margins, their staffing and their salary rise hugely in the last few years off the back of DFID.

I know you will be hearing from Adam Smith International, and it would be interesting to hear from the director concerned how much he personally has taken out of his own companies in the last 10 years in terms of salary, bonus and pensions. I suspect the public would be pretty stunned to know the answer to that, if you got a straight answer, which is quite unusual for that particular company. Their operating profits have gone up. Their profits after tax have doubled in two years. They have an average staff salary there, according to their own company accounts, of just under £70,000, despite doubling staff in two years. It is little wonder that the firm is “optimistic” about the future.

They are not alone by any means. DAI Europe has seen its turnover rise from £17.4 million to £84.7 million in two years, partly through a takeover in order to increase access to donor organisations such as DFID. Its gross profits were up from £1.8 million to £10.5 million over the same period. Its Managing Director—surprise, surprise, a former DFID adviser—saw his salary rise from just under £250,000 to just under £300,000. It has not paid any UK corporation tax in the last three years, so it has taken all this money off taxpayers in Britain, it is claiming to be solving the world’s problems, yet it is not bothering to pay tax.

We are seeing the same with GRM Palladium, where the top director saw his pay go up £69,000 over the last year. It gets 95% of its income from this Government and pays less than 1% of gross profits in corporation tax. Oxford Policy Management—one of the better companies in the area—again has seen its pay rise for bosses, its profits rise and its turnover rise. Options, turnover, profits, staff numbers and average pay all rise substantially in the latest accounts. Total emollients for directors rose from £138,488 in 2013 to £263,629 one year later, all paid to one director. PwC, which has been attacked in this building for promoting tax avoidance on an industrial scale, has seen a surge in DFID spending, going up from £33 million to £42 million. It goes on and on and on. There are a whole host of subsidiary issues about this, which I am sure we will talk about later, but this, to me, is just excessive profiteering off the back of British taxpayers on the one hand and off the backs of the poor around the world, and I think it is pretty sickening.

Chair: Thank you both. You have both covered a number of issues that we are going to be pursuing with you in the supplementary questions, but also points that we had already planned to pursue with the second panel, so I am going to invite some of my colleagues to ask questions now.

Q161 Fiona Bruce: Good afternoon. In 2013, ICAI—the Independent Commission for Aid Impact—conducted an in-depth review on this issue and found that “contractors are an effective option for delivering aid”, which have “delivered positive results at competitive fee rates”. I was going to ask, “Do you agree with this conclusion?” but I have probably got Mr Birrell’s reply. Ms Provost can answer separately but, on the assumption that you are saying that you do not agree, why do you think ICAI came to that conclusion after an in-depth analysis of the evidence?

Ian Birrell: One of the problems I see with the aid industry is that the same people are doing the same jobs. We are seeing the same people evaluating the same people who are doling out the projects. People flip around, and the whole industry has a vested interest in thriving and doing well, despite the fact that there is so little evidence that any of it works and that there is so much waste. It has an appalling track record for rooting out corruption, whether at DFID or at private contractors themselves. It has an appalling track record of finding evidence of things going wrong. ICAI has done some good reports and I do not dispute that at all; equally, how do you sanction this sort of profiteering that is going on? How do you sanction average salaries of just under £70,000? How do you sanction companies doling out more and more money to their bosses when they are not bothering to pay British tax? If you are happy with that, that is fine, but I do not think British taxpayers would be.

Claire Provost: I read that report in depth at the time and I was looking forward to it so much because it is a subject that so many people really wanted proper scrutiny of. When I read it then and when I read it again this morning, I was disappointed both times. A very simple point is that the review overall gave it a green/amber score, which is a high score, but it recognised a number of really serious problems in the report, including issues with lack of learning and learning and expertise staying with contractors: “Decisions to use contractors are not guided by a strategic plan to deploy the right contractors, including major, niche and innovative new entrant organisations.” That issue concerns me also because of my broader concern about developing countries and companies that are just never getting any of this money. That issue and the issue of small providers in particular winning challenges and getting contracts is also mentioned in the report.

Another more significant problem in the report is that it looks at five case studies. All five case studies involved a large British, European or other rich-country contractor: Maxwell Stamp, Crown Agents, GRM, PwC and KPMG. When it says “competitive fee rates”, competitive fee rates compared to what—compared to a company in a developing country that could equally do the work? The comparison in the report was to other business consultancies.

Q162 Fiona Bruce: That comment is very interesting—sorry, did you want to finish?

Claire Provost: I have more to say. In terms of the report’s methodology, from what it described in the report, it looked like it only talked to big western contractors: DFID and other European—and Australian, et cetera—contractors. There was a survey done where the majority of respondents to the survey were 80 current DFID contractors, the majority of which—we do not know if they all are—will be large contractors based in the UK or in other European countries. In the case studies, we did not hear of other alternative examples, and neither did we in the evidence that ICAI collected when it surveyed

contractors and when it ran workshops with interested parties, including British expertise. Did we hear from small entrepreneurs in developing countries that are trying to produce the same sorts of things?

Likewise, in a lot of these cases, the big contractors then subcontract to companies in developing countries, but we did not hear from the subcontractors in the report. Were they getting enough expertise and knowledge transferred to them? Were they getting enough money? Where was the money going? We did not hear from them at all.

The last thing I wanted to mention quickly on this point is that, while the overall conclusion of that 2013 report was positive, interestingly it also noted that contractors are likely to be a bigger part of DFID aid delivery in the future because of increased spending in fragile states and risk-management concerns. On that point, in March 2015, ICAI did another very important report on UK development assistance—not only DFID—for security and justice programmes. In that report, it said, “DFID’s procurement of contractors is causing a range of problems, including long delays and rigid or unrealistic programme designs. We saw instances of high quality delivery by non-governmental organisations (NGOs), who may offer greater local knowledge and legitimacy than contractors but often find it difficult to compete in procurement processes.” It raised a number of concerns like that, specifically on the use of contractors, in an area where it is only going to increase. That, unfortunately, was not covered in the 2013 report.

What I am trying to say with this is that, in that report, I am afraid that ICAI let us down in terms of how that report was designed. It has also produced so much important evidence since, which really complicates the picture as to how DFID—and not only DFID, but also FCO, et cetera—are using contractors in aid programmes.

Q163 Fiona Bruce: I have a final question to Mr Birrell. Ms Provost has raised a large number of very pertinent points. There is just one I would like to pick up with you. You wrote an article in April this year about contractors, suggesting that six-figure salaries are commonplace, with basic salaries swelling to almost £300,000. You gave us a lot of examples just now. Are these figures in line with other, similar areas of the private sector, where contractors are providing similar areas of expertise but in non-aid areas? How do we address that challenge?

Ian Birrell: I have a fundamental issue that I do not think anything like these sums should be being spent in the first place. I think the whole principle of aid is wrong. Like Angus Deaton and many other experts in the field who are not part of the aid industry itself, I think the fundamental thing is undermining good governance, fuelling corruption and fuelling conflict. There is a whole raft of studies that show this. I think that question is academic.

Q164 Chair: You would not object, then, if it was for a domestic purpose. You mentioned outsourcing the health service. Say a comparable organisation was paid that sort of figure to provide a health service in this country.

Ian Birrell: The difference is that it is very easy to quantify the results in the health service. We can see that, for instance, with knee replacement surgery being done in the

Midlands, we are getting a better result and a more efficient service delivered at lower cost and with better outcomes than is being seen with the NHS. What you are not seeing is the same within the aid industry, because so many of these ideas are so vague. The whole idea of increasing good governance is one we particularly see in Nigeria. Nigeria, of course, saw a 116% rise in the amount of money going there under the coalition. Despite the fact that the Central Bank Governor said that \$20 billion had gone missing from the exchequer in oil revenues, DFID keeps pumping the money in.

In certain areas, we see claims being made. One person who worked for one of the big contractors told me that a bunch of them flew in from Britain. The only local people were making tea and serving food there, apart from a handful of state governors. The state governors were then put up in a nice hotel and told all about how to spread entrepreneurship, and they all went back again. A lot of them then lost their posts in the election, so it was a complete waste of money. It was then claimed that 10,000 entrepreneurs had been encouraged through that one particular programme.

It is an example of how there is an abuse of statistics going on at every level in this, which we see time and time again. I have seen again and again with DFID and with contractors et cetera, and that is the big difference. You can quantify what is happening in the NHS; it is so difficult to quantify the impact of aid on, say, improving governance in Nigeria.

Q165 Mrs Grant: I have a question, please, for Ian and Claire: how much money does DFID spend on contractors, and do you think that spending via contractors is a necessary part of the aid budget and the aid programme?

Ian Birrell: It is an inevitable part. If you are ramping up money—another £4 billion by the end of this Parliament—and you are keeping staff the same, it is academic. This whole discussion is rather pointless, because you have to dole the money out, and people have to be there to dole the money out. As I said at the start, DFID employs fewer people now than in 2004, when it was handing out less than £4 billion per year; therefore, someone has to do it and, inevitably, it is going to be contractors. We do not know the exact data because I am afraid DFID is very duplicitous in its response when we ask questions and does its best to evade them, for all its talk about transparency.

What we did manage to work out from our own investigations last year was that £500 million went to the 11 biggest players, which was almost double what they had received two years earlier, despite DFID promising to reduce spending on contractors.

Q166 Mrs Grant: Do you think that using them is a necessary part of the delivery of aid? I know your position on this, but we are where we are and there is legislation, so we are all having to deal with the situation now. Do you think using contractors, bearing in mind how many staff there are at DFID, is a necessary part of that programme to help some of the poorest people in the world?

Ian Birrell: I think the whole programme is utterly destructive.

Mrs Grant: I know.

Ian Birrell: Therefore, it is an academic issue. If we are to spend the money, we could increase the staff at DFID. We are clearly seeing that these big private contractors are inflating their profits, their margins and their salaries. They are doing it at taxpayers' expense.

Q167 Mrs Grant: Yes, I have got that point, with the greatest of respect. I genuinely want to know what you think; I really do. We are where we are with it, but do you think there need to be more staff at DFID if this is going to be the way we continue? I know your position.

Ian Birrell: All I will do is keep saying that I think there should be fewer staff at DFID and far less money handed out, and I do not think they should be using contractors.

