

CONFIDENTIAL

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COMMITTEE ON THE BUDGET

Meeting 05/4

3:00 p.m., September 8, 2005

T. Kato, Acting Chair

**Executive Directors**

S. Kashiwagi (JA)

E. Loyo (BR)

M. Schwartz (CE)

J. Solheim (NO)

Wang, X. (CC)

**Alternate Executive Directors**

M. Melhem (SA)

O. Cuny (FF)

M. Donovan (UA, Temporary)

J. Prader (BE)

Y. Yakusha (NE)

G. Ukpong (AE) , Temporary

S. Beidas (MI) , Temporary

B. Esdar, Committee Secretary

S. Maxwell, Assistant

**Also Present**

A. Herat (IN)

R. Murray (AU)

F. Zurbrugg (SZ)

Asia and Pacific Department: C. Browne. Fiscal Affairs Department: P. Kohnert. Finance Department: D. Hicks. Human Resources Department: I. Alexander, L. Boyd. Middle Eastern and Central Asia Department: S. Symansky. Office of Budget and Planning: B. Potter, Director; J. Brumby, L. Errico, P. Ganesh, M. Henderson, J. Sevigny, H. Young. Office of Internal Audit: V. Wertman. Office of the Managing Director: S. Nolan. Policy Development & Review Department: S. Brown, R. Kincaid. Secretary's Department: A. Blazejewski, M. Miller. Statistics Department: R. Edwards, C. Wright. Technology and General Services Department: B. Stuart, Director; S. Choi, M. Gehringer, J. Hudson. Western Hemisphere Department: C. Towe, Senior Advisors to Executive Directors: I. Abel, G. Cipollone, P. Jenkins, J. Kravalis, H. Mori, S. Rouai. Advisors to Executive Directors: A. Al-Nassar, D. Ayala, T. Kudiwu, F. Meyerhoefer, R. Newton-Smith, J. Pineda, A. Prasad, M. Robert, K. Sitthilath, J. Xu, N. Yamasak

## 1. REVIEW OF FUND'S INFORMATION TECHNOLOGY OUTLAYS

Document: EB/CB/05/6  
Staff: Towe, WHD; Choi and Stuart, TGS  
Length: 2 hours

The Acting Chair (Mr.Kato) welcomed Directors to the meeting to discuss a paper on the review for the Fund's information technology outlays, which was a continuation of the July 21<sup>st</sup> COB discussion. As Directors would recall, management had established an interdepartmental task force in June 2004 chaired by Mr.Towe to review the effectiveness of information technology outlays in the Fund. The task force had sent its final report to management earlier in the year, and the report was circulated to committee members on July 15th. TGS staff, Messrs. Gehringer and Choi, briefed the committee on the department's initial response to several recommendations of the task force report at the July 21st meeting, and their statement had been made available to committee members. As noted at the previous meeting, management was currently deliberating on the organizational issues flagged in the task force report. Mr.Brau, former head of the Finance Department and someone with substantial experience at spearheading IT initiatives at the Fund, had done valuable supplemental work at management's request looking at some internal process reform issues in further detail. Management hoped to be in a position to come back to Executive Directors on elements of its thinking on organizational issues in the near future. In that regard, the views of the Executive Directors on the range of issues covered in the task force report today would be welcome.

To set the stage for the discussion, Mr.Towe would provide a short presentation on the task force's work and recommendations, the Acting Chair continued. Mr. Stuart and Mr. Choi were also present to respond to any questions Directors might wish to direct to the Technology and General Services Department (TGS).

The staff representative from the Western Hemisphere Department (Mr. Towe) made the following statement:

Just to reintroduce myself, my name is Christopher Towe, I am a Senior Advisor in the Western Hemisphere Department, and although I am an economist, I am also part of the Fund's IT governance structure and have been for several years. I am a member of the Information Technology Policy Committee (ITPC), so to some extent as we go through this and I offer some critical/constructive comments, it is also important to recognize I am as much a part of the problem as I am the solution. So with that, let me give you a some background.

As the Acting Chair mentioned, a group of us including staff from TGS, OBP, OIA, Research and other departments were tasked in mid-2004 to address five key questions. The issues were: (i) where is the IT budget going; (ii) have our investments yielded their expected return; (iii) are we allocating our resources appropriately; (iv) are we making our decisions in sensible ways, and are we informed on and exploiting new technologies; and (v) whether we are ahead of the curve or behind the

technology curve. We were also asked to provide some suggestions for cost savings and for improvements in effectiveness, and we were encouraged to engage consultants to assist us in our effort. The Fund hired a reputable firm, ATKearney, and they provided us with a very detailed report late last year.

The task force also undertook a range of our own analyses, including detailed studies of IT spending trends and also benchmarking the Fund vis-à-vis other international financial institutions. We looked closely at the progress we have made in improving data management, project management, and improving our budget systems or our management information systems. Against that background, let me now turn to a brief overview of what we have learned, before addressing the broad conclusions that we reached.

In terms of benchmarking the IT budget, this is the \$70 or \$80 million dollar question. The question is, how do we stand relative to other institutions. Since I am an economist, I will give a two-handed answer. On the one hand, by the commonly used benchmark, i.e., relative to our total budget, we score quite well. Our outlays are 30 percent lower than the benchmark institutions. IMF spending on IT has averaged only about a little over 8 percent of our total budget relative to around 11 percent by other IFIs and U.S. benchmarks. The U.S. benchmarks that the consultants who worked with us provided were U.S.-nondepository institutions, which were the most easily accessible benchmark that seemed comparable to the Fund.

On the other hand, we score a less well on a per-staff member basis, where our outlays are higher than the benchmarks. Indeed, we are 7 percent higher than other IFIs and 11 percent higher than U.S. nondepository institutions. In terms of gauging the source of the higher spending, our consultants demonstrated that our IT staff count is somewhat rich relative to other IFIs and U.S. nondepository institutions. The consultants analysis illustrated that to a large extent this reflects a preponderance or heavier weight that the IMF places on customer service, which includes things like help desk and the like.

The data over the 2002/2004 period illustrates that our IT spending as a percent of total institutional spending was a little over 8 percent, compared with 11 percent among the other IFIs that we surveyed. But, our IT staff as a percent of total users is almost 9 percent relative to the 6 percent among the other IFIs, and if we compare the IMF in 2004 relative to the nondepository institutions that were surveyed, again, we are somewhat richly served in terms of our IT staff.

This to some extent has also been manifested in a skewing of our outlays toward applications development and maintenance. In other words, we seemingly are spending more money on developing either new systems or developing or tweaking existing systems, and the converse is that we are spending, at least relative to the benchmarks, somewhat less on hardware, somewhat less on our infrastructure, which is to say the servers, hardware, the wires, and so on, and less on our IT planning.

I will now turn to question 2, which is, how do we fare relative to the returns on our IT investments. Here a caveat must be mentioned first. It is difficult to gauge returns on investment and particularly on IT investments in any organization. But it is particularly difficult in the context of an institution such as the IMF where we are not faced with a clear profit motive or similar performance benchmark. Our consultants suggested that the difficulty of gauging the return on investments here in the Fund has also been compounded by our inconsistent use of cost-benefit analyses. We do require cost-benefit analyses for projects of over \$500,000, but the quality of those analyses have been inconsistent, and at the same time, we have also not been as consistent as we would have liked in terms of our ex post assessments of projects. That said, our analysis and the analysis of our consultants, ATKearney, suggests that we have achieved significant returns on our investments. I think also it was the strong conclusion of the LMI study that was done a couple years ago as well. It is also the consistent result of the user surveys that were undertaken.

