Modernization of Social Protection Programs

Risk management in procurement of IT services

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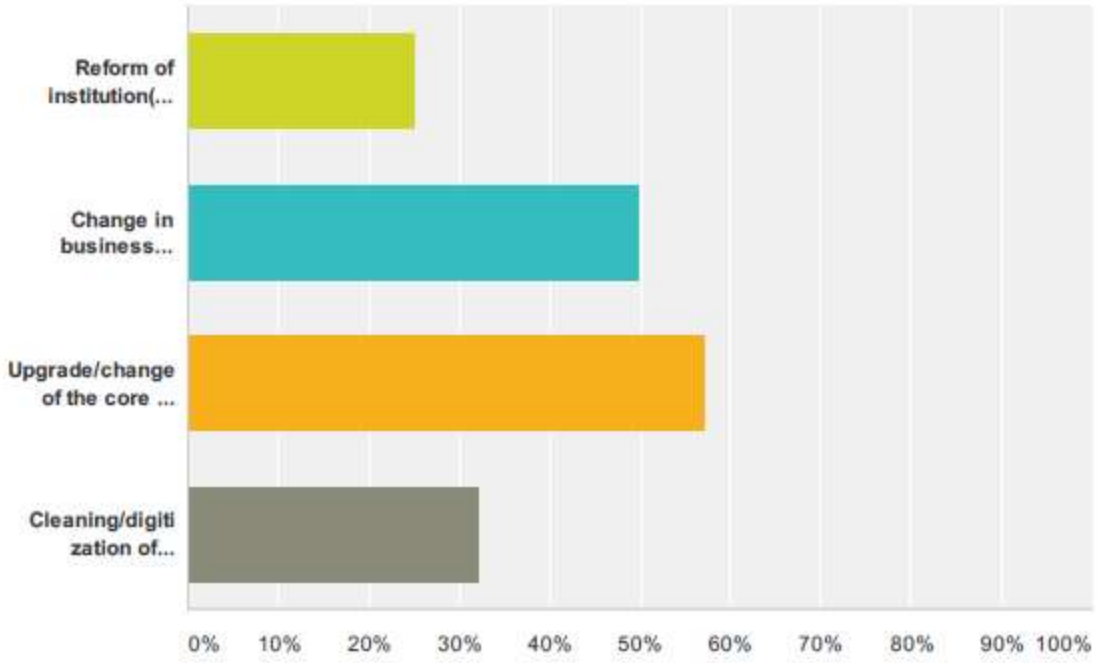
Nature of Social Protection modernization programs

- Institutional integration or change in institutional responsibilities
- Introduction of new schemes and/or merger or relocation of existing schemes
- Upgrade or integration of select functions (contribution collection, etc.)
- Integration with external service providers (benefit payments, etc.)
- Automating manual processes, strengthening record-keeping, improving reporting and monitoring systems
- Expanding access to services (“single window” branches, online services, help-line)
- Improving quality of services (automating claims processing, etc.)

Survey: “Did your latest reform include…”



Strategic emphasis

Data is a key strategic asset of any social protection agency

- Lack of good records means:

  - no clear and legitimate entitlement to benefits
  - poor services to clients
  - no effective enforcement
  - limited capacity to plan, budget, and monitor

… but quality of data comes at cost and implementation is associated with major risks

Experiences

- Procurement process usually extends to 6-12 months
- Implementation of such complex IT project may stretch for up to 3-5 years

Implementation of information systems is a difficult enterprise associated with risks

