LEARNING • ACCOUNTABILITY • TRANSPARENCY

IEO
Independent Evaluation Office
of the International Monetary Fund

Independent Evaluation at the IMF
The First Decade

Ruben Lamdany and Hali Edison, Editors

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- An en dash (–) between years or months (for example, 2011–12 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2011/12) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2012).

Some of the documents cited and referenced in this book were not available to the public at the time of publication of this book. Under current policy on public access to the IMF's archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available 10 to 20 years after their issuance, depending on the series.

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Foreword

The Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) was created in 2001 to strengthen learning, accountability, and transparency at the IMF. Ten years after its establishment is an opportune time to assess its contributions and to explore how it could be more effective. We marked this important landmark in true evaluative form, with a conference that took place on December 6, 2011, focusing on IEO's achievements and challenges. Madame Lagarde, Managing Director of the IMF, joined me in opening the Ten Years Conference. In her remarks, which follow this foreword, she highlighted IEO's independence and explained that its "ruthless truth telling" is "critical to the IMF's credibility and effectiveness."

This volume includes the material that was prepared as background for this conference, as well as statements by participants and some additional studies that take stock of what the IEO has achieved in the decade since its establishment. The introduction puts the contributions in context, pulling together the main messages and discussing the main lessons from across IEO evaluations. Part I of the volume provides remarks by my predecessors, Montek Singh Ahluwalia and Thomas Bernes, and myself on our vision for the IEO and on its challenges. It is followed by six studies in Part II that examine different aspects of the IEO, starting with an explanation of why independent evaluation is needed in international organizations and a brief history of how the IEO came to be. The other chapters in that section describe the evaluation process, provide a retrospective of the 18 reports issued by the IEO during its first decade, and examine the impact of IEO evaluations.[1] Part III includes statements by current and former IMF Executive Directors, current and past members of Management and senior staff, and important external stakeholders who participated in the conference. Participants emphasized IEO's independence and the quality of its evaluations as key strengths. They also pointed to areas for improvement—in particular the framework for follow-up on IEO evaluations.

I hope that the material presented in this volume will be helpful to the Executive Board and IMF Management, as well as to authorities in member countries, to understand how independent evaluation is contributing to the legitimacy and effectiveness of the IMF, and how the function can be strengthened. The discussions may also provide useful insights to academics and those interested in enhancing the evaluation function in other international organizations.

Moises J. Schwartz
Director
Independent Evaluation Office

[1]These evaluations can be found in the IEO website (www.ieo-imf.org), and summaries are included in Part IV of this volume.

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Remarks by IMF Managing Director Christine Lagarde

The Independent Evaluation Office is an entity that not many organizations would tolerate. It goes under the skin of the institution, and under the skin of projects, reports, and ways of operating. It consults with IMF Management and takes what it wants of Management's feedback, but it reports directly to the Executive Board. Obviously the Board's Evaluation Committee, headed by Executive Director Majoro, plays a critical role here, and I would like to recognize the work of the eight members of this committee. Once reports of the IEO are approved by the Board they are published and can be checked by each and every member of the media or by any other observer who may like to either praise or criticize. The fact that not many organizations would allow such an arrangement is recognized by some of the Fund's most qualified observers, including the journalist Martin Wolf. In an article prompted by the IEO's review of how the Fund performed during the financial crisis,[1] Wolf said, "The IMF's quick reaction to the crisis made up for much of its initial neglect. Scrutinizing what it got wrong, it is again leading the way. Others should now follow."[2] Wolf has since observed that the Independent Evaluation Office is an important innovation and that it has produced superb evaluations of what has happened.

"Ruthless Truth Telling" Critical to the IMF's Credibility and Effectiveness

The IEO has several missions: enhancing our learning culture, strengthening our external credibility, promoting a greater understanding of our work, and supporting the Board's governance and oversight.

For the IMF, the independent evaluation function is critical to both credibility and effectiveness. Credibility and effectiveness are two of the Fund's key attributes, but only because they are also two of its key objectives. Credibility and effectiveness deserve and demand a constant effort from each of us. They are predicated on honesty, on the quality of our work, on our even-handedness. Because we in the Fund are keen to trade honestly on our credibility, and to continue to be effective in whatever we do—be it our surveillance, our recommendations, our technical advice, or our programs under the lending policies and the various instruments that we have in store—we want the IEO to continue to produce honest, fair, and demanding analysis in a constant dialogue with us. Seen in

[1]IEO, *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07*, 2011.
[2]Martin Wolf, "The IMF goes to the confessional," *Financial Times,* February 9, 2011.

this context, the IEO is a true child of Lord Keynes, in that it carries out the mandate of "ruthless truth telling" at the heart of an institution whose own mission is to tell the truth.

Over the last 10 years the IEO has addressed all the key components of the IMF's work. IEO reports include assessments of the prolonged use of IMF resources and of fiscal adjustment under IMF programs; an evaluation of the enhanced Financial Sector Assessment Program; the 2007 evaluation of IMF structural conditionality; and the 2008 evaluation of IMF governance[3]—a study that has proved to be not only invaluable but the subject of many debates, with obviously yet more to come.

Let us face it: anybody tends to be defensive when the findings about their work are negative. But given that we in the IMF trade on telling the truth and being honest in the review work that we do, in the programs we design, and in the technical assistance we provide, we ourselves should also be told the truth about the way in which we operate. This is a brave choice and one that we stand for. And we want to continue to have the support of the IEO and its ultimate honesty, because it is this internal honesty and internal truth telling that enhances our own ability to tell the truth.

Progress Needed on Evaluation Follow-up

I recognize that we need to make progress, particularly in the stage of implementing the recommendations from evaluation and in the follow-up to the implementation. We are open to ideas. We should explore again honestly what can be done and *how* it can best be done—without adding another layer of bureaucratic process on top of what exists, because we want to be very careful with our resources. I am sure that we have the creativity and agility to enhance effectiveness without adding to bureaucracy. If you in the IEO can propose such ideas, we should and will be better at implementing them.

To conclude, I would certainly encourage you in the IEO to continue with your good work, and to make your own improvements as well. I am not suggesting that there should be an IEO of the IEO of the IEO, like Russian dolls nested one inside the other. Because, frankly, you already have plenty to do and we have plenty to do to work together in good cooperation with a good spirit.

[3]IEO, *Evaluation of Prolonged Use of IMF Resources*, 2002; *Fiscal Adjustment in IMF-Supported Programs*, 2003; *Financial Sector Assessment Program*, 2006; *Structural Conditionality in IMF-Supported Programs*, 2007; *Governance of the IMF: An Evaluation*, 2008.

Abbreviations

ACP	African, Caribbean, and Pacific Group of Countries
ADB	Asian Development Bank
AfDB	African Development Bank
AFR	African Department
ARSC	Annual Report on Structural Conditionality
CG	Conditionality Guidelines
CGER	Consultative Group on Exchange Rate Issues
CMSR	*Consolidated Multilateral Surveillance Report*
CODE	Executive Board Committee on Development Effectiveness (World Bank)
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility
ECG	Evaluation Cooperation Group
ECR	Evaluation Completion Report
EG	Evaluation Group
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
EVC	Evaluation Committee (IMF)
EVO	IMF Evaluation Office (2000–01)
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
G-7	An informal forum founded to coordinate economic policy among leaders of prominent industrialized nations including Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States
G-20	Steering committee created by the G-7, with membership of G-7 countries and systemically important developing countries
GFSR	*Global Financial Stability Report*
IC	Interim Committee (of the IMF Board of Governors, precursor to the IMFC)
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group (World Bank Group)
IEO	Independent Evaluation Office of the IMF (as of 2001)
IFAD	International Fund for Agricultural Development
IFI	International financial institution
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee (of the IMF Board of Governors)
IP	Issues Paper
IsDB	Islamic Development Bank

JMAP	Joint Management Action Plan
LIC	Low-income country
MCD	Middle East and Central Asia Department
MD	Managing Director
MDB	Multilateral development bank
MDG	Millennium Development Goal
MIP	Management Implementation Plan
MONA	Monitoring of Fund Arrangements (Database)
MTS	Medium-Term Strategy
NGO	Nongovernmental organization
OECD-DAC	Organization for Economic Cooperation and Development-Development Assistance Committee
OED	Operations Evaluation Department (World Bank)
OEG	Operations Evaluation Group (International Finance Corporation)
OEU	Operations Evaluation Unit (Multilateral Investment Guarantee Agency)
OGN	Operational Guidance Note
OVE	Office of Evaluation and Oversight (Inter-American Development Bank)
OIA	Office of Internal Audit and Inspection
PDR	Policy Development and Review Department
PIN	Public Information Notice
PMR	Periodic Monitoring Report
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PRGF	Poverty Reduction and Growth Facility
PSIA	Poverty and Social Impact Analysis
RTAC	Regional Technical Assistance Centers
SACU	Southern African Customs Union
SADC	Southern African Development Community
SC	Structural conditionality
SSA	Sub-Saharan Africa
SU	Summing Up
TA	Technical assistance
TOR	Terms of reference
TSR	Triennial Surveillance Review
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEG	United Nations Evaluation Group
WEO	*World Economic Outlook*
WG	Working Group
WP	Working Paper
WTO	World Trade Organization

CHAPTER 1

Ten Years of Independent Evaluation at the IMF: What Does It Add Up To?

RUBEN LAMDANY AND HALI EDISON

This volume assesses the contributions of the Independent Evaluation Office (IEO) of the International Monetary Fund (IMF) in the first 10 years since its establishment. Much of its content was prepared for a conference that was held in December 2011 to mark the IEO's tenth anniversary[1] and focused on IEO's achievements and challenges.

The overall message of this volume is that IEO evaluations have been relevant and of high quality, making significant contributions to the IMF's effectiveness and learning culture. The evaluations have enhanced transparency at the IMF and improved the understanding by the general public of what the IMF does, as well as why and how it does it. The IEO has provided the IMF Executive Board (the Board) with information that has helped it to perform its oversight responsibilities, and has suggested reforms to improve Board practices. Many IEO recommendations have been implemented and many others have impacted IMF thinking and activities. Still, there is significant scope to further strengthen the traction of IEO's evaluations and thus their contribution to the IMF's effectiveness. This volume identifies a number of ways in which the IEO can enhance its own work, but the challenge of strengthening the utilization of evaluations cannot be met by the IEO alone; it mainly needs to be addressed by the IMF's Board and Management.

The Structure of the Book

This introductory chapter provides a context for the papers in the volume. It starts by explaining why independent evaluation is particularly important at the IMF and looks at the IEO's governance and structure. It then addresses the scope of the work program and examines the impact that the IEO may have had over the years. After discussing ways to strengthen the follow-up to IEO recommendations, it concludes by highlighting findings and conclusions that have recurred across the 18 evaluations that the IEO issued during its first decade. The views of

[1]Hereafter, the Ten Years Conference.

IMF Executive Directors, Management, and other important stakeholders, reflected in their contributions to this volume, are woven into the discussion.

Part I, which follows this introduction, comprises statements from Moises Schwartz, Thomas Bernes, and Montek Singh Ahluwalia, IEO's three directors, on their vision and the challenges they faced when leading the IEO. Each of them in turn struggled with many similar issues, including how best to ensure IEO's independence, how to select the most useful topics to evaluate, and how to strengthen the impact of the IEO's work.

Part II comprises six studies describing and analyzing the evolution, practices, and impact of the IEO during its first decade. Robert Picciotto (Chapter 5) discusses the roles that independent evaluation can and should play in international organizations, highlighting how it complements the critical role of self-evaluation. David Peretz (Chapter 6) relates the story of how the IEO came into being and how it has evolved; he documents the early debates on whether independent evaluation was needed, how best it should be conducted, and the subsequent recurrent debates on how to make better use of evaluation lessons. Alisa Abrams and Ruben Lamdany (Chapter 7) describe the evaluation cycle—starting with how topics are selected, through how conclusions and lessons are discussed, to the processes in place for ensuring the implementation of IEO recommendations. Joanne Salop (Chapter 8) examines the evolution of IEO evaluations over the past decade, assessing their readability, selection of topics and country coverage, and methodology, and the nature and structure of their conclusions and recommendations. Louellen Stedman (Chapter 9) probes the extent of implementation of IEO recommendations. She finds that some action has been taken on about 75 percent of the more than one hundred high-level IEO recommendations that were endorsed by the Board, but that for most of these recommendations there was significant room to accelerate or deepen the corresponding reforms. Bessma Momani (Chapter 10) looks at the utilization of IEO evaluations by academics in their research and teaching.

Part III contains statements from current and former IMF Executive Directors (Chapter 11), current and former members of IMF Management (Chapter 12), and external stakeholders (Chapter 13). These statements, most of which were delivered at the Ten Years Conference, focus on how the IEO's work has contributed to accountability, learning, and transparency at the IMF and how the IEO could become more effective. Part IV contains background material regarding the IEO.[2]

Why Does the IMF Need Independent Evaluation?

Evaluation contributes to the governance of public institutions by fostering organizational learning and establishing a framework for accountability. By distilling lessons from past experience, evaluation helps to improve what is being done,

[2]Including the IEO's Terms of Reference, summaries of the first 18 evaluations, and documents related to the 2006 external evaluation of the IEO.

provides the information needed to hold management and staff accountable, and provides the impetus to implement lessons. Most organizations have two types of evaluation activities: self-evaluation and independent evaluation. Self-evaluation is conducted by people under the same management structure as those establishing policies and implementing programs and often by those people themselves. Independent evaluation is conducted by units or individuals that do not report to the management structure of the corresponding organization.

Though self-evaluation is well suited to address questions about how to improve policies, programs, and projects,[3] self-evaluation units may not be able to raise concerns about issues and processes to which their management is very committed. That is, they may find it difficult to question whether the organization is "doing the right things," rather than just "doing things right." Picciotto (Chapter 5) explains why such questions are best covered by an independent evaluation unit. Independent evaluation units can provide more objective assessments of what needs to change and how, and can ask more probing questions on the relevance of what is being done. They can also attest to the quality of self-evaluation, thus providing incentives to enhance its quality and rigor.

Self-evaluation is often used by managers to hold their staff accountable, but it does not provide an adequate framework for the accountability of an institution or its governance structure. Assessments of accountability and governance are better done by independent evaluation units because these do not report to the managerial structures that are being assessed. Independent evaluation also helps boards and their authorities understand and assess the workings and performance of the organization.

Finally, independent evaluation enhances an organization's transparency and contributes to its legitimacy among external stakeholders by serving as a credible window into what the organization does and how it does it.

Independent and self-evaluation can complement and strengthen each other if their respective roles are well designed and understood, and if the organization they both assess has a culture geared to learning and transparency. For example, independent validation of self-evaluation findings may grant these findings greater legitimacy, and may also provide incentives for more probing assessments. Conversely, since self-evaluation units are usually much larger than independent ones they can cover a larger share of activities and can provide building blocks for independent assessments. Also, given its size and privileged access to operational staff, self-evaluation can help to disseminate the recommendations of independent evaluations and monitor their implementation.

The IEO's main goals are well aligned with the comparative advantage of independent evaluation units. According to the IEO's Terms of Reference, its main goals are "to enhance the learning culture within the Fund, strengthen the Fund's external credibility, promote greater understanding of the work of the Fund throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities." Good cooperation between the

[3]Projects are a small share of IMF activities and therefore of the evaluation work at the IMF.

IEO and its self-evaluation counterparts in the IMF staff—while protecting IEO's independence—can enhance learning and the IEO's contribution to IMF effectiveness. This was well understood when the IEO was created, and the IEO Terms of Reference explain that the "IEO has been designed to complement the review and evaluation work within the Fund and should, therefore, improve the institution's ability to draw lessons from its experience and more quickly integrate improvements into its future work."

While fostering learning has always been a key goal of the IEO, David Peretz (Chapter 6) argues that the catalyst for the creation of the IEO was dissatisfaction among country authorities and other stakeholders with the IMF's handling of the 1997–98 East Asian crisis and with the information they had received on how the Fund's decisions were made during this period. Some member country authorities and their representatives at the Board believed that they received too little information on IMF decision making to be able to hold Management and staff accountable for their actions. Thomas Bernes (Chapter 3), who at that time was chair of the Evaluation Group of Executive Directors, points out that the calls for establishing an independent evaluation function were mostly driven by the desire to strengthen Fund accountability and transparency. This focus was also emphasized in the 2006 *Report of the External Evaluation of the Independent Evaluation Office*.[4]

In the IMF, as in any other organization, independent evaluation has greater credibility than self-evaluation. Thus by providing objective information to member country authorities and the public at large, independent evaluation promotes a better understanding of the IMF and enhances its legitimacy and external credibility.

There are complementarities between the different functions and goals of the IEO—for example, accountability induces learning, and evaluation lessons establish benchmarks for accountability. But there are tensions, too, that affect (inter alia) the structure of the office, the composition of its staff, the selection of topics, the type of recommendations, and how their implementation is monitored. Below we discuss how these tensions have evolved over time and how the corresponding trade-offs have been handled.

Why Did It Take So Long to Establish the IEO?

