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Partnership with Industry – New Business Model and Service Delivery

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Agenda

- Procurement process: The journey so far
- Key showstoppers for Industry
- Impact
- Suggestions from Industry
- How to handle technology upgrade?
- Renegotiation during contract
- Adoption of new technologies for improved service delivery

From H/W and Appln S/W Procurement to Integrated Services

Government owned (H/W; Network; Application S/W) → Outsourced → Public Private Partnership **BOOT or SPV**

Risk and Reward

The processes to handle PPP model were not fully baked in.

The experience has been a mixed one.

Many large SIs have stopped responding to eGov projects, specially those on BOOT basis

Key Showstoppers for Industry

- Mounting Outstanding and Payments from both Central and State projects (Rs 5000 crores as per NASSCOM).
- Dispute resolution mechanism being one-sided
- Risk Overload on vendors due to Contract Terms, Liabilities, Delayed Payments
- Increasingly unfavourable Bid and Contract Processes
- Outsourcing Decisions being reversed after long drawn procurement cycles and vendor selection
- Multiple stakeholders involved in decision making on acceptance and release of payment leading to undue delay in payments after completion of milestones
- Challenges relating to performance measurement
- Scope creep without provision of budget
- Non-existence of mechanism to introduce technological changes

Impact

- Many bids of IT projects have gone without any response in last two years and in some of these projects the payment terms had to be changed later.
  - ‘Project Emerald (ERP for MES)’,
  - ‘Maharashtra VAT’ (until bid conditions were rationalized),
  - Mumbai Surveillance (until bid conditions were rationalised);
  - Madhya Pradesh ULB,
  - Taxnet (under rebid);
  - CIDCO;
  - Kerala ISRO affiliate ERP bid
- The finance unit of all many companies are not clearing their proposals to participate in BOOT tenders of Government.
- IT industry is not willing today to respond to BOOT model based large IT projects from the government, where they have to invest in CAPEX and wait for a long period to recover the cost.
- Secretary DEITY had a one day consultation workshop with IT services companies on 15th January 2015 to find ways to solve this problem.

Suggestions from Industry [based on meeting

- A critical relook at the **arbitration process-** arbitrators to be mutually decided as per Indian Arbitration act or constitution of a panel comprising of one government officer, one industry person and one judicial person. (ex Ministry of Railways process)
- **Building and acquiring suitable technical capabilities within the buying organization** (CIO/CTO positions inside departments to sign off and approve the project)
- **Empowerment and continuity of government officials involved in IT projects for quicker decision making**
- Need to on-board consulting organizations responsible for bid process management with recommendations made to Model RFP and a mandate to implement the same in all the projects
- Need to try out less common, but, established procurement processes as against the current emphasis on largely adopting the Least Cost Selection Method (L1)
- Decision criteria needs to be developed in consultation with industry and stakeholders to be followed by the buyer organization for deciding on insourcing versus outsourcing and not arbitrary

Suggestions from Industry [based on meeting

- Constitution of a task force comprising of senior government officials and industry members to undertake periodic review of the RFP process and incorporate changes in line with changing dynamics
- Contemplating on “How do you do less of it?”- cutting the procurement cycle time, newer procurement models, annual empanelment, Swiss challenge etc
- Rotation of PBG after completion of a milestone [BG should not be held up for the whole life cycle of the project]
- Requirement definition should be complete to avoid scope creep. Sound mechanism for managing ‘Change Request’. Once development starts, modifications should be done in next version.
- Consortium approach should be allowed for eGov projects so that SIs are not burdened with procurement of non-IT parts.
- Timeline for sign-off should be included in the contract
- Acceptance criteria and acceptance process should be clearly defined in the RFP


Food for Thought

Suggestions on Processes

- **Mutually decided arbitration** per Indian Arbitration Act on the pattern of Ministry of Railways
- **Creation of Posts of** CIO/CTO/CISO positions inside departments (Adoption of HR Report)
- **Empowerment and continuity of government officials** involved in IT projects for duration of project
- Allowing **rotation of PBG**
- **Renegotiation of Contract** in certain circumstances
- Adoption of **new technologies**

Renegotiation during Contract Period

Quote from an Article in Business Standard)

- Under current PPP Projects, there is assumption that once negotiated, ground conditions will continue to hold forever and
- that the terms of the agreement between the private party and the state are cast in stone; and
- that any changes required can only attract charges of crony capitalism.
- So, even while economists find it extremely difficult to predict growth and inflation for the next quarter, assumptions on project cost, traffic, tariff, input costs, et al that go into preparing a winning bid, are expected to be inviolate and unchanging.
- The world moves on, but the agreement/contract is frozen in time.
- Why? Because, simply put, it is the job of the private sector to forecast the future and take risk.