Q168 Mrs Grant: Because we have legislation that requires us to spend the amount of money that we are talking about, how do you propose we comply with that legislation?

Ian Birrell: I do not, because I think it is so destructive. The whole point is that it is destructive. You are undermining good government. You are propping up regimes—

Q169 Chair: Are you opposed to all international aid? Is your view that all of this should be abolished?

Ian Birrell: I share Angus Deaton's view and I respect the Nobel prize-winner who has made a lifetime's work of investigating global poverty, rather than people in the industry. Perhaps some of the health stuff has worked, but very little other than that.

Q170 Chair: Education?

Ian Birrell: We talked about ICAI. £1 billion went into three east African countries and did not raise the level at all. I have seen, in places like Kenya, how it has really backfired incredibly badly. In fact, it increased inequality and drove rich kids out of good schools, which were very harmonious, where rich and poor alike were being educated. Because of what we did, the rich kids now go to separate schools and the poor kids are setting up their own schools, because we destroyed good schools with our aid.

Q171 Mrs Grant: What about protecting women and girls from FGM, forced marriage and domestic violence?

Ian Birrell: You can go to all these countries and point to a lovely scheme, but it is about the bigger picture and the fact that you are undermining the governance.

Q172 Mrs Grant: Do you think we should be trying to help these people or not at all?

Ian Birrell: It is about how you do it and how you really help them. Studies show that, even in Congo, where people have put a lot of effort in, because of the higher profile given

to very laudable and noble attempts to try to sort some of the problems of conflict rape and mass rape, the amount of rape has increased because warlords want to get to the negotiating table. We have to be very careful. So often, outside interventions driven by the very best of intentions—and I do not remotely disparage the intentions of those people—backfire.

Q173 Mrs Grant: You accept that some good interventions can work and help people.

Ian Birrell: There are very few that work. Possibly some of the health ones have worked, and that is about it.

Claire Provost: I do not think the current situation with contractors is in any way an inevitable consequence of 0.7% or government commitments to aid spending. The UK is a very generous aid donor but not the largest one. The largest one is the US; it is much, much larger. There is not a 0.7% target but their overall spending is significantly larger. It faced similar problems to DFID five to 10 years ago, when it had also lost a lot of its in-house staff. It was also contracting most of its work out. Five years ago, it launched a procurement-reform plan, a very big plan, which set a target of 30% spending through local organisations, businesses and non-profits.

There are things that can be done. It is not just cut all aid or continue business as usual. There are lots of things that other donors have done to try to address this issue and to take account of the fact that, even if the UK is spending historical levels on aid, it is still a pretty small amount of money compared to the challenges that exist. In order for this money to be used effectively, you want to do as much as possible with every pound—hence the whole value-for-money mantra. You can turn procurement contracting into development assistance of its own, by helping build local capacity in local organisations. There is a lot of evidence—and I will submit it all in further written evidence after, with references—of how this can magnify the impact that you get with every pound.

That is specifically why the US embarked upon this procurement plan. It is five years into the reforms and local procurement has increased from 10% up to 20%. It is still not at the 30% target but it shows what can be done in five years. One of the strategies used in that case, in a situation very similar to the UK, is to encourage contractors that subcontract to help those subcontractors become prime contractors. If that never happens, there is a particular power dynamic that stays there for ever. If a subcontractor is developing expertise through a relationship with a bigger contractor, someday eventually it should be able to bid for that business on its own. That is the one of the things that is being encouraged. There are a lot of strategies that a department can employ to better use this money.

In the current situation, there are other things DFID could do. DFID could stop using contractors all together, but I do not think that that is necessarily what it should do. It could go back to a situation, as in the past, where more money was channelled directly to partner Governments. It could also stop procuring things itself; it could channel money to developing countries and let them procure it and help them build up their procurement system, so that they procure things for themselves. That is a strategy that has been repeatedly endorsed at international aid-effectiveness meetings. If you procure donor-funded goods

better, maybe you procure everything better, and that leaves a much larger impact on the country than just one project coming in and doing well.

Q174 Mrs Grant: I have another question. I hope I did not cut you off, because it was very interesting. Your report mentions what you call extraordinarily high day rates paid by DFID to contractors, and I just wondered whether it was wise and sensible to be comparing daily rates with monthly salaries.

Claire Provost: Ideally, the data would be completely transparent and we could draw different comparisons. That comparison is just based on the data that currently exists. No, of course, a better comparison would be day rate per day rate or monthly salary per monthly salary, absolutely, but I do not have that data. It does not seem to exist.

Q175 Jeremy Lefroy: On that point, I asked a written question last year about the number of individual contractor payments of more than £400 a day, but DFID was not able to give this information, so it emphasises that perhaps there needs to be more transparency and detail in some of the information that is held. I would like to turn now to DFID's procurement. DFID's procurement group has won a number of awards for its work: for instance, best cross-functional teamwork project and best contribution to the reputation of procurement last year for its work on Ebola, which we looked at and felt was extremely good. The question that I have raised in the past and would like to raise with you now again is whether you think that, given that we are going out to contractors, there are enough people in the marketplace to ensure that the rates are competitive. Are we fishing in a fairly small pool, which would tend, with market forces, to drive prices up? I wonder if you have any comments on that.

Claire Provost: First of all, the transparency point is extremely important. I know you mentioned it in passing, but it is extremely important because it is one of the reasons why there are so many misinformed debates about aid spending right now. There are so many headlines, for example, written all the time that are just misconstruing what has fundamentally happened. No money is being handed over to despots; this is not happening. Transparency is a massively important thing. I will submit this later in evidence but I brought a copy of what you can get online. It is basically a list of what you cannot get. There may be a few exceptions to this, but I looked at every single contract that is published, and they usually have a list of documents, which always exclude the critical documents that you would want, including section 5 of the contract, the schedule of prices, where you would find things out like day rates.

In terms of competition, the fact that DFID itself says in its annual report that 90% of contracts are won by British companies shows that there is not enough competition. If there was, French and American companies would be winning. Aid is untied.

Q176 Jeremy Lefroy: DAI is an American company and it is one of the top three.

Claire Provost: Yes, absolutely, but it must be a small percentage or DFID's statistics must be wrong, because it says that 90% goes to British companies. It depends on how they are calculating that figure.

Q177 Jeremy Lefroy: You mentioned USAID. Does USAID have an untied-aid policy or not?

Claire Provost: I would really have to check the current status of regulations. It has, historically, been tied for a really long time.

Q178 Jeremy Lefroy: I do not believe it does. Is DFID pretty much the only major aid agency that is completely untied?

Claire Provost: No, I think approximately 80% of global aid is untied. It is a lot. It is a high percentage of aid.

Q179 Jeremy Lefroy: Could we have those figures?

Claire Provost: I can find them and submit them in evidence after this.

Q180 Jeremy Lefroy: It is very important because, if DFID aid is untied and if we are saying that 90% goes to British companies, the implication is that it is untied but tied.

Claire Provost: Absolutely.

Jeremy Lefroy: This has been a major argument by DFID: that our aid in the UK is untied. It may just be that British companies are, in this limited pool, the best at delivering.

Claire Provost: That is possible. It is a fact that, from the beginning, the untying-aid recommendation from the OECD was also to be untied in practice, by which they meant eliminating barriers to entry for local companies and looking at what can be done to increase local sourcing. The idea of going through local institutions is repeated at every single major international conference that the UK attends, including the latest aid effectiveness conference in Busan, where it was explicitly said that opportunities for local procurement, business development, employment and income generation must be priorities in developing countries, and that was specifically to do with how partnerships are done.

The fact is that we cannot see the bids, so we do not know who is bidding for these projects. We see contracts when they are awarded. An LSE study from 2011 calculated that, in their sample, there were 2.6 bids per contract. I do not know how that compares to other contracting procedures or whether that is a lot. The OECD has recommended that aid donors publish their invitations to tender on a co-ordinated website, so that companies and donor countries do not have to go DFID's procurement website, Germany's procurement website and France's procurement website, but can go to a singular website and get business opportunities. That recommendation has also existed for 15 years; to my knowledge, the UK does not publish to the extent that it should, because, again, it is repeatedly called out at the OECD for not doing so.

Q181 Jeremy Lefroy: Does that apply to other countries as well?

Claire Provost: Absolutely, yes, and other countries publish their invitations to tender there, as far as I understand.

The other thing to mention is that, if you go to DFID's procurement page on its website, it looks as if it is written for UK companies. It tells you very clearly about how there is a unit of UKTI—UK Trade & Investment—that can help you understand how to win donor business. It tells you that the annual supplier conference is in London. If you think about who it is written for, it looks like it is written for a British company, not for a Kenyan company.

Q182 Jeremy Lefroy: Would USAID, for instance, not do its one in Washington? Are we not holding DFID up to a standard that nobody else applies?

Claire Provost: According to OECD data—and this could be incorrect—only 34% of French aid funding contracts go to French companies. France is just next door, and France is awarding a far smaller percentage to its companies. The UK has consistently been at over 75%. According to its own figures, it is 90%. That is why the OECD has repeatedly asked DFID, “By comparison, other DAC donors whose aid is also formally fully or mostly untied have much lower shares of contracts awarded to domestic suppliers. In light of such differences, the UK should ensure that their procurement regimes are commensurate with the DAC requirements for ODA to be untied de facto and should undertake efforts to ensure there are no unintended or implicit impediments to foreign suppliers winning their contracts. This could involve, for example, revisiting DFID's Key Supplier Management programme.”

In the past, there have been many studies that have looked at how donors procure and that have identified many problems, which, in the case of the US, it has to a limited extent, in its procurement reforms, tried to address: things like procuring from headquarters, procuring from the UK, having your supplier conference in the UK and things like that. If more is devolved to country offices, maybe there are more opportunities for engagement with local companies. There is a problem with fragmented donor procurement: if a company in Kenya or Tanzania wanted to win any aid business or learn anything from the relationship with DFID, it would have to go to DFID's website and then the French development agency's website. That makes it harder for them. Large contracts also undermine chances for small and medium enterprises in poor countries. If a contract is £40 million, it is very difficult for a small company to bid for that. Donors consistently do very little to level the playing field and address these things.

