

Commercial Strategy

PROCUREMENT CAN *MAKE IT HAPPEN*: A DFID COMMERCIAL STRATEGY

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Procurement can *Make it Happen*

1. Introduction

- 1.1 This strategy signifies a major change of approach to procurement in DFID to transform it from an operation that deals efficiently but reactively to direct procurement, to focusing strategically on all commercial activities across DFID in order to leverage more from our programmes and partners.
- 1.2 DFID will apply **commercial understanding** to all funding decisions across the full range of aid instruments including both for our own direct procurement of goods and services and for indirect procurement by third parties using DFID funds (governments, donors multilaterals and civil society organisations (CSOs)).

***Commercial Understanding** is defined as assessing the full range of procurement and/or funding options, from design through to delivery, and choosing the option that will maximise value for money and impact.*

DFID will use a range of techniques and competences, including market analysis to obtain a better return for the development pound

- 1.3 This strategy is intended for DFID staff involved in all types of funding decisions and implementation.

2. The Vision

Procurement in DFID will: deliver better quality and value for money for corporate and programme requirements; influence our partners to procure more effectively and innovatively; leverage greater impact and results through all our purchasing partners as a contribution towards the achievement of the MDGs.

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3. Rationale for change

Transforming Government Procurement

- 3.1 The relevance of procurement to driving efficiencies and results is increasingly recognised across government. HM Treasury launched the Transforming Government Procurement paper in January 2007. The Paper highlights the need to secure value for money through innovation from suppliers; effective contract management; outcome specifications and sustainability. The Paper also stresses the need to raise the level of procurement skills across government and raise the level of procurement capacity within departments. To assess capacity, the Office of Government Commerce (OGC) was tasked with conducting Procurement Capability Reviews (PCR) across all government departments.
- 3.2 In June 2008 OGC published their PCR report of DFID's procurement operation. The report noted that DFID typically purchases directly goods and services worth £330 million, but invests in the region of £4.69 billion through grants to third parties such as multilateral agencies, developing country partners, and CSOs. It highlighted the potential to obtain greater value for money and development benefits from DFID's procurement systems and practices through increased commercial awareness across the board and closer commercial scrutiny of third party investments.
- 3.3 The OGC report included a set of recommendations which formed the basis for the departmental PCR Improvement Plan.

Priorities of the PCR Improvement Plan include:

- ❖ ***Development and use throughout DFID of a wider set of procurement techniques, including commercial management as a standard element of programme and project design***
- ❖ ***Better commercial management, through forecasting anticipated outsourced requirements, better commercial relationships, monitoring of suppliers performance, and data quality***
- ❖ ***A strategy to assure procurement capability of aid delivery partners, and to include commercial assessment within appraisal***
- ❖ ***Restructuring of the procurement function, and revamped career paths for procurement professionals***

These priorities are fully incorporated into this commercial strategy:






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Making it Happen: Delivery Focus and Impact on Development

- 3.4 This is also a period of change within DFID. *Making it Happen* is designed to transform increased commitment and budgets into results, through actions that have the greatest impact on poverty, driving more value for money in our programmes and from our partners, and stepping up our contribution to achieving the off track Millennium Development Goals.
- 3.5 Procurement can play a significant part in this change agenda. We can expect to be working more on leveraging change and less on direct delivery. Increasingly, our spend will be through others and the challenge will be to improve their delivery and value for money. This strategy shows how we can use procurement tools and greater commercial awareness to achieve this: in our funding choices; in the design of our programmes; through assessment of partner capability and in understanding and leveraging impact from markets.

4. Implementing the change

- 4.1 At the heart of the strategy are 5 key outcomes:

-  ***Suppliers deliver improved quality and impact;***
-  ***Better value for money from third parties.***
-  ***Strengthened national procurement capacity***
-  ***Better impact achieved through increased market collaboration.***
-  ***Better application of procurement skills and commercial awareness across DFID***

Outcome 1: Suppliers deliver improved quality and impact

- 4.2 To get more from our direct spend, (both administration costs-funded procurement for corporate needs, and programme costs-funded procurement for developing country partners), we will need more strategic engagement with our key suppliers; to make greater use of alternative procurement options; manage supplier performance more rigorously, using performance data and market intelligence better to inform decisions; and streamlining our procedures for low value or forecast requirements. All this should result in higher performing suppliers on the ground faster and delivering effectively.

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4.3 The challenge is that to leverage this improvement will require consultancy contracts with clear measurable outputs, consistency of quality and room for innovation. Adequate resources must be available to drive contract management, though more emphasis must be placed on suppliers themselves to demonstrate progress.

