

Written Evidence Submitted by DAI to the International Development Committee, 23 May, 2016

SUMMARY

- DAI is dedicated to making a difference in developing nations, and we seek to do this by providing services of real value and high quality to our donor clients.
 - Competition among service providers is critical to ensuring the U.K. Department for International Development (DFID) gets the best value out of its investments.
 - DFID's highly competitive bidding procedures ensure that its vendors bid aggressively and operate in a lean, transparent, and efficient manner, keeping a check on profit margins and salary costs while spurring innovation.
 - DAI's profit margins are small, including in comparison with other government service providers; executive salary levels are not out of line with, say, the charity sector.
 - DFID would be well advised to maintain a competitive, multimodal system encompassing contractors, NGOs, local partners, and multilaterals.

INTRODUCTION

2. We appreciate this opportunity to inform the International Development Committee's consideration of DFID's use of contractors. As development professionals, we pride ourselves on the technical capacity we are able to deploy and the results we have achieved on DFID's behalf—often in challenging conditions where DFID would find it difficult to operate. However, rather than elaborate on these matters, our submission stays as close as possible to the prescribed scope of the enquiry. And even though we understand that the broader context is the debate over the United Kingdom's commitment to spend 0.7 percent of gross national income on development assistance, we do not weigh in on that discussion.
3. We focus instead on the relative costs and disadvantages of DFID's using "large contractors" as opposed to a) in-house DFID implementation, b) NGO or community-based organisation implementation, and c) multilateral partners. And because this question has resurfaced due to recent reports of "rising profits" and "high salaries" among DFID contractors, we address those assertions by reference to DAI's financial performance and salary profile.
4. Fundamentally, we believe that an open, competitive marketplace—with maximum possible choice for DFID—is the key to ensuring minimum costs and maximum value for DFID and the U.K. taxpayer. For DAI, open competition corrects us—to our long-term benefit—if we fall out of touch with our clients and our markets. For our client, for the taxpayer, and for development as a whole, competition yields lower costs, better value, superior technical innovation, and more diverse technical choices.
5. In our experience, the United Kingdom's open bidding process is perhaps the most professional and competitive in the world, keeping an effective check on costs, spurring delivery improvements, and resulting in good value for the Government and the taxpayer. All of DAI Europe's current DFID-funded projects were competed in the bidding process and are tightly overseen once they reach the implementation phase.

63 Gee Street, Second Floor
London EC1V 3RS UK

Thamesfield House, Boundary Way
Hemel Hempstead, Hertfordshire HP2 7SR UK

Tel: +44 (0) 1442 202 400 | dai.com

6. The development industry has in recent years seen consolidation, which might raise concerns related to market power and diminished competition. A driving force behind this trend is the intense pressure on “value for money” exerted by DFID and other donors. Faced with downward pressure on prices, larger contractors can achieve economies of scale and pass those savings on to the client. But while this consolidation yields cost and capability benefits to DFID, it makes it harder for smaller organizations to compete as standalone enterprises or prime contractors.
7. That said, consolidation is not at this point disadvantageous to DFID because the number of qualified firms in the global marketplace is high, competition remains robust, and DFID has indirect access to small companies as subcontractors further down the supply chain. Indeed, 48 percent of DAI Europe’s 2014/2015 spend with DFID was subcontracted or subgranted on to small firms and NGOs, driven by DFID’s ambition to engage small enterprises in its programming.