In ICAI's 2013 report, one of the things it usefully did—because companies' bids for contracts are not public information—was to review a sample of company bids.

Chair: We are going to have to slightly speed things up, because we are not quite halfway through the questions but two thirds of the way through the time.

Claire Provost: Yes. The last thing I was going to say is that it found that a bid cost on average £40,000 to write up, which is a lot for a small company in a poor country to pay up front on the off chance that they will win.

Q183 Chair: If we have time, we are going to return to this issue of the local with a question a little later on, but thank you. Can I move on to something that Claire said earlier around DFID's increasing focus on fragile and conflict-affected environments, and ask both of you: if DFID were to reduce its use of contractors in a context where it has a greater focus on conflict-affected countries, do you think DFID has the capacity, the ability and the risk-management processes to bear all of the risk that, inevitably, it would face if it did not have the contractors that it has at the moment? I will perhaps come to Ian first to answer that.

Ian Birrell: There is a more fundamental question, which is: what is a fragile country? What is a fragile state? I go to a lot of these so-called fragile states where contractors are saying they need intense security. They have these new waves of military firms supporting them. They have four people. They spend three times as much on the security as they do on the contractors themselves. Parts of the country are absolutely fine. I wander around in jeans and a T shirt, going out whenever I want and going wherever I want, and I have absolutely no problem, and these are defined as fragile states. How much of Ethiopia is really a fragile state? How much of even DRC is a fragile state? How much of Nigeria is a fragile state? Obviously, Yemen and Syria are fragile states, but the bulk of Nigeria, beyond the north, is not a fragile state. It has issues and you can get hassled and hustled and the rest of it, but most of it is far from a fragile state. The core question you should be asking is: what are these fragile states?

Of course, the security industry has grown up like the aid industry, in that it has a vested interest in writing draconian reports saying that everywhere is going to hell in a handcart, it is awful and it is unsafe, when it is absolutely not. This is one more way in which the whole image of Africa in particular is being ruined and trashed in the west, because you have these giant industries growing up. On the aid side, you have the charities, the press and the politicians, and now you have the security industry, all saying that Africa is a place of fear and loathing, full of conflict, disease and poverty, which is why people do not go on holiday and why businesses do not go there. If you study the reports on businesses investing in Africa, there is an annual report that shows that businesses that are not in Africa have the most pessimistic view of it of any place in the world. Businesses that are there have the most optimistic view.

Chair: Yes, as is often the case with everything.

Ian Birrell: This is all a by-product of what is happening with the aid and the security, so I think there is an issue.

I would also like to go back, if I may, to the day-rate issue. This is a big part of the procurement question, because firms bill for, say, 150 days on a day rate of £750 a day. Quite often, they pay less to the people doing the work; that is a well-known practice. I never understand why that is allowed; maybe you need a tiny management fee but the gap is absurd, quite often. One guy told me he paid out £400 and charged £800, which is, again, more profiteering at the expense of British taxpayers. Another DFID official told me he quit a £60,000-a-year job with DFID and started doing the same work for £650 a day, saying you can make £150,000 a year without any sweat. I heard of another person who was part of a big contract. She was the only western person employed on a very high day rate. As soon as they got the contract, the company canned her and just used someone in the office.

This whole issue of day rates is a scam going on, and you should really interrogate that and drive down and find out what differentials are accepted, why such big differentials

are accepted and what is done to check that these people do the work. Again, I was told of interns doing work that is paid out to people who are meant to be hired locally at £250 a day. Note, always, the differential between local workers and international workers, which is another of the obscenities of this whole industry.

Claire Provost: In many cases currently in fragile and conflict-affected states, if we use the term, the contractors DFID is working with will already be subcontracting to local organisations, so the major question is why DFID cannot contract with them directly. If they need higher capacity to do so, maybe that is a necessary useful cost. There will be trade-offs in lots of these areas, but, if the risk is losing expertise, knowledge and contacts with those local groups, losing the opportunity to spend more money through them, so that they are able to control more of their work, et cetera, you would have to look at that and think whether the middleman is really necessary and what added value you are getting from the middleman, if, at the end of the day, local people are going to be doing most of the work anyway. Where is the money going? How much stays with the international contractor? In a lot of DFID procurements, from what I understand, there are five to seven steps in subcontracting, so how much stays at each step? These are all questions that, unfortunately, we cannot answer with the information that is currently publicly available.

The other thing to mention with conflict-affected and fragile states is that I would refer the Committee to the series of reports that the Overseas Development Institute commissioned, funded by USAID—the “localising aid” reports. They looked precisely at this question of whether spending through local organisations works even in risky contexts and in conflict-affected and fragile states. For example, “We found that the risks of localising aid”, which is their term for spending it locally, “in Afghanistan were not greater, and probably smaller, than not doing so.” “This implies that this finding may also be true in countries with better-functioning institutions. In our Afghanistan example, localised aid carries a slightly higher fiduciary risk but significantly lower programmatic, contextual and institutional risks”, which is also another major point. When you look at risk and working in these situations, what kind of risk are you looking at? Are you looking at the risk to DFID the minute the money gets out of the door, or are you looking at the risk in the long run to the local community in the country where this money is budgeted for, where the public thinks this money is going? How do you make that bit the most effective, not just getting it out of the door?

Chair: Thank you. We have three more questions and 15 more minutes.

Q184 Mrs Grant: How do you think DFID’s use of and reliance on contractors—and you have both touched on it slightly—affect its own levels of knowledge and expertise, and can that be improved? To both of you, please.

Ian Birrell: I do not have much faith anyway in DFID having much knowledge or expertise. It is just part of a scam and an arrogant, self-serving attempt to pretend that we can solve all the world’s problems. It is actually pretty arrogant towards the countries that it is claiming to help. I often wonder how people sitting around here would think if Uganda was to send lots of people over to tell us how to run our schools, or if Ethiopia was to tell us how to run our health service.

Chair: If Finland sent people to help us with our schools, I would be quite pleased.

Ian Birrell: I am not sure you necessarily would. I am not sure the press would like it and I am not sure your constituents would like it. There is this arrogance behind the whole idea of everything that we are talking about here, which is that we have the answers to the world's problems and that we can go out there and tell people what to do. It is infantilising for the countries concerned.

As for the whole idea that DFID has knowledge, I find DFID an extraordinarily un-transparent body which does its best to always hide and obfuscate, rather than to tell people what is really happening. It is very hard to ascertain what knowledge they have when they will not engage in proper debate. They talk endlessly about being so transparent but, again and again, they do their best to hide detail. We see it at every single level, so how do we judge it when they will not engage, will not be transparent and will not give you facts? It is very difficult.

Q185 Chair: That is part of our job and one of the intentions with this is that, having taken the evidence we are taking today, we will be taking the points that both of you and others have raised.

Ian Birrell: Let me give you one example. As part of their promotion recently, they have been pumping out a lot of data. They give a list of all these amazing figures they have of things that they are doing. I spent two weeks saying, "You are saying that you have helped 13 countries with free and fair elections, in which 162.1 million people voted. Will you tell me which they are, where they are and what the elections were? Where the health outcomes that you are bragging about, with these millions of people you are helping?" These are not very hard things. This is their own promotional literature.

It took me two weeks. Eventually, I was told that I had to put in a freedom of information request to get this sort of information. This is their own promotion that they are putting out. I did discover that the 13 countries that have had free and fair elections include Zimbabwe, which, to me, is not a very good example; a vote in Pakistan, where there was sectarian violence; an election with one candidate in Yemen; and an election in Uganda. We know what has happened now in Uganda; Museveni has just claimed his fifth election in a vote scarred by ballot-stuffing, bribery and intimidation.

They also claim to have helped 101 million people gain control over their own development and hold decision-makers to account. These, according to their figures, included 4.1 million people in Ethiopia, which, as we know, is home to a very repressive one-party regime accused of horrific human-rights abuses. Despite what Claire says, Britain has helped with land clearances backed by murder and rape. How was this done? A spokesman said that media support resulted in listeners to health radio programmes reporting more positive attitudes towards birth preparedness. On the one hand, they are claiming that they are telling truth to power to a very despotic regime; on the other, it turns out what they are doing is playing a few things on the radio. That is the sort of transparency that we get from DFID. To me, it is not far off lying. They are pumping out these vast statistics that are entirely bogus, and then they will not let you delve down into them, so how do we decide if they are doing a good job or not when they are behind this sort of behaviour?

Claire Provost: I will say something very quickly. I think there are two different issues in what was just raised. There is a transparency point, which is very important, and there is a general disdain for aid. To put that issue to bed in a way, aid is just public funding. If you are against public funding, of course you will be against aid. Like any kind of public resource or public funding, aid can be spent well or spent badly. It can be spent wastefully or spent usefully. It makes a lot of sense for DFID to be spending money in countries that have serious problems, because you would not want to spend money in countries where everything is fixed. If there are problems with elections, of course that is where you would want to put your election assistance. There is a big problem with us not being able to follow the money and understand where it goes, however, but the problem of spending aid in places that have problems is not the problem.

Ian Birrell: The issue, though, is that they were boasting about supporting free and fair elections to try to get support.

Claire Provost: Yes, but how do we know that they would have been better or worse otherwise?

Q186 Mrs Grant: The question was whether reliance on contractors is affecting DFID's knowledge and experience. That was the question.

Claire Provost: Given the lack of transparency, the evidence that exists seems to suggest it is a major problem. ICAI has mentioned it in many reports, not just its 2013 report but also its report in 2015. I think the learning issue also comes up in its 2015 report on security and justice assistance. The issue is not just about expertise within DFID but also about expertise within developing countries. Whose expertise are you building? If you are building private-sector expertise in the UK, maybe that is a great thing to do, but not with the aid budget. Aid does not need to be spent in ways that are paternalistic and patronising. Aid can be spent in other ways.

Q187 Mrs Grant: You think there are problems and there is room for improvement.

Claire Provost: Yes, there are certainly problems with how UK aid is spent now. It is not doing what it could do, but there are lots of different ways to spend it. It could be spent strengthening public services.

Mrs Grant: We are talking about knowledge and experience. That is the point that I am drilling into for now, but we will go through that.

