



Office of Government Commerce

Procurement Capability Review Programme Department for International Development

Delivering World Class Procurement Operations



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DFID Overview



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Eight key facts to give context to the Review findings:

- 1** DFID leads the British government's fight against world poverty. The focus is on stimulating economic growth as a sustainable solution to poverty, moving away from traditional programme delivery to direct budget support and the delivery of aid collaboratively through third parties.
- 2** There is huge diversity across the DFID portfolio: 50 countries around the world; a wide range of aid delivery channels; global expertise that spans diverse areas of economics, finance and aid delivery.
- 3** The aid landscape is large and complex: delivery partners range from small independent charities to multilateral, multi-governmental organisations; the political impact of the NGOs is huge; collaboration with MOD and FCO is necessary for a cohesive British response.
- 4** The Paris Declaration, requiring greater harmonisation of donor aid, places greater reliance upon multilateral channels. This arms' length delivery makes VFM assurance more challenging, added to which is the direction to demand strong delivery performance: "multilateralism with edge".
- 5** VFM is often heavily influenced by political and economic factors of the recipient country. Delivery of aid in a timely manner is itself a key political measure of success.
- 6** The local environment is hugely challenging, with dynamic global situations needing immediate response. Operations are in areas of conflict such as Afghanistan, or countries that are economically or politically fragile. There are tough procurement challenges – in markets that are often immature.
- 7** The CSR 07 settlement has provided 46% increase in aid over the period – but to be delivered within an admin budget that decreases 2.4% year on year.
- 8** Risk management is fundamental – rarely is there a 'no risk' option. The highest return often comes from the riskier aid channels, which involve higher levels of in-country engagement.

Headlines



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- 1 Whilst DFID has clear departmental vision and goals, there is no articulated procurement vision, mission or strategy, hence limited alignment to the evolving business model. Procurement is not represented at Board level; the Head of Profession is three levels below Board.
- 2 DFID has viewed procurement rather narrowly; focusing primarily on its direct spend as a largely administrative activity pursuing tactical, value for money objectives, and assuring organisational compliance to DFID procedures aimed at protecting money and EU regulation.
- 3 The rapidly expanding development budget, and the strategy to route the majority of development funding through third parties, together highlight a new and fundamental role that procurement can play in the effective delivery of aid.
- 4 Supplier performance is not rigorously managed, nor is it used across DFID to inform procurement decisions or improve performance and delivery of value for money. Poor performing suppliers are not consistently managed.
- 5 Rigorous in its application of EU procurement rules, DFID relies heavily on 'open competition' and whilst there is evidence of some good practice there was also evidence of an inappropriate rigidity of approach where alternative routes would have been justifiable.
- 6 There is a plenty of data but a lack of Management Information (MI). Consequently there is a lack of understanding of procurement basics which affects the department's ability to deliver value. ARIES may address this, but a comprehensive and consistent MI mindset is required to deliver of its potential.
- 7 The business operates in a high risk environment; its procurement has an understandable tendency to be risk averse but this has a consequent impact on the optimisation of its front line delivery. There is no consistent means of identifying or quantifying commercial or reputational risk to which it is exposed through the delegation of the majority of its procurement to third parties.

Context of the Review

The increase in aid which DFID will disburse over the CSR07 period, and the complexity of the environment in which it operates, requires a significant shift from the conventional role taken by procurement staff within DFID.

When reviewing the department's spend it was clear that significant funding flowed through bi- and multi-lateral agreements, where DFID had discretion over the channel used to deliver aid; these decisions were 'procurement-like' in nature. Further, these agents often undertook procurement in the delivery of the aid. The department agreed that the PCR team should thus use an extended definition of procurement when making its assessment of capability.