CONTRACTORS VS. OTHER OPTIONS

8. DFID has options in how it deploys its funds, and each of these options can be valid for a given purpose in a particular context. Multilaterals, for example, tend to take on humanitarian, political, or conflict resolution missions, whereas consultants like DAI deliver specialised technical assistance for long-term development. Speaking in general terms, however, we offer the following observations on the merits of using contractors rather than the alternatives cited by the Committee.
9. *In-house implementation by DFID.* DAI would welcome greater investment by DFID in its technical depth. It is important for DFID’s implementing partners to have a technically capable partner in the field. A “hollowed out” DFID would be a less effective department: less able to achieve its development mission, less able to design, award, and monitor development programming. But it would be another thing entirely for DFID to *implement* all its programmes itself; this would entail hiring, developing, and keeping on staff an enormous range of technical, project management, and field deployment capability. DAI alone employs 675 individuals on DFID-funded projects in the field, in addition to its staff in the United Kingdom.
10. At the moment, all of that investment risk is borne by DFID’s stable of contractors and aspiring contractors. The niche expertise they have built up in their own organisations—or orchestrated in networks of local and international consultants—can be tapped by DFID on a competitive, as-needed basis, and retained or let go as the need evolves. The cost of bringing this extraordinarily diverse human capital in house, on a permanent basis, with all associated benefits, would surely be prohibitive. No major bilateral development agency in the world follows a direct, in-house implementation model.
11. *NGOs or community-based organisations.* We take this category to denote local rather than international NGOs. There may be cost advantages, on a case-by-case basis, in using local NGOs or local contractors for project implementation. But the mechanism for identifying this advantage remains open competition in the marketplace—with the caveat that the ultimate criterion for evaluating competing tenders should be best value (an analysis that takes into account both quality *and* price), not lowest price alone. It is easy to find vendors willing to charge lower prices for technical services, harder to find credible partners capable of delivering good development results at good prices. It should be pointed out that in its field work, DAI Europe partners with local NGOs and contractors as a matter of course, to the extent that 48percent of DAI’s DFID contract work is passed through to subcontractors and subgrantees. Engaging DAI is, in effect, engaging its long-standing networks of local partners.
12. *Multilaterals.* Given the distinct roles traditionally played by multilateral institutions, on the one hand, and by contractors as implementers of bilateral assistance, on the other, it is difficult to make meaningful cost/quality comparisons between the two. What we can say is that according to a June 2015 study by the Independent Commission on Aid Impact (ICAI), [How DFID works with multilateral agencies to achieve impact](#), DFID already spends almost two thirds of its budget through multilateral institutions—£6.62 billion in 2013–2014, which is five times the amount it spends on projects implemented by contractors. According to the OECD, no other DAC donor country dedicates a greater share of its official development assistance to multilaterals than the United Kingdom

(*Multilateral Aid 2015: Better Partnerships for a Post-2015 World*). We are not aware of any study suggesting a cost or other advantage to allotting still more of the Department’s funds to bodies such as the United Nations.

13. Moreover, questions have been raised about the degree of visibility, accountability, and control DFID enjoys with respect to multilateral funds. In its 2015 study, ICAI gives DFID’s use of multilaterals an amber/red rating on “Delivery,” and says DFID “needs to hold agencies to account less for how they work and more for what they achieve.” “Britain has no say over how agencies use taxpayers’ £6bn,” complained *The Times* in April 2015. A year later, the Public Accounts Committee’s [review of DFID’s work in humanitarian response](#)—while noting that DFID is doing “a good job” across an increasing number and range of crises—concludes that “the Department does not have a full understanding of how much of the taxpayer’s pound is spent by which bodies and on what.” Anecdotal evidence confirms that the World Bank, for example, openly admits it cannot demonstrate how funds are spent at the project level, let alone demonstrate the linkage between funding, expenditure, and results.
14. Given the explicit and binding contractual relationships between DFID and its private sector suppliers, it could never be said that the Department lacks control over—or visibility into—how taxpayers’ money is spent on projects implemented by DAI Europe. Of note, DFID conducts annual reviews of every project under contract; in 2015/2016, 30 of 35 DAI Europe projects so reviewed scored an “A” grade or better.

