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SMARTLESSONS

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SETBACK OR BLESSING IN DISGUISE? IMPLEMENTING MANAGEMENT INFORMATION SYSTEMS IN PARTNER BANKS AND LEASING COMPANIES

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This paper intends to share the experience gained by the IFC Leasing Advisory Project in Central Asia and Azerbaijan (ACALF, www.ifc.org/acalf) in working with a number of financial institutions that provide leasing services. In particular, ACALF has been involved in the delivery of new management information systems (MISs) and updating existing ones at 13 institutions in 4 countries. This paper will share some of the challenges that the team faced, and the lessons learned: the need to segment the partners involved in the project; the benefits of hiring an external consultant to help implement these systems; and introducing financial incentives to spur changes.

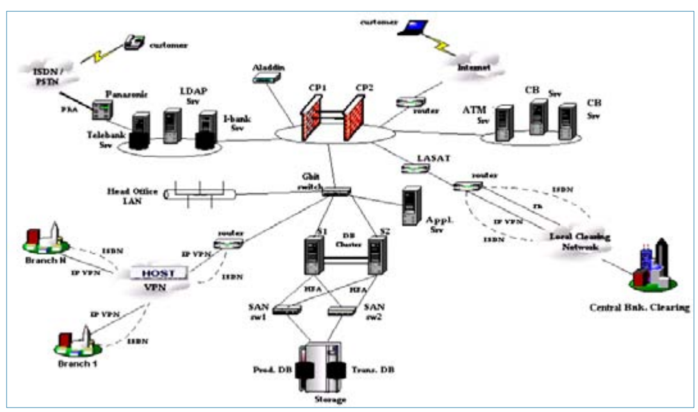
Background

Apart from improving the leasing regulatory framework, ACALF works with 13 leasing companies and banks—Participating Financial Institutions (PFIs)—from Azerbaijan, Uzbekistan, Tajikistan, and Kyrgyz Republic to strengthen their institutional capacity. The PFIs were selected from IFC's current portfolio or represented high-potential targets for IFC's Global Financial Markets Department**.**

When ACALF started in September 2005, none of the selected PFIs had a viable MIS that would meet international standards and be able to track transactions, generate real-time management reports, establish efficient delivery systems, and ensure risk management functions. Thus, upgrading the MIS at each PFI was one of the project's major objectives.

13 institutions, 4 countries, 1 MIS: What could go wrong?

It was obvious from the outset that the MIS component was a complex and costly one. Initially, ACALF assumed that it would best serve everyone's interest if the project took the lead in searching, selection, development, adaptation, installation, and after-sale service of a uniform software system for all PFIs, with some modifications to adjust to various client needs.



The rationale behind selection of the uniform software through IFC was:

- If IFC buys the software, its name would help to attract an offer of the best banking or leasing software available;
- IFC would ensure that the software selection would adhere to thorough and transparent selection and procurement procedures and policies;
- It would be easier and more cost-effective for IFC to work with one software supplier instead of dealing with many;

- A software developer or vendor would feel more comfortable dealing with IFC rather than with 13 individual companies;
- The software developer or vendor would see the project as a market-entry opportunity facilitated by IFC, and thus be more willing to accept the price offer;
- PFIs often lack the skills and knowledge to select appropriate MIS and information technology (IT) vendors.

Although ACALF would source the software, the MIS vendor would work directly with all PFIs on the implementation and maintenance of the software. ACALF would financially support the PFIs' purchase of the software.

ACALF found a MIS vendor that met the set standards and the preferences of the PFIs. In August 2006, the contract with the supplier was signed, and ACALF expected to begin with the installation work.

Yet this scenario did not work out. The selected MIS vendor decided to walk away from the contract, because he realized the difficulties with integrating multiple countries and platforms into one system. The MIS vendor also felt uneasy operating in frontier markets of Central Asia, although this was clear to him from the beginning. ACALF was not able to identify a suitable replacement in time. The PFIs began to question ACALF's commitment, and the project's donor inquired about the delay in project implementation.

This setback turned out to be a real blessing in disguise. It forced ACALF to review its original approach and to offer an alternative delivery mode. In hindsight, ACALF went into this venture too hastily and a bit naively.

***Lesson # 1**: Segment your clients carefully; one size does not fit all, especially for MIS/IT.*

The project had to reassess its approach, taking into account that the target group of PFIs was not homogenous:

- The group had universal banks as well as pure leasing companies; all PFIs differed in size, business models, and client segment, needing software of different configurations;
- The software had to address different tax laws and language requirements (English, Russian, and the local language), which required considerable adaptation of a standard software package;
- The installation, testing, and initial running of a completely new software was a lengthy process with many potential set-backs to operations and financials.

After the reassessment, the PFIs came out divided into two groups: 1) partners that wanted to acquire and use a completely new MIS, and 2) PFIs willing to upgrade or reconfigure the MISs they had in use. All of them required an individual approach in addressing their MIS-related issues. It also became evident that the PFIs from the first group required more guidance in regard to the selection of MIS/IT than did those from the second group.