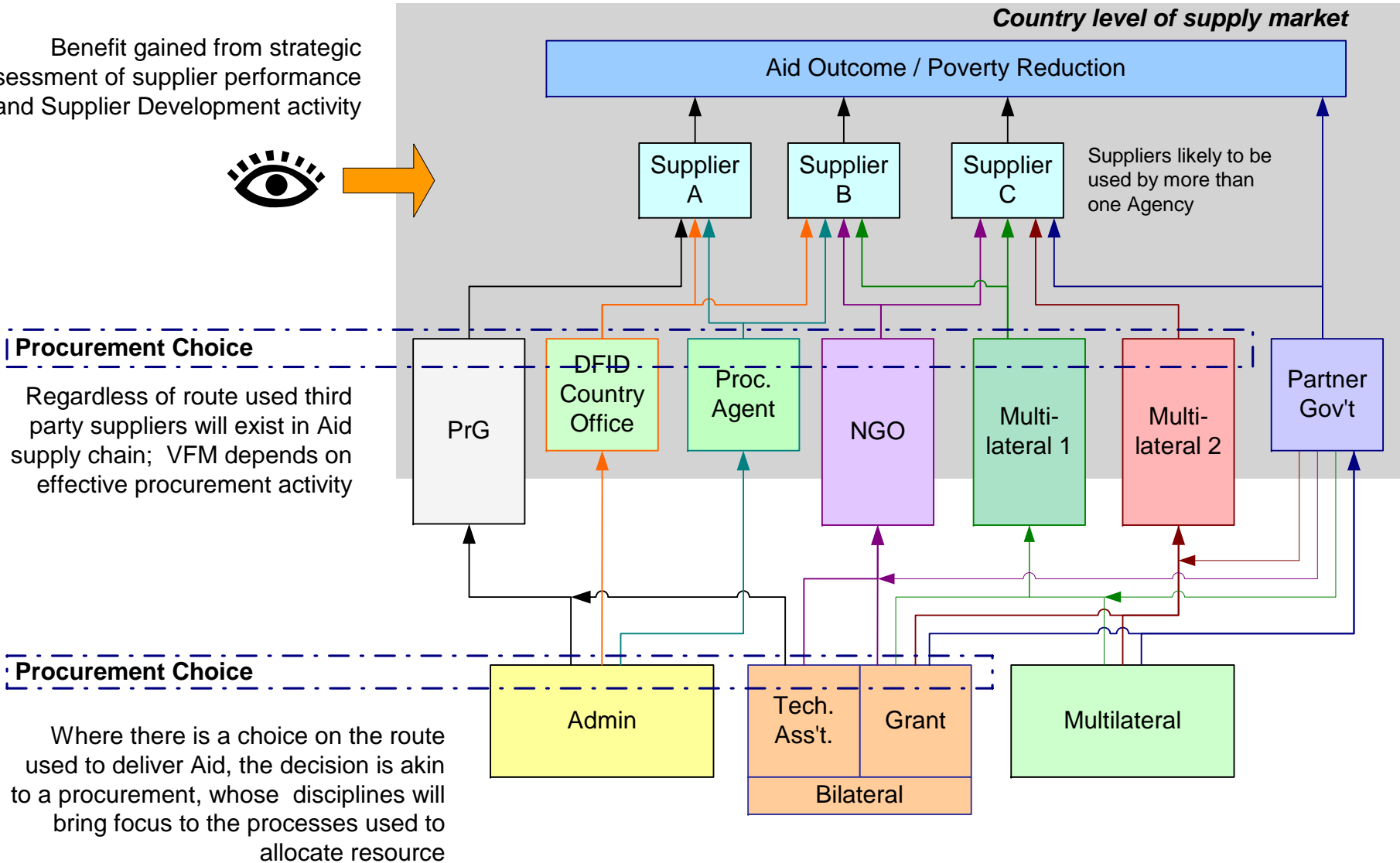
The following slides refer to DFID's opportunity to exploit procurement within this broader context. This inevitably leads to a greater difference in the scale of the capability shortfall identified.