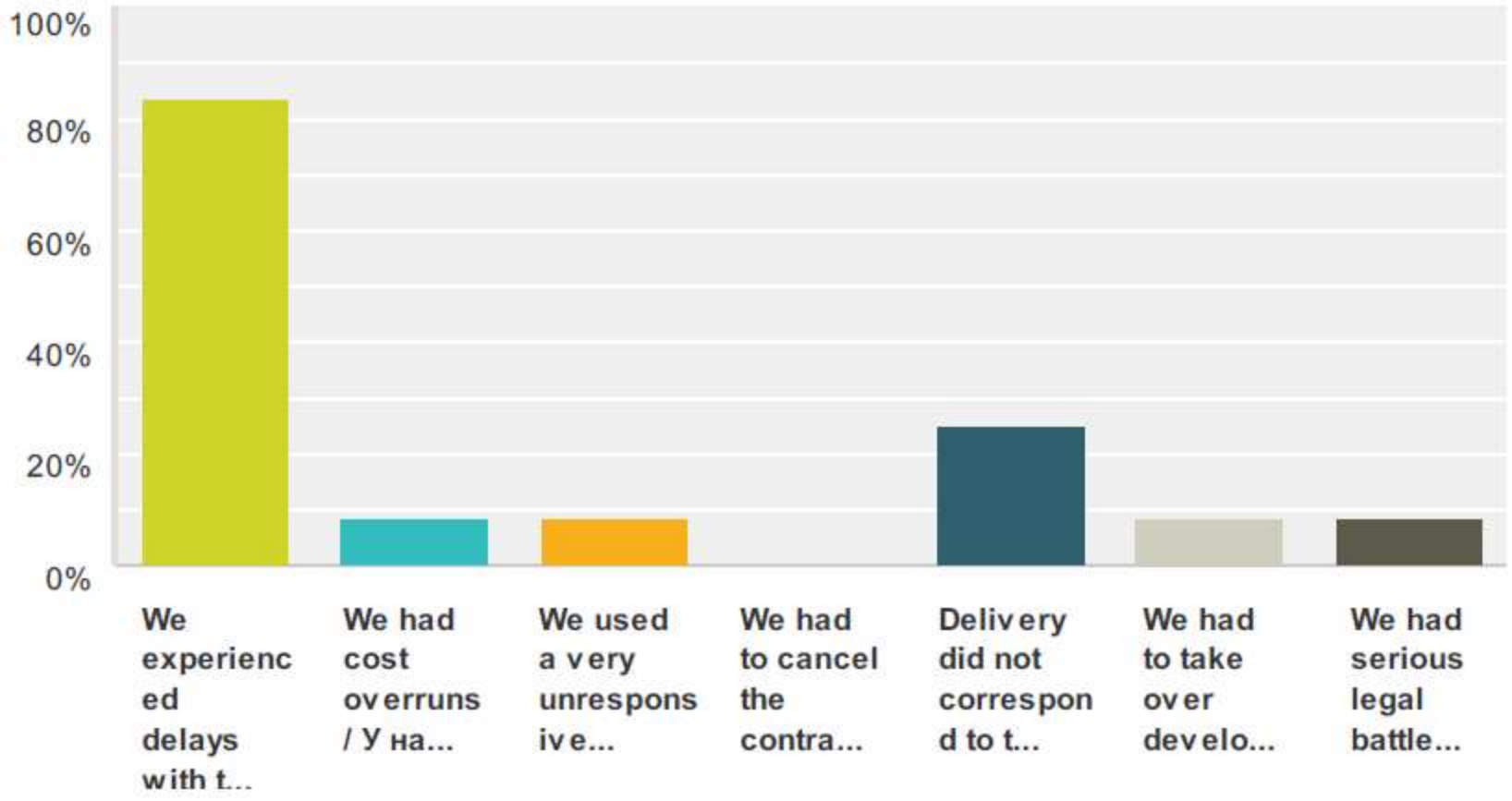
US averages:

- 50% of large implementations fail
- 80% suffer contract amendments
- more than half include disputes

From presentation of Carlos Ferreira, WB, “Procurement of Information Systems and Technology”,2000

- To monitor and manage all risks requires proper supervision
- Clear implementation management plan(s) and reporting obligations are needed to keep vendor accountable

Survey: “Did your agency experience any issues with contract implementation?”



Preparations

- The process should bring together operational and MIS/ICT specialists. ICT is only part of solution. All components of the business process should get critically assessed
- Internal resources and external expertise must be carefully weighted to identify the available skill set and to define most optimal implementation strategy
- Define and carefully analyze all risks involved in development and maintenance. Expect unexpected. Be prepared for many contingencies

Implementation options

- **Outsourcing operations**

  Contracting various system functions to outside provider(s) of services. No direct responsibility over the processes.