But, of course we have to ask whether we see signs that the returns on our investments could have been greater, and in terms of assigning causal relationships or causal factors, we have identified four. First is that typically, as IT budgets are formulated, at least until recently, it has been difficult to frame them against clearly defined institutional objectives; secondly, the process of decision making within the Fund is heavily consensus based, and that is not just true at the Board level, but it is true all the way through, and that does create decision delays; thirdly, we have identified weaknesses in project management, and I referred back earlier to the inconsistent use of cost-benefit analyses, and that is one tip of that iceberg, but there are other aspects of it as well. Then finally, inconsistent implementation of new software and new technologies, and here I have flagged one particular issue, which is the lack of standards compliance. We have not been as successful as we could have been in terms of defining very clear standards for use of new systems and software, and the lack of a clear standard for their use concomitantly reduces the effectiveness of the productivity or the magnitude of the productivity gains that could have been reaped. So that was the second question.

The third question is how have we been allocating our resources and how does that allocation compare relative to our peers? The bottom line point here is that we have tended to underspend on IT capital relative to our benchmarks, and to some extent that is a reflection of the fact that we overspend in relative terms on our labor resources. Roughly a little over a third of IFI IT budgets are directed toward capital, whereas less than a third of the Fund's has been directed to the capital side. Another point is that in other IFIs and our U.S. peer group, a much larger proportion of their budgets is directed toward acquiring or creating new capabilities versus only 5 percent in the Fund. Again, that is a reflection of the fact that we spend much more of our resources on software and applications maintenance.

Despite these excesses there is a question as to whether or not we have been as successful as we could have been in terms of exploiting our systems to their fullest potential, and I have offered four areas where we have been perhaps less successful

than we would have liked. A key area is information management. A manifestation of that is our intranet, where we have engaged a number of consultants to review our intranet, which is the internal web service that is on our desktops, and the bottom line conclusion of most of those consultants is that the usability and the effectiveness of our intranet is weaker than it could be.

Document management is a key sticking point and a key irritant for most staff, and we have a very powerful tool in the EDMS. The problem we face is that we have not established the standards for its use which have enabled it to achieve its full potential.

Data management is a major source of weakness at the desk and departmental levels, and finally, management information. This is a term which I only became familiar with in the context of this task force, and that relates to the extent to which management, both at the departmental level and the Fund-wide level, have easy access to information to gauge where they are and what direction they want the institution to go. What we found in the task force was it was surprisingly difficult simply to have answered the questions how big is the IT budget and where is it going, and not having easy access to that simple budget information is a key concern.

Let me share with you the results of a survey that was done by our consultants that illustrates some of the factors that may have been at work in dampening the extent to which our IT has achieved the returns that we would have liked. Staff have expressed concerns with regard to training and the difficulty of use of their key systems. Again, that is a manifestation, at least from my perspective, of an inconsistent application of standards, an inconsistent requirement on the part of departments that their staff adhere to those standards.

The bottom line on this front is that the returns on our IT investments have been weakest where the benefits are diffuse. The Acting Chair has referred to Mr. Brau and his experience in FIN, and the projects that FIN has been involved in building up its financial systems are typically viewed, in some sense, as a best practice in the Fund. But in some sense that is not surprising because there you had a very large project that was of major benefit to a single department, where the implementation and use of that system was going to be centered in a single department, and it was relatively easy for the head of that single department to ensure that the system was implemented as expected and was used to its fullest potential.

The problems we face, though, become much more difficult when systems are being used more widely across the Fund, including with regard to our document management systems, our intranet systems where each department is operating, in some sense, on its own and without an overarching structure to require and incentivize adherence to standards.

Now let me turn to our governance structures. It is considered both by ATK, who we worked with this round, but it has also been the conclusion of previous

consultants, that we have established systems over the last decade or so which have enriched the role of users in our IT governance.

But arguably the pendulum may have shifted too far, and that is the position of our task force.

We have in some sense over-relied on users, that is, individuals from individual departments, to take responsibility for guiding, implementing, and managing our IT systems. And that creates a problem largely because those individuals, while they may be very good economists, accountants, or legal experts, are probably less effective in terms of their IT skills. So arguably we have over-relied on committees and volunteers.

We have also not been as effective in defining the direction of the institution and how IT can support those directions. I know that there is a new wave coming on that front, but there is scope from our task force's perspective in ensuring greater involvement by management in establishing the priorities for IT and ensuring that those priorities are consistently aligned with the broader goals of the institution.

How can we address these shortcomings? In some sense the solutions are obvious, but achieving them are much more difficult. We clearly need to do better to define our strategy and IT's role in supporting that strategy. We need to develop better mechanisms for buy-in on the part of the Board, management, departments, and staff, and then we need to define systems to ensure that, after everyone's bought into this, that they actually do what they said they were going to do. So this goes to responsibility and accountability.

Let me turn now to the final question, which is how do we compare in terms of our access to IT? Are we falling behind the curve or are we on what's called the cutting edge? Are we too far out in front? Interestingly, I think the stylized fact that most people have had at least at the staff level, and possibly at the Board, is that somehow we are behind. Encouragingly, the results of our analysis and of the analysis that our consultants suggests that we have improved, and that we are on par or even slightly ahead of other IFIs.

Here I would commend colleagues in TGS for the benchmarking exercise that was undertaken in the summer of 2004. Colleagues in TGS worked extremely hard with their counterparts in the other IFIs to establish a database that would allow us to gauge where we stand on a range of metrics. That is proving to be a very powerful tool and hopefully it will be maintained.

The results are that the Fund scores quite well in terms of our access to technology. We also score well with our ability to identify new available technology. Staff in TGS are very aware of what best practice is out in industry and are able to identify what new technologies are out there that can help us. However, our consultants suggested that there was scope for doing better in terms of ensuring that

the acquisition of new technologies are benchmarked and aligned in terms of the broader needs of our IT portfolio, and so they suggested a more formal mechanism for identifying technologies and prioritizing their acquisition to ensure that they align with our business priorities.

Let me now turn to conclusions and recommendations. The underlying and principal conclusion is that we have been quite successful. We have kept our IT spending in line with the benchmarks that were set by the Board. In other words, we underspend relative to our total operational budget, and that the projects and the investments we have made have paid substantial dividends. But, on the other hand, there is considerable room for improving the productivity that we gain from these investments and for ensuring that our IT and our IT investments support our mission in a more effective and efficient manner.

Against that background, I will quickly cover four areas where the task force suggested that we could move to support these goals. The four areas are improving cost-effectiveness, trying to wring more dollars out of the budget or more returns out of it, strengthening project management, improving our information management, and finally, enhancing IT governance.

On cost-effectiveness and returns, there is sort of a laundry list here, and for that I apologize, but let me just very quickly run through it. Many of these have already been implemented, and I will refer back to Mr. Choi's presentation of July where he had outlined some of the initiatives that TGS and others have introduced in response to our report. First, there is scope for reviewing our staffing levels and costs, and in that context offshoring, particularly for new applications and development, improving and enhancing service level agreements for IT services are important. This would involve defining productivity metrics for the various services that our IT staff provide. Limiting the customization of major systems, and increasing the emphasis on infrastructure are also key. The last one is a more nebulous point, but it is improving our change management and establishing clear commitments by departments when we introduce new systems to ensuring that staff get the training they need and that they will adhere to the broad standards for their use that have been established when the systems were designed and rolled out.

On the second front, improving project management, again a bit of a laundry list, but the key point here, which Mr. Brau in his subsequent analysis also underscored, is the need to strengthen and increase accountability of user departments. We need to hold departments' feet to the fire to make sure that IT and IT investments are implemented properly, which goes back to change management.

From a more micro perspective, we already have well defined criteria for project managers and project proposals to ensure that they contain detailed cost-benefit analyses. Those requirements need to be adhered to in a more consistent and effective manner, including follow-up, both by TGS and OBP.

The Fund should carry forward establishing an enterprise architecture. By that I mean a framework for our IT systems and a framework that defines how those IT systems will support the broader objectives in the institution. TGS has already established the first round of that, and is moving forward with it.