PROFITS AND SALARIES

15. Since the Committee is revisiting ICAI’s generally favourable review of DFID’s use of contractors because of criticism surrounding “rising profits and high salaries within the organisations used,” we address DAI Europe’s profits and salaries below.
16. *Profits.* The following table summarises DAI Europe’s turnover and net profit over the most recent four years for which we have audited financials. These numbers represent the consolidated revenues and profits of DAI Europe and HTSPE, which was acquired in 2013:

In GBP 000's	2011	2012	2013	2014
Turnover	44,406	58,205	69,735	84,745
Net Profit	1,934	1,823	1,858	-899
Profit as % of Turnover	4.4%	3.1%	2.7%	-1.1%

17. We do not have audited financials for 2015, but we anticipate turnover slightly in excess of £99 million, and net profit of roughly £250,000, or approximately 0.25 percent of turnover. Clearly, our profits are not rising, neither in absolute terms nor as a percentage of turnover.
18. If these profits are not rising, are they nevertheless excessive? We don’t believe so. A back-of-the-envelope review of margins reported by publicly traded businesses listing the U.K. Government as a major customer supports this analysis: IT and consulting providers, such as Accenture, typically report margins in the 14 to 16 percent range; defence companies, such as Lockheed Martin, range from 8 to 13 percent; while outsourcing contractors, such as G4S, earn 6 to 7 percent. Even given all the necessary caveats (apples-to-oranges comparisons across sectors, the difficulty of finding uniform measures of profitability amid inconsistent reporting conventions and financial terminology, and so forth) it would be hard to portray DAI Europe—with its 0 to 4 percent margins—as making excessive profits on U.K. Government contracts.
19. *Salaries.* Among DAI Europe’s 128 corporate employees, the average salary, including annual bonus, is £39,352. Press reports have focused on senior executive pay, suggesting that six-figure salaries are “commonplace.” They are not. Only two of those 128 employees earn a six-figure salary, and these top-level salaries are not out of line with comparable executive salaries in, for example, the charity

sector, which might be said to have a social mission similar to DAI's. In its [most recent pay survey](#) (2015), *Third Sector* magazine found that the overall mean average pay for top executives across the top 100 charities was £208,000 to £217,000, while the median pay level remained unchanged from 2013 at £165,000. A dozen charity leaders earned more than £300,000.

20. The charity sector understandably faces scrutiny of executive compensation. But it has argued that its salaries are appropriate given the importance of the sector's work, the scale of the organisations involved, and the need to run those organisations well. "Charities want dynamic, superb chief executives to drive and fulfil their missions," said David Fielding, managing partner of Attenti (which specialises in charity executive recruitment), in *Third Sector's* account of its pay survey. "If you're too restrictive and sanctimonious on salaries, you will struggle to recruit and retain the best possible leaders."
21. Similarly, it is incumbent on DAI to retain the best management available to lead an enterprise entrusted with significant U.K. taxpayer funding. To attract the best stewards of such funds, we compete for executive talent against both nonprofit and for-profit entities. Ultimately, that labour market will determine the prevailing compensation levels for management expertise, so we take pains to research and benchmark the market, ensuring that we are neither under- nor over-paying our team. Our most recent salary and market assessment was conducted in 2013 with the support of Towers Watson. Our independent Board oversees this compensation process.