Claire Provost: Can I say something substantively on that point?

Chair: Very briefly, because we are eating into the time for the other questions.

Claire Provost: There is another question—the opposite question: how much do DFID contractors absorb the knowledge and expertise that DFID has? DFID has produced so much incredible research—really cutting-edge research—and funded and commissioned lots of really good work. Is that being taken up by its implementers? It is not clear.

Q188 Fiona Bruce: In response to your question from Mr Lefroy—and, for the moment, I am addressing this question just to Ms Provost—you indicated that you thought there was insufficient competition in the sector, in practice, between different contractors and between large and small contractors.

Claire Provost: Yes.

Fiona Bruce: You are confirming that again.

Claire Provost: Yes. I wish I had data to back that up, but we do not have the information on who bids for contracts.

Q189 Fiona Bruce: Thank you. To ask a specific question, I wonder if you have any comment on whether DFID's framework agreements, which create pre-formed and pre-qualified consortia by sector, are affecting the way that the market works.

Claire Provost: Yes, absolutely. This has also been repeatedly said by people who know far more about DFID's internal procurement procedures than I do. One thing that is important to bring up is, again, the 2013 ICAI report—and this is another titbit of really good information—mentions an advantage and a disadvantage to framework contracts. The advantage is that, by already pre-selecting contractors, you can cut out stages of the procurement process, make it all faster and get more money out of the door. A disadvantage, they said—and this is really interesting—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 a Bangladesh project in 2003, Maxwell Stamp had never delivered a major livelihoods programme and so might have struggled for a place in one of these framework contracts. If Maxwell Stamp could struggle to get into a framework contract even 10 years ago, how does a small company in a developing country get into a framework contract?

Q190 Fiona Bruce: I have a further question to both of you, and, Mr Burrell, comment on my wider question also, if you wish to at this stage. Do you think it is the case that DFID simply does not have the expertise to manage small and local contractors properly?

Claire Provost: That is entirely possible. Someone would have to investigate that more thoroughly. That is entirely possible, given how many staff have been lost from the Department. If it is the case that you need greater in-house capacity to be able to do that, that might be a really valid thing to argue for—more capacity—so that you can work more directly with organisations in the countries we are trying to help.

Q191 Fiona Bruce: Even in the numbers that it had before a reduction in capacity, do you think it was building up that expertise?

Claire Provost: I do not know enough about that, but, if you were going to ask DFID about it, the question would also be how many of the staff were or currently are at DFID headquarters here and how many are out locally. In the case of USAID's procurement reform, it seems to be a major plank of the reform to try to devolve some of the

responsibility to local offices, so that those local meetings can happen and you do not have supplier conferences just in London.

Ian Birrell: This gets down to the whole distorting effect of aid. In 2005, ActionAid delivered a very good report that showed that the average recipient country in Africa had to do 10,000 donor reports a year and host 1,000 visits from donor countries. That means that, in a very often quite weak public sector, a huge amount of it is being created to answer back to the donors. Since then, we have seen a vast inflation of the donor industry. Since then, in Britain, the aid being given out has quadrupled, but we have seen all these wealthy new entrants come out from India, the Gulf States, Turkey and Brazil, et cetera. This industry has grown and grown, and the entire system of government in these countries is being distorted in order to track back to that money and to satisfy donors.

While what Claire says is very noble, and I agree entirely with the sentiments, the reality is that, on the ground, you are going to get the public sector devoted to trying to feed back to the donors to follow the money, because people always have to follow the money. That is a real problem.

You also see that, when you get fashionable things come in, the public sector in some of these countries switches. A few years ago, it was all about women and girls. Again, very laudable: trying to get more girls into education and to get more women to take control of their own lives. You then had the entire system being distorted, so it was all geared towards getting that money. Then it was towards conflict-resolution. There is this problem that, because this tide of money is coming in from abroad, of which we are just a small part—although a ridiculously over-generous part—there is a distortion effect on Governments in these countries. There is a fragile governance often growing, and they have far better things to do. Instead of looking up and reacting to western Governments and multilateral agencies, they should be reacting to people on the ground. This is the core issue that lots of people see as the whole problem with aid.

Chair: We have only two more minutes, so I will turn to Jeremy for the final question.

Q192 Jeremy Lefroy: Just very briefly, I am interested in what Mr Birrell has been saying. His focus is on health as being an area in which a lot can be done, and I would certainly agree with that, seeing the tremendous work that has been done on malaria, HIV/AIDS and TB over the last 15 years, a lot of which has come from donor funding. Would you agree that working with countries to improve their tax collection, so that they are much less reliant on outside sources of funding, is also an area which is extremely important?

Ian Birrell: Again, even on health, while I concur that some of it—things like the malaria stuff—has been impressive and has clearly had an impact, I would just point out that possibly the best hospital I have visited in Africa was one set up on Somaliland. I do not know if you have been to Somaliland, but it is a maternity hospital set up by a woman who retired from the World Health Organisation, with her own money. What was interesting was that Somaliland, at the time, was not recognised, so it was getting no aid money. In fact, a paper written at Stanford said that this was one of the bits of evidence that proved how corrosive aid could be. Somaliland's health and governance system was so good at that time, despite not getting any aid.

I think we need to be careful in making too big a claim, even on the health front. There is also evidence that the more money is put into a health service, the less is spent locally on health from their own budgets and more goes into conflict. Again, we need to be careful.

As to the ideal of trying to get tax collection, of course it is a good thing. We know it is ridiculous that we are giving so much money to Pakistan, and it was shown that not even one of the parliamentarians was paying tax. This is one of the core problems that you have. The question is how you do it. It is good to help schools, it is good to help hospitals, it is good to help governance, it is good to help entrepreneurship, it is good to help tax collection; unfortunately, everything we are doing is the wrong way round and, quite often, we are making matters worse. That is the problem I have and the problem that we are seeing again and again. The best of intentions are having the worst of outcomes, and we are ending up doing more harm.

To take the whole issue of tax collection, quite often we are propping up regimes that are very corrupt and so, rather than helping with tax collection, we are fostering the corruption. Before, we tended to always blame them but, as we know, most of that money ends up going through our own tax havens and being washed by our own companies in the City of London.

Chair: That is a fair point.

Ian Birrell: Let us not pretend that it is a problem over there; it is a problem that starts here. If we really want to help, why not start by having a better visa policy, so that tourists and entrepreneurs from these countries can come here instead of being caught up in the backwash of our immigration hysteria and being unable to come and visit the country? If you talk to a Nigerian businessman who is trying to expand a business in the country that is really going to be the economic driving force of the continent, quite often they cannot come to Britain because they cannot get a visa, because we assume that they want to come and stay here when all they want to do is trade. They do not come here, but go to Brazil, Turkey or somewhere more welcoming. If we really want to act, why do we not look at things that we can do ourselves? Rather than trying to solve their public services and their tax collection, why do we not tackle our own corruption at home and our own issues, such as visa? These are things that we can do and things that are here, which are causing problems over there in the developed world. That is how we can help development, instead of pretending we have all the answers and that we are the heroes who can go and right all the wrongs across Africa and Asia.

Chair: I am really keen that we move to the next panel, because we have a lot of questions to put to them.

Jeremy Lefroy: The last question we have is a fairly small one, so I will leave that one.

Chair: Can I thank you both? You have both covered an incredible amount of ground in an hour. Please feel free to stay to hear the other panel. The evidence you have both given today—and certainly any further evidence that either of you would like to submit in writing—will be extremely helpful for us. Rest assured that, whatever differences we may have on the 0.7%, on the issues of accountability and transparency that both of you have

raised today, we, as Committee members, absolutely share the concerns and will be taking them forward as part of this inquiry. Thank you both for giving us evidence.

Examination of Witnesses

Witnesses: **Peter Young**, Director, Adam Smith International, **Sarah Maguire**, Director of Technical Services, Governance, DAI Europe, and **Mark Foster**, ex-Commissioner, Independent Commission for Aid Impact, gave evidence.

Q193 Chair: Welcome. All three of you had the opportunity to hear the first panel. We took an hour with two panellists to cover eight questions. We have an hour with three panellists to cover 10 questions, so we are going to need higher standards of brevity, both from those of us asking but also from our panellists. As with the previous panel, when you have the first opportunity to answer, please briefly introduce yourselves. I am going to invite Helen to ask the first question.

Q194 Mrs Grant: Thank you, Chair. Good afternoon, panel. You have heard in evidence, and the *Mail on Sunday* claims, that directors' salaries and dividends are on the rise and have risen. Do you think there is room for improvement, in terms of contractors giving better value for money? Could I ask that of everyone, please, and maybe starting with Mark?

Mark Foster: First of all, I am Mark Foster, commissioner with the Independent Commission for Aid Impact and lead commissioner for the report that has been widely quoted so far today. I am delighted that so many people have read it. That report was published in 2013. Obviously I was a commissioner until 2015 and saw a lot of further evidence of contractors at work on my travels and in the reviews I did subsequently to that. I will say, in respect of some of the comments that were made by Ian in particular, I was also the lead commissioner for our work on scale-up in fragile states. One of the critical things about that was that we made the point that increased money should be not just more money, but better spent as well. I will come back to that point.

It is also worth saying a few things about the fact that, while the report was viewed as being overly positive about the use of contractors, it was not a wholly rosy picture. We talked about effectiveness and also about value for money. I will come back to that specific point. However, there were some very key points to address issues like the balance between small and large players and the fact that we felt DFID should have a clearer strategy about when to use certain players. We made a very clear point that the effectiveness of the contractors and anybody working for DFID would be significantly improved if there was better programme management from their side. When we come back to the issue of value for money, and indeed the whole point about the seniority of people and the pay of people in the field doing work, whether it is a contractor, a multilateral agency or whatever it may be, in the end the key point is that you need to make sure that that person is the right person for the role. It is all about fitness for

purpose, in both the use of contractors at the right times, and also the use of the right people in the chain at the right point.

Q195 Mrs Grant: You have not answered the question about value for money. Let us assume the right person or the right company is in place; I completely get that. Do you think there should be more done and that there is room for improvement in terms of giving DFID better value for money?