As Mme. Lagarde, the current IMF Managing Director, explained in opening the Ten Years Conference, "the IEO is a true child of Lord Keynes, in that it carries out the mandate of 'ruthless truth telling' at the heart of an institution whose own mission is to tell the truth." However, the IMF established the IEO only in 2001, decades after the World Bank and other multilateral development banks (MDBs) had established evaluation offices that, to different degrees, were independent of

[4]This report, whose terms of reference are reproduced in Part IV of this volume, is usually referred to as the Lissakers Report.

their corresponding management. This is surprising since in principle independent evaluation would seem more important at the IMF than at MDBs.[5]

Several reasons have been mentioned for the late launching (see Ahluwalia, Chapter 4). First, evaluation in general, and certainly independent evaluation, was not a common function in central banks, which play a key role in the governance of the IMF.[6] Second, IMF Management and senior staff argued that the IMF review department was well equipped to draw any important lessons from experience (see Jack Boorman, Chapter 12). Moreover, they argued that most IMF work was not evaluable, being unique so that no standards or benchmarks could be set to serve as comparators or counterfactuals to IMF performance. Third, there was a serious concern, also raised by many Board members and their authorities, that an independent evaluation office risked interfering with Management's running of the IMF.

By the late 1990s a large number of member countries were questioning the IMF's performance in anticipating and managing the East Asian crisis, and in other activities such as involvement in structural reform in low-income countries. In response, the Board commissioned a series of external evaluations from former policymakers and academics (see Peretz, Chapter 6). But after the completion of a few ad hoc evaluation studies, it became clear for several reasons that such studies were not an effective way to enhance learning and accountability at the IMF. One reason was that it was difficult for the Board to agree on the topics to be evaluated, to put together the evaluation teams, and to oversee their work. Another reason was that external teams had to rely on IMF staff to understand how the organization worked, and to identify issues and to secure relevant data—which detracted from the actual and perceived independence of their assessments. Lastly, there was concern that little follow-up occurred, because shortly after the completion of each study the evaluation teams were disbanded, and not available to monitor implementation or keep the Board informed. These considerations finally outweighed the concerns about redundancy and interference mentioned above, and the IEO was established in 2001.

What Is the Governance and Structure of the IEO?

The IEO was established as a small office designed to operate independently of IMF Management and "at arm's length" from the Board. It is led by the IEO Director, who is appointed by the Board on a nonrenewable fixed-term appointment. The Director's terms of employment are set in the hiring contract, shielding his/her independence. The IEO staff are in turn selected by the Director, who

[5]Countries may choose not to borrow from an MDB if they are dissatisfied with the terms, conditions, or interactions. IMF member countries, on the other hand, are subject to a series of obligations on disclosure and surveillance with little recourse if they have concerns about quality or fair treatment.

[6]On the other hand, the governance of most other international financial institutions is largely in the hands of officials from ministries and other governmental organizations who themselves are subject to different forms of evaluation. Indeed, the impulse for the IEO's creation came largely from government officials and civil society.

decides on the terms of their employment (subject to IMF standards and practices). IEO staff comprise a mixture of external hires, for whom there are restrictions on future employment at the IMF, and IMF staff on temporary assignments. The staffing arrangements afford the desired balance between independence and alternative perspectives (largely provided by the externally hired staff) on the one hand and institutional knowledge (largely provided by the staff with IMF experience) on the other.

The legitimacy and effectiveness of the IEO's work are first and foremost linked to its actual and perceived independence. While successive IEO directors have tried to prevent its relationship with IMF Management and staff from becoming overly adversarial, their emphasis has always been to protect the IEO's independence. Consequently the IEO has been widely perceived as independent by civil society (see Michael Hammer, Chapter 13). Academics have also remarked on IEO's independence and the objectivity of its reports (see Momani, Chapter 10). Another important indicator of the independence, relevance, and quality of the IEO is the reception that its work has received in the international press.[7]

It is also important that IMF members, the Board, and Management be assured of the quality and evenhandedness of the IEO's work. Achieving this assurance is complicated, because it raises the question of who can evaluate the evaluators without impinging on their independence. This is a perennial concern that also affects other international organizations. The IEO has set up several quality assurance and self-evaluation arrangements to try to address this. First, when launching an evaluation and again before completing it, the IEO organizes workshops of experts and other stakeholders to obtain feedback on the evaluation methods, findings, and lessons. Then, after concluding each evaluation, it prepares an internal completion report that mostly focuses on assessing processes and drawing lessons. The Ten Years Conference and indeed this volume were also designed as self-evaluation tools, to elicit feedback from country authorities, the Board, Management, staff, and other stakeholders. But the key assessments of IEO's work are the independent evaluations that are prepared every five years by an external panel convened by the IMF Board. The first such evaluation was completed in 2006[8] and the second was launched in 2012.

The IEO is small relative to similar offices in other international financial institutions (IFIs) and to what was envisaged at its creation. Its staff comprises nine evaluators in addition to the Director and support staff, and its budget represents less than half of 1 percent of the annual IMF budget. With these resources, the IEO aims to deliver to the Board one or two evaluations per year. Similar offices in other IFIs employ many times that number of evaluators, and their budgets are significantly larger than the IEO's relative to the size of the institutions they

[7]See for example, "The IMF goes to the confessional," editorial, *Financial Times,* February 9, 2011; and Chris Giles, "IMF admits wilting under official pressure," *Financial Times*, February 10, 2011.
[8]See Summing Up of the Board discussion of the Lissakers Report (reproduced in Part IV below).

evaluate. The Board's initial vision for the IEO called for the office to gradually grow to enable it to issue four or five reports per year.[9] The idea was that a larger evaluation program would allow the IEO to engage IMF staff, Management, and the Board on a continuous basis and to help make evaluation an integral part of the Fund's business model. Over time, however, the vision of a larger IEO was set aside. In part this reflects the difficulty experienced by the IMF in absorbing the lessons from the one or two evaluations that it currently produces each year.

The IMF, like any other organization, can only absorb so many lessons and recommendations. Beyond a certain point, more evaluations would risk weakening rather than enhancing traction. But it is pertinent to ask whether the IEO has reached that "optimal" point or whether the Fund could benefit from a somewhat larger program of independent evaluations. The considerations mentioned above suggest that the "right-sizing" of the IEO is a question best addressed jointly by member country authorities, the Board, and Management.[10]

How Does the IEO Select Topics for Evaluation?

The selection of topics to be examined and of the evaluation methods used is critical to the effectiveness of an independent evaluation office (see Moeketsi Majoro, Chapter 11; and Edwin Truman and Jin Liqun, Chapter 13). In her review of the IEO's first 18 reports, Joanne Salop (Chapter 8) discusses how the IEO handled these issues during its first decade.

The selection of topics is particularly critical for the IEO's effectiveness and relevance, given that only one to two evaluations are issued per year. Key dimensions of this selection include where topics fall along the accountability-learning spectrum and the question of when to evaluate a particular issue. Independent evaluation is better placed than self-evaluation to focus on issues of accountability rather than learning. This view was reflected in the Lissakers Report, which argued that "The IEO should address issues fundamental to how effectively the IMF is fulfilling its mandate," and urged that "terms of reference should be changed to make this clear." The same view is held by many country authorities, Executive Directors, and external stakeholders (see, for example, Thomas Bernes, Chapter 3; and Jo Marie Griesgraber, Chapter 13). Others believe that the IEO's resources are best focused on learning-oriented studies (see Christopher Legg, Chapter 11; and Murilo Portugal, Chapter 12)—which they see as also contributing to accountability, if in a more indirect way. Indeed, evaluators in some other organizations focus their work programs on learning, given that they view accountability as too political to be effected via evaluation studies (see Joseph Eichenberger, Chapter 13).

[9]See Ahluwalia and Peretz, Chapters 4 and 6, respectively, in this volume.

[10]Some observers, including the authors of the first external evaluation of the IEO and the authorities of some member countries, have called for giving the IEO additional resources to devote to outreach activities, monitoring of implementation of IEO recommendations, validation of self-evaluation results, and provision of feedback to ongoing IMF activities. So far, the IEO has refrained from these activities, except for limited outreach.

Selecting topics for independent evaluation is the sole prerogative of the IEO Director. In addition to the required consultations with Board and Management, IEO directors have consulted with country authorities, IMF staff, and civil society. This arrangement has worked well to protect the IEO's independence and it has given the IEO a greater degree of independence than evaluation offices in other IFIs, whose work programs need to be approved by their boards and sometimes by management. Still, to enhance effectiveness, IEO directors have been careful to choose topics that enjoyed broad support among authorities of member countries and the Board, in order to ensure relevance and enhance the receptivity to evaluation recommendations. Also, to ensure buy-in by the IMF staff—a requisite for fostering change—the IEO portfolio needs to include evaluations that IMF staff would consider good learning tools, although such evaluations are sometimes light on the accountability front. Thus the evaluation portfolio has included studies that focus mostly on accountability (e.g., IMF performance in the run-up to or management of various crises) and others that are clearly learning instruments (e.g., assessments of product lines such as technical assistance or research, with suggestions on how to improve them).

Ahluwalia discusses how these factors affected the selection of topics for the first four evaluations. Bernes and Schwartz refer to the Lissakers Report which suggested that the IEO should concentrate on evaluations directed more to authorities and the Board, as well as focus on accountability in order to avoid duplicating self-evaluation work done by IMF staff. Salop discusses the learning-accountability distribution and finds that there is room to increase the share of accountability-oriented evaluations, as well as of evaluations focused on issues affecting advanced economies.

Another important consideration in selecting evaluation topics is their timing. According to its terms of reference, the IEO needs to wait long enough before it evaluates an event, to avoid interfering with IMF operational activities. Yet if it waits too long, there is a risk that the evaluation will be obsolete and irrelevant. In consultations on the work program, the IEO receives conflicting signals on timing. The Board (as well as country authorities) is often divided. For each topic that is time sensitive, member countries push in opposite directions: some Executive Directors ask that the IEO start an evaluation as soon as technically feasible while others urge that it wait (see Meg Lundsager and Arrigo Sadun in Chapter 11). Differing views are also expressed by IMF Management and staff, and external stakeholders (see Anne Krueger, David Lipton, and Leslie Lipschitz in Chapter 12). So far, the IEO has been quite successful in balancing the need to avoid interference with the need to remain relevant and useful.[11] But for many future evaluations, IEO directors are sure to face the critical question of at what point the need for and benefits from an evaluation outweigh the risks of interference.

[11]For example, in 2009 the evaluation offices of most IFIs launched studies on the response to the then-ongoing crisis, with the aim of helping management make operational decisions. The IEO, on the other hand, chose to focus on the run-up to the crisis, producing an evaluation that has contributed to thinking on how to improve surveillance and hopefully avoid or mitigate future crises, but without interfering with ongoing operations.

What Has Been the Impact of IEO's Work?

IEO has strengthened the IMF's effectiveness and legitimacy in many ways. The most direct and immediate is through the Fund's implementation of IEO recommendations.[12] The IMF Board has endorsed about 85 percent of the IEO's high-level recommendations (about 100 recommendations) whether in full or in a nuanced manner, and Stedman (Chapter 9) estimates that the IMF has taken some action on 75 percent of these recommendations. While this is an adequate track record, there is room to strengthen the follow-up process, because only for one-third of these recommendations has progress been fully satisfactory.

The impact of the IEO should not be judged solely by the immediate implementation of its recommendations, as there are other channels through which IEO evaluations contribute to IMF effectiveness. Several lessons were initially resisted but triggered debates, both internal and external, that eventually led to their implementation. Sometimes the mere launching of an IEO evaluation has focused attention on the corresponding issue and triggered reforms, even before the IEO "put pen to paper." Another indirect impact of the IEO's work is through the generation of new knowledge that is utilized within the IMF, in other international organizations, and in member countries.[13] In one such example, mentioned by Lipton, the IEO report on Argentina's crisis was studied in detail by IMF staff working on the Greek crisis. Momani provides examples of the utilization of IEO work in academia and think tanks. Finally, Lagarde, Lipton, Boorman, and others point out that over the past decade the existence of the IEO and its engagement with staff has led to changes in IMF culture and working processes. They credit the IEO with having helped to make the IMF a more effective, open, and transparent institution.

What Can Be Done to Improve the Fund's Implementation of Board-Endorsed Recommendations?

There is wide agreement on the need for improvements, but changes are slow because most practical alternatives to the current system also have shortcomings that elicit resistance.

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[12]Abrams and Lamdany (Chapter 7) describe the processes in place to translate lessons and recommendations into changes in policy and practice. While many changes in IMF policies and practices can be traced back to IEO recommendations, the follow-up system has weaknesses and is seen as a weak link in the evaluation cycle.

[13]For example, IEO evaluations have been used in global discussions on the governance of the IMF and other international organizations. Mme. Lagarde has pointed out that "the 2008 evaluation of IMF governance [is] a study that has proved to be not only invaluable but the subject of many debates, with obviously yet more to come." Other examples include IEO's joint evaluations with the World Bank evaluation office on the Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility as well as the Financial Sector Assessment Program, which have helped to strengthen these programs in both institutions and in member countries.

The IEO could contribute to the improvement effort by making its evaluations more readable and persuasive, by better designing its recommendations,[14] and, perhaps, through outreach activities (see Takatoshi Kato in Chapter 12). But as explained by Ahluwalia (Chapter 4), Picciotto (Chapter 5), and Hammer (Chapter 13), the IEO cannot be held accountable for the utilization of its recommendations, because to preserve its objectivity and independence it needs to operate at arm's length from decision making and actual implementation. The responsibility to strengthen follow-up lies with staff, Management, and the Board (see Eduardo Loyo and Yaga Venugopal Reddy in Chapter 11); only they can implement, provide incentives, and oversee that decisions are being followed. The IEO can help them by continually reminding them of the importance of the unfinished tasks.

Changes in processes and greater attention by member countries and the Board might facilitate the implementation of IEO recommendations. But the difficulty also reflects the need for further changes in institutional culture—which by nature are slow to achieve.

Beyond exhortations to strengthen the learning culture of staff, which is a long-term undertaking, the main practical way that the Board and Management can increase utilization of IEO recommendations is to improve the follow-up process (Thomas Moser, Chapter 11, and Boorman, Chapter 12). The three key elements to improve this process are:

- a better system to prepare Summings Up of Board discussions, that more accurately documents what lessons and recommendations the Executive Board has endorsed;
- a better specification of follow-up actions that are clearly linked to the intended goals (i.e., more specific management implementation plans with monitorable actions); and
- a more transparent monitoring system to identify shortfalls in implementation (i.e., periodic monitoring reports that examine all planned actions and propose corrective actions).

Recurring Findings and Lessons in IEO Evaluations

A number of findings and lessons have recurred across many of the 18 evaluations that the IEO issued during its first decade. Clearly these findings and lessons

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[14]The design of recommendations is critical for the impact of an evaluation. For example, the IEO has struggled with the question of how specific recommendations should be: should they provide guidance for specific reforms or only deal with broader policy issues? One benefit of making specific recommendations is that they might help the Board clarify what changes it wants to see, and make implementation easier to monitor. On the other hand, the Board may reject a specific IEO recommendation even if it agrees with the recommendation's broader goals, and thus make it unclear what reforms staff is supposed to pursue. Moreover, in general, IMF staff would be in a better position than the IEO to identify the specific way forward on broader goals endorsed by the Board. Board members are divided on this issue, as is illustrated by the remarks of Christopher Legg and Meg Lundsager in Chapter 11.

should receive special attention as they concern institutional, policy, or operational weaknesses that affect many different aspects of IMF work. Eight of the most important recurring messages are highlighted below. Most are interrelated but each is important on its own. The IMF has made significant efforts to address some of them (e.g., by better integrating analytical work across themes). Some (e.g., achieving greater evenhandedness in the application of policies) will, by their nature, be permanent challenges. On some of the recurring weaknesses the IMF still needs to make significant efforts. All still pose challenges for the institution.

(1) To strengthen its governance, the IMF needs to *clarify the respective roles and responsibilities of the Board, Management, and senior staff.* Achieving greater clarity should enhance institutional effectiveness, and should make it possible to define who is accountable to whom and for what.

(2) Many *IMF policies lack sufficient clarity* to allow staff to implement them in an effective and consistent manner. Sometimes the lack of clarity is unavoidable, because it reflects the diversity of views among the membership. However, it is generally preferable to narrow the scope of a policy to those areas where there is sufficient consensus, rather than obfuscating its mandates and requirements.

(3) *Greater evenhandedness is needed* in the IMF's application of policies and framing of advice across the membership. Naturally, borrowing countries face greater demands for information and a greater degree of scrutiny than other member countries. But there is a well-documented view that even among nonborrowing countries the IMF is stricter with low-income and emerging market economies than it is with advanced economies. Also, significant differences have been documented in IMF advice to each group of countries on issues such as debt sustainability, adequacy of reserves, and fiscal space. To some extent these differences may have been justified by country circumstances, but sometimes they seem to reflect the relative weight of each country at the Board and in the ownership of the IMF.