Finally, there is scope for improving our systems and our staffing at the business project level in order to ensure that they are better able to guide and ensure that project managers adhere to guidelines and ensure that projects themselves are monitored on a consistent and effective basis.

Another area warranting attention is information management, which also goes back to standards. The simplest one is the document management systems. We have inconsistent standards across departments for how to tag documents, the extent to which documents are supposed to be included in the system or not included in the system. That creates problems when people move departments or when departments are trying to interact with each other. Having a Fund-wide standard would enhance the returns to those types of investments. Similarly on the intranet, departments have in some sense gone their own way in designing their pages on the internal Internet. Having a well-defined standard for departments would assist in ensuring that the system is a much more usable and user friendly one.

We also suggested that departments establish individual senior information managers. We currently have senior personnel managers, senior budget managers, and the notion is now that it is time to illustrate the Fund's commitment to information management by providing the resources and defining the resources that would ensure that departments are effectively managing both their information and the extent to which they share information with other departments and with the world at large.

Data management was a source of great concern to the committee, partly reflecting the makeup of the people involved. But we felt very strongly that our commitment to high quality data management is not as strong as it could be. It exposes the institution, particularly now with the commitment to transparency and publication of most if not all Fund documents, to enormous reputational risk if at the desk level we are not managing our data and information in as effective a manner as possible. We have offered a number of suggestions there. We have also suggested streamlining existing initiatives, looking for savings there and ensuring that they are internally and externally consistent. Finally, providing incentives and recognition for staff to improve both data and information management work practices. This is something that in our annual performance reports, Fund economists are regularly assessed on the quality of their data management, but it is probably fair to say that although that was introduced some years ago, the extent to which at the departmental or individual division level that is being given the attention it deserves is not as strong as it should be.

Finally, on governance and accountability, we had a number of suggestions. The first and probably most important is to increase management involvement in the shaping of our IT portfolio. The concrete suggestion was to establish an IT executive committee, which would be a committee chaired by management and would include department directors to both define our IT strategy and to monitor its implementation. We suggested establishing a Chief Information Officer, somebody who would be clearly accountable for the quality of our information and information management and responsible for working with the IT executive committee in establishing the standards and ensuring their adherence.

Another suggestion is to streamline the role of the ITPC. Here we suggest perhaps reducing the extent of user involvement in managing the IT systems and projects, reducing their role to an advisory as opposed to an implementing body.

Our final thought concerns strengthening budget systems and processes. Again, I was surprised by how difficult it was to get the information we needed to undertake this exercise. There have been tremendous strides on this front over the past few years, but this is going to be an ongoing and difficult challenge.

With that, I will conclude. I should also stress that Mr. Choi in his July presentation had given a fairly detailed overview of what TGS had already done in response to this task force report.

The Acting Chair (Mr. Kato) invited comments from members of the committee.

Ms. Donovan made the following statement:

We thank the staff and the task force for a well-focused paper that addresses critical issues. We also welcome the update provided by TGS staff at the last session and the steps taken to respond to some of the review's main conclusions.

The paper notes that enterprise architecture can provide the right framework for technology development by setting common standards, adding clarity to project development, and helping to align IT and business strategies. We strongly believe that the business case should drive IT solutions rather than having IT considerations alone lead. The need for better information management practices generally and for a single information data bank and Fund-wide standards to preserve our institutional memory and share knowledge is also properly emphasized, and we appreciate the steps taken to date to rationalize initiatives in this area. The critical governance issue of inadequate systems that cause errors or data to be misinterpreted is also an appropriate area of focus.

How we organize IT at the Fund is complicated, particularly given a worldwide presence, with regions characterized by diverse technology bases. But fundamentally, IT is an issue for management to address. As the paper notes, the current governance structure is characterized by reliance on volunteers and improper

alignment of IT and institutional objectives. We need clear goals and clear accountability, including a CIO with well-defined responsibility and a chain of accountability to top management. Technology is more than a necessary cost of business. It is central to achieving our business goals. Sound investment can lead to both greater cost savings and many nonfinancial benefits. We support well-justified expenditures that help advance the business plan when evaluated within the proper strategic and budgetary contexts. We are, however, concerned about the sufficiency of Fund expertise for evaluating how the IT budget is prioritized and spent. Given the extraordinary applications, we wonder whether the appropriate expertise to evaluate such large investments currently exists.

The AT Kearney report cites some \$5 million in potential productivity gains left unrealized, reinforcing the need for greater emphasis on identifying such opportunities once a new framework is in place. Two areas that we see as important are outsourcing and controlling customization of software packages. Outsourcing certainly seems to provide opportunities for gain. We agree that the share of our technology budget invested in people rather than innovation seems disproportionate. For instance, IT managerial functions seem duplicative at present, with both IMF staff and vendors supervising the IT work force. We welcome further discussion of the scope for gain in this area. We also strongly believe that customization of software packages should be constrained. Customization and later decustomization of PeopleSoft HR and lack of integration with PeopleSoft Financials may have led to missed opportunities to rationalize support staff functions, for example.

In closing, we look forward to regular updates on how the new IT strategy is proceeding.

Mr. Solheim made the following statement:

First, I would like to thank the staff for the instructive presentation of the Review, providing the Board with very useful information about the Fund's IT situation. Moreover, I welcome the comprehensive Review of the Fund's Information Technology Outlays and the Acting Chair's reassuring information about management's follow-up actions, including the use of Mr. Brau to assist in looking at the issues involved.

The Review confirms that there is clearly scope for major improvements in many areas, albeit the Fund's IT-performance appears satisfactory by many of the commonly-used measures. In light of my own working experiences, I tend to concur with the chairman's observations that in this area views are divided among experts and no obvious "best practice model" exists—this relates not least to the degree of centralization versus decentralization of the Fund's information technology services, organizational structures, the issue of outsourcing, etc. The needs and priorities may differ widely between departments—implying on the one hand a decentralized model—while, on the other hand, the importance of a universal IT-infrastructure in

certain areas, economies of scale, and cost savings may lean toward more centralization.

The review addresses most of these issues in an insightful manner and outlines possible ways forward. Although the review contains major recommendations on possible long-term changes to the way information technology is planned, managed and supported in the Fund, I will at this stage refrain from specific comments on the review's assessments and recommendations. While it is up to the Board to set the overriding priorities of the Fund and secure that this institution fulfills its mission and is operated as cost-effectively as possible, management should have considerable freedom in drawing up the framework as well as the operational details of the Fund's future IT organization and governance.

Mr. Melhem thanked the staff and the task force for a clear and candid report, and expressed broad agreement with the report's conclusions and recommendations. The indications of significant productivity gains in the Fund over the past decade were reassuring. While IT investments had certainly played a role in that outcome, the finding that one-third of total IT potential productivity gains over the past three years were left unrealized was of concern. The report detailed a number of reasonable venues to address the shortcomings, but they would not likely be very effective unless there were clear consequences and accountability.

Second, it was not clear how the accountability and effectiveness of an IT executive committee would differ from that of the current Information Technology Policy Committee, Mr. Melhem continued. Staff's clarification on that suggestion would be useful. Third, while in general agreement with the recommendations to increase cost-effectiveness of IT spending, at the same time, it was also important to assess whether the efficiency benefits to the Fund as a whole from higher IT customer service outweighed the additional costs. Fourth, the involvement of Mr. Brau in assessing how the Fund manages the IT organization and governance was welcome. In that context, it would be useful if some of the advice of Mr. Brau would be shared with the committee. Finally, it was hoped that the recommendations of the report would be effectively implemented.

Mr. Wang welcomed the opportunity to discuss the Fund's IT outlays and thanked the task force for the informative report. In general, the review was important not only because IT outlays accounted for about 10 percent of the Fund's administrative budget, but also because the Fund's work was increasingly relying on IT. The Fund's IT outlays had paid off, but there was still scope to increase their cost-effectiveness. While broadly supporting the technical recommendations, there were several questions regarding the recommendations on strengthening IT governance.