***Lesson # 2:** Mitigate risks for IFC and the client early in the process; get an independent adviser.*

ACALF had a team of six people—one country officer in each country plus, a project manager and an assistant based in Uzbekistan. ACALF did not possess sound knowledge on MIS/IT, hence the decision was made to hire an MIS consultant who is not only familiar with the main systems used in the regions but also speaks Russian—an important factor in communicating with non-management-level staff at the respective PFIs.

The appointment of a consultant to work with each PFI on its specific situation proved to be very successful for all parties involved. For ACALF, the consultant guaranteed that the systems purchased with its contributions have an appropriate cost-benefit ratio and provide the desired impact on operations. For the PFIs, the consultant helped to choose the right strategy (for example, upgrade or new system) and also to save money. For instance, a Terms of Reference (TOR) document for MIS procurement is highly technical and complex. MIS vendors who develop such TORs for the client (as it is usually done in the region due to lack of skills at client level) charge for this job 10–15 percent of the total amount, without guarantee that the end result best meets the client's needs. The ACALF-hired consultant mitigated these risks and costs. In addition, ACALF, with the consultant's help, advised PFIs on best procurement practices—an important tool in fighting corruption.

Benefits of hiring an external consultant

- Provided expert opinion to ACALF for making financial contributions to MIS purchases
- Helped PFIs define the gaps, develop IT strategies, work out technical requirements, compile bidding documents, and select a proper MIS product and vendor
- Worked with PFIs on proper procurement practices

Investments in MIS/IT always involve participation and buy-in from several stakeholders within a company—board, management, IT department—and are prone to clashes of interests. Bringing in an external consultant can create additional friction and problems. ACALF had to guarantee that the consultant was perceived as objective and unbiased by all groups concerned. We also had to ensure that the consultant himself is free of any potential conflicts of interest (for example, not linked to a MIS/IT provider). For these reasons, ACALF made sure that:

- The PFIs were involved in the selection of the consultant;
- The consultant did not participate in the purchase of any MIS/IT (as a member of a procurement committee, for example), nor did he have any purchasing decision power; and
- Procurement of any MIS/IT follows the WB/IFC model

Lesson # 3: *Let the client take ownership of the process.*

ACALF decided to let the PFIs take the lead in procuring a MIS/IT system. This approach has several major benefits:

- Clients are more motivated and committed when they are responsible for the selection and procurement of a MIS/IT system;
- Clients strengthen their in-house expertise in making substantial investments into their own assets by participating in the entire processes of selection, negotiation, adaptation, and testing; and
- Clients will develop a direct relationship with the MIS/IT vendor, ensuring after-sale service and accountability—an important factor in ensuring sustainability beyond the close of ACALF in mid-2008—and allowing for easier future modifications.

The role of ACALF was that of a neutral broker, making sure the consultant delivers quality work and helping to deal with potential conflict situations. ACALF also ensured that the selected MIS/IT met the stated objectives of the project by helping to improve the leasing business of the PFIs. Moving the responsibility for selection and procurement of the MIS/IT to the client also allowed ACALF (and eventually IFC) to mitigate potential reputation risks.

Lesson # 4: *Link financial contributions to specific performance targets; it increases commitment and ownership of the client.*

ACALF used the new approach as an opportunity to introduce a new scheme for its financial contribution to the MIS/IT upgrade. The IFC pricing policy that was introduced in January 2007 served as a welcome guide. The project also wanted to provide sufficient incentives to the PFIs for implementing a new MIS/IT and to ensure that impact is measured. This caused many internal discussions within the ACALF team, given that the original advisory services agreements signed in 2005/6 did not contain such provisions. The original approach implied that ACALF would provide free advisory services and subsidize up to 85 percent of the cost of a new MIS. No specific targets and objectives were imposed on the PFIs.

ACALF convinced the clients to agree on minimum performance targets and to link ACALF's financial contribution to their MIS-upgrade expenditures to those targets. Thus, depending on the PFI's performance, ACALF covered the consultancy costs and partially funded the MIS/IT update or purchase. Now ACALF's contribution is 10–50 percent of the MIS update or purchase costs. The new scheme meant higher costs for the PFIs. Nevertheless, all but one of the PFIs accepted the changes that were agreed on in a separate contract. We believe that the new approach to the procurement of the MIS/IT—with the clients taking a more active role, plus the individual consultancy—contributed to the acceptance of the new financial scheme. PFIs also valued the quality of the advisory services provided by ACALF in the areas of leasing policies, accounting, credit analysis, and asset and liability management. Eventually, the excellent client relationship and trust built up by the ACALF team helped to win the PFIs over.

One example of the financial arrangement: One bank in Tajikistan opted for a MIS upgrade that cost $91,200. ACALF contributed $44,200 in total. Under the old regime, the bank would have paid only 15 percent of the costs.

Outcome and Impact

Since May 2007, ACALF and the consultant have been working with six PFIs on their MIS/IT situations. Work with four of those PFIs is completed, and of those four, three already implemented our recommendations. ACALF paid its contribution to one PFI (a bank in Tajikistan, whose upgrade cost $91,200) with others to follow. The expected positive economic impact to this bank, due to its MIS upgrade, is $460,000 a year.

About the Authors

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