(4) IMF staff have been *reluctant to raise difficult issues with country authorities*, particularly those of large advanced economies. Staff members attribute this reluctance to concerns that negative feedback from authorities may adversely affect their career prospects. In addition, the IEO found a significant degree of intellectual capture that makes it difficult for IMF staff to assess advanced economies' risks and vulnerabilities differently from the country authorities. Either way, the Board and Management need to reassure staff that probing alternative views with country authorities is encouraged.

(5) There is a significant degree of "*groupthink*" *and insularity* among IMF staff, Management, and, to a lesser extent, even at the Board. This combined with a perception that contrarian views are not welcome and may be "bad for your career" has led to a reluctance to raise alternative views internally either in policy debates or in research papers. To address this

issue, Management needs to realign incentives; it should make clear that all views, and in particular well thought-out contrarian views, are welcome in the internal debate. It should also send a strong signal that staff are expected to actively consider and act upon external views, including constructive criticism.

(6) The IMF needs to develop a *monitoring and evaluation framework* that links goals to policies and instruments, and specifies benchmarks that would allow it to measure outcomes and impacts and take corrective action. Such a framework would enable the Board, member countries, and other stakeholders to better assess the results of IMF work.

(7) In many instances, the IMF missed important developments because it did not adequately "connect the dots" from analysis that was done in different parts of the institution. Time pressures may have played a role, but incentives seem to lead to silo behavior. IMF staff *need to do a better job in integrating analysis across themes* (e.g., macro-financial integration), *across operational lines of work* (multilateral and bilateral surveillance), *and across departments*.

(8) There is a large amount of "blueprinting" and *one-size-fits-all approaches*. To some extent, this is due to IMF policies that are not sufficiently clear about the need to differentiate among countries with different circumstances. But it also reflects the staff's lack of knowledge of specific country circumstances. To address this concern, the IEO has suggested longer country assignments, and that staff should work more closely with country authorities and local analysts.

PART I

The Vision of IEO Directors

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CHAPTER 2

IEO: Achievements and a Vision for the Future

MOISES J. SCHWARTZ

After ten years of existence, it is opportune to assess the contribution and impact of the IEO. This note reflects on the IEO's achievements over the past decade and the challenges it faces to continue to fulfill its role in supporting the Board in oversight and strengthening the IMF's effectiveness and transparency. I also take the opportunity to think about ways in which the IEO can better help the IMF to do its job.

The Role of Independent Evaluation at the IMF

A decade ago, the IEO was created to strengthen learning and accountability at the IMF, and to enhance understanding among external stakeholders of how the institution works. These tasks are even more important today, when the legitimacy and trust of the IMF are more critical than ever. I believe that a strong and effective independent evaluation function is critical to the IMF's effectiveness, credibility, and legitimacy.

The IEO operates independently from IMF Management and "at arm's length" from the Board. The IEO decides on what topics to evaluate. We consult extensively with country authorities, the Board, Management, staff, and external stakeholders. But the final decision is ours, based on an independent assessment of institutional priorities, while making sure to avoid interfering with operational activities. Similarly, we share drafts of our reports with Management and staff and ask them to point out any factual errors. But they cannot insist that IEO make any changes to the reports' conclusions or recommendations.

The value of independent evaluation at the Fund, an institution with highly skilled staff, rests on the opportunity it provides to reflect on past efforts to extract lessons for the future in a way that no unit in the Fund can do. We constantly protect this independence, but we also recognize it as a great responsibility, since the independence of the IEO is its most precious asset. Independence adds value, enhances the credibility of our reports, and by extension, of the IMF itself.

The conference to commemorate the IEO's first 10 years was structured around three panel discussions. The Executive Directors' panel focused on the

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Adapted from the opening remarks of IEO Director Moises Schwartz at the IEO Ten Years Conference.

IEO's role in accountability and oversight; the Management and staff panel focused on the IEO's contributions to distilling lessons from experience and fostering a learning culture; and the external stakeholders' panel focused on the IEO's contributions to enhancing transparency and in making lessons from IMF experience available to the membership and others.

There is some tension among these three sets of objectives, as there is among the varied interests of different stakeholders in independent evaluation. But there are also complementarities. Greater transparency contributes to both accountability and learning. And an effective accountability framework provides incentives for staff to learn and to change in response to lessons from experience.

The IEO has produced 18 evaluation reports[1] since its inception in 2001, and we are currently working on three more. Each evaluation has multiple audiences and goals, and is shaped, to different degrees, by each of IEO's three sets of objectives. For example, the evaluations of *The IMF and Argentina*, *The IMF and Aid to Sub-Saharan Africa*, *IMF Exchange Rate Policy Advice*, and *IMF Performance in the Run-Up to the Financial and Economic Crisis* aimed mostly at supporting accountability and oversight. Those of *IMF Technical Assistance*, *Financial Sector Assessment Program*, and *Research at the IMF* gleaned lessons from IMF activities in order to support learning. The *Evaluation of Prolonged Use of Fund Resources* addressed accountability and learning more or less equally, and *Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility* and of *Governance of the IMF* sought to help external audiences better understand the workings of the IMF.

On the whole these reports have been very well received by the Board and by external audiences. For the most part IMF Management and staff have also appreciated our work, even if they have sometimes become defensive in the face of evaluators' 20/20 hindsight. But hindsight and the defensiveness it can engender are integral to our work: it is our mandate to try to distill lessons after the fact, and it is natural for staff to sometimes respond by defending their actions based on what they knew at the time.

Responses to the First External Evaluation

The IEO's work of the past five years has been greatly influenced by the report of the first external evaluation of the IEO, which was issued in 2006 and led by Karin Lissakers, a former IMF Executive Director who had been centrally involved in creating the IEO.

The external evaluation concluded that the IEO had served the IMF well and that it had earned strong support across a broad range of stakeholders. At the same time, the report expressed concern that the IEO tended to shy away from some sensitive evaluation topics, that IEO reports failed to analyze in depth the reasons behind problems, and that IMF Management and the Executive Board

[1]These are listed and summarized in Part IV below.

had paid insufficient attention to follow-up. It recommended that IEO issue shorter, more focused reports with more pointed recommendations. It also proposed that the Executive Board create a framework to engage Management and staff on the follow-up of IEO reports.

In preparation for the Ten Years Conference in 2011, the IEO produced three background studies that together provide insights into the progress made since the Lissakers Report was issued.

The first of these—a description and analysis of the evaluation process (Abrams and Lamdany, Chapter 7)—reports that the process of preparing IEO evaluations has gradually become more systematic and perhaps more efficient. In fact, greater uniformity and efficiency may not be possible or desirable since the issues covered by IEO evaluations are very different in nature and scope.

The second study (Salop, Chapter 8) assesses how IEO reports have evolved over time in regard to themes, methodologies, presentation, and the type and number of recommendations. It notes that the content and structure of IEO's evaluations have responded to the findings of the Lissakers Report: topics have become more focused on big policy issues and more often than before they target the Board and member country authorities as their main audience. The reports are shorter and make fewer recommendations. But there is still scope for making all reports more readable.

The third study (Stedman, Chapter 9) assesses the degree of implementation of IEO recommendations, as one way of looking at the impact of IEO evaluations. Its results are encouraging but they raise questions on the current framework for follow-up, including for monitoring implementation. Following the Lissakers Report, a framework was established to ensure that IEO recommendations endorsed by the Board are implemented in a timely and effective manner, and to monitor this implementation. But though this was an improvement over the previous absence of a formal system, the Evaluation Committee of the Board has pointed out that certain findings and problems keep arising, indicating that underlying issues in the follow-up process have not been addressed.

Of the recurrent themes in IEO evaluations, four of the most prominent are:

(1) The need to strengthen IMF governance, including by clarifying roles and responsibilities—all the way from the International Monetary and Financial Committee and the Board to Management and senior staff.

(2) The importance of greater evenhandedness across the membership in the application of policies and the framing of advice.

(3) The need for the Board and Management to set incentives for an environment in which staff feel comfortable expressing alternative views in internal debates and feel supported in raising difficult issues with country authorities, even in the largest countries.

(4) The need to better integrate analytical and operational work across departments. To this end, the IMF needs to better align organizational incentives with institutional goals so that there is more cooperation, fewer turf battles, and less silo behavior.

Evaluation Recommendations and Follow-Up

Today, follow-up seems to be the weakest link in the evaluation cycle.

Overall, the 18 IEO reports made about 350 recommendations and suggestions. Of these, about 120 are high-level recommendations. The others range from examples of how to implement the main recommendations to suggestions that sometimes deal with issues that are not as critical. Of the high-level recommendations, the Board endorsed about half and partially supported another third. However, there is no record of the extent of implementation of recommendations, beyond the accounts of initial actions that are given in the Fund's periodic monitoring reports.

For illustrative purposes, the IEO gathered information on the implementation of Board-endorsed recommendations made in a sample of seven evaluations that were prepared between 2005 and 2009.

How much was done and how meaningful were the actions taken?

- About one in four of the Board-endorsed recommendations have been or are being implemented satisfactorily—that is, they have been implemented in full or are being implemented at an appropriate pace.
- On more than half, some actions have been taken—but they were either partial or they have stalled.
- For about 15 percent of the Board-endorsed recommendations there has been no or only nominal follow-up.
- And for about 10 percent we could not find information to discern action.

While these findings are somewhat positive, they raise concerns about whether the follow-up and monitoring frameworks of IEO's Board-endorsed recommendations are adequate, or leave the IMF exposed to implementation falling short on critical issues.

The IEO, for its part, has been struggling to decide on how best to present its recommendations. Should they address broader policy issues, or instead provide guidance for specific reforms? Specific recommendations could help the Board clarify what changes it wants to see, and their implementation is easier to monitor. On the other hand, the Board may reject a specific IEO recommendation, even if it agrees with its broader goals—and hence leave IMF staff unclear about what reforms they should pursue. Moreover, IMF staff may be better placed than the IEO to identify specific ways to achieve broad goals endorsed by the Board.

Measuring the extent to which IEO recommendations have been implemented is not the only way to assess the success of independent evaluation at the IMF. The actual benefits from evaluation reports depend on the many uses derived from them. There is no doubt that the IEO's contributions have led to vigorous debate both outside and inside the Fund. Introspection is an important catalyst for change, and we are glad that the IEO has contributed to this internal debate. To sum up, we have much to celebrate, as the IEO has made significant strides in distilling lessons from experience, in assisting the Board in its oversight, and in providing a credible window for external stakeholders to understand the workings of the IMF.

CHAPTER 3

IEO: The Initial Vision and a Vision for the Future

THOMAS BERNES

This note reflects on how the IEO could achieve greater impact, which in my view is the aspect of the IMF evaluation system that now needs most attention. Before I address that subject I will look back at the initial vision for the IEO and the concerns that led to its creation, and then highlight some important issues that have arisen during the IEO's 10-year history. I will touch on the IEO's working relationship with IMF staff and Management, the number and utilization of IEO evaluations, and the evaluation of IMF governance and the governance of evaluation.

The Initial Vision for the IEO: To Improve Accountability and Transparency at the IMF

At the creation of IEO 10 years ago the Fund was a very different place, much more closed than it is today. We in the Executive Board had acquired two or three years of experience of commissioning evaluations from outside parties. This practice was part of a compromise between the Board and IMF Management over how the evaluation process would be conducted.

At the time, there were three concerns with that process. One was that it took a long time to agree on a topic and to choose the people to do an evaluation. Another was that because all the evaluators came from outside the Fund they did not understand some of the Fund's inner workings—this limited the contribution they were able to make. And, third, the evaluators were not around after the report was delivered, and therefore they could not help implement its recommendations or follow up on whether there actually *was* implementation. These three concerns formed part of the argumentation for IEO's establishment.

The goals that drove the Board in the creation of IEO were accountability and transparency. As regards the Board's task of holding IMF Management accountable, back in 2001 the Board did not believe that it had either the instruments or the information it needed for this purpose. In regard to transparency, expectations were much more limited then than they are today. But still there was a sense that there was inadequate transparency toward the Board about discussions that were occurring among IMF staff. Board members always heard that there were huge debates among staff, but the Board was not being brought into these debates and Board members thought that they should have been.

Thus the IEO came into being. In reaching an agreement on the mandate and workings of the IEO, references were made to the role of evaluation in contributing to a learning culture, and to other things, in order to bring all parties on board. But accountability and transparency were the driving factors. The tension between accountability and transparency on the one hand and learning on the other affects all evaluation organizations, and remains an issue for the IEO today. There is some degree of complementarity between furthering these two goals of evaluation, that is, accountability induces learning and learning enables effective reforms which is the basis for accountability. Still, different evaluations focus to different degrees on these two goals. During my term, I emphasized transparency and accountability over learning, in part because of the recommendations of the Lissakers Report (discussed below), but mainly because only the IEO can perform these functions, while learning is somewhat covered in self-evaluations by the IMF review department. Weighing these main goals will remain key responsibilities of future IEO directors when deciding on the IEO work program and on the approach to each evaluation.

The First External Evaluation of the IEO: Concerns About the Working Relationship with IMF Management and About Follow-Up to IEO Recommendations

Let me now jump ahead five years to the Lissakers Report,[1] which was issued in 2006 at about the time I became the Director of IEO. This independent evaluation of the work of the IEO raised two concerns.

The first was that IMF senior staff and Management had been systematically ignoring IEO or even blocking IEO in some cases. Those who were there at the time will recall the crisis over IEO's Argentina report,[2] where IMF Management was accused of withholding information from the IEO. In the end, the then-Managing Director requested Sean Hagan (IMF General Counsel) to undertake an inquiry, which found that in fact staff had failed to deliver to the IEO material that was available, and that staff had made some charges against the IEO that were untrue. As IEO Director at that time, I saw changes occurring in attitudes towards the IEO. On the one hand, I was hearing from staff that, "look, we're overburdened, we've got to spend all this time trying to find files, and IEO is not adding anything and doesn't understand." At the same time, I recognized a genuine engagement on the part of Management and some senior staff to talk about forthcoming issues for evaluation that could be helpful from Management's point of view. Thus, there were two sides to this issue.

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[1]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.
[2]IEO, *The IMF and Argentina, 1991–2001* (2004).

The second concern that was raised by the Lissakers Report was that IEO recommendations were not being adequately implemented. The report opined that implementing these recommendations was not IEO's job; IEO's job was to do evaluation and, based on the evidence, to make recommendations. It was the job of Management to follow up, and the job of the Board to hold Management accountable. In this regard, I believe that the issue of follow-up to evaluation is properly considered within the context of an organization's governance structure, whatever that structure may be. I also believe that meaningful follow-up requires engagement and buy-in by senior management, as opposed to their taking the view that "this is just something else we need to manage." Generally, I did not sense during my time at the IEO that Fund Management was actively engaged or interested in evaluation follow-up. An exception was on technical assistance (TA), where the evaluation report[3] was used to motivate discussion and to make a lot of changes internally in how TA was managed.

The Size of the Evaluation Program and Outreach Activities

Two issues stand out regarding resources for the evaluation function: how many evaluations should the IEO prepare and how they are disseminated and used. On the level of evaluation output, it is sometimes suggested that the IEO needs to produce more than the 1.8 evaluation reports a year that it has produced to date. Certainly it is harder to get traction if you only issue one or two reports a year. When Montek Singh Ahluwalia, IEO's first director, came into office I think he presented a report to the Board that proposed ramping up to four or five evaluations a year. But the Board at that point said, "No, we want you to stay at around two or so a year, and we'll see later whether we want to free up the resources for more." Ten years on, this is a decision that the Board may want to reflect on.

A second resource-related point concerns outreach by the IEO. The Lissakers Report suggested that it would be useful for the IEO to undertake more outreach on its findings. At the time, the Board said that dissemination is principally the Board's own responsibility, and that IEO's dissemination activities should be done within its existing budget. Following the Lissakers Report, the IEO increased its dissemination activities, but these have been constrained by its limited resources.

Evaluation of IMF Governance: Enthusiasm Ex Ante, but Little Follow-Up

I and the IEO team concluded early on that it was not enough for evaluations to describe what the Fund was or was not doing. We also needed to provide explanations of *why* that was happening. Evaluations had to ask: How did the process work? Who was doing what or not doing what? This realization led us to begin

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[3]IEO, *IMF Technical Assistance* (2005).

to analyze the role of IMF staff, the role of Management, and the role of the Board. The IEO report on *Capital Account Liberalization*[4] is an example of such an attempt to convey how the Fund was working. Essentially that report concluded that while the Managing Director was saying one thing the mission chiefs were doing something else.

Because of the experience with the *Capital Account Liberalization* evaluation it was suggested that the IEO was well positioned to study IMF governance. As required by the terms of reference of the IEO, the Director is required to engage in broad consultations in deciding on the work program.[5] In my consultations with the Board on proposed evaluation topics, the topic of IMF governance received more support than any other; the Board said, "We think the IEO could really make a contribution here." We also received a good deal of support from authorities in capital cities, and among nongovernmental organizations and civil society, for such an evaluation.