On information management, one area of particular concern was the findings of the weakness in the Fund's economic data management, a well recognized but unsolved problem, Mr. Wang continued. As the Fund was an institution that relied heavily on high quality economic data, the risks arising from the inconsistent use of the data might undermine the accountability of the Fund's work. Why had there been only limited progress

in that regard over the past 15 years, despite the long-lasting awareness of the weakness of the Fund's data management practices?

Second, on strengthening IT governance, the task force had put forward several constructive recommendations, such as establishing a chief information officer and IT executive committee, Mr. Wang said. The task force also suggested that departmental senior information managers at the B level be established to strengthen IT work within departments. More involvement by management in formulating the Fund's IT strategy and coordinating IT related work among departments could be helpful and effective. However, more information on the standard practice in other comparable institutions and the budgetary implications of the recommendation would be helpful. Staff clarification regarding the relationship between the existing ITPC and the new committee would be useful, because it appeared that the current IT policy committee worked well.

Mr. Loyo made the following statement:

First of all, I would like to express my appreciation for the good work done by the task force and especially to Mr. Towe for the very clear presentation that he gave to us today.

Going to the more fundamental aspects of the report, Mr. Towe was felicitous in saying that the benchmarking exercise, although very useful, provides a two-handed result. Actually, it looked more like a many-handed result and a two-handed result, as we learned that we underspent as a share of our operational budget, but on the other hand, we overspent on a per user basis. We overspent on a per user basis despite the fact that we have greater vendorization and cost savings as a result of that as compared to other IFIs. We underspent in new IT capital, and we seem to be somehow lag behind in the adoption of new technology in general. But on the other hand, we seem to be keeping pace in the quality of IT services as measured by the metrics considered in the benchmarking exercise.

This begs the question of how to interpret the results. To which hand do we give greater weight, is the glass half full or half empty? I would not like to go into the discussion of any of this right now as I have no expertise in actually discriminating among these several metrics in which we do well or not so well. However, as Mr. Towe expressed interest in maintaining access to this benchmarking information in the future, I would suggest that it would be made much more useful for people like us with even less IT abilities than the members of the task force, if instead of simply presenting the benchmarks, we actually use the benchmarks as explanations or symptoms of well identified problems in our results rather than constituting a suspicion of a problem in themselves. If we deviate, is this a problem? Maybe it is not a problem, but instead a solution to a problem or a way to avoid a problem that others face. Again, what the problems are is a very important question in that regard.

There are a number of diagnoses in the report that sound unfavorable, including that the Fund has weakly defined institutional objectives in its IT policy or

that it lacks an overall strategic plan. Saying that we lack alignment with the broader goals of the organization also sounds unfavorable. There is no way to spin those comments into something positive. But, I would encourage greater analysis into identifying where these problems manifest themselves in our daily lives rather than simply statements that just look bad on their face.

On the other hand, there are a number of dimensions in which our practices are described as perhaps not ideal, and with regard to those, unlike the ones that I just mentioned, I am not so sure that they are really bad characteristics in themselves. So it is said that we may face slowness in the risk avoidance due to our practice of relying on consensus building, we may have a tendency for internal customer satisfaction to drive investment decisions, and I ask myself to what extent those things are really bad things or not at least to some extent things to be praised and to be preserved.

I will give you one example that is mentioned in paragraph 26 in the report. It says that the World Bank has faced start-up costs of \$56 million for improving their intranet. It raises questions of whether this really pays off. Again, we do not have a benchmark comparison, and that is a pity, on the effectiveness of extracting the full benefit from existing technologies. We have something on our own results, but we do not measure how well others do in the same metric, but, again, if it is the case that our practices avoid perhaps very large outlays on projects that may not be ready for paying off either because they cannot pay off or because there is some other glitch that prevents our working practices from taking full advantage of the investments that we make, then perhaps that is not a bad thing.

Again, in the same paragraph 26, there is a second bullet that talks about document management and the problems faced by staff. Mr. Towe again used a felicitous expression, said this is a major irritant to staff. To me that sounds very much like decision making driven by internal customer dissatisfaction, and it sounds eminently reasonable that we should address this. So, again, I am not so sure that having the reliance that we have on customer satisfaction or dissatisfaction is a bad thing. This is an example of a reasonable and sensible proposal that is driven by that kind of consideration.

In paragraph 29 it is said that funding may be directed toward projects that have well-defined benefits for a sponsoring department rather than on Fund-wide projects that may have more diffuse but possibly greater returns. Again, I ask myself, how many of the good diffuse projects do we miss as opposed to the perhaps somewhat useless projects that we end up avoiding by having the decision making process that we have today. Perhaps not being on the cutting edge is actually a cost saving feature of our decision making process. Again, I do not want to say that we should swing the pendulum too far in relying on volunteerism or committee-based decision, but we should not swing the pendulum all the way back in avoiding any reliance on these characteristics and have an IT policy that is decided in a removed way from those who are actually on the factory floor, so to speak.

So with those comments, I would just say that I find the recommendations in paragraphs 36 to 38 eminently reasonable.

With regard to paragraph 39, however, on the recommendation to create a Chief Information Officer position, I have questions about how important it is to create something that has a flashy title, but I do not know if this would actually add much in terms of preserving the good side of our current practices but making it less inefficient in a number of dimensions by being added to what is already proposed in paragraphs 36 to 38. I do support the necessity for greater involvement by management. This is necessary and it should be seen as a way to ensure coordination and consistency in the decision making process, but not to detract from the gains that we have from filling the demands for IT investment or improvements from the line offices rather than from a supply-driven initiative.

I agree with colleagues that have spoken before me that the details of this issue are for management to take care of. I just would caution against swinging the pendulum too far in the reverse position from what it is now.

Mr. Cuny made the following statement:

Like previous speakers, we thank the task force for their useful report and for today's very clear presentation. Some of the issues raised in the paper go beyond the Committee of the Budget's competence, but the conclusions presented in Chapter 8 of the report are interesting and we share most of them.

Allow me to insist on four issues. First, we know that the Fund's IT services compare well to the other IFIs and that the Fund's IT investments have yielded solid returns. Nevertheless, there is still a possibility of significant improvements, in particular in terms of project management and of consistency of implementation of some standards, as noted by staff. Second, the IT services are more expensive than in other IFIs on a per-user basis as noted by staff and by previous speakers, which reflects personnel costs, so we wonder if it cannot be explained not only by the number of IT staff but also by the undifferentiated salary increases granted to IT staff and economists while market salary trajectories may have been diverging for the two professions in the market. We are not at all convinced by the explanation based on the number of new mandates given to the Fund, and so it is certainly not the main factor which has driven this evolution.

Third, like staff, we see two domains which could be strengthened; first, the functioning of the Information Technology Policy Committee, which needs to be further professionalized and accompanied by the creation of a CIO position; and, second, the definition of instruments and monitoring the implementation of IT projects, and the spending on IT capital related to benchmarks.

Finally, we have found particularly interesting in the report and in today's presentation the need for a reinforced IT role to support the Fund's broader strategy

as well as the Fund's mission to act in an efficient and effective manner. We should not fall behind the curve in these areas. It should be one of the main objectives of this review. At the same time, we also recognize that there is a clear need for improvement in cost-effectiveness and returns, and we should try to strike the right balance between these two objectives.

To conclude, we believe that the budgetary consequences of this report should be quickly drawn by management, as noted by other speakers, in order to be included within the upcoming budget. For that purpose, we hope that these consequences will be defined before the end of the year.

Mr. Ukpong made the following statement:

We thank management for convening this meeting and members of the interdepartmental task force and staff for the informative document prepared for our consideration. We are pleased that this review of the Fund's IT outlays has been undertaken against the background of many external drivers which have influenced the amount of resources committed to IT.

