

Why Government IFMS procurements so often get it wrong

Governments of industrialised countries have implemented financial management systems in a piecemeal fashion over many years, often mixing bespoke and package software. Such systems have transformed financial management, though most of these countries would agree they still have a long way to go before achieving fully integrated financial management systems.

In contrast, Governments in developing and transitional economies have lagged in the implementation of computerised financial management systems. However, software packages are now available which provide an opportunity for such countries to “leap frog” the experience of more developed countries through the adoption of an integrated financial management system (IFMS) based on packaged software.

This could be an important opportunity – but there are serious risks of getting it wrong.

Especially in developing and transitional countries, there is a desperate need for governments to use scarce resources as efficiently as possible. Without strong financial management there is the likelihood of funds being misused, wasted or simply never being spent - and such failures hurt the poor most.

An IFMS provides an opportunity to obtain a key tool for better financial management. But it is also an opportunity to waste money on a solution that may be overly complex for the country concerned, may not be sustainable or may even fail to work at all.

Some results from the World Bank’s research¹ indicate the scale of the problem:

the study included some 34 IFMS projects in 27 countries and found that:

- only 21% were successful
- only 6% were regarded as likely to be sustainable
- took an average of 7 years to complete
- the funding provided by the World Bank averaged US\$ 12.3 million.

These statistics should give cause for concern and to question the approach being adopted. Our conclusion, as explained below, is that the way IFMS solutions are procured leads all too often to overly complex “gold plated” solutions. Four factors in the process lead to this conclusion.

Box 1: What is an IFMS?

An Integrated Financial Management System (IFMS) is the generic term that has emerged to describe computerised government financial management systems. The World Bank’s “Treasury Reference Model” has a concept of core and non-core components:

- *core components include the general ledger, budget management, agency budget execution and cash management*
- *non-core includes budget preparation, debt management, payroll and tax administration and a number of other possible areas.*

Thus an IFMS is a budget management and accounting system for a government, with other functions being included as appropriate for a specific country.

¹ “Implementing Financial Management Information System Projects: The World Bank Experience” (Bill Dorotinsky, available on the World Bank web site: www1.worldbank.org/publicsector/egov/ReinventingGovWorkshop/dorotinsky.ppt)

The first reason is the very limited choice of software. Most accounting/ERP² package software has been developed for the commercial market. For the reasons indicated in the box it is not possible to take just any package and implement it for a government. Choice is restricted to a few packages that have been either specifically developed for governments, or packages that have developed facilities to meet government requirements.

The second problem is that public sector procurement is designed to provide transparency and avoid corruption - in themselves laudable aims. To achieve this the IFMS procurement will be a very thorough and structured process. A key initial stage will be the definition of functional requirements by users, typically supported by external consultants. Almost inevitably this leads to "function creep" - everyone thinks of all the features that would be nice to have, without the direct need to consider an affordability trade-off.

The third factor is the selection process, which involves multi stage bidding and evaluation against the predefined requirements. Remember also that software companies

incur huge costs just bidding, and know the only way to recover their costs is to sell a big and complex solution. This is made easy by the selection process itself - bidders compete against each other, but always for the same functionality. Nowhere in the process is there an opportunity to undertake a trade off between features and cost, and there is no clear pressure to consider alternative lower cost approaches.

Indeed, so much time and effort has by now been invested that to re-think requirements would involve starting again, and that would be unthinkable!

Fourth, the political and aid processes encourage the procurement of high quality (but expensive and complex) systems. Politicians like the kudos attached to a big name system,. They also know that their negotiations with international financial organisations will be helped if they can say they are implementing the well known and respected "System X" to achieve sound and efficient financial management. Furthermore, multilateral lenders are only too willing to lend large sums to buy such systems.

Thus a combination of a narrow market, a procurement process that encourages function creep, a selection process that never considers a function/cost trade off, a political process that favours the most sophisticated solution, a process whose high bid costs have to be paid for, and finally a whole system that discourages ever stopping and reconsidering the

Box 2: What's special about government financial management?	
<i>Government financial management has certain features that impose specific requirements on software, as indicated in the table below.</i>	
Government financial management	Commercial financial management
1. <i>Driven by budget as legal authority to raise taxes and spend money</i>	<i>Driven by profit and market price of shares</i>
2. <i>Multi level fund release against budget authorisation</i>	<i>Money spent according delegated authority</i>
3. <i>Complex expenditure analysis to meet internal and international requirements</i>	<i>Expenditure analysis driven by internal and legal reporting requirements</i>
4. <i>Accounting systems typically still cash based</i>	<i>Accrual accounting universally adopted</i>
<i>These differences impose special requirements on the software which are not necessary for commercial systems.</i>	

² Enterprise Resource Planning systems, multi-function software packages that will have modules to carry out most business enterprise functions

outcomes, all combine to encourage the purchase of the most expensive, sophisticated and complex systems which are available.

Of a course, such a system may be optimal for a particular country, but certain key questions should be asked before a system is acquired (see Box 3).

Our conclusion is that current approaches all too often fail to ask - indeed conspire to discourage asking - these fundamental questions.

An IFMS does provide a real opportunity to achieve important improvements in financial management and should provide an infrastructure for good governance. So how can the benefits be realised given the problems and constraints above (which are unlikely to go away)? We would suggest four key elements in the approach:

Box 3: Key questions on IFMS Procurement

- Can the country afford the system - or is a “soft” loan simply encouraging profligate expenditure?
- Does the government have the both the technical capacity and ongoing financial resources to sustain the “gold-plated” system?
- Most importantly, will the new system enable better government?
- Could the most of benefits be achieved with a simpler and less expensive solution?

1. A realistic assessment of what is appropriate and sustainable within a particular country, so that inappropriate systems or solutions are never even considered
2. Plan to start small, and allow the system, functions and geographic coverage to grow
3. A rapid procurement process (preferably single stage) that emphasises getting the system up and running as soon as possible
4. Before committing, stopping and asking the questions in Box 3 above.

We believe that these simple rules could lead a higher success rate, better sustainability and lower cost IFMS solutions being achieved more quickly. This should allow the government's of many developing and transitional countries to achieve the benefits of such modern technology whilst minimising the associated costs and risks.

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