- **Adapting an “Off-the-shelf” product**

  Customization of already developed commercial product to the specific business needs.

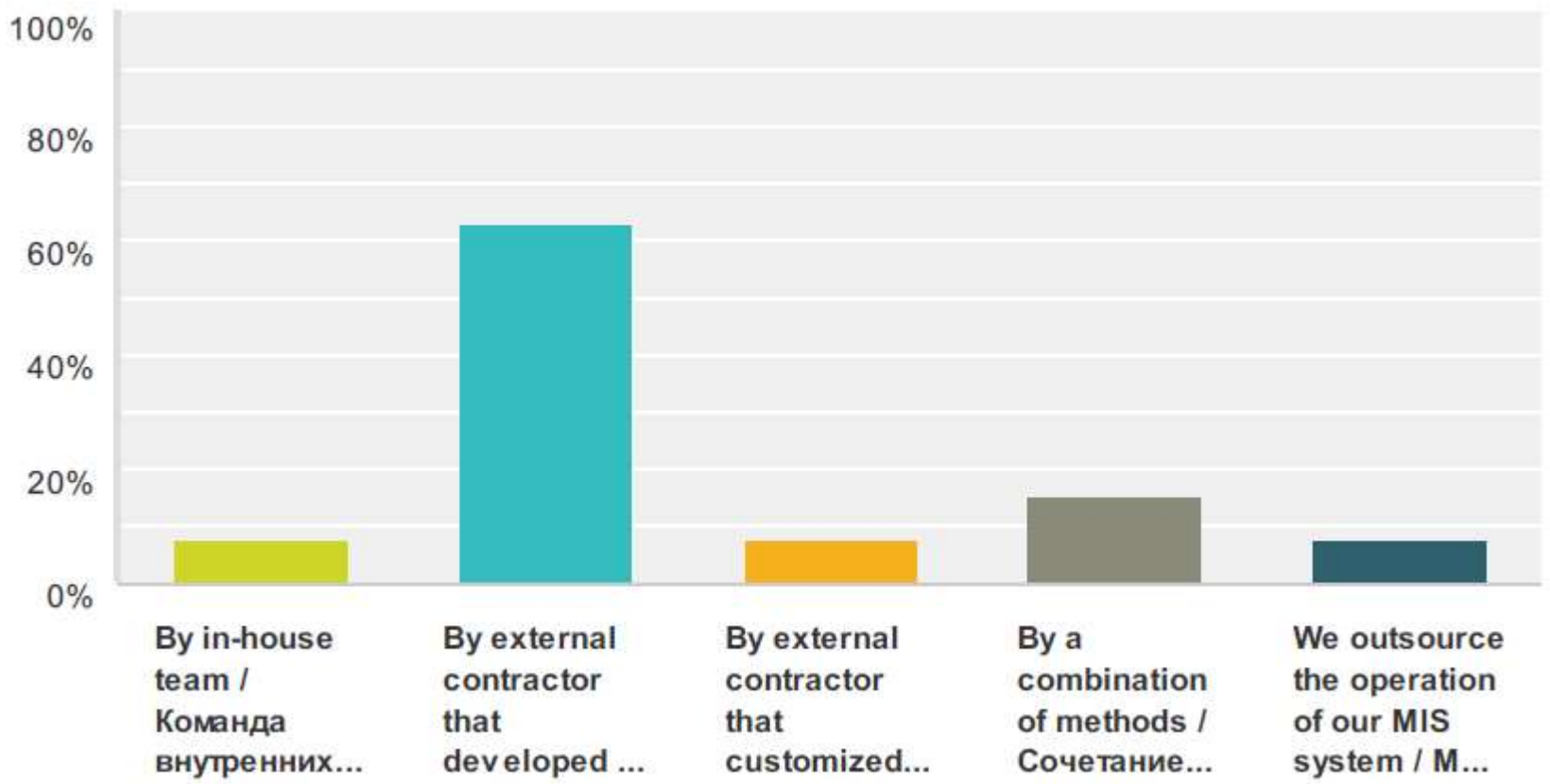
- **Outsourcing development**

  Hiring a professional IT consulting company to design and/or develop the software or selected components.