We welcome the overall conclusion of the review, that the Fund's IT outlays have yielded substantial dividends, especially by boosting staff productivity, but room for further improvement remains. One is inclined to agree with that conclusion while emphasizing the need to meet the challenge of addressing in a timely manner specific issues raised in the review and improving the benefit/cost ratio of IT expenditures. In addition to the need to consider and adopt appropriate measures to induce greater efficiency gains it is also necessary to exercise care and caution in relating the Fund's IT investments to output as the Fund's output is difficult to measure since the institution is knowledge based without profit motive. We therefore agree with the main areas of IT activities identified for attention, including strengthening of project and information management and IT governance, adoption of steps to increase cost-effectiveness and particularly through improved balancing of resources between user support and provision of support for IT infrastructure and establishment of service-level agreements. Such agreements would outline user expectations in order to have a consistent basis for measuring satisfaction levels, and we take note of the staff statement that efforts are under way to have this done, and we hope action will be taken quickly on that score.

Regarding the finding that the Fund appears to have spent significantly below benchmark institutions on IT hardware, what is ultimately spent should be determined by the type of hardware considered absolutely necessary, not necessarily based on some degree of matching outlays of comparators on hardware. We consider it necessary to look into the view in the report that volunteerism and committee-based decision making nature of IT governance in the Fund tends to undermine accountability while guarding against a possible downside of reliance on a single voice.

Mr. Kashiwagi made the following statement:

Like others, I appreciate the hard work of Mr. Towe and other task force members in reviewing the Fund's IT outlays, as well as the clear presentation today and the statements made by TGS.

The task force report is comprehensive, constructive, and full of valuable information and excellent suggestions. I am in broad agreement with the substance of the report and have no disagreements with its findings and recommendations. At this stage implementation of these recommendations are key, but more importantly, I would like to emphasize that the findings of the external consultants in the task force are relevant not only to the IT outlays, which are the main objective of this study, but to the management and operation of this institution as a whole.

As Mr. Loyo pointed out, some of the phrases found in this report represent striking and frank views. For instance, as Mr. Loyo referenced, there are sentences suggesting that the Fund has not been guided by an overall strategic plan. There were decision delays because of the Fund's business culture and governance structure which requires consensus. There are weaknesses in project management and inconsistent project implementation. The Fund lacks a robust framework for making and implementing investment decisions. The Fund's practice in data management is overly decentralized, inefficient, and uncoordinated.

As Mr. Loyo pointed out, perhaps we need more analysis on all of these points, but I think they are very important aspects. The medium-term strategy document which we discussed at the Board recently emphasized the organizational aspect of this strategy. The points made in this IT review are all relevant in framing the organizational aspect of this institution. So my only suggestion is that maybe we should set up an interdepartmental task force and hire external consultants to look at the working of the institution as a whole, not only limited to the IT outlays.

Mr. Yakusha made the following statement:

Like others, I would like to thank the staff for a rather comprehensive note. In the presentation, one thing seemed to be missing, and that is the fact that our IT-related outlays have been growing rather rapidly since 2002, on the order of about 30 percent growth. That was exactly the time when some indicators that things were not entirely right—such as, cases of lower reliability of our network or the quality of notebook PCs acquired by the Fund, increased complaints about the data management issues, which have potentially extreme circumstances in terms of the reputational damage to the Fund—have emerged.

There is another indication of trouble from the report. The Fund seems to underestimate the importance of the training element in the context of the software implementation cycle. As a result, a great number of staff do not use the tools

available to them. From the note, I have the impression that the Fund may be overspending on staff and underspending on hardware and software.

On the other hand, when we are talking about staffing, I have to question this overall arrangement that, out of 370 IT staff, only 115 are regular staff members. Others are from vendor companies, contractual staff, or consultants. This arrangement is questionable if we increasingly rely on this group to perform mission critical applications, but yet they are not selected by the Fund, but by vendor companies. I am not sure we are moving in the right direction. It is completely different from the proposals of outsourcing software development, but we should look in this proposal of reviewing the staffing, which is quite relevant in this context.

The bottom line is that the Fund seems to be lacking accountability in IT management, which is why I am somewhat skeptical about some of the detailed proposals, particularly of the proposals originating from consultants. I would also note that the Fund seems to be hiring consultants every other year, and they provide some recommendations, but they all seem more or less similar. At least some of the proposals by the consultants would definitely demand additional resources, and it is unrealistic in this kind of environment of hard budget constraints and basically zero growth in staffing.

To sum up, major proposals such as deepening management ownership of the IT strategy and properly establishing the position of CIO is exactly where the Fund probably differs from many other institutions—that is, the way we manage our IT. It is not enough that we need clear lines of accountability, we need to have somebody with relevant professional experience and solid reputation. However, I would be rather reluctant, like Mr. Solheim, to endorse detailed proposals, not only because some of them would definitely require resources, but that is exactly going to be the function of newly appointed chief information officer. The new CIO would need to review all existing proposals, to assess what has already been accomplished, and to resubmit those proposals and be accountable for their implementation. I am somewhat skeptical of moving from one committee relying on volunteers to another committee relying on volunteers in managing our IT outlays.

Mr. Schwartz made the following statement:

I would also like to thank the staff for the presentation, the report, and the work of the task force. I basically share the concerns of colleagues that have spoken before me. I am far from being an expert on this issue, so it is difficult to disagree on the main recommendations to achieve cost-effectiveness, improved efficiency, better governance, and accountability.

I have only one main point, which is to emphasize the need for institutional objectives to be clearly understood by everyone. Not only do we need to have a strategy, but everyone in the Fund has to be on Board. This refers basically to people that work on IT systems in the Fund. It is my impression that most of them are

somewhat distant from the core activities of the Fund. I understand they are not economists, but what they do is extremely important for the rest of us, and they barely have an idea of the main activities of the Fund or what area departments do. They work on systems, firewalls, ensure that our Blackberrys are functioning and so on, but it would be useful for them to understand better what other departments do and how technology can be applied to give a better service to the rest of the institution.

Just to provide some anecdotal evidence on this, I know some people that work on IT at the Fund. They are not economists; they are engineers or mathematicians, I do not know exactly all of their background. I happen to know them relatively well, not because of Fund involvement and interaction with them here, but it just happens that they take their children to the same school I take mine. I find it difficult to believe on many occasions that they work at the Fund because they certainly do not speak Fundese and they are not the usual people one as an economist would interact with at the Fund. When we chat about topics, they have no idea about the *WEO*, they have no idea about the FSAPs, they barely know what those are, but they are extremely enthusiastic to share their knowledge and would like to get involved in the Fund's core business.

They have even volunteered to observe me one day to see what I do and how I use technology, which was not very exciting. However, if they engage more in what different departments do, in what models they use, what databases they use, how often they use those, we would be able to do much more to increase effectiveness with the same resources we have right now. They basically need a little bit of assistance in understanding what the Fund's main activities are here in Washington or on mission. They have asked me how I use technology when I travel. Is the Blackberry enough? How long does it take you to connect to the e-mail when you are in another part of the world?

Essentially, if the IT staff here were able to understand what the rest of us do, we would be in much better shape to move ahead.

Mr. Prader made the following statement:

I would like to thank Mr. Towe for his interesting report. I think this review of the Fund's IT policy has brought one surprising conclusion; namely, that the Fund spends more than other organizations on IT support, and I think we are split on that because on the one hand we are very happy with the service, but being members of the Budget Committee, we want to criticize if we spend more. So we have to make up our mind, and Mr. Loyo has dissected some of the contradictions of the report and some of our ambivalent attitudes on this report.

Secondly, the report has confirmed that the Fund is technologically behind. We spend less on hardware than other institutions, and behind the many sophisticated words in the report, I still do not know whether we are now going to spend more on improving our hardware and how concretely we are going to do it. It just talks about

improving our infrastructure, but I do not know whether there is a specific intention to correct this shortcoming of the Fund's IT policy.

