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To: Members of the Committee on the Budget
(Managing Director, Chairman; Mr. Bennett, Mr. Bischofberger,
Ms. Indrawati, Ms. Jacklin, Mr. Kashiwagi, Mr. Kiekens, Mr. Le Fort,
Mr. Martí, Mr. Mozhin, Mr. Scholar, Mr. Solheim, and Mr. Usman)

From: The Secretary

Subject: **Zero-Based Review of the Statistics Department—
Summary Report for the Committee on the Budget**

Attached for the information of the Committee on the Budget is the summary report on the zero-based review of the Statistics Department which is circulated for the forthcoming Committee on the Budget meeting on **Thursday, August 5, 2004.**

Questions may be referred to Mr. Coune (ext. 38237) and Mr. L. Alexander (ext. 37121) in OIA.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

**Zero-Based Review of the Statistics Department
Summary Report for the Committee on the Budget**

Prepared by the Office of Internal Audit and Inspection

Approved by Alain Coune

July 26, 2004

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I. INTRODUCTION

1. This report summarizes the results of the zero-based component of the review of the Department of Statistics (STA). The assessment was conducted by the Office of Internal Audit and Inspection (OIA), in cooperation with the Office of Budget and Planning (OBP). Although OIA has conducted a large number of departmental reviews in the past, the Department of Statistics represents the first instance in which the review included a zero-based component that aimed at ascertaining the efficiency of the operations and identifying outputs that may be viewed as of lower priority in meeting the goals of the Fund, after due weighing of the relative costs and benefits of these outputs.
2. The main conclusions of the zero-based assessment are as follows:
 - Operations are carried out efficiently and no pocket of idleness was observed;
 - The expenses incurred in publishing Government Finance Statistics both in *GFSY* and *IFS* present the potential for resource reallocation across the Fund, considering the annual net cost of the GFSY of \$1.1 million, its minimal use for operational purposes within the Fund, and much weaker external readership than other publications;
 - STA should enquire whether other statistical agencies would take over the Direction of Trade Statistics, which is nevertheless essential to the operational work of the Fund and produced at a relatively low cost of \$0.2 million per year;
 - STA should compete with other departments or programs for the redeployment of the efficiency gains derived from the new IT system (Electronic Data Facility) initially estimated at \$1.7 million annually, once the system has fully stabilized and provides the functionality originally promised.
 - As planned by STA in the course of the review, the annual cost of the data ROSC program will be contained at 8-9 percent of STA's budget (about \$2.7 million in FY 2004) through more selective and targeted methods of execution.

II. THE ANALYTICAL PROCESS

3. In view of the diverse range of STA's outputs, the review team analyzed the main components of STA functions and used as screening methods: (i) the strength of the mandates for each STA output as an indication of its alignment with the Fund's goals, and (ii) the stakeholders' views (through past and current surveys and interviews) on the value of STA's outputs and the outputs that were regarded as possibly of lower priority (see box below). If the mandate for an output was judged to be relatively weak, and it could be regarded as lower priority, the team applied activity based costing to cost the output and balance it against benefits to STA's stakeholders. The team also examined the resource use intensity of one key output—data ROSCs.

Mandates for STA Outputs

By reference to the Articles of Agreement and Board decisions, OIA found that the mandate for methodological outputs, standard setting, surveillance, capacity building, and those publications related to STA's "new" methodology work have been strongly endorsed by the Board in recent *Reviews of Data Provision to the Fund for Surveillance Purposes* and *Reviews of the Fund's Data Standards Initiatives*. Examples of "new" methodology work are the coordinated portfolio investment survey, the foreign direct investment survey, and external debt data (with other agencies). By contrast, the mandate for the major publications dates back to the Articles of Agreement and is less strong and precise. Article VIII, Section 5 (c) states that "the Fund shall act as a center for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund". The last clause of this Article implies that the published data should actually be used for Fund purposes, and OIA recognized this in its analysis (see Paragraph 9 below).

4. STA produces a wide range of outputs that make significant contributions to three of the Fund's five primary outputs. The cost of these outputs is shown in Table 1. About 45 percent of the department's internal dollar resources (including travel costs but excluding externally-financed TA) are devoted to the Fund's Primary Output II—standard setting and the provision of standardized information, 20 percent to Primary Output III—surveillance, and 35 percent to Primary Output V— technical assistance and training.¹

¹ The STA outputs contributing to Primary Output II are dissemination standards (SDDS, GDDS and the Data Quality Assessment Framework), development of statistical methodologies (manuals and compilation guides), and publications (the core publications – IFS, BOPS Yearbook, GFS Yearbook, DOTS; survey data and metadata including on portfolio investment, foreign direct investment, international banking, and external debt). The STA outputs contributing to Primary Output III are data ROSCs, the review of country papers, assessment of data provision to the Fund, vulnerability analysis including financial soundness indicators, and limited participation in area department missions.