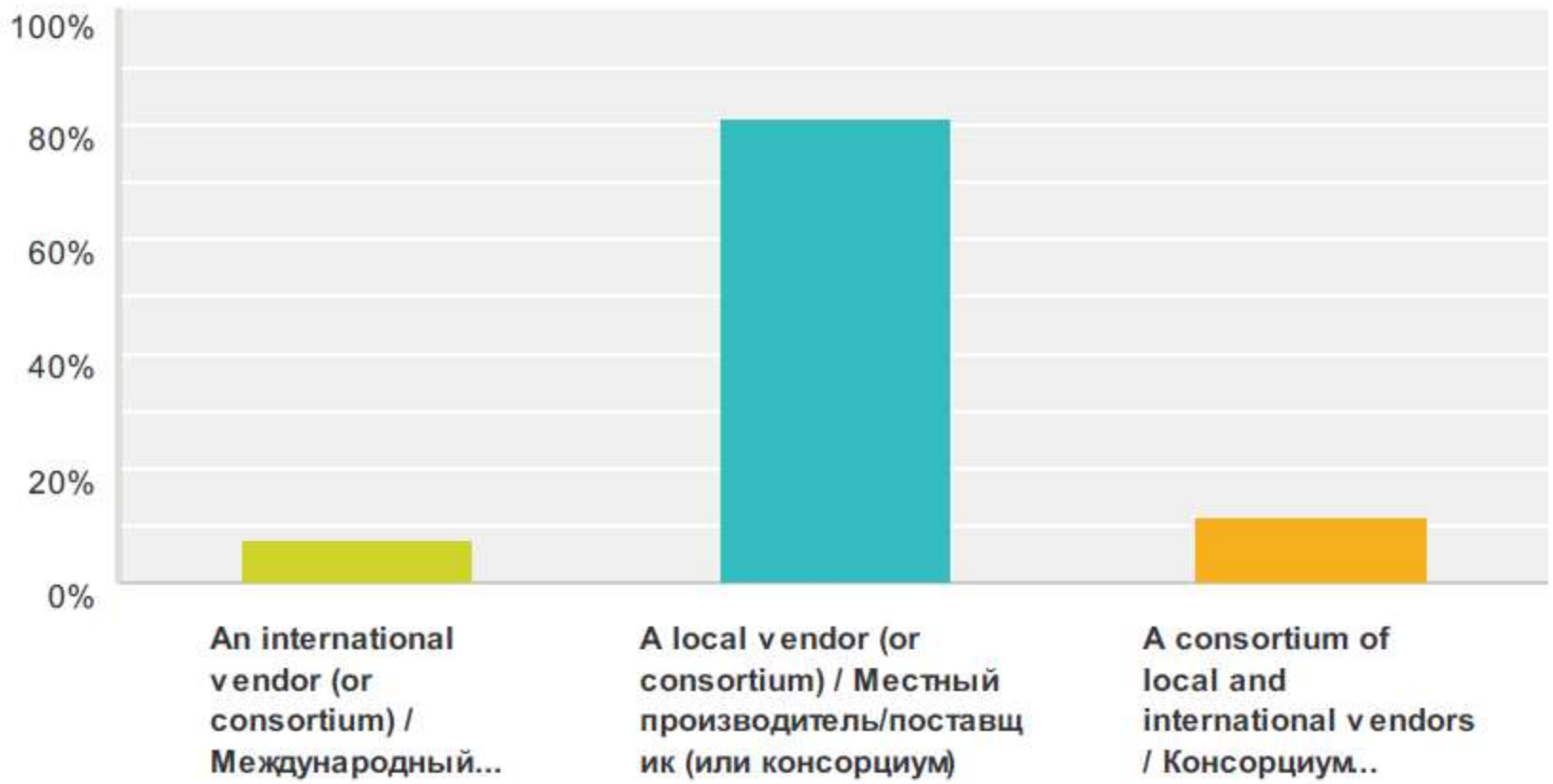
- **In-house development**

  Mobilizing a team of internal (and external) specialists to develop a system under the internal management.

