

International Development Committee

Oral evidence: Sub-Committee on the Work of the Independent Commission for Aid Impact – ICAI’s review on DFID’s approach to its supplier market, HC 728

Wednesday 21 February 2018

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Members present: Paul Scully (Chair); Mr Ivan Lewis; Stephen Twigg.

Questions 1-47

Witnesses

I: Dr Alison Evans, Lead Commissioner; Chris Shapcott, Team Leader, Independent Commission for Aid Impact; Nick Ford, Head of Procurement and Commercial Department; Vel Gnanendran, Director of Finance and Delivery, Department for International Development.

Examination of witnesses

Witnesses: Dr Alison Evans, Chris Shapcott, Nick Ford and Vel Gnanendran.

Q1 **Chair:** Thank you all very much for coming. Thank you very much for helping us test out this new style of questioning when we have you guys all together. I am sure it will be all civil and we do not need to put a little wall in between you. Hopefully it will help with a more stimulating discussion. Can I start first of all by asking you, Alison, if you have a short one-minute opening statement about the review?

Dr Evans: Thank you very much. The first thing to say is this is the first of two reviews we are undertaking looking at different aspects of DFID's procurement practices. The second, which will come slightly later in the year, is looking down the procurement chain in great detail at contract management processes, relationships between suppliers down the delivery chain, and investigating aspects of compliance, code of conduct, and so forth.

This review, or this basic exam question, was trying to understand the extent to which the Department is getting to grips with the challenge of achieving value for money through its engagement with its supplier market as a whole. That includes seeking to get the best value out of its relationships with suppliers, but also ensuring that that market offers them sufficient choice and diversity for delivering against the Department's objectives. We wanted to look at what is loosely called a set of market-shaping or market-creation activities that the Department is engaged in.

I will give a couple of headlines from this review. The first is to say that we recognise that there has been an enormous amount of progress and effort in the area of getting on the front foot as a Department in relation to engagement with suppliers. There is a reform agenda that is moving at speed now in the Department. It has multiple elements that we consider to be a positive direction of travel, in terms of creating the necessary conditions for an effective supplier market. However, we also point to a number of areas where we see the metrics that we are concerned about moving very slowly. Those are metrics like numbers of bids per tender, the length of the procurement process, some of the size and complexity of procurements and the levels of local participation by local suppliers in procurements. We see those metrics moving very slowly.

That is not to say that actions are not being taken, but the needle is not moving very fast and that is the core of our critique within the report. We are very concerned that we do not pre-judge the outcome there. We are concerned that we simply do not have enough data yet to say these actions are coming to fruition, but we are very confident that the Department is all over the agenda. It is important to note that prior to



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2015 it was a sluggish start on this agenda, but now we see a lot of positive change. We are reserving judgment, because those key metrics are yet to tell us whether some of these actions are coming to fruition.

Q2 **Chair:** Thank you very much. Nick Ford, thank you very much for coming. Could you give us a one-minute review on the response?

Nick Ford: Yes. Thank you and good morning, Chair and Committee. DFID really welcomed the review and welcome the continuing review into procurement that ICAI is undertaking. Over previous years, DFID has been proactive and reached out to have reviews carried out on the Department, particularly around our procurement activity, whether that is through ICAI, the Cabinet Office or our own external reviews. That is all because we want to transform and continue the progress we have already been making, but we want to take it even further in terms of improving DFID's procurement operations.

It was good to see recognised by ICAI both the progress that we have been making but also our ambition in this area, and our direction of travel and the appetite to keep pushing forward to keep very much improving. That is part of our ambition to be the best procurement organisation in Government as well as within the international development system.

It was also pleasing to see within the ICAI report that they recognise a number of complexities that we face within procurement within the international development sector. That is not just operating within the procurement regulations but also when you look at the context and the type of programmes that we deliver in the challenging environments within which those programmes are operating. At times even ICAI recognise what can almost be a tension between competing priorities of looking for greater scrutiny on suppliers, which comes with a level of additional burden and reporting and compliance, whilst at the same time trying to reach out and open up to new suppliers and smaller suppliers. There is an inherent tension within those. As ICAI refer in their report, there is no single answer to many of these. Part of our challenge is to try to ensure we can achieve both as we continue to drive forward DFID's procurement operations.

Chair: Brilliant. Thank you very much. Ivan has some questions about methodology.

Q3 **Mr Lewis:** Thanks very much. Good morning. All of my questions are going to be to Alison and Chris on this particular element of the agenda. It is about methodology. There were six main components that you outlined in the report. You stated that you surveyed the suppliers that had either attended or been invited to attend DFID's 2016 supplier conference. That seemed to be the cohort. How was the decision made in terms of which suppliers to focus on? Was there any particular reason why you chose the number you chose or was it just a random decision?



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Dr Evans: I will pass to Chris for the specifics of an answer for you there, but I would just reiterate that we definitely considered it necessary to have an instrument within our evidence gathering that could take the views of suppliers directly. That was put alongside a lot of other evidence that we gathered. What we tried to do in the report was to make sure that everything we got from suppliers versus the Department was carefully balanced out. We did get a critical mass of very useful information from that supplier survey, which is also helping us with our second procurement review. Chris will give you some insight into how we ended up with the numbers we did.

Chris Shapcott: Fifty-seven is the number that responded. We asked for responses from everyone in the target population, which was these people who either attended or had been invited because they had asked for an invitation to come along to the supplier conference. We did think about other sources. We thought particularly about focusing the survey on current contractors, but we thought that that was going to lead to a somewhat misleading picture because that was going to tell you the views of the people who had been successful in the procurement process and would not pick up the others. We wanted somehow to reach people who were interested in working for DFID but were not currently doing so. The class of people who do not work for DFID is very large, but people who have asked to come along to the conference at least have shown an interest so we thought that that was a reasonable compromise.

Q4 **Mr Lewis:** What was the format of the surveys that were used?

Chris Shapcott: We got email addresses from DFID of the attendees and invitees, and we sent them an email with a link asking them to go onto a website where they then answered a number of questions. The whole thing was run for us by a team at Canterbury University that assisted us; it was using their analytical software and so on. It was a computer-aided survey and it was asking people for their perceptions and views of how DFID was reacting to the market, what messages were coming through to them about what DFID wanted to get from suppliers, how they were managing capabilities and some views about how DFID was performing. There were some positives coming through from it, but as we highlighted in the report, there were also some critical points that they wanted to make as well.

In addition to the survey, we also did interviews with a number of firms. We also met a couple of representative groups: British Enterprise and Bond.