Yet despite the enthusiasm for our preparing the IMF governance evaluation,[6] most of the issues raised by that evaluation have not been followed up. The Board appointed a committee to follow up because it could not reach decisions on these issues, but I am not aware that the committee ever came to any conclusions on them. The *Governance* evaluation was not completely without impact: a number of its more practical (and perhaps smaller) recommendations have been implemented; for example, the IMF Secretary now publishes a list of the code words used in Board Summings Up so that the public can understand them, and the structure of meetings of the International Monetary and Financial Committee has been modified along the lines recommended in the IEO report. Also, some broader issues on governance were picked up by the *Report of the Committee on IMF Governance Reform*[7] and are still under discussion. But within the IMF, there is no monitoring of follow-up to this report's recommendations.

An important governance issue that, for obvious reasons, we did not cover in the *Governance* evaluation is the governance of the IEO and more generally of the independent evaluation function at the IMF. Let me begin by pointing out the most positive aspect of the governance arrangements: the IEO is seen as the most independent of the evaluation offices among international organizations—with independence in the selection of topics, on the evaluation approach, and with a strong presumption of publication of all reports. These arrangements are a clear testimony of the IMF's institutional strength and of the importance that member countries ascribe to enhancing its legitimacy and effectiveness. But some aspects of the governance arrangements need to be examined to see if they can be improved. For example, many Executive Directors mentioned their interest in being part of the Evaluation Committee, and expressed frustration at not understanding

[4]IEO, *The IMF's Approach to Capital Account Liberalization* (2005).

[5]In the design of the work program, as in other issues, the IEO Director has a lot of authority and independence, but must be transparent and consultative in exercising them.

[6]IEO, *Governance of the IMF: An Evaluation* (2008).

[7]*Report of the Committee on IMF Governance Reform: Final Report*, March 24, 2009.

why they were not included. Similarly, they were not clear how the head of the committee was selected, nor what role committee members played in selecting the secretary of the committee.[8] Another governance issue that has been raised repeatedly is what role should the IEO and the evaluation committee play in the preparation of the Summing Up of Board discussion of IEO reports. This issue arose because Executive Directors sometimes felt that Summings Up did not sufficiently reflect important alternative views, and sometimes did not reflect the majority views on certain IEO lessons and recommendations.[9] Finally, as IEO Director, I was often asked by country authorities, Board members, and external stakeholders about the extent of implementation of IEO recommendations. This put me in the odd situation of having to explain that the IEO does not play a role in monitoring, that the systems in place are not effective, and that the Board has little knowledge of how much progress is being made and limited ability to effect changes.

Strengthening governance of the evaluation function is only one aspect in dealing with the challenges of follow-up and monitoring of implementation.

The Key Challenge: Follow-Up Arrangements Need More Commitment

Today, after 10 years of experience, the emerging view seems to be that the IEO's evaluation topics have broadly been well chosen; that its reports have been good to very good, though they could perhaps be shorter and/or more approachable; and that the IEO is independent. So my assessment is that at this level, independent evaluation at the Fund is working.

But follow-up and impact remain a key challenge. This raises the related questions of what is the point of having independent evaluation without a clear follow-up process; what monitoring systems should there be to assess follow-up; and how to define and measure the impact of evaluation. These questions have not been satisfactorily grappled with.

In particular, the question of follow-up to IEO evaluation findings is critical. I am not sure what the answer is here. Follow-up is primarily the job of Management and the Board. IEO is in a supportive role; it cannot be expected to ensure its recommendations are followed up. And so this is something for the Board and Management to come to agreement on. During the period when Eduardo Loyo was head of the Evaluation Committee, this committee set up a follow-up process for those IEO recommendations endorsed by the Board. The process puts on IMF Management and staff the burden of designing and implementing an action plan, as well as monitoring and reporting to the Board on implementation of the plan. But all parties involved have found the process difficult to implement. For

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[8]These are examples of a more general concern on the composition and working of Board committees that was examined in greater detail in the *Governance* evaluation.

[9]Again, this is a particular case of a more general concern about the drafting of Summings Up, which was covered in the *Governance* evaluation.

staff it is difficult to put action plans together when only certain recommendations have been endorsed. Often one cannot take IEO recommendations in isolation because they point to broader issues of policy and resource allocation. Sometimes the Board endorses a broad recommendation or goal, but rejects the specific actions that IEO proposes as an example of how to implement it. These difficulties may lie behind IMF staff seeing evaluation as a burden rather than an opportunity to improve their work. Similarly, my sense is that there has been no real engagement in follow-up by IMF Management, whose approach has sometimes tended to be merely "deal with it so it's not an issue." At the Board level, I perceive that there has been frustration and a sense that follow-up is inadequate, but no deep-seated commitment to come to grips with this problem.

So, to sum up, over the past decade the IEO has made critical contributions to the IMF. It has helped the Board (and capitals) understand what is going on and why, it has suggested to Management and staff ways to improve their work, and it has allowed the rest of the world a window on the workings of a critically important and previously quite opaque institution. I think, however, that the lack of commitment to follow up has continued to fester and that it remains the weak point of the evaluation system to date.

CHAPTER 4

IEO: Reminiscences of the Early Years

MONTEK SINGH AHLUWALIA

I had hoped to participate in the Ten Years Conference but official commitments in India prevented me from doing so. I am therefore especially grateful to the organizers for inviting me to contribute a personal statement for the conference volume.

The Background

David Peretz's excellent paper on the history of the IEO (see Chapter 6 in this volume) points out that the need for independent evaluation of the activities of the IMF had begun to be voiced by some IMF Executive Directors from 1989 onwards. A start was made by commissioning external reviews of particular aspects of the Fund's activities, but the idea of a permanent evaluation office did not gain traction. Peretz points out that both Michel Camdessus and Stanley Fischer had reservations because they felt that a permanent office would constantly "second guess" Management. This was a valid concern, but we need to ask why the same shareholders found it perfectly reasonable for the World Bank, across Nineteenth Street, to have an evaluation office but not the Fund.

The asymmetry is probably best explained by the fact that development agencies were viewed as using taxpayers' money to finance development projects, and the compulsions for independent evaluation in their case arose from the need to persuade skeptical taxpayers that their money was well spent. Central banks also deploy vast resources when they have to, but because these funds are not voted by legislatures, there has never been a comparable tradition of independent scrutiny of their activities. It is reasonable to conclude that it is because the IMF was seen more as the natural counterpart of central banks than of development agencies that it was able to ward off external evaluation.[1] The push for evaluation also has much to do with the culture of transparency. The culture of central banking has been quite different, tending even to glorify a degree of opacity. This is best

Acknowledgements are due to David Goldsbrough, Marcelo Selowsky, and Shinji Takagi for comments on a first draft while absolving them of any blame for shortcomings that remain.

[1]In reality the IMF did use taxpayers' resources—which is precisely why evaluation became inevitable, as explained later in this chapter.

exemplified by Alan Greenspan's much-quoted remark to a Senate committee in 1987, "If I seem unduly clear to you, you must have misunderstood what I said."[2]

The Fund, like any important institution, has always had its fair share of critics of its lending policies in individual countries and of the conditionalities attached to these policies. However, the watershed event that ultimately led to the establishment of an evaluation office at the Fund was the East Asian crisis of 1997. Fund surveillance was criticized because several emerging market economies, which until then were viewed as poster boys of good economic policy, collapsed without any early warning from the Fund. The Fund's lending policies too came under unprecedented criticism. The Indonesia program was the most heavily criticized, because of the very large number of conditionalities that to many observers appeared irrelevant for restoring macroeconomic stability. The Korea program was severely criticized in Korea at the time, because the Fund was felt to have responded much more slowly and with much less money than in Mexico, with the result that what could have been contained as a liquidity crisis became something much bigger, necessitating painful structural reform.[3] Malaysia publicly rejected the Fund's policies and resorted to heterodox imposition of some controls on capital outflows, and appeared to do better than the countries that followed the Fund's advice. Nor was criticism limited to the developing countries. Influential critics in the United States viewed the Fund as the cause of the crisis because it promoted moral hazard—among them was George Schultz, former U.S. Secretary of Treasury and State, who even advocated abolishing the IMF!

East Asia in 1997, foreshadowed by Mexico in 1994, signaled the emergence of a new form of crisis originating in the capital account.[4] Open capital accounts and global financial integration meant that changes in perception about fundamentals, which might or might not emanate from underlying weaknesses, could trigger large capital outflows, often disproportionate to the underlying weakness. Lack of knowledge about individual emerging markets, combined with herd behavior on the part of investors, could provoke contagion. The speed and scale of capital flow reversals could be highly disruptive, requiring much larger liquidity than in the traditional current account crises and also requiring it to be provided very quickly.

The Fund had neither the resources nor the procedures to deal with these crises. In the Mexican case, Fund resources had to be supplemented by resources from major industrialized countries, and this was repeated in East Asia, with the Fund negotiating additional amounts to be contributed by other countries and also international financial institutions.[5]

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[2]Quoted in *Guardian Weekly*, November 4, 2005.

[3]It is a different matter that the Korean government and Korean society bit the bullet with determination and quickly overcame the crisis and emerged stronger.

[4]Managing Director Michel Camdessus famously called the Mexican crisis the first financial crisis of the twenty-first century. See Fischer (2001).

[5]These negotiations were especially cumbersome in the case of Korea since they occurred over Christmas.

To its credit, the membership of the Fund recognized the new reality and quickly approved a 50 percent increase in quotas in January 1998 in the Eleventh Quota Review, the first quota increase since 1990. This was supplemented by the establishment of the New Arrangements to Borrow later in 1998. However, the quota increase could only become effective after approval by the U.S. Congress, where it faced considerable resistance for a variety of reasons. In the end, prompted by the Russian default in mid-1998 and its repercussions on Wall Street because of the Long Term Capital Management affair, a compromise was reached in the U.S. Congress and the quota increase was approved in October 1998, along with a list of reforms of the Fund. The establishment of an Independent Evaluation Office was one of the elements of the reform package envisaged at the time. The IMF Board finally decided to establish the evaluation office "independent of Management" and "at arm's length" from the Board in 2000.

I was serving as a Member of the Planning Commission in India while these events were unfolding and I recall receiving a phone call in late 2000 from a professional head hunter informing me that the IMF was launching a search for the first director of the newly created Independent Evaluation Office, and inviting me to apply. I was told that the appointment was to be made by the Board and not Management, and that they would first prepare a short list of five or six who would then be interviewed by the Board. I thanked them for thinking of me, but indicated politely that I was not interested in leaving my job in India. Several weeks later I received a second phone call, this time to say that they had short listed five very good candidates for interview but several people they had consulted outside the Fund suggested that I should be persuaded to agree to have my name added to the short list. This was clearly more flattering than the earlier invitation to apply for the job, and after some consultation with my wife, I agreed.

The Fund has always prided itself on being discreet, and in keeping with this tradition the Board decided that to avoid the publicity that would inevitably be generated if all candidates arrived to be interviewed in Washington, the candidates would be interviewed by video conference. One candidate happened to be based in Washington, but the Board decided that in order to ensure a level playing field, he too should be interviewed by video! I was delighted to be informed a few days later that the Board had decided to offer me the appointment. I accepted the offer and began to think with some trepidation of the challenge of setting up the new evaluation office.

I have been fortunate in being appointed to several senior positions in the Indian government during my career, but in all these cases I was appointed to an office that already existed, with staff already in place, and vacancies filled through an established system of civil service appointments. As the IEO's first Director, I faced the daunting challenge of filling in an organization chart that was entirely empty, except for the box at the top which had my name. The terms of reference envisaged an internationally recruited staff whose recruitment was to be done entirely by the Director, subject only to the condition that a majority of the staff had to be from outside the IMF. I could recruit staff drawn from the IMF, but these had to be a minority, and indeed I could if I wished have no IMF staff at all.

My first important decision was the choice of a Deputy Director. Having been brought in from outside, I decided I needed a Deputy Director from within the Fund staff. I had known David Goldsbrough, then Deputy Director in the Western Hemisphere Department, from the days when he was the Division Chief on the Fund team that negotiated the IMF arrangement with India in 1991. I had led the Indian side in that negotiation and I had been very favorably impressed by his professionalism, insight, balanced judgment, coolness in discussions, and most importantly, his intellectual openness to consider a differing point of view. I contacted David on my second or third day in Washington and asked him if he would be interested in joining the IEO as Deputy Director. David said he would like to think it over and I was delighted when the very next day he told me he would be willing to come. We quickly sealed the deal. I was deeply impressed by his willingness to join the IEO on a lateral move since he was widely regarded as Director material in the Fund. He clearly came to the IEO because he felt the job was potentially important, and would strengthen the organization. His contribution to the subsequent performance of the IEO was immense.

My second important decision was to recruit just under half of the IEO staff from within the Fund. Some nongovernmental organizations expressed concern about this decision as they felt that such a large involvement of Fund staff would reduce the credibility of the evaluations. I knew the Fund's reputation had suffered greatly in East Asia, but I have no doubt in retrospect that I made the right decision. Critical evaluation of the Fund's performance was absolutely necessary, but the criticism had to be constructive and based on an adequate understanding of the constraints under which Fund teams must perform. Besides, our criticism and recommendations had a much better chance of acceptance by Management and staff if the evaluation teams were aware of the constraints under which the Fund works, especially in situations of crisis management.

We quickly assembled the senior team consisting of Shinji Takagi from Osaka University and Marcelo Selowsky who had worked for many years at the World Bank, and then selected others to achieve the overall balance between insiders and outsiders. No director can function without a first-rate office manager and in Annette Canizares I was fortunate to have one of the best.

Some Issues of Strategy

From the very beginning, we had decided that IEO evaluations should be forward looking, focusing primarily on lessons to be learnt from the experience being evaluated, and not backward looking, fixing responsibility for mistakes made. Both activities are important, but they require very different types of analysis and in the latter case also much higher levels of proof. I felt that fixing responsibility is something that Management should do if it wanted to.

Drawing valid lessons from past experience is not as easy as it sounds. One can generally tell in retrospect what went wrong, but to explain why it went wrong requires an agreed analytical understanding of the way an economy functions. It is only on this basis that one can identify which particular actions were responsible for the problem being studied. I recall discussing with Shinji Takagi that it was not enough to discuss with different participants and come up with an analysis that is internally consistent. We had to keep in mind what I called the "Rashomon effect," after the Akira Kurosawa film *Rashomon*, which is built around the theme that many different narratives can be consistent with the same set of observed facts.

If it is difficult to be sure exactly why something happened, it is even more difficult to assert the counterfactual of what might have happened if something different had been done. Yet the counterfactual is an essential part of any evaluation. Once again, one's conclusion depends critically on the implicit model of the economy one has in mind, and small differences in the implicit model can lead to very different conclusions. Nor do these differences need to be based on large politico-ideological differences. One need only look at the widely different views currently being expressed by established economists, of equal distinction, about the likely effect of fiscal austerity on employment and growth in industrialized countries.

Some of the criticism of the Fund's crisis management recommendations in developing countries, which was often dismissed as merely ideological, could be validly defended as following logically from somewhat different specifications of the underlying model, and especially from different assumptions about the lags in response. Lags are particularly important since they are often longer than assumed by the people advocating particular policies. This is often the reason why the beneficial effects projected from particular policies do not materialize in the period intended. Excessive optimism about the effects of policy intervention, based on an underestimation of the lags involved, can be particularly dangerous in a world of fluid capital flows where revival of confidence is essential for the restoration of stability. The perceived failure of a program to deliver results in the period expected can actually make things worse.

To deal with these issues satisfactorily, the IEO needed high-quality expertise, and we could not possibly expect to have all the needed expertise in-house, given our small size. I was therefore convinced that we would need substantial involvement of outside consultants who had special expertise in the themes being studied or the countries involved. In the IMF unlike in the World Bank, the idea of bringing in outsiders was not part of the culture; the Fund did not use external consultants in either its surveillance or its lending operations. The Executive Board, to which I reported, was highly supportive of the IEO on all matters, but several members had doubts about the proposal for involving consultants. I was told that if we needed more resources, we should ask for more staff positions rather than relying on what some members clearly felt would be "fly by night" consultants. In the end, the Board gave us the benefit of the doubt and approved a budget that would enable us to use consultants for individual evaluations. I recall the contribution to our early reports made by consultants such as Jeffrey Frankel, Nouriel Roubini, Stephen Grenville, David Peretz, and Alfonso Bevilaqua. Their involvement enriched the quality of our evaluations and lent credibility to our recommendations.

Being the last evaluation office to be established in the family of international financial institutions gave the IEO an important advantage. We were able to develop state-of-the-art procedures to achieve the objective of independence from Management. IEO evaluation teams were given full access to Fund staff and to internal Fund documents, excepting only internal notes used by Deputy Managing Directors to brief the Managing Director, or notes of meetings of the Managing Director with representatives of member governments. These were viewed as internal communications of Management that deserved to be excluded. However, notes from staff to Management and instructions from Management to staff were made available. Draft evaluation reports were first shown to the Fund staff and their comments obtained and taken into account, especially on issues of factual accuracy. Once a report had been approved by the IEO Director, it was sent simultaneously to Management for comments and to Board members for information. The report was not changed thereafter based on comments received from Management. Instead, the comments of Management, and the comments of the IEO Director on Management's comments, were both placed before the Board, along with the report for discussion. All these documents were subsequently included in the published version of the report, along with the Chairman's summary of the Board discussion.