Outcome 1 - High Level Outputs:

- **A Supplier Relations Management programme based on clear category management designed by June 2009 for key suppliers, driving continuous improvements in innovation, quality and delivery**
- **All major new contracts for services (above £10m) let on a measurable output basis, aiding robust contract management, by December 2009**
- **All key suppliers registered with DFID for either corporate or programme-funded business have confirmed their commitment to our aims of achieving impact, improving quality as well as delivery; meeting sustainable targets and improving working conditions in supply chains, by December 2009**

Outcome 2: Better value for money achieved from third parties

4.4 To drive a better return from our increased spend through third parties', commercial understanding must form part of the evidence on which we make funding and policy decisions on our investments in multilaterals, CSOs and other partners including developing country governments. The vehicles for analysis and appraisal already exist. The challenge is to ensure procurement and commercial aspects are better included in the assessment process that informs decisions. We will include an assessment of procurement risk and capability in our multilateral effectiveness work, in our resource allocations and in appraising our key CSO agreements such as Partnership Programme Agreements. This will look at the agencies' reputation and capacity including their quality assurance processes and whether their practices achieve value for money. Where procurement capability issues appear critical and of sufficient importance relative to other reform priorities, procurement will feature in our institutional strategies.

4.5 For major funding proposals, DFID will need to extend the assurance checks on procurement policies and systems as part of better managing risk of spend through third parties. Existing sources such as multilateral effectiveness assessments or audit reports will be used where available, alternatively a procurement risk assessment will be considered.

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4.6 Financial aid to developing country governments including PRBS is likely to increase. The tools for assessing risk in this context are well established with the use of the Public Expenditure and Financial Accountability framework and Fiduciary Risk Assessments. We will however, need to deepen the analysis of procurement within these.

Outcome 2 - High Level Outputs:

- **Procurement assessments carried out for major funding proposals to multilaterals, CSOs and developing country governments, by December 2009**
- **Increased collaboration with donor agencies on shared approaches for procurement assessments by December 2009**
- **Strengthened treatment of procurement within DFID's Fiduciary Risk Assessment by June 2009.**

Outcome 3: Strengthened national procurement capacity

4.7 Building strong national institutions that have effective systems and sound capacity is a fundamental aspect of the development process and a key element in the sustainability of DFID's development efforts. Strengthened procurement systems can have a hugely significant impact on value for money of funds through government systems through reduced wastage and inefficiency and better translation of public expenditure into outputs and outcomes. Procurement processes are also one of the key risk points for corruption.

4.8 Through the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action (AAA), DFID is committed to increasing its use of country procurement systems and to encourage others to do likewise. But donors will not feel sufficiently confident in making this shift if procurement performance of developing country governments does not increase. DFID is therefore also committed to support related capacity development programmes.

4.9 DFID will continue to work with donors and partner countries under the various International initiatives and conventions to improve the overall quality and performance of local procurement systems, including the development of improved anti-corruption diagnostic tools.. By developing more robust procurement processes which are fair, open and transparent we will minimise opportunities for corruption. During the remaining three years of the implementation of the Paris Declaration on Aid Effectiveness DFID will continue to work with the World Bank and other donors to refine the OECD-DAC

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Methodology for Assessment of National Procurement Systems, develop capacity development models. We will promote the implementation of the revised Methodology into partner governments' National Development Plans as a tool to assess procurement practices.

Outcome 3 - High Level Outputs:

- **Widespread adoption of improved OECD-DAC methodology and assessment tool by donors and partner countries by March 2010**
- **Increased donor support for procurement reform programmes by June 2010**
- **Donors reach agreement on modalities for support to country led support programmes in line with the AAA.**

Outcome 4: Better impact achieved through increased market collaboration

- 4.10 For many of our key categories, development finance from agencies and donors is the market. There is potential to work with donor partners to drive more efficient, coherent and innovative procurement at country level, increasing aid effectiveness and value for money. DFID will look for opportunities in three areas: aggregating demand, understanding better where our money and global aid money goes; where demand is increasing, working proactively to make sure the supplier base is healthy for both competition and quality; and working to ensure more developing country firms participate in the development funded markets.
- 4.11 DFID will also work with other UK government departments to assess their procurement policies in relation to their direct and indirect sourcing policies from developing countries.