Table 1. Cost of Selected STA Outputs, FY 1999–FY 2004 1/

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	5-Year Growth	
						Proj. 2/	Dollars	Percent
(In millions of U.S. dollars)								
II. Standard setting 3/ 4/	9.6	10.0	11.4	12.2	13.6	14.3	4.7	49.1
<i>Of which:</i>								
Methodologies	1.7	1.8	1.6	1.6	2.1	2.3	0.7	39.6
Data collection	4.6	4.7	4.2	4.8	5.4	5.6	1.0	21.5
Publications	1.6	2.0	2.5	2.3	2.3	2.4	0.8	52.7
Support	1.5	1.1	1.7	1.4	1.4	1.4	-0.1	-6.8
III. Bilateral and regional surveillance	2.7	3.7	4.5	6.3	5.7	5.6	2.9	108.5
<i>Of which:</i>								
Other country work, excluding WEO	0.4	0.7	1.4	1.2	0.8	0.6	0.2	57.8
Country review work	0.3	0.3	0.3	0.4	0.6	0.7	0.4	112.4
ROSCs	0.0	0.0	0.3	2.0	1.9	1.9	1.9	...
Support	0.8	0.9	0.8	0.9	0.9	0.7	-0.1	-14.6
IV. Use of Fund resources	0.2	0.5	0.6	0.4	0.3	0.2	0.0	-21.0
V. Capacity building	5.6	6.2	6.7	6.7	7.2	7.2	1.5	26.9
<i>Of which:</i>								
TA—direct advice	2.7	3.1	2.8	2.4	2.6	2.6	-0.1	-2.9
TA--indirect advice	0.4	0.4	0.4	0.5	0.6	0.6	0.2	45.0
Training through INS	0.5	0.4	0.5	0.4	0.5	0.3	-0.2	-45.2
Support	1.2	1.6	1.9	2.2	2.5	2.5	1.3	106.4
Total staff cost	18.2	20.4	23.2	25.6	26.8	27.2	9.1	50.1
Travel	2.8	3.2	3.5	3.8	4.0	4.3	1.5	53.5
Other discretionary budgets	0.0	0.1	0.0	0.1	0.1	0.1	0.0	53.2
Total Budget	21.0	23.7	26.8	29.5	30.9	31.6	10.6	50.5

Source: Office of Budget and Planning and BRS.

1/ Net Administrative Budget only; excludes external TA financing.

2/ Projection based on six months' data.

3/ Includes SDDS, GDDS, and DQAF. Excludes vulnerability analysis which is included in Fund output III.

4/ The numbering system refers to the Fund output taxonomy. STA does not record time under the Fund output I: Operation of the International Monetary System.

III. ORGANIZATION OF WORK

5. **STA is a well- and efficiently run department.** The annual work plan is formulated from the divisions upward and adjusted to ensure compliance with the requirements of Management and the budgetary ceilings. It is also updated at mid-year to ensure alignment with the Fund's goals. Feedback from staff is sought annually as an input to the senior staff retreat. High value is placed on work/life balance which has contributed to higher productivity while maintaining stress at manageable levels. The department's structural organization has recently been refined in order to provide better service to the area departments. STA's capacity building activities received high marks from both area departments and the Executive Directors interviewed by OIA. STA has already taken or intends to take actions to implement many of the recommendations of the review in areas other than the zero-based assessment discussed in this paper.

6. **Savings in data compilation and publication are being realized through the implementation of the Economic Data Facility (EDF).** The implications of the EDF for STA's operations are being further analyzed with a view to reassessing the savings involved (which were originally projected at \$1.7 million annually). Although it was originally envisaged that the savings could be redeployed within STA to enhance the quality and content of the databases, the budget policy of the Fund now requires that resource savings made possible by a department's IT investments do not accrue automatically to that department, but will be considered for Fund-wide redeployment. **OIA recommends that the results of the EDF Work Practices Review and the conclusions of STA management be brought to OBP for review and consideration for future redeployment of the savings generated by the EDF.**

IV. STATISTICAL PUBLICATIONS

7. **The net cost of each of the major STA statistical publications was estimated using activity-based cost analysis.** The number of staff performing the specific activities of data collection, preparation of data for publication ("dissemination"), and support for printing and distribution of the completed product were identified in STA, TGS, and EXR. Staff costs were determined by applying Fund standard costs to divisional estimates of the time spent on these activities. Direct printing and distribution costs and publication revenues were based on the latest available full-year actual amounts.