Q5 **Mr Lewis:** In terms of monetary value of the contracts between DFID and the suppliers you focused on, what was the continuum? These are organisations that already have supplier contracts with DFID.

Chris Shapcott: The ones that responded were not just ones that had contracts.



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Mr Lewis: I am talking about the ones that did have.

Dr Evans: We ran the survey anonymously in the sense that we were not asking suppliers to identify exactly what contracts they had with the Department.

Mr Lewis: I see.

Dr Evans: Otherwise we were concerned that we might get an even lower sample because of our ability then to identify suppliers. As you know, the total pot of contracting through this route is in the region of £1.5 billion. Nick will have the latest figure. Of that, we only surveyed a very small percentage, and we wanted to include suppliers that had expressed an interest in working with DFID but had not been successful. We cannot tell you exactly what percentage of total contracts were taken up by the suppliers that we surveyed.

Q6 **Mr Lewis:** Were the top five suppliers that have contracts with DFID automatically included in your survey?

Chris Shapcott: We think the responses that we had covered a range of sizes and they did include the biggest, but they also included medium and small ones.

Dr Evans: We did ask about size of company.

Q7 **Mr Lewis:** Are you happy that the sample was reasonably representative of what you were trying to achieve, in terms of this stage of the process?

Chris Shapcott: That is right. It is not like a Gallup poll. We do not have quotas for particular types or anything like that, but "reasonably representative" is a good way of putting it.

Q8 **Mr Lewis:** That is fine. Do you feel that the report went deep enough? Alison, you hinted at the beginning that this is the beginning of a process. Will you be doing a second review of a similar nature?

Dr Evans: Yes, we have a second review underway now that is looking down the procurement chain in detail.

Q9 **Mr Lewis:** That will look at things more in detail. I have a final question. This report only covers DFID procurement. I think about 30% of ODA is now spent by other Government Departments. ICAI has the jurisdiction to look at this, so in terms of future work do you have any plans in the next stage of the process to look at how other Government Departments are undertaking this?

Dr Evans: We were very clear that, to make this manageable, we needed to focus on a single Department and DFID still spends the vast majority of ODA and has the largest supplier market to engage with. We are extremely alert to the fact that ODA is being spent by other Government Departments. A lot of our work programme is now looking at that ODA being spent elsewhere and, over time, I imagine that issues around procurement will emerge. We do not have it in our work plan for the rest



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of this commission, but I would be very surprised if it was not firmly within the work plan of the future commission.

Q10 Chair: Thank you very much. Alison, DFID only partially agreed with the recommendation about communicating pipeline opportunities to the market. Are you happy with that response?

Dr Evans: Overall, we were pleased with the response. We felt that it was taken very seriously by the Department and we were pleased to see that the Department was broadly in agreement. On the issue of communication, when you read the nature of the Department's response it has a number of areas where it is still not entirely in agreement with us. One is around, particularly, the availability and sharing of information that is embedded within key supplier management arrangements. I think they are now called key relationships or there is a different name for it now. It seems in that area in particular the Department is yet to fully take on board our concerns. Maybe that is something to probe further in this session.

More generally, we did a learning event with about 40 representatives of suppliers a month ago around this particular review, where we tried to communicate the outcomes of the review and get some feedback directly from supplier representatives. This is an area where they continue to be very concerned. I therefore do feel that we are hitting on a very important issue here. Communication as it appears from the side of the Department is one thing. As it is received by suppliers is another. There is still something of a gap there around forward sharing of information around pipeline opportunities, creating a degree of certainty where at the moment there are often quite high degrees of unpredictability about how opportunities are communicated, sometimes being withdrawn at last notice and sometimes being issued over very prolonged periods of time with long delays. There is a lot of pushing out of information from the Department. Suppliers feel at times that there is not a lot of listening to feedback. We stand firm that we feel this is an area where the Department continues to need to work and continues to show progress.

Chris, do you want to say anything further on key suppliers?

Chris Shapcott: Yes. I can understand why the Department is very sensitive about any suggestion that it is giving people privileged information. I was looking yesterday at some of the meeting notes and so on that we had had on this to remind myself of what the issues are. It was clear that, for a lot of suppliers, the issue is not that people are getting too much; it is that they are not getting enough. Perhaps the problem is that people in DFID are so concerned not to pass on more than they should that they are not passing on enough information, particularly maybe the informal stuff that lets people know how procurements are going, what has happened to the proposal or the ideas they put in and that sort of thing.



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What we would really like, and what we did not see very much of, is very clear guidance to the staff in DFID to make it absolutely clear so that they were confident when they were speaking to people what they were allowed to say. In the event that someone goes too far, if DFID has made that message clear to staff it has a much better basis on which to take action against people. It is beneficial from both points of view. We want them to push the envelope in what they tell people, but people need to understand the limits.

Q11 Chair: Thank you. Nick and Vel, do you have any response to that or any thoughts on that?

Vel Gnanendran: Good morning, Committee. Just by way of introduction my name is Vel Gnanendran. I am the Director of Finance and Delivery at DFID so I cover commercial. I just want to be clear that recommendation 3 had three parts to it. It had a part about communication with suppliers and we agree with ICAI that we need to get better at communication, and we can talk about some of the things we have done there. It also talked about being clear with staff about what they can and cannot say, as Chris just mentioned. As part of the supplier review we rolled out a staff code of conduct, and coming into this Committee, 90% of staff have signed up to it. It is much clearer about what you can and cannot say to suppliers. It is clearer about conflict of interests and so on.

The area where we have slight disagreement with ICAI is over the key supplier management programme and the degree to which that has benefited suppliers that are in that programme. We do not feel that has happened, partly because we are clear with our staff about what they can and cannot say there. Secondly, the evidence does not really support that. Of the suppliers that are in the KSM programme, the proportion of business that they have won has been broadly stable at just over 50%. They have not been winning more business. That is the only area where we slightly disagreed with ICAI across the whole suite of their recommendations.

Q12 Chair: One of the points there was listening versus broadcasting. Do you have any thoughts on that?

Vel Gnanendran: There are two things we have been doing a lot more of. One is our early market engagement events. In 2017, we did about just over 60 of these. Over 40 of those had in-country representation. Those are opportunities where, quite early on in the process, we are talking to the market about what we are bringing and trying to get feedback. Sometimes that feedback helps us shape the terms of reference that we put out to tender. Secondly, as part of the supplier review, we are reacting out to new suppliers across the country. We have a series of regional open for business events. We have done one in Leeds and one in Birmingham. We have five more planned. We are trying to get out much more and listen to suppliers. We accept that we still need to do more and we have more planned, which we can get into



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detail on. We do understand that it needs to be a two-way communication with suppliers.