Mark Foster: I am sure there is scope for more value for money with regard to the use of contractors. At the end of the day, any one of the partners who is working inside the value chains that DFID is working with has room for improvement, whether it is the multilateral agencies, the NGOs or the contractors. There is absolutely scope for that. A lot of it is about DFID being clearer about what it wants to do. The clearer it is about that, the better relationships it can have, and the better value for money can come from contractors responding to that. I am also sure that there are wiser and better ways for contractors to use technology and emerging, new approaches to delivery that could also deliver better value for money.

Q196 Mrs Grant: Do you think there might be a moral duty as well, bearing in mind where this money is from and what it is supposed to be doing, to forgo profit?

Mark Foster: I would ask my colleagues to comment on that.

Mrs Grant: Not profit—I should say maximum profit.

Mark Foster: That is a judgement for others to make. My view is that, at the end of the day, what we should be caring about is the fact that the best people for the task are doing the task, and that we are comfortable with the amount of money that is being spent on their part of the chain.

Sarah Maguire: I am really grateful for this question. My name is Sarah Maguire. I am the Director of Governance, Technical Services for DAI Europe. Let me spend 30 seconds giving you a bit of background. I actually do work in developing countries and have spent almost 20 years in some of the world's most fragile and difficult countries, including those that are conflict-affected, working for DFID, the UN, NGOs and private contractors, and as a private contractor directly for DFID. I was also the CEO of a small consultancy organisation, so one of the very small SMEs that we have been talking about. I get very passionate about this issue of value for money. I would really like us to focus much more on value than we do on money. You can spend the same amount and get a huge amount of value for it, or you can spend less and get so much less for it that the value is dissipated.

I welcome what Mark has just said about the use of innovation and technology. I can give you an example from a project that I am involved in in Sierra Leone: the Access to Security and Justice Programme for DFID. We started a project that would bring information about legal entitlements in international law to women and girls living in rural communities in the remotest areas of Sierra Leone. When we first started that project, we were operating purely through radio and the use of little, sub-standard handheld Nokia mobile phones, because that was the level of mobile phone penetration. One of our partners in that project, BBC Media Action, recently launched a WhatsApp means of

communication, which has been used by thousands of people, including in remote, rural areas and including those very same women and girls. The value for what we offered in June 2014 when we started the project has gone up exponentially simply because we have been able to make use of the changes in technology, adapt to the context and adapt to the innovations.

Mrs Grant: In that example you are saying, “We did a really good job here, and in my opinion we could not have given any better value for money”.

Sarah Maguire: We could not have at that point. The challenge that we all face, whatever part of the aid world we are working in, is to try and anticipate opportunities, grasp them and create them where we can, and make sure that we are always driving to the value. We have to measure that value in terms of whether we are reaching the people we need to. With all of the projects I am involved in, I always drive our teams to think, “Are we delivering to that 14 year old girl who is illiterate, deeply impoverished, possibly married, possibly already with a child of her own, in the most dreadful circumstances?” If we are changing her life, then we are delivering value for money. If we are not changing her life, and there is no likelihood of our work changing her life in the near future, then we are not delivering value for money. That is how we need to reframe this argument about value for money.

Q197 Mrs Grant: I am sorry to interrupt you. Do you think there is a moral duty, perhaps, on organisations to forgo maximum profit?

Sarah Maguire: Yes, I do. There is a moral duty on everybody to forgo maximum profit. In DAI Europe, we try to ensure that the level of profit that we achieve, which is slim—you have seen from the written evidence how slim it is—is balanced with our moral obligation, professional obligation, social obligation, political or human rights obligation—call it what you like—to do the best for the most in the most difficult circumstances.

Peter Young: I am Peter Young, Director of Adam Smith International, which is an SME, by the way. It is often called a large contractor, but it is better called a successful SME. The critical first point is that there is extraordinary value for money currently being delivered. To give a couple of examples, over the last year in Sierra Leone our revenue reform team, at a cost of about £2.2 million, has helped the Sierra Leonean Government raise an additional £55 million through a short-term revenue improvement plan. Over the course of a three year project, we should raise, on a very conservative estimate, an additional £120 million. By 2023, we estimate that the Government will be making about another £200 million each year, so that is on a sustainable basis. Contrast that with budget support to Sierra Leone: we gave £43.5 million between 2013 and 2015. That and is not sustainable. Our assistance, which only costs £6.8 million, is delivering tens of millions of extra pounds into the Sierra Leonean treasury to be spent on basic public services.

Apparently, some people say, and I heard it in the first session, that you cannot measure this stuff. Well, there is lots of stuff that you can measure. I absolutely reject the idea that, just because something is aid funded, it does not work. There are lots of things that work, and work very effectively. We do similar work directly on tax, paid for by Governments themselves. Those projects work just as the aid funded projects work. You

can see that because you can count the amount of extra money that is raised. Take another example.

Q198 Mrs Grant: I am okay on the examples. Do you think there is room for improvement? That is the first bit. I would like a one sentence answer. Secondly, do you think that there is a moral obligation not to pursue maximum profits?

Peter Young: There is a moral obligation, primarily to the beneficiaries of the assistance, to do one's best and deliver the best results and best impact for them. That is what we do, and that is what motivates the people who work for us. There is a moral obligation not to try to make maximum profits. It is, however, extremely difficult to make maximum profits in this market. This is an extraordinarily competitive market. If you compare the figures between the DFID market and other markets, you would see that something like 48% of the contractor market is held by around 10 companies. That is not taking into account the fact that a lot of that money, if it goes to those 10 companies, is then passed on to others through grants to NGOs and that type of thing. Look at other markets. In Australia, 69% of contracts go to only three companies. There is something similar for Germany and for Canada. If you tried to jack up prices in some way, you would not succeed.

Probably the only circumstance where you might be able to do that is if you have just completed phase one of a project, which is a really successful project, with an embedded team delivering brilliant work, and it would be very difficult for anyone to beat you on a re-bid of the project. Do we then jack up prices to try to take account of that? No, we most certainly do not.

The other thing you can point to is that we, in common with other companies, plough money back to DFID. We provide about £1 million of pro bono assistance to DFID every year. About a quarter of that is in the lesson learning and knowledge sharing area. Much of the rest of it is in providing assistance on the ground that is not charged for, for example providing people who worked on the Ebola response for free for six months in Sierra Leone, and providing people at short notice to help with the Nepal earthquake response. Sometimes we are bridging the gap between two projects. If we have done a successful project and suddenly, because of procurement snafus or whatever, there is a delay to the next phase, the benefits will dissipate if you cannot keep some of the basic team in place. We will often keep the basic team in place at our own expense. Those sorts of example show that we do not seek to extract maximum profit.

But we are a company and companies need to make a profit. That is the nature of the economic form. We need to fund our working capital. We need to invest in our people and in our systems. We need to be able to expand our services and reach, and so we do need to make a profit. But you are right. No, we are not trying to make the maximum profit.

Q199 Chair: Very briefly, what do you say to what Ian Birrell said about salaries and dividends?

Peter Young: We are a wholly employee-owned company that does not pay dividends to individual directors or anything like that. On the issue of salaries, you can have two approaches. Either you pay market-based, market-related salaries, or everyone in the

sector can work for free. That is people working for NGOs, people in DFID and people in contracting companies. You can have one or the other. What we have is a situation where salaries are market-related but not in any way market-topping. I saw a survey of companies operating on a multinational scale, with turnovers between 100 million and 500 million, who were paying their top directors a bit over £500,000. You do not see that in companies like ours or the other companies.

Chair: What are the comparable figures for your company?

Peter Young: You are talking about something around the £200,000 figure. In our company the very top person gets paid £235,000. He took a pay cut to come and work for us. If we and others have very complex operations, in incredibly difficult places where the lives of people are being put at risk, we have to have really sophisticated setups and we are confronting multiple challenges the whole time, then we have to have reasonably competent people at the top.

Q200 Chair: This is just for clarity. I am being naughty, because I am extending your question. In *The Mail on Sunday*, they said of ASI there were salaries up to £239,000, which I think you have confirmed, but then handing out six-figure dividends to directors.

Peter Young: I do not think that is the case.

Q201 Chair: Is it definitely not the case?

Peter Young: In the past we have paid dividends, yes. The dividends have been shared very broadly **among a large** a large number of employees. We shifted in the last year to being owned by an employee-ownership trust, which is the new John Lewis form under the Nuttall review, which basically requires us to distribute benefits to all employees on an equal basis.

Q202 Chair: So dividends will now be shared equally among all ASI employees.

Peter Young: Correct.

Sarah Maguire: Can I jump in on that point? It is not really to answer this question of how much everybody earns. It may be something the Committee is going to address later, but it is really important. We heard a lot in the first session about these expats who are coming in and telling the world what to do. It is really important to recognise that, in every single programme, certainly any programme run by DAI Europe and any programme I have worked for or been associated with as an individual, the vast majority of the staff, the contractors and the employees are people from that country.

Chair: We will come to questions on that in a moment.

Sarah Maguire: Where that is not the case, it is often regional. You will have a Zimbabwean consultant working Sierra Leone and giving that technical expertise, and vice versa. We need to recalibrate that a bit.

Q203 Chair: Ian Birrell said that your company pays no corporation tax.

Sarah Maguire: We have not paid corporation tax for the last couple of years, I think. The reason for that is that we have not made a net operating profit. It is quite simple. There is a whole set of complicated reasons for that. I am a lawyer, not an accountant, but it involves the size of the overheads and the way that our company will prioritise making sure that we are providing the best service. For instance, there is quite a lot of un-billed programme management time that goes in, which ramps into overheads. We are anticipating making a net operating profit and paying corporation tax in 2016.

Q204 Fiona Bruce: I have four questions. The first one is to Mr Foster, and then the other three are to Ms Maguire and Mr Young. Hopefully we can have fairly short answers to each. Mr Foster, the 2013 ICAI review found that DFID's use of contractors "delivered positive results at competitive fee rates." That is a quote. However, our Committee has received allegations of large mark-ups on contractor staff costs hidden from DFID and not representing value for money. Was this something you looked into as part of that ICAI review?