DFID Structure



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Benefit gained from strategic assessment of supplier performance and Supplier Development activity



DFID Funding

	Procurement Influence						Spend £bn	VFM Opportunity	Potential Benefit
	Direct Procurement		Arms' length Procurement		Supplier Management				
	Could Do	Do Now	Could Do	Do Now	Could Do	Do Now			
Procurement Group	G	G			G	R	0.30	Med	
Procurement Agents	G	G			G	A	0.03	Low	
Multi Lateral/Bilateral	G	A	G	A	G	R	4.69	High	
	Select Partner		Partner Procurement / Management						

Extent of current engagement

Opportunity derived from greater procurement focus

R Low
 A Medium
 G High

Review Model

9 indicators of procurement excellence in 3 groups:

Leadership

1. Visibility and impact of leadership
2. Vision, aspirations, business and policy alignment
3. Stakeholder and supply base confidence levels

Skills development and deployment

4. Effective resourcing of procurement activity
5. “Intelligent client” capability

Systems and processes

6. Governance and organisation
7. Strategic and collaborative approach to market engagement and sourcing
8. Effective use of procurement and PPM tools and techniques
9. Knowledge and performance management

1. Visibility and impact of leadership

With the exception of promoting international progress on untying aid from preconditions about sourcing, procurement has not been a Board priority, being viewed instead as an administrative overhead. Leadership resides at a relatively junior level and strategic procurement issues are not addressed in any co-ordinated way, thereby exposing DFID to significant commercial and reputational risk, and loss of opportunity from effective collaboration.



Key Facts:

- The Board and leadership welcomed early engagement to inform strategic direction of procurement.
- At the time of the review DFID used “procurement” to describe direct engagement of suppliers (5% of spend).
- The review found an intuitive understanding of a wider definition for procurement and the opportunity it afforded in many areas of DFID, although a cautious approach to assigning resources to it.
- The Board has devoted a lot of attention to the routes for optimal delivery of aid, on the untying of aid and on compliance and the control of fiduciary risk, but procurement itself lacks Board sponsorship and leadership – attention to date has been limited to process efficiency and headcount.
- The Head of Procurement is three levels below Board and not part of the leadership cadre; he is “valued for convenience”.
- There is limited awareness at Board level of the heightened procurement-related risks flowing from the DFID strategy of arms’ length development delivery, particularly where delivery is reliant on immature agencies.
- A mature understanding of procurement exists in some in-country management teams, where they are attuned to local procurement issues, risks and opportunities.
- Procurement Group (PrG) is highly respected for EU procurement; their role is well understood by DFID staff.
- Current organisation positioning (deep within Finance and Commercial Planning Division) reinforces the tactical perception of PrG and procurement.
- Whilst valued for what they do, PrG resource is treated largely as an administrative overhead, not as a strategic asset capable of adding value to DFID business.

2. Vision, aspirations, business and policy alignment

DFID has a clear vision and strategy, but this has not translated to procurement which is process driven with no strategic alignment to corporate plans and objectives. Delivery partners are monitored but there is no obvious drive to improve procurement performance. There is limited market management activity; this is insufficient given the increased CSR 07 development funding.



Key Facts:

- DFID is a world leader in the delivery of development aid. It deploys a range of innovative and ground breaking techniques for effectively distributing aid e.g. Advance Market Commitment on vaccine development.
- While DFID has real clarity of role and vision, with well articulated aims in the shape of the Millennium Development Goals, there is no supporting procurement mission, vision or strategy signed off by the Board.
- Increasingly funds flow through delivery partners. DFID has tight control of its direct procurement, and tests assurance processes of its partners, but it is not clear that it is driving procurement performance.
- DFID's strategic engagement of its supply market is limited. The nature of its requirements (which are often very specialised) means that market management is critical; all the more so with funding rapidly increasing.
- DFID is increasingly aligned to cross-government initiatives – climate change and sustainable procurement.
- PrG is viewed as procedural, with little strategic impact on the wider DFID business. There is no annual procurement work plan, linked to the DFID strategy.
- With the exception of IT desktop services, there was little evidence of benchmarking internal services.
- There is no evidence of a whole life, total cost of ownership approach.
- Early engagement of PrG by the business area is not the norm – leading to programme delay.

3. Stakeholder and supply base confidence levels

Suppliers are generally supportive, but crave more strategic engagement. Internally PrG have the full confidence of the department, but in a role which is rather more technical than some feel appropriate. There is concern that there is more value that could be derived were PrG positioned to be more proactive.