The First Four Evaluations

Choosing subjects for evaluation was not easy because we were writing on a clean slate and there was a wide range of subjects that critics of the Fund wanted studied. We adopted a deliberately consultative procedure, putting out a set of possible subjects in the public domain and inviting suggestions from a wide set of stakeholders on which evaluations should have priority for early adoption. I recall discussing various possible subjects with former Managing Directors Jacques de Larosière and Michel Camdessus; with academics such as Martin Feldstein, Peter Kenen, Fred Bergsten, Richard Portes, Stephany Griffith-Jones, Allan Meltzer, Yung Chul Park, and Takatoshi Ito; with former and current government officials such as Larry Summers, Ted Truman, Mervyn King, Eisuke Sakakibara, Pedro Malan, and Arminio Fraga; and also with nongovernmental organizations such as Oxfam, the Bretton Woods Project, Jubilee 2000, and many others.

The first four IEO evaluations were deliberately balanced between multi-country studies of thematic issues and detailed studies of individual countries. The first report, *Prolonged Use of IMF Resources* (IEO, 2002), was a thematic report that dealt with the phenomenon of countries repeatedly accessing Fund resources. Prolonged use ran counter to the normal expectation that countries should resort to the Fund only periodically, to deal with crises. Its prevalence raised relevant questions about whether the design of these programs was therefore internally flawed, leading to repeat lending. The second report, *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil* (IEO, 2003a) dealt with recent capital account crises in three different countries. The third, *Fiscal Adjustment in IMF-Supported Programs* (IEO, 2003b) was another thematic report, dealing with the issue of whether IMF programs took a cookie-cutter approach to fiscal adjustment, giving too much emphasis to fiscal adjustment, as summarized in the witticism that the Fund staff thought IMF stood for "It's Mainly Fiscal." The fourth report, *The IMF and Argentina, 1991–2001* (IEO, 2004), was a single-country case study that took an in-depth look at the IMF's long engagement with Argentina, its enthusiastic support for Argentina's currency board, the reasons for the collapse of this arrangement, and what this implied about the IMF's surveillance in the run-up to the crisis and about the Fund's crisis management.

I was actively involved in overseeing the preparation of all four reports and piloted the first three through the final stage of Board discussions. The Argentina study was approved by me as Director, but was actually discussed in the Board only after I left. This was because the change of government in India, following the general elections in May 2004, led to my being offered the position of Deputy Chairman of the Indian Planning Commission, an offer I could not resist. I apologized profusely to the Board for leaving prematurely and returned to India in June 2004.

The Argentina case study was of special interest because several observers had attributed the East Asian crisis to the fact that the countries involved were defying the impossible trinity. They were seeking to pursue simultaneously all three goals—of an independent monetary policy, an open capital account, and exchange rate stability—whereas the impossible trinity proposition held that only two of these three could be achieved and at least one must therefore be surrendered. The IMF did not want to give up open capital accounts, nor did it want to downplay the desire for exchange rate stability. The only solution under the impossible trinity was to give up monetary independence and Argentina was an example of a country that had made precisely that choice by adopting a currency board arrangement. In a public celebration of this apparent success, the Managing Director had invited President Carlos Menem of Argentina to address the Bank-Fund Annual Meeting in Washington in 1998. A little more than three years later, the currency board arrangement collapsed.

The IEO evaluation established that the collapse was primarily due to the fact that the fiscal situation was allowed to run out of control. It also established that the Fund was aware of the fiscal problem but never pointed out the catastrophic effect the problem would have in making the currency board unviable. In fact, the staff never made an assessment of whether the currency board itself was a suitable arrangement for Argentina, given the country's fiscal circumstances. The inconsistency in Argentina—of lack of fiscal control simultaneously with exchange rate rigidity—bears some eerie resemblances to the problems facing some countries in the euro zone periphery today.

One can never be a credible judge of one's own performance—that is best left to independent evaluation—but I do feel the IEO made a good start as the "new kid" on the evaluation block. The Executive Board received the early reports well, as did external stakeholders. IMF Management too went out of its way to be open minded in accepting the need for some rethinking. There was absolutely no interference with our work, and there was a very welcome openness to accepting many of our recommendations. There were sensitivities on some points. For example, there was concern that the timing of the Argentina evaluation, so soon after the crisis, might complicate ongoing negotiations with a new Argentine government. This was a reasonable concern but equally I felt it would have been odd if the IEO had not evaluated what had been one of the most controversial IMF-supported programs. Early evaluations do pose potential problems of sensitivity, but delaying evaluation runs the risk of making it stale. We decided we would go ahead, while strictly observing our mandate not to interfere in ongoing programs. It is to the credit of Management that they did not attempt to interfere.

Similar problems arose in our efforts to disseminate the results of evaluations of the crises in Indonesia, Brazil, and Argentina. Dissemination of evaluation results was an important part of the IEO mandate and was to be done through seminars in the countries studied. Dissemination did not present any problems in the case of the thematic evaluations covering many countries, but regarding individual country case studies it was felt that holding seminars on controversial issues might interfere with the delicate process of rebuilding the Fund's relationship with these countries. As a result, plans to disseminate the findings of the reports in the countries themselves were scaled down. In retrospect, I feel this was not unreasonable: the reports were available to all concerned in the countries involved, and there was little to be gained by courting unnecessary controversy.

More Recent IEO Studies

I am particularly pleased to see that the IEO has gained in strength since its early years. Under the leadership of my immediate successor Thomas Bernes, and now under Moises Schwartz, it has matured into an important and accepted part of the IMF's governance system. It has produced several important reports that have helped initiate new directions of policy in the IMF and also contributed to an understanding of the complexities of the global economy and their implications for policy. Two examples of reports produced after I left, which I feel were particularly influential, deserve specific mention.

The IEO report on *The IMF's Approach to Capital Account Liberalization* (IEO, 2005) has helped to bring clarity in an area where there has been much controversy and also some misrepresentation by critics. The Fund has often been accused of pushing countries to liberalize the capital account. The IEO report reveals a more nuanced reality. It establishes that the IMF never explicitly introduced capital account liberalization as a conditionality. This is an important point though not altogether surprising—since to require liberalization, as the report notes, would have been contrary to the Articles of Agreement which do not allow the IMF to interfere with policies aimed at controlling the capital account. As the report puts it, "Throughout the 1990s, the IMF undoubtedly encouraged countries that wanted to move ahead with capital account liberalization and even acted as a cheer leader when they wished to do so, especially before the East Asian crisis. However there is no evidence to suggest that it exerted significant leverage to push countries to move faster than they were willing to go."

That said, the IEO report also points out some degree of culpability, because "the IMF pointed out the risks inherent in an open capital account as well as the need for a 'sound financial system,' but these risks were insufficiently highlighted and the recognition of the risk and preconditions did not translate into operational advice on pace and sequencing until later in the 1990s." This seems very much like a doctor mentioning the need for weight control, but avoiding specific references to cardiac risk or prescribing specific courses of action. Looking back, the position taken by the IMF on the liberalization of the capital account was broadly in line with a stream of thinking that was never widely accepted in the developing world, but was dominant among academics in the United States with some distinguished exceptions, most notably John Williamson. Efforts were being made in the mid-1990s to push for an amendment of the Fund's Articles that would give the Fund a role in liberalizing the capital account, and the Managing Director Michel Camdessus was known to favor such a change. But the amendment was stoutly resisted at the time by most developing countries and the move died a natural death after the East Asian crisis.

The Summing Up by the Acting Chair of the Board's discussions of the IEO report on capital account liberalization conveys the different points of view prevailing in the Board. It records broad acceptance of the report while noting that the Fund's thinking was itself evolving. Directors agreed that the Fund has an inherent responsibility to its members to analyze the benefits and risks involved in a world of open capital markets and provide practical, sound, and appropriate policy advice to members on those issues. The Directors could not agree on the merit of an Executive Board statement clarifying the elements of agreement on capital account issues. However, they noted that they would have an opportunity to come back to this issue in the context of the ongoing strategic review. And so they did.

The IMF's official position has moved considerably since then to the point where the IMF now explicitly recognizes that there may be conditions where control over the capital account is actually desirable. It is of course impossible to say whether the IEO evaluation led directly to this change, or whether the change would have happened in any case because of the ongoing evolution of thinking. However, it is probably fair to say that the IEO report must have had a powerful effect on the process, especially strengthening the position of developing countries, which always had reservations on this subject. No evaluator should want more.

The recent IEO evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis* (IEO, 2011) has also made valuable contributions to understanding the reasons why vulnerabilities were allowed to build up in the financial sector in industrialized countries without being spotted. This failure is all the more striking because one of the conclusions of the earlier study of capital account crises (IEO, 2003a) was that financial sector vulnerabilities could lead to crises and so such vulnerabilities should be carefully watched. This conclusion had led to the Fund's introduction of the Financial Sector Assessment Program and of Reports on the Observance of Standards and Codes as part of surveillance, but it seems these exercises remained focused on developing countries.

The IEO's conclusion in that report that the IMF suffered from "groupthink" is particularly insightful. Obviously it was unthinkable that these problems would arise in the heart of the financial system of the industrialized world. And yet it is not as if there were no dissenting voices. Raghuram Rajan, then Chief Economist of the IMF—in a paper contributed to the Jackson Hole Conference in 2005—had specifically argued that financial liberalization in industrialized countries, rather than generating more efficient forms of intermediation, may actually have led to a buildup of vulnerabilities that could create serious problems in a crisis. He was roundly criticized—as he himself has put it—for being a Luddite! Group-think was firmly embedded in a system of cognitive dissonance that would screen out dissenting views not only in the IMF but in a much wider spectrum of the profession. The IEO report on the IMF and the 2008 crisis has received wide publicity, including explicit and favorable mention in G-20 Summit documents. This is surely an acknowledgement at the Summit level of the usefulness and acceptability of the evaluation reports of the IEO.

I have no doubt that we are all better off for what the IEO has done to subject macroeconomic management issues in a variety of countries, and the Fund's role in these situations, to candid *post facto* appraisal. It has been a privilege to have had some role in the early years of the organization. It is a measure of my conviction of the value of independent evaluation as a guide to policy that we are about to establish a similar Independent Evaluation Office in the Planning Commission. I hope it proves at least as successful.

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PART II

Studies of Independent Evaluation at the IMF

CHAPTER 5

The Logic of Evaluation Independence and Its Relevance to International Financial Institutions

ROBERT PICCIOTTO

There is much to be done in the design of institutions to reconcile the values of authority and responsibility.

—Kenneth J. Arrow

This chapter is about the role of independent evaluation in organizations, in particular in international organizations. Evaluation must be free from external pressure if it is to produce meaningful evidence in support of institutional learning and effective and accountable decision making. Thus, a critical aspect of independent evaluation is that evaluators do not report to those in charge of the programs or practices that are being evaluated. But how does independent evaluation strengthen organizational effectiveness and facilitate organizational reform? Why is it needed to generate objective scrutiny of policies, programs, and processes? Why is attesting to the validity of self-evaluation processes important to achieve accountability and learning in public organizations?

These questions are especially relevant for international financial institutions (IFIs).[1] To learn from experience and keep up with the rapid changes taking place in their operating environment, IFIs need objective evidence regarding the effectiveness of their operations. Further, they need to nurture public trust in the integrity of their decision making. An independent evaluation function can contribute to these goals by providing a credible assessment of their performance.

The chapter is organized as follows. The first section makes the case for evaluation independence and outlines its essential features. The second section shows that independent evaluation is a powerful instrument of organizational learning. The third section identifies the complementary roles of independent and self-evaluation. The fourth section addresses the size of the evaluation function. The

[1]IFIs are public sector organizations involved in financial operations, and their shareholders are national governments. The largest and most influential are the IMF and the World Bank. At IFIs, independence for evaluators requires that they not report to the head of the organization and not be part of its management structure. Thus, the head of the evaluation unit is typically accountable to the members/owners via some form of loose reporting to the organization's board. This chapter also discusses other aspects of independence, for example, organizational and behavioral independence, and safeguard mechanisms.

fifth section explains why independent evaluation is a critical ingredient of good governance in international financial institutions. The final section concludes.

Evaluation Independence: Why and How?

Independence adds credibility to evaluation processes and judgments, and contributes to organizational effectiveness. Organizations are created to resolve conflicts between individual and collective goals, manage information flows, coordinate actions through a nexus of contracts and keep transaction costs in check. To enforce the codes of conduct that make this possible requires authority. But authority is only tolerated if it is legitimate—that is, if those entrusted with running the organization are perceived as responsible stewards of the resources entrusted to their care. In turn, to hold authority responsible requires mechanisms that help to ascertain whether errors in decision making were due to circumstances over which the organization had no control or whether risks could have been managed differently so that these errors would have been avoided (Arrow, 1974).

This is where independence in evaluation comes in. It protects the integrity of the assessment process, enhances its credibility, minimizes bias, and provides fresh perspectives on the policies and programs being evaluated (Mayne, 2008). It informs the adaptation of internal processes and protocols through organizational learning. To these ends, effective evaluation processes are designed and managed so as to assess the worth of organizational activities in a fair, valid, and accurate fashion.

Such goals cannot be met if evaluation takes place within an authorizing environment that:

- constrains information so that evaluation products cannot have any critical content;
- controls the content of the evaluation program so that it does not contribute new knowledge;
- delays the evaluation process (or the disclosure of evaluation results) until after the decisions that might have been informed by the evaluation have been made; and
- induces evaluators to focus on insignificant aspects of the program or policy being evaluated.

Characteristics of an Independent Evaluation Function and Evaluators' Competencies

Evaluation quality without independence lacks credibility. Conversely, independence on its own does not guarantee evaluation quality: relevant skills, sound methods, adequate resources, and transparency are also required.

Good evaluation calls for practitioners who are curious, skeptical, and hungry for evidence. But evaluation independence also implies distinctive personal characteristics, attitudes, and behaviors that reach beyond expert knowledge and experience and involve such qualities as loyalty, perseverance, and courage. These dispositions are reflected in a fair, balanced, and self-confident approach that does not shrink from pointing out problems and performance shortfalls but also recognizes success and achievement.

The *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Service Pronouncements* by the International Federation of Accountants (2010) distinguishes between independence of mind ("the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism") and independence in appearance ("the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude [that] integrity, objectivity or professional skepticism had been compromised").

Similarly the *Yellow Book* of the General Accountability Office of the United States sets out criteria for auditing and evaluation that include "an independent attitude and appearance" as a desirable characteristic. However, evaluators should not be so detached as to shirk interaction with program managers, staff, or beneficiaries.

Institutional Safeguards Are Needed to Protect Evaluators' Independence

Independent evaluators cannot be expected to survive long in an organizational context that puts their careers, their reputations, or their livelihoods at risk. To give them protection to carry out their demanding and stressful mandate calls for special institutional safeguards to protect the evaluation function. Evaluators need to be shielded from external threats to their impartiality. They must be given full access to the information they need to carry out their work. And immunity from capture by any of the parties that share program management responsibility is fundamental.

Evaluation independence is a "hit and miss" affair unless the organization that contracts the evaluation provides safeguards that guarantee this independence. If evaluators are commissioned to carry out an evaluation, the process is governed by a contract and the evaluators' work is guided by voluntary guidelines issued by evaluation associations. In such cases, the degree of independence largely hinges on whether the evaluation commissioner is free of allegiances and devoid of interests in the policy or program being evaluated and on whether he/she is genuinely trying to find out whether a policy or a program works.

Safeguards for evaluation independence have been codified for cases where the evaluation is carried out or contracted by a unit embedded within an organization. The Evaluation Cooperation Group[2] has identified four major dimensions of evaluation independence (reproduced in the annex to this chapter):

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[2]The Evaluation Cooperation Group is composed of evaluation heads among the IFIs. It is tasked with the harmonization of evaluation methods and the codification of good evaluation practices. See https://wpqr1.adb.org/LotusQuickr/ecg/Main.nsf/h_9BD8546FB7A652C948257731002A062B/AA95B62CF943F82E4825774B003A82E0/?OpenDocument&Form=h_PageUI.

- *Organizational independence* ensures that evaluation staff are not controlled or influenced by decision makers who have responsibility for the activities being evaluated and that, within ethical and legal constraints, they have full access to the information they need to fulfill their mandate.
- *Behavioral independence* measures the extent to which the evaluation unit is able and willing to set its work program, produce high-quality and uncompromising reports, and disclose its findings to the board without management-imposed restrictions.
- *Conflict-of-interest safeguards* guarantee that current, immediate future, or prior professional and personal relationships and considerations are not allowed to influence evaluators' judgments or create the appearance of a lack of objectivity.
- *Protection from outside interference* keeps the evaluation function free to set its priorities, design its processes and products, reach its judgments, and administer its human and budget resources without intrusion by management.