Q13 Chair: Coming back to Alison, how are you going to monitor and assess the implementation of the recommendations by DFID?

Dr Evans: We will through our follow-up process. As you know, in all of our reviews, we come back a year later and follow up precisely on all of the components of the recommendations and the actions that have been taken, and we will do that with this one.

Chair: Thank you very much.

Q14 Stephen Twigg: To develop this further in terms of how the supplier market is shaped, you will all know that the International Development Committee and this Sub-Committee have, for some time, expressed concerns about the ability for new, smaller and particularly local organisations in-country to get access to some of these programmes. If I can first of all ask DFID, you say in your response that some local partners are unable to meet your prerequisites. How are you sure that your prerequisites are always necessary and proportionate?

Vel Gnanendran: Maybe I can start. First, this is a real challenge. The capacity of local suppliers is quite often weak. We have not helped that in terms of some of the reforms we have rolled out that do raise the bar that we expect of suppliers. This is a real challenge for us. It is not one we have cracked yet. We are still trying to work it out. In a way, this goes back to something Nick said about the competing objectives we sometimes face. We do have higher standards that we expect of our suppliers and that is sometimes prohibitive for those local suppliers.

We are trying to do a number of things. First, we are recognising that some of these suppliers probably will not win contracts as lead contractors, but how can we encourage them to be used much more as sub-contractors? How do we work through the primes and include in the contracts we have with the lead contractors that that they include stronger local content elements over the life of the programme? That is something we are trying to do more of. Where appropriate, we include that in the terms of reference for the tender and in the evaluation criteria so that we provide much stronger incentives for the lead contractor to try to pull in more local suppliers. We are also considering whether to include indicators on that in our annual report. We are also doing some things in-country, but perhaps Nick can comment.

Q15 Stephen Twigg: How realistic is it to expect the main contractors to be building the capacity of the local ones that will then turn out to be their competitors? Is there not a bit of an inherent conflict there?

Vel Gnanendran: I tried this in Tanzania in my previous role when I was country director in Tanzania. Speaking very frankly, the gulf was so big between the capacities that I am not sure that is a realistic problem. I could not see that happening in the medium term anyway.



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- Q16 **Stephen Twigg:** In the short term you do not think there is any disincentive to the main contractors doing that in terms of potential local competition, but that might become an issue as the local capacity improves, if it does. Is that what you are saying?

Vel Gnanendran: Maybe. There is also a commercial benefit to using local suppliers because they are often cheaper.

- Q17 **Stephen Twigg:** Do you agree with that?

Dr Evans: This is an important point, but there are things to be aware of here. Chris will probably elaborate too. The first is that it is very much how primes or tier one suppliers are incentivised to work with local suppliers and local participants and to be clear about what the objective is, too. One of the things that we were struck by was that while it is really important to maintain the highest standards for how procurements are taking place and make sure that all of it is transparent and above board, there is a huge opportunity for DFID as a major user of suppliers to reap some development benefit from the way that it engages with suppliers in partner countries. It has a very strong mandate around supporting economic development.

It seems to us that there is a bit of a missed opportunity there for DFID to be seen to encourage, through the way it communicates its objectives with tier ones, to say, "This is part of our mission and you are either on board with us on this or not". You have to be clear about the objectives because suppliers find it very complicated and difficult when those objectives are not clearly articulated.

Perhaps you could say that this is slightly self-interest from their point of view, but the other danger that was raised with us by a number of suppliers when we spoke to them was the danger that you get a lot of large international companies that will register themselves as local suppliers in order to gain access to bits of the DFID market at country level. For example, in our sample, there is a large local supplier that just happens to be McKinsey Ethiopia. That is certainly legitimate, but it is not entirely in keeping with some of the objectives around local participation.

- Q18 **Stephen Twigg:** On that specific point, going back to DFID, are you aware of that as an issue? What are you doing and what more could you be doing to ensure that local organisations do get fair access?

Nick Ford: This is an area that is interesting going forward. The report talked about how around 3% goes to local suppliers. That is at the prime level. Building on what Vel said, what we do see is a lot of local suppliers and smaller suppliers in the supply chain. In fact, to deliver the complex programmes that DFID delivers, a supplier typically will not be able to do that on their own. They will need a good, diverse sub-contract consortium underneath them. This is where local suppliers are absolutely paramount to be able to deliver the programmes on the ground. In terms of the incentive on the prime to use local suppliers, they will be



commercially competitive but they will also be technically competitive in the bidding process. That is why we do see a large number of local suppliers within the supply chain.

Unfortunately, at the moment, our MI and our system capability is not sophisticated enough to track that and give those facts and figures. We are working on that and, hopefully, in the future we will be able to represent that much more fairly in terms of the overall supply chain. We have introduced a number of measures, both direct interventions and indirect interventions. Some of those direct interventions—Vel mentioned the Open for Business events—are exciting in terms of working with local enterprise partnerships and working with chambers of commerce. We have also been working with local MPs to reach out to suppliers that potentially we do not even know are there but may be interested in DFID as a procuring authority.

Q19 Stephen Twigg: When you say local MPs do you mean in the recipient countries?

Nick Ford: They are primarily in the UK, where we are speaking to them, but we are doing similar in-country. I have a group of commercial delivery managers, many of whom are based in-country, whose primary aim is to reach out to local markets and understand the local context and, similarly, reach out to the local chambers of commerce, look at who other donors are using, etc, to tap into these supplier bases and work with these supplier bases. They are direct interventions to try to work directly with some local suppliers.

A number of the reforms are around how we ensure that primes are treating sub-contractors fairly, and are using sub-contractors within their consortiums and within their bids. Again, we have a number of interventions that we have introduced to do that. Our new terms and conditions that we have gone forward with need suppliers to detail, within their tender proposals, the relationship they have with their sub-contractors. They need both parties to sign a declaration which is submitted with the tender and the sub-contractors to say what work they expect to get through the life of this programme and what they have supported through the bid. We see that and we will ensure that that takes place through the life of the programme. The prime cannot change that sub-contractor without DFID approval. That is another example of work we are doing to help ensure that sub-contractors are getting fair treatment in the supply chain as well as the natural competitiveness of why you would use local suppliers.

Q20 Stephen Twigg: Alison, did you want to comment on that?

Dr Evans: Only to say that we certainly saw that commitment that Nick has set out and felt it was a very positive direction of travel. That local content of major contracts, the share of fees going to be local suppliers, is one of those metrics we do not have sight of yet. As Nick said, the management information is being put in place to be able to do that. It



did mean that we were somewhat hamstrung in being able to track change in that area. I do not know whether Chris wants to add to that.

