

### Historical Context

The impetus for the Merkava effort developed from a mix of conditions in the government and in the environment in 1998-99. Pressures for government reform grew in part from the effects of a deepening economic recession, dating from at least 1994, interrupted in part by a one-time massive infusion of IT investment in 2000. In addition, the threat of major computing and economic disruptions from possible Y2K problems prompted the government to suspend virtually all new computer system development in order to prepare for January 1, 2000. Internal financial reforms were hampered in part by the government's accounting system. That was a cash-based central accounting system, dating from 1989, with limited functionality beyond basic bookkeeping. An attempt had begun earlier to implement a new accrual accounting system, but that project was not successful. And in general the government computing systems were not well suited for major reform. Separate systems dealt with logistics, human relations, and other cross-government functions with little or no integration of information among them. Individual Ministries had their own stand alone systems for their specific functions, with few data or process standards among the various units.

The national elections in May 1999, brought in a new government and provided a major impetus for change, in particular the project proposals from Nir Gilad, the new Accountant General (AG). Gilad had served in earlier governments, and was a private sector executive prior to rejoining the government in 1999. During his private sector tenure he had researched ERP systems and had developed a detailed knowledge of their potential for integrating information and transforming management operations. He wanted to shape government financial management, and ultimately all systems, into a much more integrated whole. The policy of the previous AG, suspending system development in preparation for the Y2K changeover, presented an opportunity to move in that direction. However, when Gilad took office in October 1999, there was good reason to believe that the Y2K preparations were largely complete. The government systems had experienced no major problems during the "mini-Y2K" test point on September 9, 1999.<sup>(3)</sup> During the moratorium, a backlog of demands had accumulated from the agencies for new projects. To open a flow of funding to these existing plans and projects would be to continue building on the old disconnected, limited systems. This would not deliver the kind of value available from greater integration or provide a foundation for service improvement.

Instead, Gilad and his team decided to continue the moratorium. They thought a possible ERP implementation would work to achieve their goals. However, once past January 1, 2000, the team would lose the justification for the moratorium. They decided that a vision, if clear and powerful enough, would be a workable substitute for the Y2K threat. As Gilad put it, "we used these drags [the moratorium] to create the Archimedic point to change the way that we're working .... Y2K was the explanation, now there's no explanation, so we have to come up with the vision. We created the vision, and a tender, and used it to make a landslide."<sup>(4)</sup> That vision, known now as Merkava, along with the five layers, provided both the rationale and the overall design principles for the project and its relationship to generating public value.

### Institutional and Political Context

The opportunity for this visionary strategy to be effective was in part a result of the current political and institutional context. The political context for initiating and sustaining the Merkava project is a complex one of continuity and change, due in large part to the Government's structure as a parliamentary democracy. Unlike the two- or three-party political structure of the US or UK, Israel has a multi-party system. The current Knesset (legislature), for example, includes members from 12 parties. It is unusual, therefore, for a single party to gain a majority of seats and form a single-party government. The resulting coalition governments are often unstable; the current government, elected in May, 2006, is the 31st since the formation of the state of Israel in 1948.

As with any long term project, the Merkava vision was at some risk due to changes in the government and political environment. The beginnings of the project date from the 1999 election that brought in a new government led by Ehud Barak as Prime Minister. He formed a seven-party coalition government, led by his Labor party, that took office in July of that year and appointed Nir Gilad as Accountant General. That government could not sustain the project, however, since the coalition did not hold, and Barak resigned in December of 2000. For the project to continue it would need the support of the new government formed by Ariel Sharon in early 2001, and a new Finance Minister, Silvan Shalom. Accountants General do not necessarily change with a new government, so Gilad continued in office and advocated for the ERP project.

The development team soon came to realize the scope and complexity of the project. They realized that strong support from the government would be necessary to achieve the changes on the scale necessary to implement an ERP. The head of the team, Yitshak Cohen, Senior Deputy Accountant General recognized the difficulty. "This

was a Parliamentary decision. It's very difficult; it's an organizational project; it affects all the employees in the government. It's the heart of the organization," he said. Prime Minister Sharon was persuaded to support the project and the parliament approved it in late 2002. That government has remained in power, with Ministerial changes, through to the present. Sharon stood for election in 2003 and was re-elected, but was disabled by a massive stroke in January 2006. The then Deputy Prime Minister Ehud Olmert took over executive duties and was elected Prime Minister in May, 2006. Thus the Merkava initiative, begun through a change of government, survived three subsequent changes and the departure of the Accountant General who helped start it. More than five years later it continues with broad political support. When Cohen was asked how Israel was able to achieve such a massive reform of government, he replied, "We're small, we have a bureaucratic dictatorship, and we have chutzpah."

Sustaining the project was made possible in part by consistency in key staff positions and in multi-year planning. Despite the changes in governments, there has been more permanent participation and leadership in the initiative by professional staff as key players. As in any parliamentary system, with elected and usually temporary officials at the top, organizational continuity in ministries often depends on senior staff or contractors less affected by political shifts. For the Merkava project, the key persons in these roles have been Yitshak Cohen and Ronny Jacobowitz, a contractor who has had a major role in the project from the beginning. At the time, as head of the computer unit in the Accountant General's office, Cohen began work on elements of the e-government initiative in 1997, with the nomination of the governmental Internet committee and the initiation of the "Tehila" (connectivity layer) project. In 2002, the master plan was created and a government decision was made to allocate resources for the e-government services. The continuity has been sustained by these multi-year plans and statutory commitments. The Merkava project has been part of the 2003-05 and the 2005-07 strategic plans.

Formal plans and staff continuity, while important, are not sufficient to move such a broad and ambitious project forward. That requires political leverage within the organization. Political leverage is part of the institutional structure that puts the Ministry of Finance and the Accountant General in charge of agency budgets. With the authority of that office guiding the development and implementation of Merkava, there were powerful incentives for agencies to cooperate. As Nir Gilad put it, "Nobody wants to mess with the Accountant General; he's too powerful .... Not only does he have the power to make the decision, he has the power to enforce it." Of course, no one office has absolute power over budget decisions, and some ministries are larger and have more overall political status than others. The necessity to accommodate the needs of various agencies is reflected in some of the implementation strategies described in more detail below.

Of course the unique political and cultural position of Israel in the Middle East and world context are important parts of the institutional setting, as well. The changes in government described above were intimately linked to the Peace Process, according to news reports, and to the complex, ongoing conflict between Israel and the Palestinian and Arab interests in the region. As important as these conflicts may be in the overall political dynamic in Israel, however, direct influences on the design and implementation of the Merkava and the e-government initiatives were not apparent.

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(3) On 9/9/1999 a four character date field would contain "9999," which was also the end-of-file code in some software. Programs could act erratically at that point if the Y2K preparations were inadequate. The government computer systems passed that date with no major problems.

(4) The Archimedic point refers to a remark attributed to Archimedes: "Give me a lever long enough and a fulcrum on which to place it, and I shall move the world."