Outcome 4 - High Level Outputs:

- **Increased collaboration amongst multilaterals, CSOs and other partners on at least 1 top commodity, (e.g. bed nets or condoms) in selected priority PSA countries by December 2009**
- **Increased consideration of labour standards in supply chains by DFID and other UK government departments, by December 2009**
- **Increase in developing country firms participating in development funded markets by December 2010**

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Outcome 5: Better application of procurement skills and commercial awareness across DFID

- 4.12 The extent to which procurement can provide innovation and contribute to strategic decision making is not widely recognised within DFID. Similarly the connection of procurement to many of DFID's key policies such as pro-poor growth; ethical trade; social protection; supply markets; supply chains; labour standards; governance and employment is underestimated. Integrating procurement to key DFID policies and programmes aligns to the wider initiative of securing better value for money from all DFID.
- 4.13 To achieve greater impact DFID's current procurement structure will change. Professional procurement staff will focus on high risk/high value procurements, influencing key partners, improving the range of advice provided to country offices, and ensuring corporate purchases are handled effectively. Relatively low value, low risk business will be devolved to departments. DFID will undertake a detailed review of the procurement function across the organisation and will consider decentralisation options. This will ensure structure and staffing is more strategically positioned to achieve real development benefits.

Outcome 5 - High Level Outputs:

- **Following a strategic review procurement in DFID is restructured to best fit the successful implementation of this strategy by September 2009**
- **Policies procedures and guidance amended to reflect the new strategic commercial approach to spending, by September 2009**
- **The application of professional skills and knowledge is measured against OGC benchmarks for efficiencies, quality and impact, by September 2009.**

5. Commercial Principles

- 5.1 To underpin this strategy, the Management Board, through its Commercial Champion (the Director of Finance and Corporate Performance Division) is responsible for oversight and ensuring consistent use of the following commercial principles and practices:

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- maintenance of strong internal commercial capability and capacity, through sourcing; professionalisation; training, appropriate use of competition; robust specifications and output based terms of reference;
- effective contract negotiation and management; effective evaluation; innovation and e-procurement, and the continuous development of commercial managers
- a commitment to: maximise collaborative opportunities available through the OGC, other government departments and other donor partners; meet and improve our targets in the sustainable delivery action plan and government efficiency targets;
- use of appropriate tools and systems to maximise commercial delivery, improve decision making, report effectively and respond to parliamentary and public enquiries.
- use of appropriate controls and governance, to ensure policies and practices are efficient and effective, and comply with legislation, monitored to deter fraud, corruption or mismanagement and that commercial staff act in accordance with standards of honesty, impartiality, and integrity.
- seeking sufficient assurance that aid funds divested through third parties will achieve maximum developmental impact. .

6. Implementation, review and measurement

- 6.1 This is an ambitious strategy. Successful implementation requires an understanding of the concept and endorsement by all staff. Commitment and leadership from the Management Board is critical.
- 6.2 **Spenders** will be tasked with helping the drive towards more robust output based contracts and better contract management where, for significant contracts, a more strategic approach will be taken at an early stage to ensure the right funding decisions are taken to maximise impact.
- 6.3 DFID will have more procurement professionals in more divisions including spending divisions.
- 6.4 **Procurement professionals** will work on a wider range of issues including in and with **International Divisions, Policy and Research Division, Regional Divisions** and **FCPD** to ensure procurement strategy and thinking is included in key policies and decisions. A communications plan will be drafted to promote the Commercial Strategy.

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- 6.5 Key messages on the benefits of strategic procurement will be driven through targeted training, revised policies and procedures, improved Blue Book guidance, and ARIES information and processes.
- 6.6 The benefits and efficiency gains arising from the implementation of this strategy will be agreed with OGC and reported at the time of each review.
- 6.7 A strategic review of DFID's procurement structure and organisation is underway. This study will provide options for the Management Board, including a cost/benefits analysis, on how best procurement functions should be positioned within DFID to successfully implement the Commercial Strategy.
- 6.8 Improvements in the quality and quantity of procurement information supplied through ARIES will assist in the delivery of the strategy.
- 6.9 The implementation of the strategy will be aligned to the planned reviews by OGC. The first six-monthly assessment is due in December 2008, followed by an annual review in June 2009, a six monthly assessment in December 2009 and a final review in June 2010.
- 6.10 DFID is recruiting an SCS level Head of Profession as a reflection of the importance of the agenda.
- 6.11 A virtual group of procurement professionals and other stakeholders will be established to ensure continual improvement of the Commercial Strategy.

7. Ownership and Governance

- 7.1 DFID's Commercial Strategy is owned and endorsed by DFID's Management Board. The Director Finance and Corporate Performance is the Commercial Champion responsible for driving efficiency and developmental effectiveness across DFID's commercial activities.
- 7.2 Procurement policies, training and guidance are governed by the Head of Profession.