Survey: “Dominant mode of the latest MIS development effort”



Survey: “The main contractor was”



Implementation options analyzed

	Benefits	Risks
Outsourcing operations	▪Advantage of external expertise and capacity ▪May be a cost saver due to specialization	▪Contractual issues. Failure to pay attention to small but critical details of the existing processes or requirements may threaten implementation or exploitation
Adapting an "off-the-shelf" product	▪May be quick and easy solution ▪Direct control over the business process	▪Customization may take more time than expected due to local specifics ▪License/maintenance may turn to be expensive ▪High dependency on external provider ▪Risk of hidden costs (e.g., requirements of periodic upgrades and modifications)
Outsourcing development	▪Advantage of external technical expertise and capacity	▪It is impossible to specify all contingencies in the original contract ▪High risks of delays and cost extensions/modifications ▪Dependency on provider ▪Limited monitoring capacity
In-house development	▪Full ownership of the process ▪Full access to the source code ▪Know how in context, needs, users	▪Shortage of skilled IT and management specialists in the public sector ▪Private/public sector wage differentials may result in drain of capacity during the maintenance and exploitation phase

MIS procurement: Mapping the risks

Institutional/Management risks

- Limited understanding of the system and business process requirements
- Poor management plan and weak enforcement tools
- Lack of quality control skills and/or effort on the clients side
- Hands-off approach may only delay the crisis while micro management by the client raises the additional liabilities