Chris Shapcott: One of the important things is that the staff who are drawing up the requirements for contracts are clear on what it is DFID is trying to achieve in this area. Is it just a matter of getting local suppliers because local suppliers can bring things to the table, like local knowledge, and they may be cheaper to employ because they are locally based and things of that sort, or is there a recognition of the economic development benefits as well from growing local capacity that will persist beyond the life of the programme? Conversations that we had with some offices suggested there were differing views on what DFID wanted to do in this. Clarity is something that would be helpful for those people.

Nick Ford: I could give a good example to help explain what we have been trying to do. In the Sierra Leone Freetown water rehabilitation programme, which is quite a large water infrastructure programme, you would need a very capable lead organisation to be able to undertake and run that. The organisation that ran it is a new organisation. There is a prime, but it is heavily weighted with a UK expertise in terms of a major new sub-contractor to DFID that has not bid for DFID work before and will help deliver that programme. A key part of that programme within the terms of reference, and within the KPIs, is utilising local labour, local skills and sub-contractors to deliver that programme on the ground in Freetown. That is a really good example of where we know we need to operate though a prime that has the capability to deliver the programme successfully, but we are incentivising that prime to use local skills and local economic development on the ground in Freetown.

Q21 **Stephen Twigg:** An increasing focus of DFID's work is on some of the most fragile and conflict-affected states where, for obvious reasons, this is going to be much more challenging in terms of both the prime contractors and sub-contractors. Can you talk a little about what DFID is doing to try to ensure that there are a range of organisations available to do the work in those particular environments?

Vel Gnanendran: The first thing to say is that this is going to be a big challenge for us. We generally find the number of bidders for our tenders in those environments is low and that number has stayed stubbornly low despite all the measures we have been taking over many years now. We have to be fairly realistic about the number of suppliers that want to operate in those very dangerous environments. That said, we are doing a number of things. First, as Nick and I both talked about, we are trying to make ourselves more open to suppliers, going around the country more and talking to potentially new people who would want to enter with us. We are quite realistic about the chances of a new supplier wanting to come in, not knowing us, and then operate in an environment like that. The likelihood of them wanting to do that is quite low. That is a challenge.



We are also trying to have much clearer terms and conditions around some of this stuff. The new terms and conditions Nick mentioned that went live in early September are much clearer about duty of care and where the risk lies. This is a really difficult challenge and there is not an easy answer to it.

Q22 Stephen Twigg: Are there any comments on that from ICAI?

Dr Evans: We all recognise that this is hugely challenging. We are watching and waiting to see how, for example, the new terms and conditions do assist suppliers in being much clearer around where their responsibilities lie and who is holding the risk on different aspects of engagement. That has been a muddled area. We brought it to you in the context of the fiduciary risk review, where we said that clarity around risk transfer and risk holding in the delivery chain was not really consistent or systematic across the Department. These new terms and conditions are an attempt to try to clarify.

It is still the case that many suppliers are very worried about the levels of risk that they are being asked to take on. That inevitably means that some businesses are simply not up for engaging in those fragile and difficult working environments. Through our follow-up process, we have to come back and see what has changed, whether the needle is moving at all via the supplier review process in terms of clarifying for suppliers their expectations in these contexts and whether it brings more suppliers, therefore, to market or not. It is extremely challenging.

Q23 Stephen Twigg: I have focused in this section on the local organisations, but more broadly, in terms of all the environments in which the Department is working, there is also an issue around smaller UK-based organisations feeling that they have fair access. Alison, is there a concern here that some of the changes that have come through the supplier review, whilst well motivated, might make it harder for some of the smaller UK-based organisations compared to the very big ones?

Dr Evans: We do not have enough evidence yet on that. The first thing to acknowledge is that the Department has met the SME target and has done so consistently over a period of years, and the target is the target. You could argue that the target tells us relatively little then about the spread of businesses beneath it.

Q24 Stephen Twigg: The definition of SME means that Adam Smith International counts as an SME is my recollection.

Dr Evans: Until recently, yes, absolutely. There is both a number of employees and a turnover metric that define it. You could say that it is a very large bucket. We have had interesting conversations with the Department about the fact that they are sighted on trying to understand the issues specifically for small and micro-suppliers and whether or not they can do more to identify potential barriers to entry. Around the reforms linked to the supplier review, it is simply too early to say. We have to be careful not to run on anecdote there. There is a lot happening



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at the moment; it is happening at pace; suppliers are having to adjust to a lot of changes.

The reason for our recommendation 4 in the review about linking the procurement changes to a broader change management process is to ensure that there is a sense in which there is consistency in the Department about how the supplier review reforms are going to be taken forward, but, crucially, for suppliers that they also see consistency in the way that they are being rolled out. Their biggest anxiety now is that elements may work at cross-purposes. It is important that the Department monitors very closely but also sees this as a change management process for the Department as a whole and not only for the procurement department, because the implications are very wide-ranging.

Chris Shapcott: We mentioned at least a couple of times the importance of watching out for unintended consequences and this is one of the issues that we were thinking about when we mentioned that. We hear complaints from some of the suppliers about compliance burdens, in particular, from the supplier review. People always complain about things, so how much credence should you give that? We would suggest that we need to see whether that is resulting in less competition for new work, whether people are less willing to come forward or maybe they will come forward in different types of work. Once you have made change you have to monitor.

Q25 **Stephen Twigg:** Nick, do you want to comment on this aspect?

Vel Gnanendran: I agree with that challenge. Although we have met the SME target we are not complacent about that because we recognise that the bulk of that is in the medium and we need to get much more of the small and the micro. About 80% is in the medium so we have a big job to do on the small and the micro.

I have a couple of points in terms of what we are doing. First, on the supplier review, again recognising the burdens may put off smaller companies, we have introduced different compliance levels to try to say that if you are a smaller company the compliance requirements are lower. We have to see how that plays out and whether that genuinely makes it easier. It is still early days on that.

On Alison's point about the change management process, we do have an external panel which is comprised of our NEDs in the Department but also experts in government commercial from the private sector. We use them as a bit of a challenge process for us as we roll out these reforms. If we do hit bumps along the road, we are hoping that we can get insights from an independent panel about how we might tackle some of these problems. I just wanted to say we recognise that and that is why we introduced different compliance levels.

Q26 **Chair:** Thank you, Stephen. Now I am looking at open book accounting.



Alison, what do you think the value is of increasing the transparency of suppliers' costs and profits?