Mark Foster: No, it was not something we explicitly looked into. We did do some assessment with regard to the relative input costs that were in the contracts, and reached a view about the judgments being taken in terms of the relative competitiveness of those input costs. We were out in the field. We looked at individual programmes, none of which exhibited that particular thing that you are talking about. No, we did not see that in that particular review.

Q205 Fiona Bruce: That takes me to my three specific questions. What is the average percentage margin on a project, between what is charged on DFID and what it is costing to implement the project? What do you think is a reasonable margin, if you cannot give us your average margin? What are you looking for when you put in a bid?

Sarah Maguire: You will understand that that sort of information about specific projects is of course commercially sensitive. We are extremely happy to give all of that and more, whatever you ask for, by written evidence. I can tell you that, if a consultant is earning £300 a day—we have the numbers on this, happily, but this is an average, so it is not like you could go and find that person; it might be a different amount, more or less—64% of that will go to the person as their salary and their benefits. Remember, it is not just salaries. 4% of it will be direct, non-billable project costs, as I have just explained, where we need to do more than we thought we would have to do because something changes. There will be a cost of actually bidding for that work. There are our overheads. Then there is, of course, the profit and the tax paid on that profit when it reaches that level. It is 64%/36%, as a very broad average.

Fiona Bruce: Thank you. Is that whether the person working is from the UK or is more locally based or from that country?

Sarah Maguire: It is across the board

Fiona Bruce: Mr Young, do you have an answer?

Peter Young: Again, I could provide you with direct figures with regard to particular projects in further written information. Broadly speaking, that sounds not far off. It is

important to note that DFID, in its commercial proposals, asks those bidding to set out the direct cost paid for the particular expertise, as well as the fixed overheads, variable overheads and profits. It has that information.

I am a little concerned about that, because it could lead to cost-plus contracting. Cost-plus contracting, unlike competitive contracting, has an inbuilt incentive to inflate costs, because your overhead is paid for and therefore, the more overhead you make, the more money you make. The USAID contracting model is a cost-plus contracting model, and, if you look at the overheads that are reimbursed by USAID on a typical fee rate, they are of the order of 100% to 150%. That is to be compared with the figure around 36% in the competitive market that Sarah was mentioning. There are real danger bells ringing there about going to a cost-plus, price-control model in a highly competitive market.

The main thing pushing down prices is competition. It is very fierce competition indeed. If one looks at the actual costs being paid, because that is the important thing for the tax payer, the costs for your typical DFID contractors are around 40% less than the costs of contractors hired by domestic Government Departments. That is despite the fact that, if you are working for a domestic Government Department, you are in relatively nice conditions and you can go and visit your family once you have finished at the end of the day. They are about 50% less than the cost of using DFID staff, and they are variously 100% to 300% less than the cost of using multinational staff such as UN or World Bank staff. They are highly competitive, primarily as a result of the very competitive market that DFID has built up over the years.

Q206 Fiona Bruce: You have given some very specific figures there. On what are they based?

Peter Young: The best comparator for the UK domestic market is to take the most comparable parts of the ConsultancyONE framework that applies to UK domestic Departments. As far as DFID and multilateral costs are concerned, certainly in the case of the UN and the World Bank, a lot of information is available on the internet. It is quite difficult to pull it all together into a complete analysis, but if one does that, as we have done in a draft paper that has been circulated to the Committee, you can see that those costs are extraordinarily high.

Q207 Fiona Bruce: Can I just ask my second question to you and Ms Maguire? You talked about some information having to be given to DFID about the underlying costs of a programme. Can you tell us how much detail that is? How much is required about the underlying cost structure of a programme, including margins for individual staff when you bid?

Peter Young: That is what I just said. That information on margins and individual staff is currently required by DFID, as well as, obviously, a full analysis of what is proposed to be spent on everything else in the programme, month by month, over the time of the programme.

Fiona Bruce: Do you provide that as well, Ms Maguire? Is that something that you provide in your bids?

Sarah Maguire: DFID does bidding slightly differently, quite often. Sometimes there will be more information required than on other occasions. Sometimes they will ask for more information later, as you are narrowed down through the shortlisting process. They will ask for more and more information, and whatever they ask for, we give.

Q208 Fiona Bruce: Would DFID always require information about the underlying costs of a programme, including margins for work, or is that something that may or may not be asked for?

Sarah Maguire: To my understanding, and remember that I work in the technical services department and not the business development units, so forgive me if I get this slightly wrong—I will correct it in written evidence afterwards—they will always ask what it costs to run the programme, and what we are asking them to give us. They will always ask for that margin, broadly. I do not know whether they ask, for example, if we are putting forward Mark Foster as a team leader on a project, how much he is getting over and above what we are charging for him. I do not know that

Peter Young: These days they do.

Q209 Fiona Bruce: This is my last question, then, and I will ask it very quickly, because I am conscious of time, Chair. Do you ever benchmark your staff and subcontractor costs against local market rates and rates used by other donors to ensure that you are providing value for money?

Sarah Maguire: Absolutely. Since I have been working in international development, since 1995, one of the issues that we in the community have always had to grapple with is, on the one hand, making sure that there is equity between nationals and internationals, and, on the other hand, not distorting the local economy. I cut my teeth, as it were, in Kosovo way back when. There was a real issue there. It was a country that had seen a massive level of volunteerism. People looked after each other because they were all living under suppression. Then in came the UK, in came the UN and in came NATO, et cetera. Suddenly people were saying, “I am not going to store the nappies for my paraplegic neighbour.” It was all confused.

Now we all have to engage in very careful benchmarking, nationally as well as internationally, to make sure that everybody is being paid the right wage, and that that right wage does not also mean that you create these massive gaps between a professional working, particularly, in government, and a professional working for an aid organisation. You do not want to extract people and end up with a brain drain.

Fiona Bruce: That is very helpful. Do you do the same in your organisation?

Peter Young: Yes, we do extensive benchmarking. Generally speaking, although it is not always required in DFID, DFID itself does the benchmarking. If you do that benchmarking exercise against, for example, the type of professional expertise that is provided in the private sector in developed countries, you will find that the cost of the contractors’ expertise is considerably less than those comparable costs. That is because of that factor that we referred to earlier: whereas people basically want to be paid a reasonable amount for doing this work, they are prepared to take a significant reduction over the market rate they could earn in their own country, because of what it is that they

are achieving. It is much more satisfying and motivating to be working somewhere you can change the lives of lots of people.

I will give you an example. There is a chap called Alan Pearson, who is a retired civil servant in his late 70s, in point of fact. He is an absolute expert in putting public financial management systems in place in conflict affected countries. Recently, there was a huge achievement where he led his team to get public financial management systems up and running in three new states that we helped to put together in Somalia, which had been recaptured from Al-Shabaab. Those states can now bring in proper revenue and have public services. He is paid a day rate, but he is living in a shipping container that could be mortared at any time and his life is in real danger. Is he doing it because of the money? How could you compare what he is paid to someone working in Australia or another developed country? He is paid a deal less, but he is not doing it because he is trying to make a fortune. There are easier ways of spending your late 70s, to be quite honest. He is doing it because he is committed to making a difference, and he has made a huge difference.

Q210 Jeremy Lefroy: I have some fairly specific questions, to start with. There is this claim in the *Mail on Sunday* article that DAI has not paid corporation tax for a number of years. I have looked at the accounts and it seems to me that you have declared losses in each of the last three years, and therefore you would not be expected to pay tax, so that is not really a question to ask. What I would ask is this: in the accounts—and this applies to ASI as well—I see where the figures are coming from, but there is a very big figure in each case, cost of sales, which is not broken down at all. Presumably, it is what the contracting costs are.

Would you not agree that, if this were to be broken down in some more detail, for instance to show how much of that is going to local contractors as opposed to contractors based in the UK or Europe, it might help to answer some of the questions that were raised in the last session, rather than saying, for instance in the case of last year, DAI's turnover was £84 million and its cost of sales was £74 million, but not breaking that down at all?

Sarah Maguire: It would be really helpful, because it would help people to understand not only the cost but also the importance of doing international development and supporting the 0.7% target.

Q211 Jeremy Lefroy: What I am saying is that I think it is in your hands. You have the ability. At the moment, to some extent, you are providing absolutely the right information to Companies House, but you are providing the minimum. The same applies to ASI, which, by the way, is paying corporation tax at the required rate. That is absolutely clear and straightforward, but, if both you and others were to provide a bit more information in terms of where that cost of sales, which is the vast bulk of your turnover, was spent, it would help answer some of these questions.

Sarah Maguire: It may well help answer some of those questions. The downside of it, of course, is that somebody would have to sit in their office, work out all those costs, do it on a very detailed basis and report them accurately.

Q212 Jeremy Lefroy: With modern accounting systems, these things are very possible. I am just suggesting that this might be a way of countering and providing the kind of transparency we were speaking about.

Peter Young: You are right. Provision of more information along these lines is important, although you have to be careful as to how it is presented. It is amazing the ability that some people have in misinterpreting information and turning into something that it is not. But that would be a good idea. You can tell lots of things from our accounts and, as you mentioned, we pay corporation tax well above the due rate, because of various factors. We have paid over £20 million in the last 10 years or so, possibly more than some large multinational corporations whose names begin with “A”. Trying to draw out and present some of this information is something that definitely needs to be done. Perhaps companies like ours have been too busy getting on with the job and not thinking about some of these communication issues.

Sarah Maguire: What you have raised—and one of the points behind your question—is really important. You mentioned that a lot of the cost of sales is in fact subcontracting and grant-giving in the countries in which we operate. There have been all these questions, issues and allegations that all the money sits here, and the issue about whether the aid is untied, because it is not actually going to organisations. I can tell you that, in the financial year 2015-16, for DAI’s DFID contracts, we subcontracted 35% to SMEs, and I mean real—really small—SMEs. Those were mostly local organisations working in their own countries. That untying of aid is getting there, because of the consortium structure. 67% of our FCO contracts were subcontracted. When I say they are subcontracted, I do not mean that all we do is a management check. There is a consortium in which these organisations are involved.

Q213 Jeremy Lefroy: These are local organisations in the countries.

Sarah Maguire: These are organisations working at the national level.