Thirdly, as always when we invite consultants to review Fund work and policies, more bureaucratization is bound to follow. In particular, I am very concerned with the proposals for governance; what we basically see here are proposals for more committees and one chief information officer and so on. I do not want to comment on what committee we need instead of existing committees. I am only concerned about the tendency to create more committees and to create committees with now different names which will probably do the same thing.

My basic point is that management should be responsible in devising ways to improve and implement the Fund's IT policy. It is not up to the job of this committee to make specific recommendations. Mr. Yakusha is completely right about this. I think what is needed is to use the existing organizational structures. We already have a technology department, we have a management team, and they should be responsible, and they should make improvements as necessary within the context of what has been described here in a very Fundese way.

Mr. Rouai made the following statement:

I would like to thank the staff for the presentation today. Like Messrs. Loyo and Kashiwagi, I think a number of observations and conclusions made by the staff in their review merit serious consideration on their own outside their implications on the budget. Like Mr. Cuny, I consider that the review of IT should not only assess its cost for the institution, but also its effectiveness in helping the institution in achieving its objectives.

Turning to the presentation by the staff, the main conclusion is that there is a structural deficiency in the institution. There is no standard for indexing of information. The staff said that every department and maybe every user categorizes information without any standard, and this has an impact on the overall output of the institution. I cannot judge the usefulness of IT for the institution, I can only judge by what I experience as a user.

As a user, I have two simple benchmarks. Does IT help me to write a statement in my office without relying on my personal files? There has been some progress, but my office has its own set of files. I always have to rely on them in addition to what is provided somewhere on the Internet. The other benchmark is, can I write a statement from home? Here, too, there are some improvements, but we are far behind the curve compared to what is available in the market, and it related primarily because of the lack of an information standard within the institution. For example, if we conduct a simple search on our website on an item like transparency, the result is thousands of documents without any relevance to the issue being searched. In the market, on the other hand, there is now a company who can offer the option to look inside the document for relevance. These are the benchmarks we should look at, not just a benchmark of how much we spend. These are important for

the budget and we should look at them, but if we want to see if IT is helping the institution to be better known outside and to help achieve its objectives, we are far behind.

On the issue of data, from my own experience we have three levels of data: (i) data collected by staff, which is very detailed and useful; (ii) data collected by the Statistics Department, and I do not know who uses them because the area departments do not rely on them; and (iii) data which we are supposed to provide for the outside world to use, including the IFS and others. Recently my authorities asked for simple information, the ratio of tax revenue over GDP for ten countries, and I spent two days working with area departments and the Fiscal Affairs Department to create a simple table. Everybody told me they do not have a standard for these two types information. This is a serious problem. It makes no sense to collect data and put them on the internet without knowing if they are being used, or if they useful for us and the membership.

Mr. Cipollone thanked the task force for the candid report and Mr. Towe for a very clear presentation. The findings of the report, although quite frank, were not very encouraging. As shown on Chapter 4, compared to similar institutions, the Fund had high spending per user. On top of that, spending reflected personnel costs while capital expenditures were substantially lower than the benchmark institutions, as illustrated in Chapter 6. Based on that data, it was not difficult to recognize that extensive work was needed in several areas. Broadly supporting the recommendation in paragraph 39, and like Mr. Loyo, there was an urgent need to increase the involvement of management on this issue, and as mentioned by Mr. Solheim, more centralization was needed in managing the IT portfolio. Also, as mentioned by Ms. Donovan, there was a need to reduce or eliminate customization of software. The budgetary implication of the recommendations should be identified in the near future and included in the next medium-term budget. Finally, as the IT budget represented a large portion of the total budget, about 10 percent, the role of the Office of Budget should not only be clarified, but ought to be strengthened in order to ensure a quick regaining of efficiency in the key areas in line with the ongoing budgetary restructuring process aimed at improving cost effectiveness.

Mr. Zurbrügg made the following statement:

As the staff is aware, I have given them a lot of heat in the past on system availability when we had those problems, and I think sitting down with Mr. Towe in the preparation of this survey, I gave him a my frank impressions on what are the inherent weaknesses of our informational systems. So I very much welcome this report. It lays out, as Mr. Kashiwagi said, in very clear terms where the weaknesses are, and provides an excellent platform to move forward. Perhaps the clarity of some of the statements in the report has also kept management from divulging the report immediately when it came out, but the idea of having a follow-up with Ed Brau's team is welcome, and I look forward to hearing from management about the timeline on what this second group of experts will provide in what was called a blueprint for further action.

The crucial point in this report is that we have come up to the curve; I do not know if we are ahead of the curve or slightly behind, but we have made high investments in IT. Mr. Yakusha pointed out our increases in expenditure and what the focus now must be is how we can best reap the benefits. The presentations show clearly that we have benefited from this technology, but there is a scope for further improvement. Making the maximum of this scope is particularly important at this moment in time given that we are faced with resource constraints not only in staff terms but also in budgetary terms. There is a great deal to be achieved in this if we can manage to push this forward in terms of reducing also work stress for our staff.

I am not an expert on this issue, so I will focus on three general points. One, when you read the recommendations, what is clear is that they have far-reaching implications. Why? Because they necessitate a fundamental change in corporate culture. Several colleagues have already pointed out that the main feature is more involvement of management and senior staff in departments.

Second, the issue has been taken up by several in terms of the trade-offs related to decentralization and customization. Here I would repeat the comment I made to Mr. Towe at that interview, that we have had maybe the luxury of a lack of a budget constraint, which allowed us to be very customer oriented, customization oriented, and we are now coming to the other side. I agree that we have to be careful not to swing too far beyond that, but in my own experience we have a great deal of scope to move toward more decentralization.

This brings me to my last point, namely, not only the fact of having guidelines and informational standards, but even more importantly, enforcing those standards. There is a proliferation of guidelines which have absolutely no use if we allow ourselves and our staff to ignore them, with the argument that the trade-off between speed and long-term efficiency, we tend to go for speed, thereby not making the necessary investments in data management and information, and providing this basis which could then alleviate our pressure in the future.

Mr. Jenkins made the following statement:

Like others, we welcome the opportunity provided by this discussion to review the Fund's IT outlays, which represent a sizable component of the Fund's budget. More importantly, a reliable IT system is critical to maximizing the efficiency of the staff and ensuring that the Fund can achieve its mandate. The paper was informative concerning the nature of the Fund's IT systems and related management structures and contains some useful and concrete recommendations.

From our perspective, the next step is to develop a clear, high level strategy with appropriate scope for involvement by the Board for managing the Fund's IT systems and guiding the considerable investments that we are taking in this area. In doing this, it is important that the Fund start with a clear, top-down set of objectives for what its IT system should aim to deliver. These high-level objectives should be

concrete, relate clearly to the Fund's output and mandate, and be linked to specific technical performance benchmarks. To give specific examples, the objectives could include such elements as system speed, flexibility, reliability, robustness, portability, plug and play capability and accessibility, with corresponding quantitative performance benchmarks. We hope this approach will be adopted in developing the blueprint that was mentioned. As someone not familiar with the nomenclature in this area, I would appreciate some clarification about how some of the items that I just mentioned relate to the balanced scorecard approach that was mentioned in the statement by TGS staff. We may be talking about the same thing, but it is not obvious, at least to someone like myself.

In considering how to strengthen the Fund's IT systems, we also need to recognize that this is not an area of comparative advantage for most people in the institution. The current set of arrangements for managing the Fund's IT systems appears to place heavy emphasis on mechanisms like the ITPC that engage directly with users in the various area, functional, and support departments. This can be a valuable way of obtaining practical feedback, but as the task force report alludes to, this volunteer-based approach is not a substitute for professionalizing management of IT services and strengthening its accountability to senior management and the Board. Establishing a Director-level position with the sole responsibility for this area and high visibility, as recommended in this task force's report, would be a key step in this respect, whatever the exact title given to this individual. This position would be accountable for decisions on IT policy and implementation, including those presently made by the ITPC, and in considering the structure and composition of advisory committees, it might be useful to adopt a two-tiered structure with a users group of working level professionals being complemented by a senior level executive committee, as proposed in the report, with a bird's eye view of the implications of IT decisions for their ability to deliver results.