Dr Evans: Instinctively and evidentially, transparency is the right way to go. Ultimately it is important for the functioning of the market. There are issues to be managed around the effort level versus the benefits of going for more and more transparency. One of the reasons we have observed and we heard from the Department is while transparency has not been applied as systematically as we thought it probably should be, it is partly because of capacity constraints up until relatively recently. That is particularly around open book accounting, which essentially pushes further on cost transparency. Some of that has now been addressed by the Department, so we are looking forward to seeing that being applied more systematically.

There are still cost-benefits to be managed inside the Department there about how much focus it puts on that particular aspect of the procurement process versus others including operationalising different aspects of its code of conduct and so forth. It is a balancing act within the Department about how they go forward with that. Getting better sight on costs and fee rates—in particular, having much more open available information around that—is a good thing, but it clearly needs to be managed. Chris might elaborate further.

Chris Shapcott: The Public Accounts Committee is supportive of open book accounting approaches and there are a number of arguments in favour of it. One is a very simple one. They argue that public accountability requires some transparency on suppliers' profits. If those appear to be exorbitant, public authorities ought to know about it and do something about it. It is also around the various aspects of being an intelligent customer. If you are procuring things you need to understand what it costs to provide them so that you can evaluate people's tenders better and so that you can design projects in the future in a way that does not place unreasonable costs on the suppliers. If you build costs in through your specification you end up paying for them. You need to make sure that what you are doing is value for money.

It is also an issue when competition is not as strong as you would wish, particularly, perhaps, when you have long-term contracts. If there is weak competition then better information on suppliers' costs gives you an alternative way of driving out value for money in the procurement. Also, with long-term projects, if there are changes four years down the track with an incumbent supplier, competition at that point is not bearing very strongly. Transparency about costs there helps you to evaluate what the contractors are telling you in terms of changing your costs. There are lots of advantages there.

Q27 **Chair:** When are you going to introduce open book accounting?



Nick Ford: We have introduced open book accounting. DFID rolled out the new terms and conditions on 1 September for all new procurements. These include additional clauses around open book accounting.

It is important that we understand the difference between open book accounting and open book contract management. Open book accounting is all around having full cost transparency. We also, when we released the new terms and conditions in September, published an allowable cost template and policy, which clearly sets out what should and should not be included in costs to ensure that we are getting consistency. It gives us a good template that all suppliers must fill in, and consistency around job titles and job family so we can easily compare like for like across suppliers. That went live at the same time. That gives us full cost transparency of all the fees within the supply chain right down from net fees all the way up to the overheads and profit, in line with a standard policy. Through the life of the programme, our SROs and programme managers will monitor those costs using open book accounting techniques, with suppliers resubmitting those cost templates on a periodic basis so we can ensure we check the costs on the programme.

That is different to open book contract management. We are very much rolling out open book accounting. Open book contract management, which is much more burdensome, needs to be used much more cautiously. That is very much recommended by Government Commercial Organisation. We are looking at a number of pilots where we will use open book contract management going forward. At the moment we do not have a live procurement that we are running with open book contract management.

Q28 **Chair:** Alison, do you think that is fast enough in terms of the contract management? Looking in on that, what do you think?

Dr Evans: We were persuaded by the argument that this is a very complex context in which to move to open book contract management. It is very clear that, more generally the advice within public procurement is to move cautiously. Certainly, DFID is looking to pilot and find the circumstances and conditions in which it might be appropriate. At this stage, given how much else they have going on—and there are a lot of reforms that need to be realised—that is probably an appropriately cautious approach, but one that clearly needs to be considered alongside others.

Q29 **Chair:** Thank you very much. On the cost-plus approach that you may be moving towards to controlling suppliers, where a contractor is paid for all its allowable expenses plus additional payment to allow profit, how are you addressing the risk of damaging incentives to innovation and efficiency?

Nick Ford: Just to be clear, we have not introduced a cost-plus methodology. Through the supplier review activity, we engaged with a number of industry experts and looked at a number of different solutions



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and tools for controlling and managing fees and cost. That led us to the policies that we have rolled out, particularly around open book accounting and full cost transparency. We are still using market forces and competitive process to set what those costs will be on the procurement and for the contract. What we then have is full transparency and management of those costs and fees going forward.

We did introduce what we call a profit variance clause which gives us the ability to sit down and review with the supplier what the profit is doing over the life of the programme compared to what that expected when they won the contract through competition. If that starts to go adrift from what was expected and bid at, we will sit down and we will discuss that with the supplier. In a worst-case example, we have remedies to call any additional profit back.

We did not go down a cost-plus route. USAID uses cost-plus methodologies quite a bit. It is more typical in pure single source environments. Within public procurement in the UK, the MoD is an area that does use cost-plus. There is quite an administrative burden around it. It does not truly incentivise efficiency and innovation, to your point. Therefore, that is why we did not go that route. We have gone the other route, which we do think incentivises innovation and incentivises to drive efficiency through the life of the programme. That is why we have not capped profit. That would be won through the tender based on what is competitive. Then we will work with the organisations to try to drive efficiencies and cost improvements over the life of the programme.

Q30 Chair: How did you communicate the change to those clauses and that change in approach to your suppliers?

Nick Ford: We went live with the new terms and conditions in September last year. Since then we have been doing a number of engagements and consultations with all suppliers, including a number of NGOs that have also bid for DFID's procurement. Working through clarifications is one thing, seeing the terms and conditions on a live procurement, but then there is understanding the intention and the depth behind them. That is what we have been doing working with suppliers since then and engaging in various forums as well as in one-to-ones, as we have worked through any clarifications to ensure there is clarity on understanding what the terms are and how they will be applied. So far, we have had over 30 organisations sign up to the new terms and conditions. We have also been retrospectively applying them to high-value, high-risk strategic contracts and we have identified around 30 of those contracts. Already well over half—around 18—have already been re-negotiated and agreed under the new terms and conditions.

Q31 Chair: Was the system of feedback formalised or was it just as you would go through the process?

Nick Ford: Sorry, could you repeat that?



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Chair: As you were introducing the new paragraph for the suppliers wording, was there a formal assessment of feedback that you were taking, as you say?

Nick Ford: Yes. Whether that is through one-to-ones or though more engagement with other organisations like Bond, we have been taking feedback on those new reforms that we have introduced. When we went live with the new reforms we knew in time that we would have to do an update, because there will be little clarifications and definitions and interpretations that we would want to address. We will be looking probably in the next few months to up-issue to clarify to organisations some of those areas that have come out from the various discussions and consultations. I am pleased to say to date we have not identified anything material. Yes, there are a number of clarifications, tidying up we can do but we have not identified anything material yet which is stopping suppliers from agreeing.

Q32 **Chair:** Thank you. Alison, do you get any feedback from suppliers about the new clauses?