Key Facts:

Suppliers

- Suppliers are generally supportive of DFID, which is viewed as ethical, fair and a good payer.
- Suppliers wish to engage more strategically; extending to more of a commercial 'partnership'.
- DFID received good feedback from the telephone survey on effective contract management, and excellent feedback on its management of supplier relationships.

Internal Stakeholders

- PrG's role as guardians of best practice is well understood and communicated clearly in DFID Blue Book.
- PrG technical advice is respected and its authority on procurement matters is rarely challenged.
- PrG is valued as professional, helpful and, at times, creative but it is also viewed as a bit clunky, sometimes rule-bound and bureaucratic; a centralist function managing risk through compliance. In-country teams would prefer higher delegations and freedom to engage strategically with local markets.
- PrG tends to be risk averse, with mixed evidence of its responsiveness to issues relating to supplier performance.

4. Effective resourcing of procurement activity

The central team is quite large and is supplemented by Local Contract Officers in-country and within departments. This reflects the transactional positioning of procurement activity. There is a high level of professionalism, but qualified staff often work below their professional capability, whilst tracts of the business operate without the benefit of adequate professional support.



Key Facts:

- The contracting model is primarily centralised (57 staff, ~500 contracts in 2006/07).
- There is significant transactional effort, which will be reduced by introduction of ARIES.
- There is increasing movement of trained procurement staff to the wider business, seeding awareness.
- DFID has invested in greater in-country autonomy for India, with a developing concept of regional hubs.
- There is strong and very welcome support for staff to qualify as professionals, which clearly aids procurement performance, but without an obvious business case or clear framework for the exploitation of these new skills.
- A low level of challenge and uninspiring departmental objectives means procurement operates below its professional capability, whilst the business is unsupported in major procurements or reliant on client-side support.
- Retention of professionals is proving difficult: they have a limited role, face downward manpower pressure, and receive no professional allowances.
- This is exacerbated by the view that professionals are not best prepared for leadership roles; a culture that to 'get on' you need to 'get out'.
- Local Contract Officer training is very good, but insufficient for more than a transactional role.
- There are relatively low in-country delegations; high value contracts are placed, remotely, by PrG.

5. 'Intelligent client' capability

DFID country operations recognise the poor performance of some suppliers, but there is no process for objectively measuring, consolidating and sharing this across the department. The well regarded procurement training is viewed as optional, and there is a dearth of commercial capability at a local level necessary to manage some contracts. Supplier Relationship Management activity is limited.



Key Facts:

- Contract management is vested to in-country teams, yet formalised reviews, for consulting arrangements and major projects, do not objectively assess supplier performance. Poor performance is not identified or shared, leaving poor performing suppliers in one country able to win business elsewhere in DFID with impunity.
- ToRs are of variable quality, despite their importance in tender selection and in through-life VFM. The increasing level of 'service' contracting and focus on output specifications makes ToRs more of a challenge.
- Bid evaluation is done by business area, but it is unclear that they have adequate time or capability. Feedback to unsuccessful suppliers by Procurement Group is incomplete or lacking clarity; therefore there is no learning.
- The procurement training which is provided is universally appreciated by recipients – described as “fantastic”, “first class”.
- Procurement and contract management training in-country is not compulsory for non-procurement staff. This is surprising given turnover and the level of financial discretion. There is evidence that PrG were surrendering day to day contract management to untrained local staff, losing potential value in the engagement.
- There is limited Supplier Relationship Management, despite the importance of number of suppliers to the DFID operation.
- The review team found no policy or process and no evidence of formalised engagement at Board level for key suppliers.

6. Governance and organisation

Governance, authorities, accountability, scrutiny and standards are all clear for activity managed by PrG but less so for the vast majority of spend delegated to third parties, or that carried out elsewhere in DFID. Whilst process checks are carried out there is no systematic assessment of actual procurement capability or performance, with risk of fraud and to overall VFM.