Finally, an IT strategy would also provide an opportunity to review formally the mix of spending on hardware versus personnel, which others have alluded to, a mix that the report implies is leaning too far in the direction of always having excess support capacity to respond to user demands, but at the expense of network infrastructure. Certainly my own experience and those of the staff with whom I have traveled on mission suggest that replacement cycles for some elements of hardware may be too long, and within the personnel component, the strategy would seem to allow for some careful consideration of the right mix of full-time staff versus contractual employees.

Mr. Murray made the following statement:

Like others, I would like to welcome this report and basically endorse its recommendations. I would like to thank Mr. Towe for his excellent presentation. It was like the excellent presentation by Mr. Potter at the last meeting of this committee, and it is certainly a very good way of running the committee meeting.

In terms of endorsing the recommendations of this report, I would just like to make the point that we consider this report very much a fundamental part of the Managing Director's medium-term strategic review. This report goes to the fundamental issue about making sure the Fund is operating in this century. I would like to specifically endorse three parts of the recommendations, which are very important.

First, is to have an IT executive committee. I do not see this as yet another committee. I see this as management and the departmental heads doing what they should be doing, to have a Fund-wide strategy and to have ultimate accountability for IT performance. Second, I would like to endorse many of the recommendations about project management, the role of cost-benefit analysis because I hope that that would then focus project selection and project implementation on Fund-wide applications. Third, I would endorse strongly the recommendations about information management. The benefits of this really will come from implementation, but the subsets of this about data management and document management and having systems right across the Fund are fundamental to the good operation of this institution. I would also like, as part of that, to support having more effective use of research assistants.

I can understand the need to change the emphasis toward infrastructure and network integrity and reliability. I am hoping that this will fix some of the failings of the present system and certainly reducing the personnel costs in terms of staff input to maintenance. But it does raise the one basic concern, and that is the system at the moment may be perceived as customer driven, but I would hope the outcome to all of this to be that the system is IT driven. I was very struck by the thoughts of Mr. Schwartz, who can always come up with a very good fundamental issue, and that is about making sure that this system remains very much about Fund business and that the IT staff know Fund business and the needs of the Fund. I am therefore concerned about the role of the help desk, and I do not necessarily agree with outsourcing of the help desk. The system will only be as good as its user friendliness and the ability of the staff to use it. Therefore, having looked at some of the feedback from staff, I am very much struck by the fact that they see the issues concerning insufficient training, difficulty of use, and unreliability. Therefore I endorse a lot of the recommendations about improving change management, of looking at new technologies that would be user friendly, and of improving network integrity and reliability.

Mr. Herat welcomed the report and wished to emphasize three points. First, his chair was very much in favor of outsourcing much of the Fund's work. As a matter of curiosity, to what degree did the World Bank outsource its operations? The second and third points were both important issues raised by Mr. Wang. There were a number of recommendations in the report, and no doubt they were all important, but perhaps some sort of costing would be useful given the preoccupation with the budget. Finally, Box 2 in the report raised issues that were the most disturbing of features in the report. The Fund has always stressed the importance of accurate data, and the proper use of data to its members, but judging by Box 2,

it was doubtful whether that same standard was being upheld within the Fund. As mentioned by a few other Directors, the issue increased the Fund's reputational risk. The staff was right to raise the matter, which should be taken seriously.

The staff representative from the Western Hemisphere Department (Mr. Towe), in response to questions posed by Directors, made the following statement:

There were a few questions which were addressed specifically to me or to the task force report that I will try to answer. Then there was some others that Mr. Stuart and Mr. Choi may wish to take up.

First, there was a comment by Ms. Donovan about the expertise that may or may not reside within the Fund to manage the IT resources. The implications of her statement were that she expressed some doubt that there was sufficient expertise. That was a specific question that we put to the consultants, and they assured us that they saw no lack on that front. They considered that the training and experience of staff in TGS were more than adequate.

There were a couple questions on issues related to the task force's recommendations with regard to improvements or changes in our IT governance structures. Mr. Melhem wondered whether or not it would make a difference to have an executive committee, Mr. Wang asked about the budget consequences, and Mr. Loyo seemed characterize this almost in terms of class warfare, that we would not be paying enough attention to the workers on the factory floor. Our position is that it is neither a necessary nor a sufficient condition to establish this type of committee, but our view was that it was an important first step, and I think a number of Directors have flagged this point. Their endorsement of the recommendation illustrates a recognition of what those advantages are. The key is that management must in some sense own the strategy and work closely with the technologists within the Fund to ensure that there is an appropriate linkage between the broader business goals of the institution and the IT investments that we are making to support it.

On this point, it is worth recognizing that we already do have a medium-term IT strategy, and we have had one for several years. The question is the extent to which it is being driven from the bottom up, as opposed to being directed from the top down, as some Directors have suggested, and aligned properly with the broader objectives of the institution.

In terms of the budgetary costs, that was not an area that we had the opportunity to explore in a large degree of detail. Our sense was that none of these recommendations would be costless, but many of them, including the recasting of the governance structures, the establishment of the information officers at the departmental level, could be done largely by redeploying existing resources.

On the data management side, there were a few questions but also some implications with regard to the budget. Mr. Wang asked why we made so little

progress and others have also raised the same issue. It is probably worth mentioning that we have made considerable progress over the past decade in intensifying our commitment to data sharing and to improving the quality of our data management at the individual desk level. There was a management-led initiative, some seven or so years ago, that initiated the development of data management guidelines and initiated a system that required departments to test the extent to which desks were adhering to those guidelines with a report to management on a regular basis. There was a call from management to establish a data sharing system which resulted in a system being built that is presently in use and enables data sharing across desks and across departments.

But to be frank, the emphasis on data management has waned in recent years. As is often the case, the urgent often crowds out the important unless there is sufficient drive from the top, including department directors, division chiefs, and the like, to staff, emphasizing how important it is to adhere to these standards.

There was a series of questions related to salaries, outsourcing vendors, a question by Mr. Cuny in particular wondering whether or not the structure of salaries was an issue and other questions about the extent to which the Fund was unduly outsourcing or vendorizing its IT staff. I can only make two very short comments on that. First, on the salary issue, there are not really clear cut data. The consultants we engaged provided information to suggest that, relative to the U.S. peers that we were benchmarking ourselves against, our IT staff are relatively well compensated, but I would also note that at least my reading of the Watson Wyatt report makes that conclusion less clear cut, and my understanding from discussions with our HR Department is it is not entirely clear that there is a gap. So I do not have a clear answer to that question and, in any case, salary issues were certainly beyond the scope of the task force's mandate.

On vendorizing, the consultants did indicate that the Fund does vendorize its IT professionals relatively more than the benchmarks that they evaluated. They did caution that the practice creates question marks, particularly when the vendors were undertaking, as one speaker mentioned, mission critical functions.

I think those were the four main sets of questions that were addressed to me, but do not hesitate to come back to me if I missed something.

Ms. Donovan clarified that her point was not so much related to expertise to manage IT at the Fund, but to evaluate large strategic investments, and that was not necessarily an area where the consultants were viewed as having the best judgment. It was more an issue of how the budget was integrated with IT decisions. Of course, that begged the question of whether someone with that expertise should be in the Budget Office or perhaps in the new CIO's office, but it was not clear that that expertise existed. Perhaps it did exist.

The Director of the Technology and General Services Department (Mr. Stuart), in response to questions posed by Directors, made the following statement:

I have four or five issues I would like to address.