8. **The total annual net cost to the Fund of the four major statistical publications is estimated at about \$4.6 million,** reflecting a gross cost of about \$7.1 million and revenue of \$2.5 million. The *IFS* is the most costly publication, with an annual net cost of \$2.6 million (57 percent); *GFSY* costs \$1.1 million (23 percent); *BOPSY* \$0.8 million (17 percent); and *DOTS* \$0.2 million (3 percent) (Table 2).

9. **External usage** is high for *IFS* (94 percent of all subscribers received *IFS* in 2002), reasonably high for *BOPS* and *DOTS* publications (50 percent of subscribers), but low for

GFS publications (29 percent).² Executive Directors interviewed by OIA also indicated a low incidence of usage of GFS data by their authorities. With regard to **internal usage**, surveys of area departments and interviews with other departments' staff indicated that a majority of staff used *IFS* and *DOTS* "sometimes" or "frequently" but that the incidence of usage of *BOPSY* and *GFSY* was, on average, less than half that of *IFS*.

GFS

10. **In view of the high cost and limited internal and external usage of GFS publications, relative to the other major publications, OIA recommends that Management should consider the publication of GFS data in both *GFSY* and *IFS* as a candidate for Fund-wide resource reallocation or saving, should the need arise.** The subset of GFS data presently published in *IFS* requires the same validation procedures as *GFSY*; therefore, if *GFSY* were to be discontinued, the *IFS* subset could not be continued. Savings of up to five A9-A15 staff years could be realized if this recommendation were to be implemented.

11. STA disagrees with this recommendation for the following reasons:

- OIA's assessment of usage of *GFSY* is based on a version that is no longer produced and which uses the 1986 GFS methodology that is no longer encouraged by the Fund. An assessment of the usage of the new *GFSY* from 2003 onward should be made in the light of actual experience with the new database. The usefulness of the new *GFSY* is likely to increase because of improved timeliness and coverage resulting from the TA planned to implement the 2001 GFS methodology on which the *GFSY* is now based. However, OIA believes that even with improved timeliness and coverage, the GFS data will not be used for operational purposes within the Fund or in member countries because there will always be differences between national data and the GFS standard.
- The GFS database constitutes the only internationally comparable statistics on government finance operations. However, OIA believes that the "public good" of an internationally comparable database does not outweigh its cost to the Fund (which could continue to use national data in the WEO for comparative analysis).
- The collection and compilation of GFS data is a cost-effective form of technical feedback to national compilers in implementing the new GFS methodology. However, OIA regards this assertion as unproven; it may be more cost-effective to provide GFS-related TA only to those countries that need it.

² The 2002 study of external users by Lexicon largely confirmed the results of a 1998 study by PriceWaterhouse LLP.

Table 2. Estimated Annual Net Cost to the Fund of Major Statistical Publications
(In thousands of U.S. dollars)

Publication Type	Publication Cost					Net Cost to Fund
	Data Collection ^{1/3/}	Dissemination ^{2/3/}	Direct Staff Cost ^{4/}	Other Direct Cost ^{5/}	Total Collection and Publication Cost	
Total IFS	2,254	624	149	1,242	4,269	2,552
Total DOTS	190	183	92	110	575	205
Total GFS	642	566	53	47	1,309	1,082
Total BOPS	679	194	67	74	1,014	788
Total Major Publications	3,766	1,567	361	1,473	7,166	4,626
Memorandum item: Identifiable product-specific publication revenue and cost.						
	Direct Staff Cost				Publication Cost	Net Cost/Revenue (-)
	Cost	Revenue	Cost	Revenue		
IFS Monthly Print	66	1,000	1,067	988	79	
IFS Yearbook Print	18	87	105	109	-4	
IFS CD-ROM	51	49	100	526	-426	
IFS Online	13	105	118	94	24	
DOTS Yearbook, Print	23	26	49	60	-11	
DOTS Quarterly, Print	20	67	87	133	-46	
DOTS CD-ROM	49	17	66	177	-111	
GFS Yearbook, Print	50	34	84	104	-20	
GFS CD-ROM	3	13	16	123	-107	
BOPS Yearbook, Print	16	59	75	122	-47	
BOPS CD-ROM	51	15	66	104	-38	

1/ Source: STA. Staff costs to collect and develop statistical data, regardless of any publication activities. They include a proportional share of STA support costs.

2/ Source: STA. Staff costs to prepare statistical data for dissemination, regardless of the media produced. They include a proportional share of STA support costs.