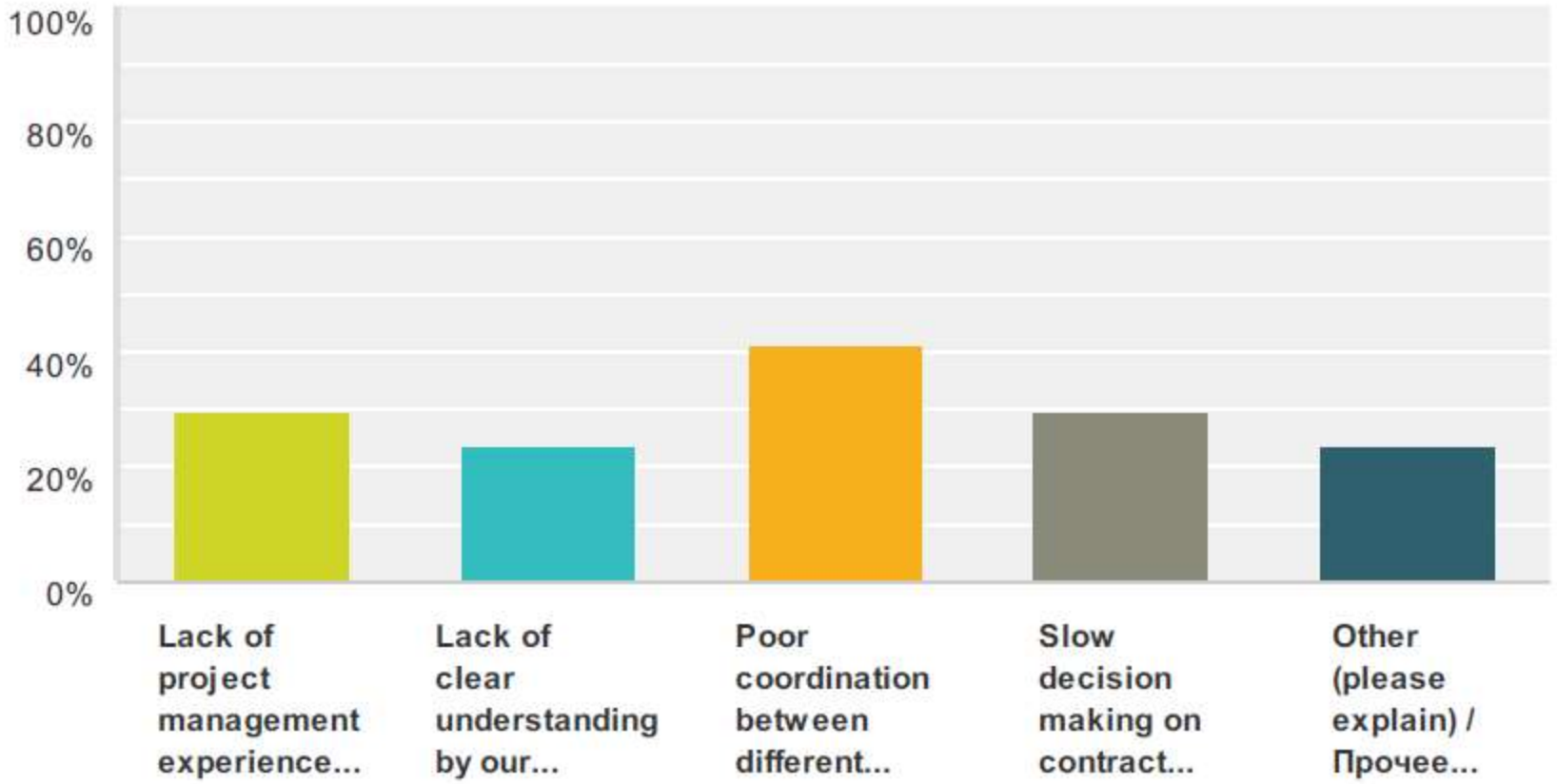
Contractual risks

- Lack of specifications in initial technical requirements
- Lack of mechanisms of adjustment to changes
- Ambiguity in acceptance procedures
- Drifting focus and resources of the IT provider to new projects and new clients
- Risk of cost and time overruns

External and Post-implementation risks

- Policy, legal, and regulatory changes
- Management change
- Fast technological changes

Survey: “Institutional challenges”



MIS procurement: Risk mitigation

Project Management

- Establish clear governance provisions over the process
- Use third party expertise to help ensure quality of deliverables
- Involve operational staff in the process of the system design and acceptance testing (through special working groups)
- Require periodic reporting from the project and regular consultations with the in-house IT & management teams
- Require and periodically review implementation management plan
- Require in-house presence of the development team for the whole duration of the project

MIS procurement: Risk mitigation *(cont'd)*

Contract Management

- Require/encourage partnership of local and international companies in development effort to facilitate access and continuity. Think about joint liability.
- Recommend uses of software/hardware tools that the institution would be able to maintain (in the system specifications)
- Ensure flexibility in the contract terms in respect to specifications, payments, and timeline modifications.
- Ensure that payment schedule is connected to main milestones/deliverables
- Require training to be provided to both IT personnel and operational staff as part of contracted delivery
- Ensure clear provisions on the ownership of the source code and any (even partial) delivery
- Negotiate gradual transfer of ownership of the system components as they get developed (needs to be a contract clause)

MIS procurement: Risk mitigation *(cont'd)*

Development Process Management

- Think about separate implementation phases: (i) design & (ii) development
- Usually a considerable amount of external expertise required; hence, typically the task gets outsourced
- One big contract could be awarded to do system analysis, design, implementation, and training. But significant risks of such large procurement
- Alternatively (and more often) system analysis (Phase I) is a separate task with following outputs: gap analysis, new system design, technical specifications, costing, package of tender materials, long-list of vendors
- All documents from Phase I needs to be reviewed and approved by the management and corresponding Technical Committee(s) before tender process under Phase II can be initiated

Concluding remarks

- Sound implementation strategy is as important as sufficient budget
- Information system reengineering, design, and implementation must be "owned" throughout the organization, not just driven by a group of outside consultants.
- System reengineering is about **organizational change**
- Do not produce complex solutions for simple problems. You need to understand what you are getting and why. No need to buy a “Rolls-Royce” where bike is the solution.
- Start coordinating early with reforms in other institutions and systems (civil register, payment systems, tax administration, etc.)
- Define 2-3 reform/project phases with clear outcomes: [1-2 years] / [2-4 years] / [4-7 years]