CONCLUSION

22. The best way for DFID to enhance its already rigorous procurement, contracting, and funding procedures, and thereby to support long-term development, is to maintain competition not only among its contractors, but among the various modalities through which it can deliver programming: contractors, NGOs, local partners, and multilaterals. DFID should invest further in monitoring and evaluation capabilities to better assess how those modalities—and the entities within them—are performing. But in the absence of a compelling cost or impact advantage favouring one or other of these modes, it is in DFID's interest to maintain an ecosystem that encompasses various modes of assistance, and not unadvisedly to distort that ecosystem. This approach gives DFID the strongest leverage, widest choice, most flexibility, and greatest potential for development impact.
23. Ultimately, development impact is the yardstick by which DFID's use of contractors should be judged. We can provide the committee with many, many examples, like the Rwanda land work in the case study below, of the results we have achieved on DFID's behalf. In Pakistan, for example, DFID's Transforming Education in Pakistan programme has mobilised literally millions of people and tens of thousands of politicians through the Alif Ailaan campaign to demand change in a system that sees 25 million children not attending school, including 50 percent of school-age girls. In Kenya, DFID's Hunger Safety Net Programme manages cash transfers every two months to up to 100,000 of Kenya's very poorest households across a vast arid region, and has registered an additional 272,000 households to receive expedited funding in case of drought, flood, or other emergency.
24. But we should not lose sight of the individual human stories behind these numbers. "GA" is a female member of the Aawaz Village Forum in Dera Ghazi District Khan, Pakistan. Aawaz is a DFID programme managed by DAI that brings together civil society organisations to help citizens—especially women—voice their priorities, drive reform, and hold their government accountable. "In our area," writes GA, "15 women committed suicide by the use of 'kala pathar' (poison). The major reason for this upheaval was violence against women which existing in different forms such as forced marriages, beating and mental torture by male family members and early girl marriages. The unremitting mobilization of Aawaz programme has reduced such cases by at least 30%."
25. "I was able to convince four families to send their girls to school," adds "RN," an Aawaz-trained volunteer in Swat District. "I have stopped early child marriages in my village and have helped 10-12 families with various issues. Aawaz helped me build my advocacy skills by providing me right knowledge of women rights."

26. Over five years, DFID's Aawaz program will work with more than 5,000 villages in 45 districts, yielding—we confidently anticipate—many more such testimonials to the life-changing impact of U.K. taxpayer-funded assistance. Improving lives is the reason DAI is in business. We are proud of our work for DFID and other donors around the world, and ready to assist the Committee and DFID in any effort to make that work more cost-effective and impactful.

ABOUT DAI

27. DAI Global, LLC is an employee-owned international development company, one of the larger companies dedicated solely to international development. Our mission is to make a lasting difference in the world by helping people improve their lives. We envision a world in which communities and societies become more prosperous, fairer and better governed, safer, healthier, and environmentally more sustainable.
28. DAI currently fields some 500 corporate and 2,500 project staff managing projects in 90 countries. We work in global health, crisis mitigation and stability operations, democratic governance and public sector management, agriculture and agribusiness, economic growth and trade, water and natural resources management, and energy and climate change. DAI Europe, Ltd., our British subsidiary based in London and Hemel Hempstead, primarily serves clients in the United Kingdom and Europe, currently including DFID, the Foreign and Commonwealth Office, EuropeAid, Danida, the European Bank for Reconstruction and Development, and the Swiss Agency for Development and Cooperation.
29. In 2011, DAI was voted one of the world's Top 40 Development Innovators, one of only 10 consulting firms so honoured globally. In 2013, we joined forces with HTSPE Ltd. and the following year won the Outstanding International Development Project award from British Expertise for our DFID-funded land tenure work in Rwanda (see insert, following).
30. ***Transforming Land Tenure in Rwanda:*** *In four years, under the Support for Land Tenure Regularisation (LTR) programme, the Rwanda Government and DAI, on behalf of DFID, surveyed 10.3 million land parcels—virtually every parcel in the country—and provided 8.4 million land leases for people, most of whom were vulnerable smallholder farmers who previously held no legal land rights. The cost to DFID came to £3.62 per parcel, by far the most cost-effective large-scale LTR programme ever implemented. Crucially, some 91 per cent of the new Rwandan parcels had a woman named on the lease, greatly increasing legal land rights and ownership for Rwandan women.*
31. *The LTR programme simultaneously buttressed women's rights and standing in Rwanda—with all this implies for long-term poverty reduction—and supported property rights underpinned by the rule of law: one of the key components in Prime Minister Cameron's "golden thread" of development. It bears remembering that Rwanda is only two decades removed from a genocide in which land issues were an exacerbating factor. Does the LTR programme solve all of Rwanda's problems? Hardly. But in concert with other donor and Government initiatives it contributes to the prosperity, legitimacy, and stability that will reduce the likelihood of renewed conflict, displacement, and outward migration from this historically troubled part of the world.*