Q214 Jeremy Lefroy: That is helpful and that obviously has not come out. There is a question that has been raised: if you register in a developing country, whatever vehicle for registration you use, whether it is a limited company or a not-for-profit, so that you are operating in the developing country and contributing, by operating there, to the local economy, how do you do that in a transparent manner, where you are paying the local taxes and so on?

Sarah Maguire: That is a really interesting one. In a lot of the countries where we work, particularly the most fragile, the poorest and most conflict affected, those systems are lacking. Peter has just talked about the ASI tax project in Sierra Leone. It is 2016 and their conflict finished properly in 2002, so it has taken all that time for the country to get itself up to a level where it can make the best use of the sort of services that Peter’s company provides to help it do that. For a lot of countries, you will find that their national revenue authority is trying to work out what a goods and services tax actually is.

Somebody earlier mentioned visas. Having a proper up-and-running immigration authority so that, when you come into a country, you know what you are doing there and can make sure you are compliant can take countries a really long time, particularly if they are recovering from conflict. What I can say for DAI Europe is that under no

circumstances whatsoever will we ever seek to not comply. If there is a rule or regulation in position, then we will strain every sinew to make sure that we do comply with whatever is going on and whatever is required of us locally.

Q215 Chair: It would be great to hear Peter's answer as well.

Peter Young: We too would obviously comply with all the local rules and regulations. I would say that sometimes it is not particularly clear what they are; there are alternative interpretations, and perhaps some of the officials involved benefit from the alternative interpretations. Some of the countries in which we operate are corrupt—some, indeed, are fantastically corrupt—and it is best if there is an agreement in place between DFID or another donor and the host country that specifies what the obligations of the implementing agent are so that this lack of clarity does not cause problems. There are times when a municipal authority might turn up and say, “You have a tax bill of £700,000. Please pay up now.” We are operating in the wild west in a number of these places, so there are difficulties around these issues that can distract from smooth implementation.

Q216 Jeremy Lefroy: One question that has troubled this Committee for some time, both in this Parliament and the last Parliament, is the apparent inability of DFID to work with small organisations, which is by DFID's own admission. I have lived and worked in Tanzania for 11 years and seen some excellent work done by organisations that have a very limited amount of funding and achieve enormous impact; we are talking about a very substantial impact, in many ways much bigger than what I have seen through DFID.

Can you suggest to us how DFID might be able to work better with small local organisations in the countries in which you operate as well? At the moment, they claim they cannot do that, because the amounts involved are almost below their radar and it is too difficult for them to deal with these organisations. That is something that has really concerned us. We are talking about £50,000 or £100,000 per year for very significant health or education projects that are reaching large numbers of people and are very often working with very dedicated local people. We find a bit of a blockage when it comes to that.

Chair: Shall we come to Mark first, partly because I am conscious that you have not had a chance to say anything for a while?

Mark Foster: That is fine; in fact, it has been fascinating. First of all, you are on to a key thing here. We have a very strong view that the best development involves as many of the local people as possible; it needs to be beneficiary-centric and to use the smaller local players. We felt there was an issue about smaller players being squeezed out by the overall model.

In a large part, it comes down to our view about the kind of DFID that we want. If it is going to be a commissioning DFID with its staff numbers being constrained as to the role it can play, in the end, the small numbers of relatively junior people you find operating in these countries simply could not cope with managing multiple small relationships in an effective way. They struggle as it is to deal with some of these larger relationships. The real question around making that happen would be through real bolstering and investing. If you want to make that happen, I would have us invest in more capability in DFID, in country, so it had the capacity to deal with a broader base of local people. Again, there are lots of models, but at the heart that is a real and fundamental challenge.

Peter Young: I absolutely agree with Mark on that point. One thing one must understand is that this contracting modality of DFID is the modality that requires the largest number of DFID staff, is driven by DFID and is at the heart of DFID's capacity, because it designs, oversees and adapts the interventions. It is quite different from writing a cheque to the UN, the World Bank or whatever. This is the heart of DFID's capacity. DFID could not do it itself, with civil servants. It would have to hire 30,000 people, and they would probably be the wrong people because it would not be able to get the specific expertise on board, but to strengthen DFID as a commissioning organisation would enable one to take on more of this work, particularly the smaller prime contracts. I do not know whether we are going to get on to talk about the issue of local capacity and local contractors.

Chair: Yes, we are.

Peter Young: We are later, okay. It is very important to note that the vast bulk of the work done by the so-called large contractors—and we are an SME, despite being called a large contractor—is done by SMEs. The form that we submitted on how much was subcontracted to SMEs showed that, of 38 programmes, 36 were 100% subcontracted to SMEs; for the other two, it was 61% and 90%. It is pretty much all subcontracted to individuals or small firms, many of them local firms. There is a critical role that people have in building up the capacity of those local firms, but I think we are going to cover that in a different question.

Sarah Maguire: You have raised a really important point. I remember when I was sitting on the expert group for drafting the how-to note for DFID on tackling violence against women and girls. One of the key principles we stressed through that was that women's civil society organisations are the ones that are best equipped to know what the situation is on the ground; are best able to navigate the space, so as to reduce the amount of backlash that comes both to the programmes and to the individuals concerned; have the information at their fingertips; have the reach; can deliver; and can feed back properly and reliably.

Our exhortation at that time to DFID and others was to say: work with and through, in this case, women's civil society organisations, because they are working on these issues, but generally through civil society. We see it now: throughout all the conflict-affected states that I have ever worked in, it is civil society organisations, particularly women's civil society organisations, that have the granularity of information, have the access and know exactly what they are doing when they are going out and doing the work.

The challenge is this. We support, through the Access to Security and Justice Programme in Sierra Leone, a fantastic women's organisation called the Koinadugu Women's Advocacy Network. It is without a parallel. It is brilliant at what it does. It does not have sufficient electricity to run its website. It does not have a website, effectively. It still, frankly—and they will forgive me for saying this—lacks good monitoring and accounting capacity, but we can help with that. You asked for a short answer; I am giving a longer answer.

Chair: We need answers to be much shorter, or we will run out of time, I am afraid.

Sarah Maguire: A much shorter answer to this is to say that DFID should and could impel and compel any organisation, whether it is the UN, a large NGO or a contractor, to prove

that it is working to build a capacity and support ongoing capacity of civil society on the ground. The more that we, as contractors, are rewarded for using and supporting civil society, the more it shifts the culture towards that avenue, and I would certainly welcome that.

Q217 Chair: My question, to which I will need short answers, follows up neatly on those answers just now. An issue that has been raised with us by a number of people is about the use of exclusivity clauses with regards to subcontractors that bind them to a particular bid at the bidding stage. Can each of you tell us how often you use exclusivity clauses?

Peter Young: There are circumstances where you would and circumstances where you would not and it would be inappropriate.

Q218 Chair: Which of those circumstances is more common?

Peter Young: It is almost impossible to answer that question. Almost everyone who works on these programmes is a subcontractor. You would not want to have your whole core team, the people who are staffing the project, to be in everyone else's tender because otherwise all the tenders would be the same. Also, all the commercial confidential information like your proposal would pass to the other tenders. It would be the same for a large subcontracting firm or NGO that took part and helped develop your proposal: you could not allow them to be with another tenderer, because you would lose your advantage in the proposal, competition would decline and the public interest would not be served. However, if some particular expertise is held by one organisation and cannot be replicated, then it should be more widely shared. I can give you a good example of a current bid that we have in.

Chair: Make it a quick one, because we are going to run out of time.

Peter Young: There is a university in Kenya, Strathmore University, that has an extractives industry centre, with specialists who have expertise. We said to them, "We do not want you to be exclusive. You can go with all the other bidders, because, with your expertise, you are a one-off and we should not be trying to take that." Similarly, in Malawi, the African Institute of Corporate Citizenship has specialist expertise in the oil-seeds sector that we were going for. We said, "There is no need for you to be exclusive." In some circumstances, a subcontractor might well want to be exclusive because it says, "We can really help you with your proposal. We want to form part of your team." They are the ones pressing to be exclusive.

Q219 Chair: What would the problem be in the decision simply being made on the basis of who the prime contractor is and then dealing with the subcontractor issues at a later stage?

Peter Young: These days, it is rarely just the prime contractor. There is a prime contractor, but then large parts of the work will be delivered by a wide consortium. You could not just decide on the prime contractor alone, because you are deciding on the abilities of the B, C and D parts of the consortium. Some consortia might involve 10 different organisations and you have to evaluate all their expertise. It is largely a red herring, this thing. If an organisation carried on stitching people up by saying, "Hey,

come into our bid” and then refusing to use them afterwards, soon enough no one would ever deal with them.

Sarah Maguire: When I was CEO of Social Development Direct in 2010-11, the latter problem that Peter has just mentioned was quite a significant problem. DFID has really helped the smaller consultancy firms and organisations, whether British or otherwise, to improve on that. To your question, Mr Twigg, about what would be wrong with judging it just on the quality of the prime contractor, that would contradict all the other stuff about how important it is to encourage and to ensure that there is use of the right consortium members

Peter Young: Including smaller ones especially.

Sarah Maguire: Exclusivity can be a bargaining chip, putting it crudely, for the smaller organisations.

Q220 Chair: A smaller organisation goes in with a bid that does not succeed. Are you suggesting that it could then join the bit that has succeeded?

Sarah Maguire: That very often does happen. They will make that phone call and say, “We are here now” because everybody knows.

Q221 Chair: Does that not support the point I was making in my question: that expecting people to sign up to one bid or another is not fruitful?

Sarah Maguire: No, because, when you write a bid, you can say to DFID, “This is what we are going to offer. We are going to offer you this particular quality of all of this crafted complementary expertise—national, regional and international.” DFID can then judge you according to what you bring within your consortium, rather than operating on a “trust me, it will be alright on the night and we can do management” basis, which you would have if you only ever bid as a prime.

Mark Foster: I am going to bring another lens to it, looking at what we saw was working in the field, not just in terms of private contractors but more broadly. Generally speaking, proven relationships that have been tested are better than forming completely new ones every single time you do something. Mobilising these programmes is generally a very difficult thing. Frankly, most programmes, whether using contractors, multilateral agencies or others, find that, at that first stage, there is lots of forming, norming and storming going on between the players. If you look at the quality of relationships between the players when they are looking to bid, in many cases that gives you confidence they are more likely to work together again well than not. That is a different lens on the same problem.