Dr Evans: We do. I want to be very clear that that evidence is largely anecdotal at this stage. I would not want to give it excessive weight. I would perhaps make one point. The new terms and conditions loom very large within the context of the supplier review process as it is now. One concern that has been expressed is that the new terms and conditions are clearly a mechanism; they are a means to an end. I do not think everybody out there in the supplier pool fully understands the direction of travel or overarching objectives around the supplier review reforms. In a sense, what is the end-game here for DFID?

There is a lot of focus on the terms and conditions. They are the instrument, but possibly suppliers need a little more clarification about the ultimate objective of the whole supplier review package. I am sure that that has been communicated, but it has not been completely heard or taken up by a number of suppliers that have expressed themselves as being in the slight swamp phase of this reform process. They are not quite sure where they are going to come out yet. There is still a communication challenge, but that is not entirely unusual around a change process.

Q33 **Chair:** Finally, in this section, Nick, what training did you give to DFID staff to have this change in approach?

Nick Ford: We are very much in the midst of rolling out training internally within the Department. When we went live with the new terms and conditions, the priority there was to engage with the market and the supply chain because we knew, though running procurements, there would be a lead-in period before we needed the internal capability to start managing those contracts under the new terms. The first focus was to roll out new terms and conditions externally and then, subsequently, at the moment we are very much running training and developments



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across the organisation. At the back end of 2017, we piloted training material. We took on board a lot of feedback from a number of pilot offices, and now we have updated training material and are very much in roll-out mode. As we speak, I have staff in a number of country offices overseas, and there are more to come. My lead team is getting out over this first quarter around the vast majority of overseas country offices to support the roll-out of the reforms.

Q34 **Chair:** Have you had feedback from staff about this?

Nick Ford: A key part of the pilot phase was to get feedback to make sure that it landed appropriately and the training and the material would be very much useful and received. That was why we ran the pilots. We have updated the material based on a lot of that feedback but, absolutely, particularly through our commercial delivery manager network, which is primarily based overseas, we will take on board and consider any feedback going forward.

Vel Gnanendran: I will pick up on the point about objectives, if I may. We have to hear that feedback and we have to find a way to communicate that better, but we are clear about the objectives of the supplier review. We had three, one of which was levelling the playing field and driving more competition. Secondly, it was enforcing higher standards of our suppliers. Thirdly, it was gripping costs and driving better value for money. We were clear about the objectives of the supplier review. We have to take the feedback that maybe we could have communicated that better, but we were clear about that.

Q35 **Mr Lewis:** I want to touch on the issue of communicating pipeline opportunities. ICAI recommended that there needed to be some significant improvements in this particular area. Could I ask Nick and Vel about this? The issue of communicating with suppliers was identified as being quite a problem. There was insufficient information about the pipeline. What are you doing to address that very specific concern?

Vel Gnanendran: Perhaps I will start there. There are a few things we are doing. We have very active social media. We now put a lot more out on our procurement social media about opportunities. There are two other things. First, we are using really ageing software. I think we are the last customer left on the portal software we engage with suppliers on. We are in the process of updating that and we hope to go live with a new system by the end of the year. This will have a shop window, which will have all of the opportunities across all of our funding instruments much more easily accessible.

The second thing, particularly on your point about the pipeline, is that we have developed an internal pipeline tool. That is currently 12 months out, so it gives us 12 months advance notice of all of the different opportunities coming up. At the moment that is a really complicated spreadsheet so we are trying to work out a way to make that more user-friendly with a view to publishing it around the spring or summer. We



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are trying to improve the pipeline. We have done it internally. We just need to get to the point where it is ready to publish.

Q36 **Mr Lewis:** Do you feel that DFID are doing enough in this area to respond to your concerns?

Dr Evans: This is an area where we feel that they have been slow off the mark. It sounds like they are gripping this now. The supplier portal is a pretty awful window to the supplier market. It takes some commitment to use it. It is a one-stop shop in the sense that all things are there, but you have to work very hard to find them. I am delighted to hear that that is about to be improved.

There are issues around forward views on the pipeline. Even if information is provided, there are also quite rapid changes of mind. Of course, every Department is allowed to change its mind about what it puts in its pipeline but that is sometimes not well communicated. We have many examples of instances from the supplier point of view where they feel that the pipeline has been poorly communicated and, even quite far down the line of opportunities being made available, things have been pulled. Some of this is to be expected; this is a complex contracting environment, but communication can get around a lot of the problems that particularly build up in the relationship between suppliers and the Department. Chris, you might have some specifics on that. We feel that they were slow off the mark. We are pleased that things are improving, but in our follow-up we will be looking quite closely at this one because this is critical.

Chris Shapcott: This reinforces the theme of communication that we have been stressing several times already. As we highlighted in the third section of the report, information systems within DFID were, at times, quite a struggle, both for our fieldwork and for their own activities. Hearing that there are plans to try to get a grip on that is encouraging.

Q37 **Mr Lewis:** These questions are for Nick and Vel. In terms of average tender, the target is to get at least 4 bidders. At the moment I think we are at 2.9. Clearly, therefore, you are not at target. Is it one of these targets where there is no realistic prospect of achieving 4, or is that something you are very much working towards and are making significant progress on? The second question is a slightly different one that I think has been raised by other people. Only 3% of contracts have been won by suppliers from developing countries. That is a shockingly low statistic. Again, how proactive are you being in trying to change that and what sort of change can we imagine over a three-year period?

Vel Gnanendran: I will answer the first one. We are at 3 now, so the 2.9 has gone up to 3 since ICAI published their report. A number of factors go into this. First is where we started from. When we set this target two years ago we were at 2.6. It has taken us two years to get to 3. I hear the point that progress has been slow on that metric. If you look at public procurement regulations, depending on which tender route



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you use, it says the minimum is between 3 and 5, so we are not far off the minimum. That is not to say it is good enough. The point we always try to come back to is what we are about is driving value through competition. There is a quality/quantity thing there. It might be that two very high quality bids are much better in terms of driving value than seven low quality bids. It is quite a blunt metric to try to get to the thing we are measuring, which is how much value we are getting out of our contracts.

If we get to 4, which is our goal, by the end of this year, given how long it has taken to get to 3 that would be a huge achievement. We want to be ambitious. A number of the new reforms we are rolling out will accelerate some new entry into the market. We are maintaining quite a high level of ambition on that but we do not think it is completely unrealistic to get to 4.