Key Facts:

- Whilst it is the clear aim of DFID to protect public funds from corruption, there was no cohesive authoritative procurement policy which set out these and other enduring objectives, values and principles which apply to DFID procurement and discretionary aid allocation, wherever it takes place.
- Reverse Pareto applies in the procurement focus: comprehensive, resource-intensive scrutiny for low value activity whilst less professional procurement involvement is evident in (greater value) arms' length spend .
- Clarity of role and accountability are sound in direct activity, but unclear in devolved arms' length procurement.
- There is a juxtaposition of delegation levels for procurement decisions in-country: contractual delegation is minimal, compared with levels of authority to authorise spend through aid instruments. Whilst PrG is organised on regional lines, it is of variable value to regions, having at times a lack of awareness/knowledge and flexibility to adapt to local conditions.
- Procurement risk is inherent in DFID's strategy of delivery through third parties where they are not managed coherently. Mechanisms exist to assess organisational process, but performance does not feature.
- DFID is increasingly dependent on multilaterals for the delivery of its objectives; yet standards and professionalism of their procurement is unclear. Opinion is divided on the need to validate capability and performance.
- UN Procurement Agency costs (based on percentage of spend) appear high, compared to those of the UK-based commercial agencies.
- Lack of procurement planning and spend information leaves DFID open to circumvention of OJEU regulations by disaggregation of spend to packages below £93k.

7. Strategic and collaborative approach to market engagement and sourcing

Whilst there are some isolated incidents of quite innovative market management, there is no strategic approach to markets or suppliers. Process is too firmly reliant on EU open competitions and therefore DFID fails to capitalise on local knowledge, collaboration across markets and the benefit which would flow from a strategic approach to its critical supply chains.



Key Facts:

- There is strong evidence of good procurement practice, but it is haphazard and often the result of individual activity, some out of PrG's sphere of influence. There is no process for shared learning.
- Perennial problems such as engagement of niche resources and innovation are not addressed strategically.
- DFID has a single sourcing approach (EU competition) which leads to a multiplicity of small contracts. Where frameworks are created they are not well researched and can end up unused.
- Sourcing strategies are not in place for mainstream areas of DFID spend, leading to inefficiencies.
- There is a failure to fully harness regional market knowledge to improve procurement or to apply volume leverage on regional/departmental suppliers.
- DFID is engaged in OGC's collaborative programme but at a relatively junior level and on administrative categories. The department is not consistently engaged in the Consultancy Value Programme, despite this being the biggest category of spend.

8. Effective use of procurement and PPM tools and techniques

There is a zero risk approach to EU procurement with resultant extended timescales – this is a real issue in some front line countries. Scarce PrG resource is squandered with lightly used framework agreements and cancelled procurement programmes. The department has a good reputation for on-time payment.

Key Facts:

- PrG is seen to have an inflexible approach to procurement. There is an adherence to EU ‘open competition’, with little consideration for other compliant routes for higher risk procurements.
- There is no effective process for challenging demand made on PrG; this results in scarce resource being wasted when procurements are subsequently cancelled or where frameworks are not used to the level anticipated.
- There was good feedback from the supplier survey on DFID’s use of technology. DFID has good payment record.
- DFID has an established procurement card, but it is not implemented fully or consistently across the department. There was also a suggestion that cards were being used to circumvent ARIES.
- Procurement rules and guidelines are set out clearly in the ‘Blue Book’, but the review team could find no evidence of a procurement toolkit or processes covering category management, end to end sourcing, benchmarking, supply market analysis, vulnerability analysis, etc.
- There was a question mark raised over the status of accountable grants.
- Guidance on routes for legal advice are not embedded in DFID staff thinking, despite a clear MoU with Treasury Solicitors, leading to what appeared to be an over-reliance on contracted legal support.

9. Knowledge and performance management

The overall lack of procurement planning and the event-driven involvement of PrG are reflected in this area. Even basic spend information was not available and the use of management information reflects the view of procurement as an overhead activity, with a narrow, process-driven role.