These evaluation independence criteria are interrelated. Protection from outside interference is the object of organizational independence. Conflicts of interest are frequent, without organizational independence. Behavioral independence is a function of organizational independence as well as of avoidance of conflicts of interest and protection from external interference.[3]

Being External Does Not Guarantee Independence

External evaluation is often equated with evaluation independence. Yet external evaluators suffer from inadequate understanding of the operating context. Furthermore, their judgment may be impaired or threatened if their services are retained by the managers in charge of the activities that are being evaluated: fee dependence is a major threat to the integrity of the evaluation process.

By contrast, internal evaluations funded and controlled by the organization's supreme governance authority are protected from management influence while enjoying proximity to the programs being evaluated. Such evaluations are more likely to overcome "information asymmetries" while protecting the objectivity of the evaluative process.

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[3]The *Glossary of Key Terms in Evaluation and Results-Based Management* issued by the Development Assistance Committee of the Organization for Economic Cooperation and Development specifies that an evaluation is independent when it is "carried out by entities and persons free of the control of those responsible for the design and implementation of the development intervention." It also indicates that independent evaluation presumes "freedom from political influence and organizational pressure," "full access to information," and "full autonomy in carrying out investigations and reporting findings."

Independence Is Not Isolation

Independence and quality depend on the extent to which evaluations are:

- *Critical*—able and willing to judge performance objectively and transparently;
- *additional*—making a distinctive contribution to operational knowledge creation or dissemination;
- *timely*—delivering operations evaluation findings and lessons early enough to inform decision making; and
- *material*—focusing deliberately on topics and issues that have substantial relevance to operational effectiveness.

Some evaluators argue cogently that having no connection or shared experience with the intended users of evaluations constrains evaluators' access to information, evokes resistance, and inhibits learning.[4] Their concern underlines the challenge of combining evaluation rigor and objectivity with fairness and sensitivity. Good evaluators are able to combine intellectual detachment with empathy and understanding. They are able to engage with diverse stakeholders and to secure trust while maintaining the integrity of the evaluation process.

Contestability of independent evaluation findings and principled, respectful disagreements about recommendations make for a healthy evaluation culture. Conversely, deeply adversarial attitudes and "name and shame" approaches rupture contacts with decision makers, restrict access to tacit knowledge, inhibit professional exchanges, and increase resistance to the adoption of evaluation recommendations. They lead to isolation and a chilling effect on organizational learning.

The Benefits Generated by Independent Evaluation Are a Function of the Organizational Context

These benefits are especially large in open and accountable working environments where innovation and creativity are rewarded. In such environments, evaluation independence evokes public trust, protects the learning process, and induces program managers and stakeholders to focus on results. Along with quality assurance and ethical guidelines, evaluation independence is an essential feature of organizational credibility.

Evaluation and the Public Sector

In the private sector, stakeholders can use market mechanisms to express their dissatisfaction with poor performance. Disgruntled shareholders can sell their shares and unhappy consumers can shift from one brand or supplier to another. This generates market signals that induce private sector managers to modify their behavior. In

[4]Jane Davidson, an eminent New Zealand evaluator, puts it this way: "If we don't know you and trust you, if you don't have any connection with us, then why would we share insights with you?"

the economic marketplace, private suppliers serve fairly homogeneous needs that are readily translated into measures of private merit and worth. And the market provides private corporations with ready access to information about their performance.

In the public sector, reliable performance measures are much harder to secure. Public policies and programs meet varied interests whose satisfaction is not easily translated into indicators. Good evaluations take account of the concerns of diverse stakeholders and strike appropriate trade-offs among them. The main recourse of disgruntled stakeholders is the "voice" option. The effectiveness of this option hinges on ready access to timely, valid, and reliable markers of performance. This is where evaluation comes into its own. Without it, the feedback mechanism of the political marketplace is intermittent—from one electoral cycle to the next.

Furthermore, public action impacts and works through the private sector and the civil society. Policymakers and managers of social programs cannot create value through exclusive reliance on factors within their control. Their performance hinges on their capacity to respond nimbly and appropriately to changes in the external operating environment and to shape the perceptions of the politicians and decision makers who control their fate (the authorizing environment).

Evaluation Connects Program Knowledge with Policymaking and Organizational Strategy

It follows that the external operating environment should help evaluators generate the indicators needed to inform strategic and policy decisions. Accordingly, the evaluation function should design and use processes that connect it to the beneficiaries of public sector interventions. Feedback from these constituencies can be secured through a variety of participatory evaluation tools (such as focus groups and surveys) and increasingly through social media technologies. The signals thus received need to be interpreted fairly and judiciously before they are transmitted in a timely and user-friendly fashion to the deciders.

In Order to Contribute to Public Policies and Organizational Strategies, Evaluation Must Be Independent

Evaluation cannot fulfill its potential unless it connects effectively to corporate management, the supreme authorities that govern the organization, and the broader society. But in maintaining these connections it should maintain its objectivity, exercise full freedom of inquiry, and resist capture. This is imperative since it cannot deliver on its mandate if it is perceived to be subservient to program managers or to a particular political constituency or group.

Independent Evaluation Enhances Organizational Accountability

All managers, whether in the private or public sector, are accountable for results to the bodies that control their funding. In particular, they need to show that they are responsible stewards of the resources entrusted to them. In the private sector, revenues derive from the sale of goods and services to individual consumers—or from private capital markets that judge the prospective value of such sales. But in the public sector, whose original source of funds is the taxpayer, it is up to civil servants and ultimately to politicians to make collective choices about how public resources are allocated. Hence the key to accessing resources in the public sector is a valid and authoritative narrative regarding the creation of public value that is judiciously targeted to persons in authority.

Ready measures of public sector performance have well-known disadvantages. The difficulty of measuring social value explains why simple and inexpensive output measures and budget coefficients, rather than indicators of outcomes and impacts, have traditionally dominated public sector management. The ready measures have major and well-known drawbacks. They do not measure results and they can easily be manipulated. Hence, the information provided by public sector managers about the effectiveness of their work needs independent validation. This is where independent evaluation comes in. It is to a public sector organization what the auditing of corporate accounts is to a private firm.

This is why there is in practice little disagreement about the close link between independent evaluation and organizational accountability. If evaluation fails to enhance accountability it is because it lacks validity due to its poor quality and/or because it fails to meet the criteria that make evaluation truly independent. Far less obvious is the role of independent evaluation in enhancing organizational learning, discussed next.

The Role of Evaluation in Promoting Organizational Learning

To adapt successfully to evolving circumstances, learning organizations secure the right competencies and nurture the right skills through relevant individual learning by their staff, and they resolve the core dilemmas of collective action through controls and structures that leave opportunities open for new ideas. Evaluation fosters the adaptability of these organizations by focusing the attention of management on results—and hence on the appropriateness (or obsolescence) of the goals, policies, or protocols that underlie current organizational behavior.

Organizational Learning: Dilemmas of Collective Action

Learning challenges current ideas and preconceptions. It leads to new insights and encourages the acquisition of new concepts and mental models that serve as useful guides to action. Cognitive science, educational psychology, and practical experience show that learning often requires external intervention. It may be triggered by unexpected events or external threats. It may also be nurtured through interaction with experienced, knowledgeable, external agents through coaching, training, or formal education.

Organizational learning is not the same as individual learning. To be sure, it cannot be divorced from individual learning since individuals manage and operate organizations. But organizations are mostly driven by collective actions shaped by hierarchy, protocols, and precedent. Beyond knowledge acquisition, organizational learning requires attitudinal shifts and behavioral changes. Not all changes in behavior result from knowledge acquisition or experience; some result from conditioning through fear and reward, respect for authority, or a desire to conform. Accordingly decision makers within organizations are conditioned to comply with "rules of the game" shaped by legal, procedural, and traditional constraints and by time-honored customs that favor habitual ways of doing things. Budget rules, human resource practices, and operational procedures generate powerful incentives to maintain the status quo, and therefore limit organizational learning.

Organizational change is thus a challenging process. Obstacles to change become embedded in the choices organizations make to resolve three dilemmas of collective action: the tensions between policy adherence and continuity and policy adaptation to changed circumstances; between centralized goal setting and decentralized decision making; and between specialization and openness to diverse disciplines.

While powerful corporate oversight mechanisms are needed in well-run organizations they often inhibit nimble adaptation to change. Command and control systems can undercut creativity, innovation, or responsiveness to stakeholders' highly differentiated and evolving needs. Mandated business processes that leave little scope for individual initiative discourage corporate learning and innovation. To be sure control systems are needed because without them, policies and standards may be ignored. In organizations, especially large ones, free-riding behavior is a rational choice for individual group members (Olson, 1971), and can only be contained by countervailing incentives that encourage disciplined effort toward corporate goals and penalize opportunistic behavior. Hence corporate control systems are essential to help secure alignment of staff actions with corporate goals. But especially in large organizations such systems can contribute to rigid decision making. In particular, tough quality-control systems exercised from the top of the hierarchy may have the unintended effect of generating fear of retribution and its unpleasant corollary: the hiding of errors.

Another dilemma of collective action has to do with the obstacles inherent in asymmetrical access to information. The sheer volume of information that must be processed for effective and timely decision making requires delegation of authority. In turn, this raises principal-agent and coordination problems that cannot be resolved without behavioral protocols designed to minimize internal transaction costs.

A third dilemma is associated with the transformation of information management into knowledge. It requires the exercise of professional judgment so that in an organization entrusted with a complex mandate, staff specialization is imperative. But while specialization favors efficiency, it can lead to silo thinking and inhibit the lateral thinking that may hold the key to success when flexibility and creativity are at a premium. Generality of roles promotes flexibility and interdependence. On the other hand tolerance of ambiguity may lead to sloppy decision making.

Sound governance structures, skilled board oversight, and civil society scrutiny can help in ensuring organizational learning and to counter managerial temptations, whether conscious or unconscious, to cover up mistakes, protect the status quo and avoid corrective action. It follows that without independent scrutiny it is hard for the supreme governance authority of a large and complex public organization, let alone the citizenry, to find out what is really going on. Once again, independent evaluation emerges as a critical instrument of managerial accountability.

These then are the organizational tensions that underlie the need for mechanisms designed explicitly to nurture corporate innovation and learning. Evaluation embedded in business processes and focused on results can help to resolve the dilemmas of collective action that plague large, hierarchical organizations.

Promoting Organizational Learning Through Focusing on Results

To help an organization adapt to an evolving environment, its controls must be judiciously designed and its organizational rules periodically adjusted. Quality assurance is needed for organizational learning, but it should be delivered in "real time" and be designed to overcome information asymmetries at affordable cost. It should also be sensitive to changes in the authorizing and operating environment, because fixed standards and rigid bureaucratic norms can undermine organizational responsiveness. Especially in volatile operating environments, spirited debate within the organization, sensitivity to stakeholders' needs and constraints, openness to new ideas, readiness to drop outdated strategies, nimble execution, innovative solutions, and prudent risk management (rather than risk avoidance) are more important than compliance with established policies and rules.

These needs imply that operational protocols and quality assurance standards should be kept under continuous review through evaluative processes. While corporate oversight mechanisms tend to inhibit timely adaptation to change, organizational learning facilitates change by influencing how the organization sorts, processes, stores, and uses the information it needs for decision making.

Evaluation, especially in large organizations, helps shift incentives for management to a much needed counterweight within the corporate incentive structure by shifting the focus of corporate management from inputs to results.

Utilization of Evaluation Lessons: Organizational and Cultural Context Is Key

How does evaluation induce positive organizational change and learning? High-quality and independent reports do not guarantee the use of lessons drawn. The influence of an individual evaluation report is affected by many other factors. Relevance, timing, and dissemination methods all play an important role. But the absorption of evaluation lessons is typically subject to complex political and administrative dynamics (Weiss, 1998). What matters most in evaluation use is the organizational and cultural context within which evaluation is conducted and whether this context favors organizational learning.

Therefore, independent evaluation should not be judged solely by its results. Independent evaluators should plan, design, and disseminate their products so as to facilitate evaluation use. But to ensure objectivity, they must operate at arm's length from decision making. Hence they cannot be held accountable for the utilization of their recommendations: this responsibility lies squarely with policy-makers and program managers.

Furthermore, independent evaluation may pay its way even where the internal organizational culture is defensive and averse to change, that is, where the *instrumental use* of evaluation—the straightforward application of valid lessons learned from past programs in the design and implementation of new programs—is limited. This is so, because the evaluation process is apt to generate complex, subtle, and frequently delayed reactions.

Where independent evaluation is resisted, countervailing control mechanisms that seek to elicit management responses to specific evaluation recommendations in a linear fashion tend to be ineffective, at least in the short run. Nonetheless, findings that are brushed aside in the first instance may trigger internal debate, generate stakeholder pressures, and induce public scrutiny that in time may evoke positive change. Gradual, begrudging, and tacit acceptance of evaluation prescriptions is not uncommon. Partial and sometimes hidden reforms may result, for example when change agents within the organization decide to take action within their own sphere of influence. In particular ideas generated by an evaluation may fall on fertile ground following a crisis or when a new management has taken the reins of the organization. As a result, higher-order policy changes involving diverse and powerful interests may be induced. A few such cases suffice to justify corporate investments in evaluation.

Furthermore, instrumental use in the short or medium term is only one of the potential benefits of evaluation. Instrumental use has obvious advantages, but these benefits cannot be fully tapped unless evaluation becomes embedded in the organizational culture. In an organization resistant to learning, *conceptual use* of evaluation findings may be more significant than instrumental use. A sound evaluation process may in time influence program staff to sharpen policy and program design and it may promote ideas that are likely to improve implementation. Evaluation may also empower internal change agents, by confirming their insights or by bringing to light inconvenient realities that had previously been swept under the rug. Finally, evaluation has public good characteristics in that it may have positive effects outside the organization through knowledge creation and contributions to public understanding.

A valid rationale for investing in independent evaluation is that achieving timely organizational adjustments in a turbulent and demanding environment should not be left to chance. Past organizational achievements do not necessarily presage success. In fact organizational success sometimes leads to complacency and resistance to change.

The Independent/Self-Evaluation Nexus

From an organizational learning perspective, the core challenge of independent evaluation is to influence corporate and operational functions while operating at arm's length from them. Precisely because independent evaluation is selective and intermittent it needs to leverage self-evaluation in order to be most effective. The right balance between self- and independent evaluation should be guided by the principle of "subsidiarity," stepping aside from domains that are best handled by self-evaluation and focusing on higher-level questions that are not adequately assessed by self-evaluation. Independent evaluation units that are fully shielded from vested interests are better placed to produce reliable and uncompromising reports. Findings of self-evaluation are more likely to be owned and implemented by decision makers since they are self-generated. Self-evaluation has lower information-generation costs than independent evaluation, and it can help improve program and policy design in a timelier manner.

Independent Evaluation Needs Self-Evaluation

To reach its full potential, independent evaluation needs to leverage its impact through self-evaluation. Self-evaluation can and should serve as one of the transmission belts that connect independent evaluation findings to management decisions and the operational and policy cycle. Often, self-evaluation can address issues that are still subjected to "cooling-off periods" for independent evaluation, identifying corrective actions and providing assessments that can eventually serve as the basis for an independent review.

Self-Evaluation Needs Independent Evaluation

Independent oversight makes self-evaluation more effective. Independent evaluators prod self-evaluators to be more skeptical and reflective about their assumptions, preconceptions, and interests. The mindset of independent evaluators induces self-evaluators to think harder about what the organization is trying to accomplish, to consult more systematically with stakeholders, and to achieve a more resilient consensus about program goals. Independent evaluation also safeguards accountability if self-evaluation is weak.

In the words of Michael Scriven, independent evaluation "can decrease certain types of bias (including) . . . extreme conflicts of interest where the evaluator is 'in bed with' the program being evaluated . . . typical of much program monitoring by agencies and foundations where the monitor is usually the godfather of the program, sometimes its inventor, and nearly always its advocate at the agency" (Scriven, 1991).

Self-Evaluation and Independent Evaluation Should Be Closely Connected

A combination of independent and self-evaluation encourages managers to design evaluable programs—that is, programs with clear goals, verifiable objectives, and adequately funded monitoring and evaluation arrangements that are built upfront into the program design. Within such a framework, self-evaluation (and auditing) focus on compliance and "doing things right," while independent evaluation mostly focuses on "doing the right things" as well as on quality assurance of self-evaluation and validation of its results.[5]

Right-Sizing the Evaluation Function

Sufficient budgets and skills should be allocated to both independent evaluation and self-evaluation in order to allow a fair, accurate, and well-documented assessment of overall organizational effectiveness. A critical mass of resources allocated to both functions is needed for authority to be held responsible. Without adequate budgets, evaluation risks being relegated to a symbolic role.[6]

Self-evaluation should have sufficient resources to ensure that real-time monitoring and lessons learned contribute to program design and corrective actions. Independent evaluation should receive sufficient resources to address the high-level questions that self-evaluation is unlikely to ask, as well as to spot-check the validity of self-evaluation claims.

The Critical Role of Independent Evaluation in the IFIs

Why are the above considerations especially relevant to international financial institutions? The main reason is that rightly or wrongly IFIs are widely perceived to be insufficiently effective and accountable (Woods, 2001). The chronic instability of the international economy and the stubborn persistence of global poverty underlie public dissatisfaction with their performance, and thus they are and are likely to remain under intense public scrutiny. As intergovernmental bodies they are not directly accountable to citizens through the ballot box. Instead, they are governed by executive boards on which their member countries are represented—but with sharply different voting powers based on formulas that ignore population sizes and have yet to be adjusted to reflect adequately the current relative weights of individual countries in the global economy.