Nick Ford: We should not underestimate the shift we have made already. From 2.6 to 3 is quite a shift. To get to 4, we will need a lot more. When you think about the types of programmes we deliver in the countries that we operate in, to get a supplier that has not typically worked for DFID to start working for DFID to then submit and go through the tendering process, start to get experience, submit a number of tenders and procurements and then be successful and deliver a programme is not easy. I am trying to ensure we set expectations with the Committee: that is not a number you are going to rapidly change in the short term. However, as Vel said, we are very ambitious and that is why we have set a target of 4, to try to achieve it. We believe that through the interventions and the reforms that we are delivering hopefully we will. Quality is by far the more important measure rather than quantity.

Vel Gnanendran: Did you want us to answer about the 3%?

Mr Lewis: Yes.

Vel Gnanendran: To echo a point that Nick made earlier, the 3% is on the lead contractor. We are strongly of the view that if we were to include sub-contractors, but also contractors below the threshold of £106,000, that number would be healthier than 3%. We do have to go further, and we talked a lot about some of the things we are trying to do, particularly through our prime contractors to try to get more local suppliers into our supply chains. We hope that number will tick up, particularly when we can get better data on it through our new systems.

Q38 **Mr Lewis:** Before I ask you to respond, it would be helpful to know how you feel about the responses, and whether they are adequate in terms of what you have identified as being shortfalls. The report also says that you do not have aggregate data on the share of fees subcontracted through suppliers in developing countries and that you were not at that time regarding that as a priority to identify. Where is that up to?



Vel Gnanendran: We have taken a number of steps. First of all, it is to understand our supply chains better. From 1 April last year we made delivery chain mapping mandatory on all of our programmes except core contributions to the multilateral. That means every single programme we run now has to map the delivery chain all the way through. That is all now electronically stored. We can now have much better sight of the delivery chain.

Secondly, we have mentioned the new terms and conditions that now require the lead contractor to give us much more detail about their sub-contractors. Certainly, for all new contracts we will have much better sight of sub-contractor fees.

The third part of that is the new system we hope to get towards the end of this year. The suppliers will have to put on to that the amount of business that is going to sub-contractors. We will be able to see that a lot better. We are not there yet, but we do have a number of steps in place to get us to the point where we will have much better visibility on that.

Q39 Mr Lewis: It is interesting how we go through waves of focus on different issues and then people move on to other things. There was a very strong wave of publicity around some of the contracts that DFID had signed and some of the suppliers DFID was using. Newspapers were regarding it as inappropriate use of aid money, with the profits that individual organisations were making, bonuses at the top, and all of those types of issues. I am not sure we have captured that so far. It has been very technocratic. Has all of that taken a massive amount time for you to reflect on and to change course on? Clearly there was a period of time when this was dominant on the news on almost a daily basis.

It did seem often to come down to, if you go far enough, that DFID is there, the supply chain is there, and the end delivery is there. You have often not always known in the past adequately the consequences of contractual decisions you have made. That would be one question. That inevitably leads to a more risk-averse approach. We say we want people to be cutting edge and innovative but then we say, "We do not want you to get us on the front page of tabloid newspapers". How does that play in terms of the decision making?

The linked point is clearly, in 2010, when the new Government was elected it was made very clear by the incoming Secretary of State that he wanted to see a much greater use of the private sector and the Department rushed to deliver. Stephen and I remember the halcyon days when Departments rushed to deliver for Ministers. There was never any clarity, in my mind, that the Department had the capacity to deliver that perfectly reasonable political agenda, although you may disagree with some of the ideology. How much have those issues played in terms of the work that you are doing and the decisions that you are making?



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Vel Gnanendran: I will try to do my best on that. The first thing to say is we have been on a huge commercial journey, not just since the big media stories about a year ago, but for a long time now. ICAI's review in 2013 was the start of that. The media stories that broke about a year ago now accelerated some of that. There has been a huge amount of work, particularly under our previous Secretary of State, to think about how we could step up our engagement with suppliers and that was the whole supplier review work, which kicked off at the end of 2016, beginning of 2017. We only announced that in October last year. That was a good 10 months of work thinking about all of the different measures we could roll out. One point in terms of the ICAI report is that they were trying to do this review at the same time as we were doing all of this thinking. I should thank them for their understanding because we could not disclose a lot of that ongoing work as we were thinking it through and advising ministers. There has been a huge amount of work to get to this point.

The outcome of that is, first, we now have much higher demands in terms of the ethics of our suppliers. The new supplier code of conduct, which is attached to the new terms and conditions, replaces the old statement of principles and expectations that was very focused on commercial and voluntary and self-assessed. The new supplier code of conduct is mandatory and we will have a team, Nick's team, which can enforce compliance and it covers ethical behaviour too. We have picked up the point about ethical behaviour.

Regarding the point about profiteering, Nick mentioned clause 19 in our new terms and conditions. It now has a profit variation clause. If suppliers start making more profits than they told us they were going to make we now have the power to intervene. We have new terms and conditions around sub-contractors that this Committee challenged us on quite strongly last year. A lot of the reforms we launched last October and are now rolling out pick up on all of that scrutiny. It is part of an ongoing journey and it accelerated that quite a lot. I hope that answers your question.

Q40 **Mr Lewis:** The second part of the question was the rush to use the private sector and how that influenced the work of your section of the Department?

Vel Gnanendran: There have been two elements of that. One is how do we promote growth and job creation in our partner countries? That has been a huge focus of effort. We have ramped up our work in that space. You heard evidence last week from Rachel and Mel on some of our work around inclusive growth. That has been a huge increase. That is the right thing to do and we continue to do more in that space.

The amount of business that DFID contracts out has remained broadly stable over the last two to three years at around £1.4 billion, 14% of our spend. The big change there was when we started to pull out of budget support and we needed find other delivery channels. That was where we



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saw a big uptick, and that was probably the bigger driver. We have not taken an ideological view to using the private sector more as delivery arm than any other delivery chain. At the design point, each team will think about the best delivery method based on effectiveness, value for money and so on.

Nick Ford: That growth through that period in the private sector is almost identical to the proportion of growth through grants with NGOs and civil society. There is not a push on private sector. We have seen a similar growth as we have moved away from budget support on both those channels.

Q41 **Mr Lewis:** Can I ask Alison to respond to that?

Dr Evans: We very much support the intentionality of all the measures that Vel and Nick have put out. We are very much reserving judgment on whether they are going to ultimately change some of these fundamentals. I agree very much with Nick on the point about, "It is not just quantity of bids; we want quality too". That is well taken. Nevertheless, securing a healthy, competitive market where there is active choice for the Department is one of the ways to achieve value for money in this space. So it is important that that number of bids certainly does not regress in the next period of time even if it is not able to achieve quite the four that they aim to by the end of next year.