3/ These STA staff costs are not specifically assignable to a product type within the main statistical publication category, i.e., if a particular publication product was discontinued but others were kept, these costs would remain unchanged.

4/ Sources: Staff time percentages—STA, EXR, TGS. Standard cost amounts—OBP. Amounts represent direct staff time, based on standard costs (average salary and benefits), spent on publication products.

5/ Source: EXR. Includes costs for printing and distribution and are represented by the most complete FY of cost, generally FY 2003. Composition costs are omitted as this activity is now being done internally by the Fund.

6/ Source: EXR. Amounts represent the most complete FY of revenues, generally FY 2003.

DOTS

12. The collection of trade data by country of origin and destination is directly within the Fund's mandate under Article VIII, Section 5(a), and is essential for the operational work of the Fund such as the calculation of real effective exchange rates. Nonetheless, as part of its analysis of publications, **OIA considered whether the publication of *Direction of Trade Statistics* might be more within the mandate of other statistical agencies**, for example, WTO or the UN Statistical Office. Interviewees suggested that the latter agency might possibly be interested in taking over the publication of *DOTS* in order to raise the profile of the Office. In such case, the savings to the Fund would be small at about \$0.2 million per year.

13. Therefore, OIA recommends that STA make inquiries of other statistical agencies to see if there is interest in taking over the Fund's *DOTS* activities. If there is no such interest, *DOTS* should remain with the Fund. STA intends to contact other statistical agencies in this regard.

Hardcopy versions of the major publications

14. The main argument for discontinuing the production of printed versions of the major publications is their lack of use for operational work or research in the Fund: staff prefer to download directly from the electronic versions on the EDSS. On the other hand, there is sizeable external usage of printed versions of *IFS*, *BOPSY*, and *DOTS* outside the Fund, especially in low income countries where access to electronic versions is extremely limited. Moreover, the savings from their elimination would be low, since the main effort in collecting and compiling data has already been expended, irrespective of the publication media. Only for *IFS* does the Fund incur a marginal net cost of producing and distributing printed versions (over the cost of collecting and preparing data for publication); all other printed versions yield a marginal net revenue to the Fund.³

15. **OIA concludes that hardcopy versions should not be discontinued at this time.** At some point in the future when electronic access is more widespread in low income countries, this action should be reconsidered.

V. OTHER STA ACTIVITIES

Data ROSCs

16. OIA analyzed the long term implications of the data ROSC program—about 15 per year— under alternative scenarios of initial ROSCs and ROSC updates, and concluded that the current resource use intensity (averaging \$65,000 per mission, and one FTE per ROSC) is

³ See the lower half of Table 2.

not sustainable as it would require too high a share of the total STA budget. At the March 2003 *Review of Standards and Codes*, the Board endorsed STA's plans to complete 15 data ROSCs per year, progressively switching resources from initial to follow-up ROSCs. To maintain the overall cost of the ROSC program at about 8-9 percent of the budget, STA will limit the sector coverage of initial ROSCs typically to a total of three rather than six datasets, and initially limit the coverage of ROSC updates to a single statistical agency, or to datasets where previous ROSCs had shown lower ratings. Factual updates will also be undertaken by area departments or the authorities. OIA endorses these plans.

Technical Assistance

17. OIA determined that:

- As with other functional departments, STA has not dedicated sufficient effort to evaluating the results of past TA and therefore has had incomplete input into prioritizing requests for new TA. OIA recommends that additional effort be made to completing the evaluation module of STA's project management system and accord impact evaluation a high priority under the forthcoming Fund-wide monitoring procedures.
- Since TA using electronic communication has been successful in the monetary and financial statistics area, OIA recommends that STA conduct a pilot study on using remote TA in all topical areas as a source of resource savings, i.e., displacing traditional TA in the field. STA notes that it has already planned to introduce remote TA in all topical areas, but based on limited experience to date, has found that this form of TA is complementary to conventional TA, and not a substitute. STA also notes that the magnitude of resource savings from this initiative, therefore, may not be large.

SDDS monitoring

18. OIA found that the cost of monitoring advance release calendars of SDDS subscribers by the Data Dissemination Division of STA (DD) is the equivalent of 2.5 staff years, and questioned whether this cost could be reduced by introducing sampling of websites or the task eliminated entirely since the market mechanism would impose disincentives for non-compliance in terms of market access and borrowing cost. However, DD is about to introduce the automatic monitoring of national web pages through the use of XML technology, and intends to redeploy the resources saved within the division to increase the number of SDDS subscribers. No recommendation by OIA is necessary.