The IFIs' legitimacy rests on the degree to which their executive boards make decisions that comply with the agreed mandates of the institutions, promote the general welfare, and are free from political interference. In turn, the influence actually exercised by the executive boards is circumscribed by the considerable power delegated to their chief executives, who control day-to-day operations and whose selection has traditionally been controlled by some of the largest shareholders.

This governance structure implies a democratic deficit that can only be filled, albeit imperfectly, through the pressure of a global public opinion shaped by civil

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[5]The contributions of self- and independent evaluation to organizational learning can also be expressed in terms of *single* and *double-loop learning*, concepts from the organizational science literature (Argyris, 1977).

[6]Equally, the evaluation function should not become too big. Beyond a certain point, diminishing returns set in and the evaluation function may add to transaction costs without inducing much additional accountability or learning. In Kenneth Arrow's terms, "To serve its functions, responsibility must be capable of correcting errors but should not be such as to destroy the genuine values of authority. Clearly, a sufficiently strict and continuous organ of responsibility can easily amount to a denial of authority. . . . To maintain the value of authority, it would appear that responsibility must be intermittent." See Arrow, 1974, pp. 77–78.

society groups, academic institutions, private organizations, the mass media, social networks, etc.

In this contested public space, independent evaluation reports evince far more interest than self-evaluation reports produced by management. Internally, too, independent evaluation is influential since it reports to the owners of the institution through the board. This reporting relationship matters a great deal in the highly hierarchical, technocratic, elitist, and inward-oriented cultures that frequently characterize the IFIs.

Finally, it is noteworthy that the combination of a strong executive and a highly skeptical public opinion has led to the design of complex and cumbersome internal management processes heavy on controls and characterized by limited tolerance for deviations from norms—that is, an organizational culture that prizes compliance. Here again, the role of independent evaluation comes into sharp focus, given its critical contribution to rethinking of goals and established policies, processes, and practices.

Conclusions

Organizational learning differs from individual learning. Beyond knowledge acquisition, the organizational learning process requires attitudinal shifts and behavioral changes. To achieve organizational effectiveness, staff need to be induced to "do things right"—that is, to observe currently agreed procedures and focus on corporate goals. But for an organization to continue "doing the right things" in a changing environment also requires periodic changes in the strategies, policies, and processes that shape organizational behavior.

These changes are made easier with the help of high-quality evaluation that assesses the validity of established strategic objectives and reconsiders the rationale of ingrained business processes. Ensuring compliance and that organizations "do things right" is mostly the province of monitoring and auditing. Identifying the "right things to do" and inducing organizations and their staff to move in those new directions is mainly the province of independent evaluation.

Independence is an essential ingredient of evaluation excellence. Independent evaluation helps to enhance the quality and credibility of evaluation products and contributes to organizational transparency and accountability. Along with quality assurance and ethical guidelines, evaluation independence is a widely recognized feature of organizational credibility and reliability. While self-evaluation is closer to the action and thus can more rapidly impact organizational behavior, it often lacks the distance needed to achieve objective assessment. Therefore, independent evaluation should assess the validity of self-evaluation findings just as external auditors assess the validity of internal accounting.

The benefits generated by independent evaluation are a function of the organizational context. They can be very large in open and accountable working environments where innovation and creativity are rewarded. In such environments, evaluation independence induces public confidence, protects the learning process, and induces program managers and stakeholders to focus on results.

To be most effective, independent evaluation needs to be appropriately connected to the rest of the organization. Independence should not be confused with isolation. Indeed, evaluation does not facilitate organizational learning if it fails to feed into strategy formulation, to amplify the voice of legitimate stakeholders, and/or to provide credible and reliable performance information to management and higher governance authorities. In particular, independent evaluation needs to leverage its impact through appropriate links to self-evaluation processes, including judicious protocols of professional interaction. To achieve and maintain such relationships calls for careful institutional design of organizational structures and business processes.

Finally, independent evaluators need to be adequately protected to deliver high-quality, uncompromising reports and to shield the function from capture and intimidation. For evaluation to be genuinely independent, all the essential enabling conditions—structural, behavioral, protection from external influences, and avoidance of conflict of interest—need to be in place. Both independent and self-evaluation should be adequately resourced to have a material impact on the organization and to avoid the perception that they are only there for window dressing.

These conclusions are especially relevant to the IFIs in their unfinished journey towards greater accountability, transparency, and legitimacy. In these organizations, independent evaluation makes a unique and essential contribution to organizational accountability and learning. It does so not only by assessing the validity of self-evaluation findings but also by looking deeper and more objectively at sensitive corporate management issues that self-evaluation is unable to tackle. The comparative advantage of independent evaluation lies in the rigorous and fair assessment of corporate strategies, structures, and processes. In this way independent evaluation helps the organization navigate the turbulent waters of the global economic environment.

Annex. Template for Assessing the Independence of Evaluation Organizations

Criterion	Aspects	Indicators
I. Organizational independence	The structure and role of evaluation unit.	Whether the evaluation unit has a mandate statement that makes clear its scope of responsibility extends to all operations of the organization, and that its reporting line, staff, budget, and functions are organizationally independent from the organization's operational, policy, and strategy departments and related decision making.
	The unit is accountable to, and reports evaluation results to, the head or deputy head of the organization or its governing board.	Whether there is a direct reporting relationship between the unit, and (a) the management and/or (b) board or (c) relevant board committee, of the institution.
	The unit is located organizationally outside the staff or line management function of the program, activity, or entity being evaluated.	The unit's position in the organization relative to the program, activity, or entity being evaluated.

Annex (*continued*)

Criterion	Aspects	Indicators
	The unit reports regularly to the larger organization's audit committee or other oversight body.	Reporting relationship and frequency of reporting to the oversight body.
	The unit is sufficiently removed from political pressures to be able to report findings without fear of repercussions.	Extent to which the evaluation unit and its staff are not accountable to political authorities, and are insulated from participation in political activities.
	Unit staffers are protected by a personnel system in which compensation, training, tenure, and advancement are based on merit.	Extent to which a merit system covering compensation, training, tenure, and advancement is in place and enforced.
	Unit has access to all needed information and information sources.	Extent to which the evaluation unit has access to the organization's (a) staff, records, and project sites; (b) co-financiers and other partners, clients; and (c) programs, activities, or entities it funds or sponsors.
II. Behavioral independence	Ability and willingness to issue strong, high-quality, and uncompromising reports.	Extent to which the evaluation unit: (a) has issued high-quality reports that invite public scrutiny (within appropriate safeguards to protect confidential or proprietary information and to mitigate institutional risk) of the lessons from the organization's programs and activities; (b) proposes standards for performance that are in advance of those in current use by the organization; and (c) critiques the outcomes of the organization's programs, activities, and entities.
	Ability to report candidly.	Extent to which the organization's mandate provides that the evaluation unit transmits its reports to the management/board after review and comment by relevant corporate units but without management-imposed restrictions on their scope and comments.
	Transparency in the reporting of evaluation findings.	Extent to which the organization's disclosure rules permit the evaluation unit to report significant findings to concerned stakeholders, both internal and external (within appropriate safeguards to protect confidential or proprietary information and to mitigate institutional risk).
		Who determines evaluation unit's disclosure policy and procedures: board, relevant committee, or management?

(continued)

Annex (*continued*)

Criterion	Aspects	Indicators
	Self-selection of items for work program.	Procedures for selection of work program items are chosen, through systematic or purposive means, by the evaluation organization; consultation on work program with management and board.
	Protection of administrative budget, and other budget sources, for evaluation function.	Line item of administrative budget for evaluation determined in accordance with a clear policy parameter, and preserved at an indicated level or proportion; access to additional sources of funding with only formal review of content of submissions.
III. Protection from outside interference	Proper design and execution of an evaluation.	Extent to which the evaluation unit is able to determine the design, scope, timing, and conduct of evaluations without management interference.
	Evaluation study funding.	Extent to which the evaluation unit is unimpeded by restrictions on funds or other resources that would adversely affect its ability to carry out its responsibilities.
	Judgments made by the evaluators.	Extent to which the evaluator's judgment as to the appropriate content of a report is not subject to overruling or influence by an external authority.
	Evaluation unit head hiring/firing, term of office, performance review and compensation.	Mandate or equivalent document specifies procedures for the (a) hiring, firing, (b) term of office, (c) performance review, and (d) compensation of the evaluation unit head that ensure independence from operational management.
	Staff hiring, promotion, or firing.	Extent to which the evaluation unit has control over: (a) staff hiring, (b) promotion, pay increases, and (c) firing, within a merit system.
	Continued staff employment.	Extent to which the evaluator's continued employment is based only on reasons related to job performance, competency, or the need for evaluator services.
IV. Avoidance of conflicts of interest	Official, professional, personal, or financial relationships that might cause an evaluator to limit the extent of an inquiry, limit disclosure, or weaken or slant findings.	Extent to which there are policies and procedures in place to identify evaluator relationships that might interfere with the independence of the evaluation; these policies and procedures are communicated to staff through training and other means; and they are enforced.

Annex (*continued*)

Criterion	Aspects	Indicators
	Preconceived ideas, prejudices, or social/political biases that could affect evaluation findings.	(a) Extent to which policies and procedures are in place and enforced that require evaluators to assess and report personal prejudices or biases that could imperil their ability to bring objectivity to the evaluation; and (b) Extent to which stakeholders are consulted as part of the evaluation process to ensure against evaluator bias.
	Current or previous involvement with a program, activity, or entity being evaluated at a decision-making level, or in a financial management or accounting role; or seeking employment with such a program, activity, or entity while conducting the evaluation.	Extent to which rules or staffing procedures that prevent staff from evaluating programs, activities, or entities for which they have or had decision-making or financial management roles, or with which they are seeking employment, are present and enforced.
	Financial interest in the program, activity, or entity being evaluated.	Extent to which rules or staffing procedures are in place and enforced to prevent staff from evaluating programs, activities, or entities in which they have a financial interest.
	Immediate or close family member is involved in or is in a position to exert direct and significant influence over the program, activity, or entity being evaluated.	Extent to which rules or staffing procedures are in place and enforced to prevent staff from evaluating programs, activities, or entities in which family members have influence.

Sources: U.S. General Accounting Office, *Government Auditing Standards, Amendment 3* (2002); OECD/DAC Working Party on Aid Evaluation, *Glossary of Key Terms in Evaluation and Results Based Management* (2002); OECD/DAC, *Principles for Evaluation of Development Assistance* (1991); INTOSAI, *Code of Ethics and Auditing Standards* (2001); Institute of Internal Auditors, *Professional Practices Framework* (2000); European Federation of Accountants, *The Conceptual Approach to Protecting Auditor Independence* (2001); Danish Ministry of Foreign Affairs, *Evaluation Guidelines* (1999); and Canadian International Development Agency, *CIDA Evaluation Guide* (2000). See https://wpqr1.adb.org/LotusQuickr/ecg/Main.nsf/h_9BD8546FB7A652C948257731002A062B/AA95B62CF943F82E4825774B003A82E0/?OpenDocument&Form=h_PageUI.

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CHAPTER 6

A Brief History of the IEO

DAVID PERETZ

This brief history of the IEO is written to help mark the office's tenth anniversary. It covers some of the events that led up to the creation of the IEO, the initial vision for the office, and the key events in the IEO's 10-year history (see Box 6.1 for summary of key events). The focus is on the institutional history rather than on the substance of the IEO's work, which is covered elsewhere.[1] The chapter ends with an assessment of IEO's successes and of some recurrent institutional issues that continue to be the subject of debate.

Pre-History

In a sense, the genesis of the IEO can be traced back at least 20 years, to the late 1980s/early 1990s when discussions began on its creation. Evaluation offices with greater or lesser degrees of independence have a longer history at the multilateral development banks than at the IMF (see annex). Before the late 1980s, the IMF Executive Board and Management saw independent evaluation as an activity that might be appropriate for development agencies but not for an institution like the Fund. Not until the late 1980s/early 1990s did a few Board members begin to suggest that the IMF too could benefit from having an independent evaluation office. This was the start of a long and difficult process leading to the IEO's eventual birth in September 2000.

In January 1993, the Board discussed a statement by Managing Director Michel Camdessus and a report by a staff task force that recommended the creation of an evaluation office at the Fund. The report referred to this office as independent, although the task force was recommending that the Director be appointed by and accountable to the IMF Managing Director. Introducing the Board discussion, the Managing Director observed that the proposal answered a request that many Board members had made in the past. There was wide support in the Board from both developed and developing country chairs to create the office, led by Executive Directors[2] representing Brazil (then the Dean of the Board) and the United Kingdom, albeit with different opinions on many details. A few Directors noted their opposition or reservations, but in most cases also

[1]See Joanne Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF," Chapter 8 in this volume.

[2]The IMF Executive Board currently comprises 24 Executive Directors who represent the Fund's 188 members.

noted their willingness to join a consensus in favor of setting up the office. At the end of the Board discussion the Australian Executive Director, Ted Evans, suggested that the new office be called the "Independent Evaluation Office." In concluding the meeting, Camdessus said he saw broad support for the proposal, albeit with varying degrees of enthusiasm, and that he would return to the Board quickly with an amended proposal to meet the concerns expressed by some Board members, so that a final decision could be taken in time to establish the new office in May that year. But in fact the issue was shelved, with Management citing continued lack of Board consensus combined with staffing and resource pressures in the Fund as reasons for lack of further action.

BOX 6.1

Key Events in the History of Independent Evaluation at the IMF

Phase 1: Pre-History and Establishment of the Independent Evaluation Office (1973–2001)

1973	The World Bank Executive Board establishes the Operations Evaluation Department.
1989–92	Some IMF Executive Directors call for the establishment of an evaluation office at the IMF.
1992	Managing Director Michel Camdessus sets up a task force to examine establishing an IMF evaluation office.
1993	The Executive Board discusses the task force report's findings and conclusions and considers the Managing Director's proposal to establish an evaluation office. An office is not established.
1995–96	The Executive Board revisits discussion on how to strengthen the IMF's evaluation function. It establishes a group of Executive Directors to oversee an ad hoc evaluations process to be re-examined after two to three years.
1996–99	Three external evaluations are commissioned by the Evaluation Group of Executive Directors.
1999	The Board of Governors Interim Committee reaffirms the importance of IMF independent evaluation.
2000	The Executive Board discusses "Review of Experience with Evaluation at the Fund."
	The Executive Board approves the establishment of an evaluation office (EVO), to be independent of IMF Management and staff and to operate at arm's length from the Executive Board.
2001	Montek Singh Ahluwalia is appointed the first Director. He changes the department's acronym from EVO to IEO.
	The Evaluation Group of Executive Directors is transformed into the standing Executive Board Evaluation Committee created to oversee the IMF evaluation function.

Phase 2: The First Five Years (2002–06)

2002–05	IEO builds up staff and capacity to undertake evaluations. IEO completes its first seven evaluations.
2005	Thomas Bernes is appointed the second Director of IEO. He joins the office in June 2005. IEO subsequently completes three evaluations.
2005–06	The Executive Board launches an external evaluation of the IEO, headed by former Executive Director Karin Lissakers. The Lissakers Report contains a number of recommendations approved by the Board to enhance the effectiveness of IEO, including the establishment of a follow-up system for the implementation and monitoring of Board-endorsed IEO recommendations.

Phase 3: The Second Five Years (2007–11)

2007	The Executive Board approves a number of reforms, including frameworks for a forward-looking Management Implementation Plan and an annual Periodic Monitoring Report. IEO completes an evaluation on exchange rate policy advice. In June, the Executive Board approves the first Management Implementation Plan (on *The IMF and Aid to Sub-Saharan Africa*).
2008–09	The Executive Board approves the first Periodic Monitoring Report in January 2008. IEO completes four further evaluations including on IMF governance.
2009	Moises Schwartz is appointed the third Director of IEO. He joins the office in February 2010.
2010	IEO completes two further evaluations.
2011	IEO launches three evaluations. In recommending Executive Board approval of the Fourth Periodic Monitoring Report, the Evaluation Committee calls for further enhancements to the evaluation follow-up process. The Evaluation Committee begins the process for undertaking the second External Evaluation of the IEO. IEO marks its tenth anniversary with a conference in December.