More generally on points about the worries about suppliers and profiteering and so on, there is clearly a very significant effort to clamp down on that in the Department. Our next review will look at some of the efforts and how they are impacting on the supply chain. I will reserve judgment on how that is working. It is clearly something we heard consistently throughout our engagement on this review that this is an area in which DFID is ramping up and being very front-footed. It is too early for us to see some of these key metrics move.

The one we have not mentioned a lot of is the size and complexity of some of the procurements that go out. There is still the need for further work to think about the extent to which that is off-putting. Is it absolutely necessary? There may be reasons from the top of the organisation in terms of value for money for larger, because larger looks like you are going to be able to manage down your costs in order to drive value, but it is not obvious to us that larger and more complex is always the right solution to achieving DFID's objectives. That is an area where they continue to need to put pressure.

Chris Shapcott: In a way, at the heart of this is DFID's business model, which is to do things through other people, primarily. We are talking about doing things through contractors. Recent events have shown that other routes of delivery through NGOs and through international organisations are not risk-free either. At least with contractors DFID has a direct relationship with them. They are writing the cheques. That is a



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way of getting people's attention that is perhaps not always available through other routes. Nothing is risk-free.

- Q42 **Stephen Twigg:** Ivan mentioned in this context some of the media controversy around some of these contractors. It may be a question that none of you are able to answer because it is a Foreign Office administered programme. It has come to light that the programme in Syria that was suspended in the light of the Panorama programme that was about training the Free Syrian Police has now been resumed. There are concerns about the level of investigation that happened before resumption. Are any of you able to comment on that? If not, I wanted to raise it because it is relevant to the points Ivan was raising, but also to ask from ICAI's point of view how confident you are that you are going to be able to look at suppliers to other Government Departments that are covered by ODA, of which this is a prime example.

Dr Evans: From our perspective, no, we cannot comment on the specifics, but I am taking note of your concern there. In relation to suppliers for other Government Departments, as I said, at this precise moment, we do not have a specific area of work, although we will be bringing a review of the CSSF to you relatively soon. That does not have a procurement focus per se, but it does have some things to say about relationships with suppliers in some aspects of programming. It will not directly address this particular concern in relation to CSSF in Syria, but we need to take that one away and make sure that we have good sight on it in further work we plan to do with other Government Departments.

- Q43 **Stephen Twigg:** It does speak to a broader issue around public controversy about aid that it is often the case—not always—that some of the more controversial are when the aid is not delivered through DFID but is delivered through other Government Departments. I make that as an observation; I imagine that you will not feel able to comment on that, but if you wish to that would be great.

Vel Gnanendran: It is a much wider issue and I know you are considering some of this through a separate inquiry. I am not sure I can comment much more beyond that.

Stephen Twigg: I understand.

- Q44 **Chair:** Can I finally look at the reform agenda, which is wide-ranging and ask DFID what you are doing to monitor and mitigate the possibility of unintended consequences, such as the degree of risk that suppliers are willing to take? We talked a little about risk. What are you doing about rising suppliers' costs because of compliance requirements and meeting compliance requirements?

Nick Ford: We are absolutely conscious of avoiding unintended consequences and ensuring that we have in place the right governance arrangements and the right set of KPIs to monitor how the reforms are operationalised as we roll forward. Vel mentioned before that part of that governance arrangement includes an external panel of experts, which



met two weeks ago for the first time, and that panel is going to provide good insight. We are looking for those experts to provide insight as well as challenges on our reforms as we move forward. There is a set of KPIs that we are agreeing with that panel that they would like to see to ensure that they can monitor the reforms and that we are not having unintended consequences. That is the high-level panel.

Within the Department, we also have the programme cohesion board that operates across the organisation, with a number of senior civil servants from country offices as well as internal UK spending Departments to see how the reforms are landing, and get that feedback and look at the KPIs and monitor the programme. We have quite robust governance arrangements around the reforms going forward and a set of KPIs to support that. We can hopefully get early sight if anything is not going as we expected.

Q45 Chair: The next question I was going to ask was how you make sure that good practice goes into the mainstream across the DFID teams. Would that be the cohesion board? Is that another way that you would do this?

Nick Ford: That is absolutely one of the ways, absolutely, through that cohesion group which has representatives from across the organisation. A simple way is through the commercial delivery manager network, through the commercial people based out in the programme teams, in the country offices and the UK spending teams. They meet on a monthly basis. They have learning feedback, the context and what is happening operationally on the ground or in the programme team. That is another simple way that we take that feedback. We have introduced quite a lot through social media. There are various blogs and various websites where people can post comments and feed back to the group. We have also introduced a number of external website addresses. Suppliers can send us feedback and comments as well.

Q46 Chair: We have talked quite a bit about the different types of suppliers that we are using and how you seek to promote the use of certain types, whether it is local SME, etc. Do you think this is always value for money or are there other objectives in play in there?

Vel Gnanendran: The way to answer that is when a team is thinking about how to deliver a programme they are thinking about each of the different delivery channels and their objectives. For example, they might decide that the best way to deliver the programme is through the Government and therefore a big chunk of that programme is financial aid to the Government. That would be a combination of sustainability, value for money, effectiveness and impact. They will be factoring all of that in.

Through that process, which Nick's team of commercial delivery managers are involved in—that upfront decision making—they may decide, "We need to deliver this component through a contract". They will have made that decision based on a number of considerations. Then it comes to us in terms of how we deliver that for them. A lot of factors



go into the decision making, and it is very much decentralised to the teams to make those decisions with input from the commercial delivery managers.

Q47 **Chair:** Fantastic. Alison, is there anything that you want to respond to on that section?

Dr Evans: Only to reiterate our concern that the Department remains very vigilant about this whole package of reforms to ensure that it is working coherently across the piece and that it is achieving the objectives that are set out for it. I had one observation about the need to also be internally vigilant about making sure that the procurement side of DFID's business and the programme side are speaking the same language on this. There can be a feeling among some suppliers that they start off working and talking to the programme side of the business, then they start engaging with the procurement side of the business, and they are not entirely sure that these are the same universes.

It is essential, hence the change management agenda, that the set of objectives that are set out here for engaging with the supplier market are held consistently and coherently across the Department, which includes the programme and the procurement side. I know there have been efforts and there is training going on. There is a lot of effort to bridge that divide, but it needs to be continued with vigour because that is absolutely essential to make this work.

Chair: Thank you very much. Can I thank you very much again for the time that you spent on the excellent report? Thank you for your response. I hope you will agree that it was an interesting dynamic to have the four of you.

Stephen Twigg: I think the format works.

Chair: It worked really well, I thought. It was a far more open discussion than the slightly stilted approach that we have had in the past. Thank you very much.