Key Facts:

- DFID was unable to provide a spend map or underlying records of spend by supplier, whether for direct, central commitments, or arms' length procurement activity.
- There is no evidence of a strategic framework for performance management, MI and contracts data across DFID.
- Whilst their sphere of influence is limited, PrG staff display consistent passion for DFID objectives, and the potential contribution of procurement.
- Procurement management reports lack insight and analysis; this raises concern on the planned use of ARIES MI.
- PrG makes little contribution to the DFID business planning and budgeting process.
- There is no balanced scorecard approach; savings targets are modest, ill-defined and inconsistent; savings methodology is weak.
- No evidence exists of benchmarking of procurement process or performance.
- The ARIES business case assumes efficiencies from automating large volumes of simple transactions but the review team found no evidence of such volume in direct procurement activity.
- There is concern that the procurement component (ARIES) was built without a coherent procurement strategy or analysis of information need.

Final DFID Score Card



World Class Leadership	1	Visibility and Impact of Leadership	A/R	Urgent Development Area
	2	Business and Policy Alignment	A	Development Area
	3	Stakeholder and Supplier Confidence	A	Development Area
World Class Skills Development and Deployment	4	Resourcing	A	Development Area
	5	Intelligent Client Capability	A/R	Urgent Development Area
World Class Systems	6	Governance and Organisation	A	Development Area
	7	Sourcing and Collaboration	A	Development Area
	8	Use of Tools and Techniques	A	Development Area
	9	Information and Performance Management	A/R	Urgent Development Area

Leadership

Visibility and impact of leadership

1. The Board should agree, and promulgate, a shared (and broader than the current) definition of procurement for DFID and the value that such an approach can deliver to DFID's business objectives.
2. A Board member should be nominated to champion corporate procurement, taking line responsibility for procurement strategy implementation and leadership of the engagement with third parties.

Vision, aspirations, business and policy alignment

3. The Board should provide commercial leadership and clearly communicate its vision and plans for procurement in the effective delivery of aid and the achievement of VFM across all activities.
4. A Procurement Policy and supporting Strategy should be developed as an early priority, setting out the approach for the transformation of procurement within DFID. It should address, specifically, functional leadership and the procurement cycle – including a sharper focus on supplier performance, effective management of arms' length procurement and the enhancement of professional skills.

Stakeholder and supply base confidence levels

5. A structured communication approach should be developed for all individuals and organisations managing DFID procurement and discretionary aid activities to ensure alignment with DFID policy/strategy, sound and effective operation, and optimum VFM.
6. Opportunities available through a more active engagement with the wider government community should be explored and actively pursued: an early priority would be the Consultancy Value Programme.

Recommendations

Skills Development and Deployment

Effective resourcing of procurement activity

7. Review the procurement organisation resources, structure and skills profile, ensuring that there is the right balance in central, regional and local capability.
8. Add procurement awareness/expertise as a necessary competence for roles involving procurement activity and discretionary aid allocation.

“Intelligent client” capability

9. Review the policy for corporate procurement knowledge and understanding across DFID staff (both in UK and in-country), and their current competence level.
10. Implement a strategic procurement awareness programme covering all Board members, Directors, DGs and Office Heads.
11. Develop a Supplier Relationship Management programme aligned with OGC’s Market Engagement Programme.

Recommendations

Systems and Processes

Governance and organisation

12. Review positioning and representation of procurement to reflect its new and expanded corporate role.
13. Create a strategy to assure procurement efficiency effectiveness and risk management with aid delivery partners.
14. Develop and approve a procurement policy for all procurement activity undertaken.

Strategic and collaborative approach to market engagement and sourcing

15. Develop a strategy for procurement collaboration with FCO, OGC and other bodies, as appropriate.
16. Implement a procurement category management strategy for key areas – include a country level supply market review and market development plans to build supplier capacity and competition where required.

Effective use of procurement and PPM tools and techniques

17. Review Procurement Card use, authorities and controls; implement changes to provide fit for purpose processes.
18. Assess ARIES and its capability to deliver procurement requirements for MI and transactional support.
19. Review guidelines and controls for procurement expenditure better to support front-line challenges of pace, complexity, reduced supply base and local supply market development.

Knowledge and performance management

20. Ensure the existing performance management framework is sufficiently robust to accurately report procurement targets and benefits delivery across DFID.
21. Develop an approach to share experience/capability across the network of procurement staff including Local Country Officers.
22. Create and maintain a spend and influence map.