Renegotiation during Contract Period

On account of

Technology change

- Ex: MPLS in place of Leased lines
- Virtualization/Cloud adoption

- Business case is presented and a board having experts from DeitY/NIC/STQC, department and SI approve it.

External Conditions changing

- Number of transactions exceeding that written in the contract
- Change in the law which brings additional functionalities

- Contract should clearly define the procedure

One can't change the conditions after awarding the contract. It can lead to disputes and others can challenge it. **However, if a renegotiation happens, it should not alter financial returns**.

CAPEX Vs BOOT Project

- **More CFOs Shifting IT Investment from CapEx to OpEx**
- In eGov sector, there is a move in the reverse direction
- Challenges under BOOT Model
  - Proportion of S/W and services is much smaller than that of H/W, S/W licenses and ATS
  - SIs do not get paid in time and this increases their borrowing cost
  - Ultimately departments pay more (bank interest cost + risk costs)
  - Scope creep and provisioning on non-IT goods makes it more difficult.
- CAPEX Model: SI has no skin in the game. Department is taken for a ride.
- Solution: Middle path. 60 to 70% % CAPEX payment on successful go-live and remaining with service cost distributed over period of contract. Adoption of Cloud.

Adoption of New Technologies

Cloud

- IaaS and PaaS: Adoption by govt departments will reduce the timelines from Concept to Contract to Go-Live (one can buy infra and platform as service quickly)
- Policy in place since May 2013 but adoption has been poor

Challenges

- Certification process for private cloud service providers still not in place
- One agency to create rate card for various cloud based services (based on type of security certification)
- Government to come out with policy on 'Data Classification' (What can be kept on public cloud, what on public cloud and what cannot be kept on Cloud at all)
- Tools available to assess risk assessment on migration from DC to Cloud (private/public/hybrid)

New Model

Success fee linked model (Airtel/Vodafone)

- Airtel deal that was signed for USD 750 million in 2004 and eventually touched USD 2.5 billion.
- Need to explore adoption of such model in the government where certain part of turnover is shared with the IT service provider.
- Strategic outsourcing (process of engaging the services of a provider to manage essential tasks that would otherwise be managed by in-house personnel) being replaced by Cloud and managed services.
- Covering interest of both customer (government) and the service provider

Thanks

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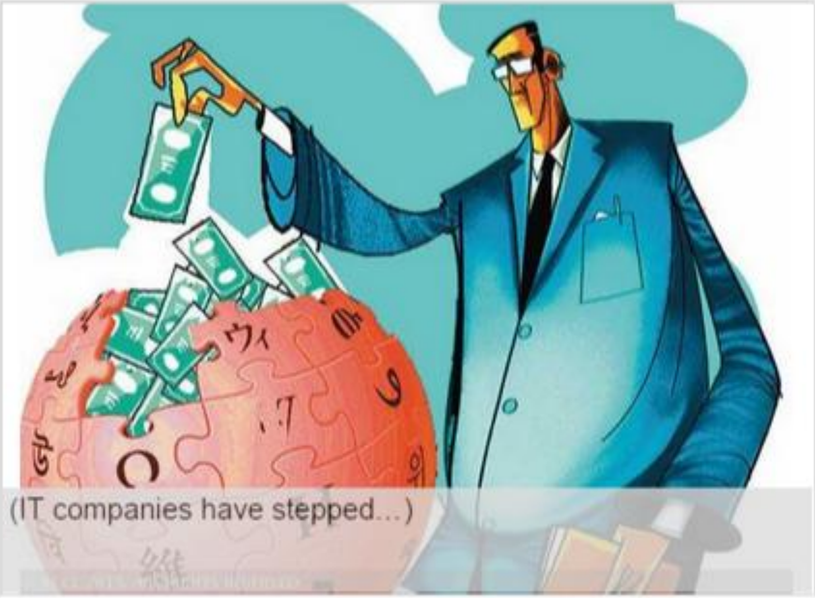
Nasscom wants government to release Rs 5,000 crore IT fund, create independent arbitrator

Jochelle Mendonca, ET Bureau Jan 15, 2015, 04.50AM IST

Tags: work out | Secretary | riders | President | Person Communication and Meetings | net worth | Nasscom | Modi Government | Insurability | independent arbitrator IT companies | Finance minister | finance | Chandrashekhar

MUMBAI: Nasscom is asking the government to start disbursing about Rs 5,000 crore in contract payments to IT services companies that have been held up, and to create an independent arbitration mechanism to ensure the industry participates in the Digital India projects.



(IT companies have stepped...)

For over two years, Indian IT companies have stepped away from doing business with the government due to the difficulty in getting paid and the onerous nature of the contracts. "We are not saying that the Rs 5,000 crore has to be disbursed at one time but there has to be some movement from the government, otherwise confidence will be low and participation in the Digital India projects would be difficult for companies," the IT lobby group's president, R Chandrashekhar, told ET.