Chair: We are due to finish in five minutes. Are Committee members okay to extend that slightly and take another 10 minutes or so? We will cover three more areas in 10 minutes, if that can be borne in mind for questioning and answering.

Q222 Mrs Grant: I have three quick questions. First, how common is it for the implementation team for a programme to change between the original bid and

implementation? Secondly, how common is it for the cost of a programme to change after the original bid, during the course of the programme? Thirdly, does DFID ever refuse any requests to amend terms of a programme in the situation, for example, of overrunning or overspending?

Sarah Maguire: For clarification, when you say the implementation team, do you mean the consortium or do you mean that the team leader has to drop out, the deputy team leader gets sick or something like that? Do you mean the construct of the consortium of people?

Mrs Grant: Yes.

Sarah Maguire: In my experience, it is rare that there is this sudden shift. As Mark said, if you are bidding in a consortium, you are clear that you will work together. You are all committing to each other, as well as to the client that DFID is. In my experience personally, it is not massive.

Peter Young: It does happen, often through changes on the ground. For example, in our Nigeria Infrastructure Advisory Facility work, after a period we hit heavy resistance from the then Minister of Works for the work on roads: “You are just not going to get anywhere.” We had to drop that; then the new Government have come in, a year later, and it has started up again, but the subcontractors working on that were stood down.

Mrs Grant: I have got that. It is a really good example.

Peter Young: The other point is that you will have design-and-implement contracts, where you will set forward a general range of expertise and how you will go about design, and then, six months into the contract, you will produce an implementation plan, which is agreed or done jointly with DFID. That might involve more of some expertise and less of another, or maybe none of some particular area of expertise.

Q223 Mrs Grant: In your opinion, is a change rare?

Peter Young: I would not say rare.

Q224 Mrs Grant: Percentage wise, how often does it break down in your situation?

Sarah Maguire: It is far from common.

Peter Young: There are often changes in team members. Some team members do not work out, or maybe the Minister you are working with does not like this person, however good he is, so you have to pull him out.

Q225 Mrs Grant: But in terms of the partners that you work with.

Peter Young: That is relatively rare, but some would be used more than others and some might be used only in year three. It is not the same as a grant. It is not the same as being handed a large amount of money and being left to get on with it. There is close DFID control of how the resources are planned out.

Q226 Mrs Grant: I have to come back, because I have the two other bits. Mark, is it rare or is it quite common?

Mark Foster: We did not see that as being the bigger issue. The biggest issue we saw was DFID shifting the goalposts of what was being asked for after the contract had been first put out there. A new adviser comes into the country and has a completely different view of how to fix something, and therefore throws it all out. If you have this contract locked in stone, with people locked in stone and a thing over here now being asked for, that is a big thing. Where we did often see a breakdown and people changing was between the design and implementation phases. In all the cases we looked at, it went into almost a loop of despair between design and implementation, which, in many cases, put six months of a gap into things. I would say, as an area for general improvement, the end-to-end management of the process could be better.

Q227 Mrs Grant: What about costs? I suppose that would follow on in some respects from what you said. If the plan changes, if the goalposts move, then costs will.

Mark Foster: The annual review process and the review of the programmes cover some of that. Our main point was that we did not see the kind of change control disciplines you would see in many other situations where, if there is a change of scope and a change of cost, that is formally recognised through a step. In many cases, that is much less formal. To some extent, it is good; you do not want to have tonnes of process in country. At the same time, our feeling was that it could step up more around that so it is all pointing in the same direction for longer over a contract.

Q228 Mrs Grant: Does DFID amend the contract? Are they prepared to?

Peter Young: Yes, there are changes to contracts in response to changes in circumstances. The whole thing these days is to focus on a flexible and adaptive approach and to shift resources around.

Q229 Mrs Grant: Do they ever refuse?

Peter Young: Yes. Where you have said you are going to commit to do something with a certain amount of resources, if you have not done it and it is your fault and not some external thing, they will refuse.

Q230 Mrs Grant: Is that the same for you?

Sarah Maguire: Yes, absolutely. In Sierra Leone, we had to make radical changes to the programme because we had Ebola, which derailed a whole heap of stuff, although we kept working through the crisis and I kept going; it was fantastic. In other circumstances, DFID has said, "You could have done this more quickly, sooner and better, and it is down to you. You carry the can for it."

Q231 Mrs Grant: You get noes sometimes as well.

Sarah Maguire: Yes.

Mark Foster: It is worth pointing out that there is so much process that DFID has to go through for the team on the ground to get a project approved back at the centre. There is a desire to unpick that. There is a huge inertia in the system, which should be borne in mind for this process. Our feeling was that we have to find a better way so there is more

freedom of movement of information up and down that chain. Frankly, redirection of things that were off course needs to be much freer, rather than people being afraid to go back up the chain.

Chair: I now go to Fiona on something we have touched upon but we feel so strongly about that it is important it is asked explicitly.

Q232 Fiona Bruce: Ms Maguire touched on this issue, so I am going to address my question initially to Mr Foster and then, if you want to come in, Mr Young, please do. It is about the advantages of using locally-based contractors as opposed to UK contractors. In your report, you looked what proportion of money was spent via DFID on contractors locally, directly and indirectly. Is that something that you looked at? Do you think it is enough? Just bundling up a further supplementary because of time, do you think that increasing the use of local contractors could improve local ownership of development in developing countries, and private-sector development in those countries, on which, as we are all aware, ICAI also did a report in the last Parliament?

Chair: Can we have nice short answers, please?

Mark Foster: First of all, we did look at the locally-based picture, and all the examples we looked at very much reflected the proportions we have just heard down the table. Virtually all the cases we looked at were largely relying on locally-based NGOs for delivery of large parts of what was going on. At the end of the day, it is always a balancing act in terms of how much local you have, if local does not have the expertise to bring to the table. I was doing the review in Pakistan, where they put a deliberate bias on having more and more use of local suppliers, and they found they had almost gone too far because they had gone beyond the competency range of that particular skillset in the marketplace.

At the end of the day, the key thing here is that hopefully, when it is working well, the few key non-local people are massively leveraging the local opportunity and driving that forward. Of course, this has to be fundamental to building ownership. I would say it is at the core of why these organisations use local people: it is the only way to get things done. It is certainly the only way to get things to stick. There almost certainly is more to be done around the building up of local private players in many of the spaces we are talking about here, and that is worth standing back from. In the areas of health, education, et cetera, we should think generally about whether we are building enough capacity around businesses that would help us in those areas.

Q233 Fiona Bruce: Earlier, you touched on the fact that there are younger and shorter-term placements in country inhibiting this. Should DFID be looking at the type of contract it is offering to people who are working in country?

Mark Foster: This is a very long standing point that ICAI made many times. We feel that there is too much churn of too many junior people in the model. It therefore makes you more dependent on the contractors and their seniority. There is a number of things there. If you really want to build local capability and you want to balance this out much more effectively, then you have to invest in DFID's senior capability on the ground in country.

Q234 Fiona Bruce: Are you asked to provide in your bids a pro forma contract with terms and conditions—obviously they vary from country to country—when you offer work to subcontractors? Are those terms and conditions something that you are required to supply to DFID?

Peter Young: We are required to match DFID’s terms and conditions, which is a problem for small companies because they have been made twice as long as they were before, and there are all sorts of insurance requirements and so forth. In our written evidence, we suggested some ways of making it a bit easier for smaller firms and local firms, by cutting back on some of this complexity.

Q235 Fiona Bruce: There is a document that you have in terms of pay and risk, which you work from when you are offering subcontractors contracts.

Peter Young: Absolutely. The buck stops with us. We have the duty of care and we have to have all of those things in place.

Q236 Fiona Bruce: Would you be willing to supply the Committee with one of those or a selection of those comments.

Peter Young: Not on a written-evidence basis. We will send them to you, as long as you do not publish them—no problem.

Fiona Bruce: Yes. That would help answer our final question on this. Thank you.

Q237 Mrs Grant: To what extent do contractors have a role to play in developing programmes and business cases on behalf of DFID, and are they ever contracted out?

Peter Young: It is broadly done by DFID staff. Sometimes individuals are contracted in to work on bids. Usually, it is the smaller firms that work on this stuff. If you going to go on to ask if there is a conflict of interest, I do not think there is. Everything is brought out of this early-market-engagement thing, where people discuss the business case and the approach; it is all circulated to everyone. That is the situation as I see it.

Sarah Maguire: Can I add something that Peter has reminded me to say? The early-market-engagement process, which is relatively new, is where DFID gets people together and says, “We are thinking about this. What do you think? Do you think we could do it? Do you think we should do it? Do you think you could do it? Help us to design.” It is a pre, pre, pre-design, if you like.

To clear up the misinformation that you had in the earlier panel, most of those, in my experience, are held in the countries where the programme is going to be delivered. The last one I went to in Pakistan was an early early-market-engagement discussion about whether and how DFID should work in FATA. The whole room was people who were locally based. Peter’s organisation was there, and so was I, but predominantly it was Pakistani NGOs and Pakistani consultancy businesses that were present. They were able not only to raise their flag and mark their card, but they were also able to contribute that knowledge and get that intelligence.

Mark Foster: A key recommendation in our report was that there should be more early market engagement with players because we saw it as a critical thing, to avoid this

standstill that occurs during mobilisation, if you are not careful, without engaging people up front.

Q238 Chair: You do not think there is a conflict of interest, potentially.

Mark Foster: As long as, at the end of the day, you are evaluating people and their purpose at each step, no, I do not think there fundamentally is.

Q239 Chair: Thank you so much. We really have covered a lot of ground in just over an hour with the three of you, and just over two hours with the two panels. I am very grateful. It is really helpful. Thank you for your oral evidence, as well as the written evidence that you have all provided. Again, feel free to provide further written evidence, if you want to clarify any points made during the discussion today.

Peter Young: We will do that. There were some statistics raised earlier that I do not recognise.

Chair: I am sure there will have been.

Peter Young: This is not a UK-centric, 90% UK market.

Chair: I was not inviting you to say more now, but please feel free to get in touch afterwards. Thank you everyone.