The first, just to add on the issue of outsourcing and the scope for additional outsourcing, one of the strongest and most robust conclusions of the consultant was that our IT operation is already heavily outsourced, certainly relative to the World Bank and other international institutions. At a more micro level, we have identified a number of vulnerabilities that we see because of the extent to which we are outsourced, and we have been fortunate in a number of instances to have not only very capable but also very dedicated vendor staff working with us. Having said that, we are, as has been made very clear, looking at the nature of the outsourcing that we do to move away from so-called staff augmentation, which is essentially having our people manage vendor staff, to performance-based contracts, and the best example of that is the conversion to a performance-based contract for the help desk this past May.

Another seemingly robust conclusion of the report is that if we look at the total number of people who are working in IT in the Fund—staff and vendors—we seem to be overstaffed, and we are reviewing that. At the level of macro benchmarks, that points us in the direction of an area that we need to look at, but we need to do the detailed work, to go area by area, application by application, and determine to what extent there is scope for improving either efficiency or adjusting service levels. The area where we need to devote the most attention is to define service levels more carefully so that both sides of the user/service provider equation understand exactly what is expected of them.

The other area we are looking at is the possibility of offshoring, an activity the World Bank has done a great deal of. It is a very strong industry-wide phenomenon. Anyone who advises an organization or a company on this suggests the importance of doing this very carefully. It is not a magic solution. Certainly just looking at the difference in wage rates between U.S. IT and some of the major offshore centers, there is scope for very significant savings. But we have to be very careful that it is compatible with the culture of this organization and with the demands of the user community. IT currently provides a lot of very close contact, a lot of hand holding, and it is difficult to see exactly how the relationship between offshore service providers and users would work from 12,000 miles away.

On the issue of a senior executive committee, as someone who was asked ten years ago as a senior staff member of the Western Hemisphere Department to chair the Information Technology Policy Committee, I want to emphasize the importance of the role of the users on the business side of the organization, both in the prioritizing of IT projects and in their implementation. A “saying” that is widely accepted in the industry is that there should be no IT projects, there should only be business projects, and so we very much need the involvement of users.

If I could make at least one reference to the swinging of the pendulum, I would say that probably we, in terms of the ITPC, have gone too far in the size of the ITPC and trying to involve large numbers of people in the work of that group, and as

the report points out, it is time for a more focused group with greater accountability. On the other hand, of course, one of the advantages of a larger, more inclusive group to look at these issues is that once you do reach consensus, you have a much better chance of buy-in and of effective implementation, and so we do need to be careful that the pendulum does not to swing too far in the other direction.

The issue was raised about what do we do with these sort of macro indicators and the benchmarking, and I have already alluded to that. We could just focus on the indicators that suggest we are doing just fine and there is no need for us to do any further analysis, but we have taken quite the opposite approach, and as I mentioned earlier, we take to heart the indicator that we have perhaps a large number of people working in IT in the Fund, and we are looking at that very carefully.

There was a question on how the increased emphasis on hardware is going to manifest itself, and the main area right now is in the high availability program which is building redundancy into our network. Our network has become very complex, and it is expected to be operating virtually on a 24-hour, seven-days-a-week basis. In addition, there are all kinds of viruses and threats to the network that we need to deal with, and we currently just do not have an infrastructure that can meet the needs of the organization, given those factors.

Finally, Mr. Jenkins asked about the balanced scorecard. If we look at the IT area specifically, the balanced scorecard is meant to address exactly the kinds of factors he was mentioning. The key is to tie those IT objectives and measures to the broader objectives of the organization, and that is where the governance structure and the role of the business side of the organization is so critical.

The staff representative from the Technology and General Services Department (Mr. Choi), in response to comments made by Directors, made the following statement:

I think most of the questions were answered, so I just want to add a few thoughts.

As Ms. Donovan said, the importance of IT is widely known outside the Fund. If you go to the private sector, it is clear that productivity and the growth of certain industries includes IT as one of the enablers. You could broadly look at the results of the task force which indicate that we are not making enough capital investment, and we tend to spend more money in terms of the labor. The reason for that is the Fund tends to make much more incremental decisions without looking at the fundamental changes we are looking for. In a way, that is very related to how IT can be tied to the business objective of the Fund such that the IT dollar can be better utilized to improve the effectiveness and efficiency of the Fund. IT can go as much as the organization allows us to go. We could have a better technology, but if our organization as a whole from department, management, and Executive Directors' offices do not have enough interest and guidance in terms of where the money should be spent, then IT's usefulness will be always limited.

My broad conclusion is that technology alone cannot make or really bring about major changes. IT is no longer considered just as services, providing what you need on a daily basis, but IT is creating positive changes in terms of creating significant productivity gains and allowing the Fund to do certain things which were not possible in the past.

I just want to point out that there was a question about enterprise architecture. Enterprise architecture is nothing more than trying to align the IT investment to objectives, priorities, and important activities of the Fund. We have made substantial progress since last year and we hope to continue that work. However, it involves participation and guidance from management and the department as a whole.

There were some comments relating to whether we are behind in terms of replacing hardware and software and monitors and so on. I just want to assure you that those are generally based on budgetary reasons, not because we do not know those technologies exist. As an example, we have used very large CRT monitors for more than seven years, and our policy has been that if it does not fail, we should not replace it because of budgetary constraints. However, we are going to provide you with flat panel monitors soon. Regarding PCs, we have used as a standard life span three years for the laptop and four years for the desktop, which is actually a little behind the industry. That is also due to largely budgetary constraints. Except for those areas, we have benchmarked our technology portfolio against those in the other IFIs and we are definitely ahead in many areas, such as Blackberry, PC operating systems, and some of the software we have deployed in the Fund. So you will be assured that we will continue to make necessary capital investments.

The Acting Chair (Mr. Kato) remarked that a number of questions were raised as regards the contribution of Mr. Brau's working group. Management had asked Mr. Brau's group to examine how IT governance at the Fund could be improved. Mr. Brau's group interviewed a wide range of Fund staff and identified more or less exactly the same areas as Mr. Towe's group. Mr. Brau came up with a number of useful insights, but at the same time the Fund's IT structure has evolved over many years, and management is to review in which way we can benefit from Mr. Brau's orientation. The current thinking was that the outcome may not be implemented in a broad manner; it would be taken up issue by issue.

Mr. Cipollone emphasized the need for close involvement of the Office of Budget and Planning in setting a cost analysis process for IT projects, particularly taking into account what had been said about personnel costs, which were much higher in proportion to the capital costs.

The Director of the Technology and General Services Department (Mr. Stuart) confirmed that the Budget Office was closely involved in the process. The IT budget process involved the Office of Budget and Planning giving indications from fairly early on in the process on the overall size of the budget envelope. Within that, the Information Technology Policy Committee would then prioritize the projects and fit the overall level of IT outlays into the envelope. There had been occasions in the past where the envelope proved to be

inadequate and the ITPC was able to convince the Office of Budget and Planning to support some increases. Also, the Office of Budget and Planning looked at the cost benefit analysis and controlled the pursestrings on the disbursements out of allocations depending upon the fulfillment of certain benchmarks, so there certainly was a framework in place as pointed out by the consultants. What was worrying, however, was that the consultants considered that some of the analyses were not as robust as they could have been.

There was also the issue mentioned in the report of following up and doing ex post evaluations of projects, the Director continued. That was simply a problem of getting people on the user side who were able and willing to contribute their time to conducting the studies. It certainly was a best practice to have a group like the ITPC or a more senior group such as the proposed Executive Council to do the ex post reviews and to hold their colleagues accountable for the business results of IT projects. However, that was a time consuming activity, and so it was challenging to get that done.

The Acting Chair (Mr. Kato) thanked Directors for a valuable discussion, which clearly indicated the strong interest of Board members in IT-related areas.

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