Those who continued to press for the creation of an evaluation office over the next few years saw a hardening of Management's opposition, possibly reflecting a concern that an independent unit could end up "second-guessing" Management,[3]

[3]These concerns seem to have been shared by the Managing Director, Michel Camdessus, and his First Deputy Managing Director, Stanley Fischer. After his retirement, however, Camdessus became broadly supportive of the work of the IEO. For example, speaking at a conference in 2007 on the IEO report on *The IMF and Aid to Sub-Saharan Africa* he wholeheartedly endorsed the IEO's recommendations.

despite mounting external and internal pressures to act. The pressures included an explicit call by G-7 finance ministers (in their background documentation for the June 1995 Halifax Summit) for the creation of an independent evaluation office at the Fund; similar calls from subsequent G-7 summits; and—later in the 1990s, as the Fund's reaction to emerging market capital account crises came under scrutiny—from other external stakeholders and the nongovernmental organization community.[4]

Instead, Camdessus suggested a different approach to evaluating Fund activities. At the end of 1994, Management commissioned Sir Alan Whittome to undertake an independent evaluation of Fund surveillance, with special reference to the 1994 Mexican crisis. The resulting report had a very limited circulation but was discussed by the Board in April 1995. In summing up that discussion,[5] the Managing Director noted the high quality of the evaluation and said he had come to the view that such use of outside experts would be a less costly, less bureaucratic, and more refreshing approach than setting up a separate evaluation office. In January the following year, Camdessus formally proposed this approach to the Board: Management and the Board would experiment with commissioning a series of independent external evaluations and would review the experience after some two to three years.[6] The Board generally endorsed this approach but it also called for the creation of a Board Committee, chaired by an Executive Director, to oversee the external evaluation function. Subsequently it was also agreed that the activities of the Fund's Office of Independent Audit and Inspection (OIA) would be expanded to conduct more reviews of the Fund's structure and work practices.

An Evaluation Group of Executive Directors (EG) was convened in July 1996, with terms of reference that were adopted by the Board in September that year,[7] and commissioned three external evaluations in the period 1996–99.[8]

- "External Evaluation of the ESAF," carried out by a group led by Kwesi Botchwey (former Finance Minister of Ghana);
- "External Evaluation of Fund Surveillance," carried out by a group led by John Crow (former Governor of the Bank of Canada); and

[4]Pressure mounted from external stakeholders, particularly as other international organizations established or strengthened their evaluation units. In particular, in the 1990s the evaluation offices of several international financial institutions founded the Evaluation Cooperation Group (ECG) to align and coordinate independent evaluation practices across their institutions.

[5]"Summing Up by the Chairman: Mexico—Report on Fund Surveillance, 1993–94" (SUR/95/35, April 7, 1995).

[6]"Statement by the Managing Director on the Development of the Evaluation Functions in the Fund—Executive Board Meeting, January 10, 1996" (BUFF/95/125, November 28, 1995).

[7]See "Review of Experience with Evaluation in the Fund," Appendix I, March 14, 2000, available at www.imf.org.

[8]The reports of these evaluations, the Managing Director's statements and staff responses, and summaries of Board discussions are available at www.imf.org.

- "External Evaluation of the Fund's Research Activities," carried out by a group chaired by Professor Frederic S. Mishkin (former Director of Research at the Federal Reserve Bank of New York).

These evaluations produced important findings, conclusions, and recommendations. For example, "External Evaluation of Fund Surveillance" (the Crow Group report) urged the Fund to concentrate its resources on the most systemically important countries, and to focus its work on the international aspects of the systemically important countries' policies—and in particular on the interface of financial sector and macroeconomic policies of the systemically important countries. These conclusions came to be echoed in several subsequent IEO reports and remained valid 10 years later.

However, Executive Directors and many external stakeholders saw shortcomings with the Fund's reliance on external evaluations. As anticipated, the experience was reviewed by the EG at the end of the three-year trial period; and a report was considered by the Board in early 2000.[9] Box 6.2 lists the main conclusions on external evaluations commissioned by the EG.

BOX 6.2

Conclusions on Experience with Select External Evaluations, 1996–99

- It took Directors a long time to agree on topics and select evaluators, resulting in significantly fewer evaluations being undertaken than originally expected.
- There was an external perception that the Board's direct involvement in the choice of topics and evaluators had constrained the choice of more sensitive topics and more critical perspectives. There was no process of external consultation on the choice of topics.
- Most of the external experts chosen had limited knowledge of the internal workings of the IMF, and criticisms were made both of the quality of some of the analysis and the practicability of some of the specific proposals made.
- Once their job was complete the evaluators ceased to be available to help with implementation. There was no follow-up process. And the ad hoc nature of the evaluations made it hard to maintain institutional memory of their findings.
- The resource costs of the process, in terms of the time of Board members and staff as well as the direct cost of the evaluators, were substantial.

The EG review also took account of external opinions on independent evaluation at the Fund. At the time there were mounting calls from external stakeholders for the establishment of a permanent independent evaluation office at the Fund.

[9]See "Review of Experience with Evaluation in the Fund," March 14, 2000, available at www.imf.org. In addition to the three external evaluations that were commissioned by the EG, the report considered several other evaluations carried out over the same period, including the "Review of the Resident Representatives Program," conducted in-house by the OIA, and other self-evaluations.

These were fueled in part by widespread criticisms of the Fund's handling of the late 1990s capital market crises in East Asia and elsewhere. The EG review noted reports by groups of NGOs calling for the establishment of a separate independent evaluation office.[10] It also noted the successive calls made by G-7 finance ministers for the Fund to strengthen its processes for external evaluation, and the reaffirmation by the Interim Committee of "the importance of independent evaluations of the Fund's operations and policies."[11]

The EG review considered three options for the future: (1) continuing with the existing arrangements (rejected for the reasons noted in Box 6.2); (2) expanding the capacity of the OIA (an option thought unlikely to produce, or to be perceived to produce, truly independent evaluations given that the OIA reported to Management); and (3) the creation of an independent evaluation office. The EG recommended the third option to the Board: the creation of a new independent evaluation office—which at that point was referred to as the EVO.

Establishment of the IEO

The Initial Vision

In making its recommendations in early 2000, the EG emphasized several features that its members considered essential for an independent evaluation office. In a sense these constituted the initial vision of the founders of the IEO:

- ". . . an EVO . . . *reporting directly to, but operating at 'arms length' from, the Board, and with effective independence from management.*"
- ". . . [the EVO] must complement existing [self-] evaluation efforts by augmenting the potential scope of evaluation where Fund expertise may be limited. . . ."
- " . . . it must enhance the credibility of evaluations to observers outside the Fund. . . . Even if it were internally accepted that current self-evaluation was wholly objective, the perception outside the institution that such bias exists, in and of itself, undermines the ability of the Fund to undertake its work."
- The evaluation office would "need to include a transparent and efficient mechanism for systematic follow-up [of its recommendations]."
- It would "benefit from the hiring of staff embodying considerable breadth in their backgrounds and expertise. . . . [In addition to adequate understanding of macroeconomic issues] EVO staff should collectively possess both a broad and demonstrated interest and experience in areas such as

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[10]See Jacques J. Polak, "IMF Study Group Report: Transparency and Evaluation," Center of Concern, April 1998; and Angela Wood and Carol Welch, "Policing the Policemen—The Case for an Independent Evaluation Mechanism for the IMF," Bretton Woods Project and Friends of the Earth-US, April 1998.

[11]Interim Committee Communiqué, September 26, 1999.

public policy, law, economic history, and capital markets. The build-up and retention of evaluation expertise in the EVO would also benefit the Fund."

- ". . . it would need to be large enough to carry out and follow up on a sufficient number of evaluations to derive meaningful lessons to inform the work of the Board . . . but be small enough to force the prioritization of topics and the coordination of its efforts with evaluation underway elsewhere in the Fund."
- It should be "provided with a budget from which it could augment its staffing [where additional experience or perspective is needed] with external consultants and experts to participate in, lead, or even wholly conduct particular evaluations. This would be one channel through which . . . to ensure that external input formed a part of independent evaluation. Where appropriate, external input could also be obtained through public consultations conducted by EVO. . . ."

The EG's review of experience and its recommendations for establishing an independent evaluation office were largely the work of a small group of Executive Directors led by Thomas Bernes as chair of the EG.[12] The EG worked hard both to convince the few remaining doubtful Executive Directors and to craft an outline for an evaluation office. Partly drawing on experience with evaluation in other international financial institutions, the EG proposed the establishment of an evaluation office whose Director would be chosen and appointed by the Board, not Management, and who would have an exceptionally high degree of independence, balanced by strong requirements for consultation and transparency.

Camdessus, who retired in February 2000, suggested that the decision whether or not to go ahead should be left to a Board meeting chaired by his successor, Horst Köhler. The Board discussion of the EG report took place after Camdessus' retirement, with Köhler as Chairman of the Board. Köhler, who was familiar with independent evaluation from his time as President of the European Bank for Reconstruction and Development (EBRD), was immediately sympathetic to the proposal. The general approach to establishing the EVO was endorsed by the Board in April 2000, and a few days later by the International Monetary and Financial Committee (IMFC).[13] Discussions continued over the summer of 2000, with the main features of the office being agreed at Board meetings in August and September 2000.[14]

[12]The EG also produced a subsequent report, "Making the IMF's Independent Evaluation Office (EVO) Operational: A Background Paper" (EBAP/00/84, 7/19/00). This was subsequently revised in the light of Board discussion and made available at www.imf.org on August 7, 2000.

[13]IMFC Communiqué, April 16, 2000.

[14]See "Making Fund's Independent Evaluation Office Operational, Executive Board Meeting 00/81, August 3, 2000" (EBM/00/81–2, April 5, 2001), and "Independent Evaluation Office—Establishment and Terms of Reference—Report to the International Monetary and Financial Committee, Executive Board Meeting 00/94, September 13, 2000" (EBM/00/94, May 24, 2001), respectively.

Terms of reference (TOR) for the evaluation office were agreed at the September 2000 meeting and subsequently reported to the IMFC[15] (see Part IV of this volume for the full TOR). Their key features are:

- a mission of promoting learning in the Fund as well as improving the Board's oversight (thus giving the evaluation office the two standard functions of independent evaluation—learning and accountability—although the latter had been and remained the Board's main concern);
- a work program to be decided by the Director after a broad process of consultation;
- a variety of measures to buttress the independence of the Director and staff;
- a strong presumption that reports would be published; and
- a budget set by the Board separately from the general IMF budget (the main concrete sense in which the evaluation office is accountable to the Board).

Making the Office Operational

At the same time, the Board began a search process to recruit the EVO's first Director. The process involved drawing up a job description and terms of reference for the Director, the selection of a firm of search consultants, the preparation by that firm of a shortlist of preferred candidates, and finally a choice from that shortlist by the Board. The appointment was to be for a period of four years, renewable for a further three—with the Director then disqualified from further employment with the IMF.

In April 2001, the Board announced the appointment of Montek Singh Ahluwalia as the first EVO Director. Ahluwalia was exceptionally well placed to establish the new office. He had been a member of the Indian Planning Commission and Finance Secretary in the Government of India. He had a reputation of successfully implementing major financial and economic reforms in India, a good knowledge of the Bretton Woods Institutions, and experience in both government and international organizations.

Ahluwalia took up the post in July 2001 and quickly assembled a group of high-quality staff from outside and inside the Fund. His first senior appointment was David Goldsbrough, formerly Deputy Director in the Fund's Western Hemisphere Department, who became the EVO's first Deputy Director. This was followed by the appointments from outside the Fund of Shinji Takagi and Marcelo Selowsky, who led two of the three initial evaluations (David Goldsbrough led the third). Ahluwalia was also able to form a strong group of part-time external advisors to help guide and assure the quality of the office's work. One of his

[15]"IMF Executive Board Report to the IMFC on the Establishment of the Independent Evaluation Office (EVO) and its Terms of Reference," September 12, 2000, available at www.imf.org.

first acts as Director was to replace the EVO acronym with IEO, as a way to emphasize the office's independence.

In October 2001 the IEO issued its first progress report to the IMFC.[16] By this time arrangements were well under way for recruiting staff for all the approved full-time posts. Consultations had also begun with internal and external stakeholders on developing an initial work program, identifying first a wide range of possible studies and then choosing from that menu. At this point the Director expressed the hope that about five projects could be undertaken each year once the Office had reached full capacity.

The last set of decisions in making the IEO operational was taken in August 2002 when the Director in consultation with the Board adopted standard rules and processes for the review and publication of evaluation reports and other documents produced by the IEO. These rules and processes, which constitute the basis for those in place a decade later,[17] stipulated that:

- The IEO will give units in the Fund whose activity is being evaluated an opportunity to comment on preliminary assessments. The evaluators will incorporate all factual corrections that may surface but are free to take account of or ignore any comments on substantive aspects of the assessment.
- When an evaluation report has been completed it will be transmitted to Management and the EG[18] and circulated to the Executive Board. At this point, no changes to the document can be made other than purely factual corrections.
- IMF Management will be provided an opportunity to prepare written comments.
- Reports will be discussed by the Board, and a Summing Up of the discussion prepared.
- Reports, if published, will include written comments received from Management and staff, and any IEO responses thereto, along with the Summing Up of the Board's discussions.[19]

[16]"Progress in Making the Independent Evaluation Office (IEO) Operational," October 31, 2001, available at www.imf.org.

[17]The section "The Lissakers Report: Evaluating the Evaluators" discusses the 2007 update to these rules and procedures, and there have continued to be some updates over the years. For a detailed explanation of the evaluation cycle, see Alisa Abrams and Ruben Lamdany, "Independent Evaluation at the IMF: Understanding the Evaluation Cycle," Chapter 7 in this volume.

[18]As a result of the establishment of the IEO, the Evaluation Group of Executive Directors was reconstituted in November 2002 as the Evaluation Committee, a standing committee of the Board.

[19]There is presumed publication of IEO reports; but publication needs to be approved by the Board. So far, all IEO reports have been published.

The First Five Years (2002–06)[20]

Establishing the Office and Setting the Work Program

The office was fully staffed by early 2002, with an agreed budget for FY2003[21] (Box 6.3). The Director began a process of consultation on the IEO's work program shortly after his appointment in July 2001. An initial list of 34 possible evaluation topics was prepared and published for consultation with members of the Executive Board and other interested internal and external groups, including representatives of civil society and academics in Washington, Europe, and Africa. Following these discussions, 15 topics were chosen for the IEO's initial medium-term program.[22] The choice gave priority to topics that had been the subject of controversy or criticism, were of the greatest interest to the Fund's wide range of member countries, and offered the greatest learning potential.

BOX 6.3

IEO Initial Budget and Staffing

The initial budgets for IEO (FY2003, FY2004, and FY2005) were set at a level representing around 0.5 percent of the IMF's total administrative budget. This was, intentionally, significantly less than the percentages of administrative costs accounted for by evaluation offices of other international financial institutions (1.2 percent on average). Initially it was hoped that this level of funding would enable a steady-state level of output equivalent to four standard-size evaluations a year; the possibility was kept open of increasing this number to five later on. But when, later, it became clear that doing so would require a significant increase in the budget, the Board decided that the IEO should decrease the number of evaluations rather than increase the budget.

From FY2004 the budget was sufficient to finance 13 staff positions (the Director, Deputy Director, nine professionals, and two administrative staff, and thus more than the 11 posts originally envisaged), and a greater use of consultants than in the IMF in general. The planned reliance on consultants reflected in part IEO's shifting needs for different kinds of expertise, and was also intended to strengthen the IEO's independence and credibility. Staff appointments were—and continue to be—supplemented by a number of contractually employed research assistants.

Initial Evaluations: Setting the Pattern

Three topics were chosen from the list to be evaluated during FY2003: Prolonged Use of IMF Resources; Capital Account Crises; and Fiscal Adjustment in

[20]The main sources for this section are the IEO annual reports for the years 2003, 2004, and 2005–06.

[21]The IMF financial year runs from May 1 to the following April 30. FY2003 refers to the period May 1, 2002 to April 30, 2003.

[22]IEO *Annual Report 2003*, p. 3.

IMF-Supported Programs. Work on all three started in parallel. The mix was deliberate, including one topic—capital market crises—that was bound to raise controversial issues, and two that focused more on internal IMF processes but were thought likely to offer good learning opportunities. There were extensive processes of consultation and checking: the office felt it should be especially thorough in its work on these initial evaluations, knowing they would help establish its reputation and at the same time set precedents for its future work. The first IEO evaluation report—*Evaluation of Prolonged Use of IMF Resources*—was issued in September 2002 and the next two were completed by August 2003.

For FY2004 a further three topics were chosen for evaluation from the same list, following a further process of consultation. The Director noted that one of the three—an evaluation of the PRSP/PRGF process, involving six in-depth country case studies—was equivalent in scope to two normal evaluation projects. Four more projects were chosen from the list for FY2005 with work on one more to start in FY2006. At that point—towards the end of 2004—11 of the original 15 topics had been selected for evaluation. The IEO embarked on a new round of consultations aimed at identifying a further menu of topics to guide its work over the following years.

Processes that were developed in the course of the first few evaluations set a pattern that continues today.

- The chosen project leader and team produce a concept note, setting out the main questions to be addressed and methods to be used, and this is used as a basis for a brainstorming session with a group of knowledgeable external advisors.
- Based on this the IEO prepares a draft issues paper which is posted on the IEO website and used as a basis for discussion with the Board, Management, staff, and external stakeholders. A final issues paper is then posted setting out the scope of the evaluation, main questions, methods, and work plan.
- Methods used include (internal and external) document reviews, surveys, interviews, statistical analyses, and/or preparation of background papers.
- Towards the end of the evaluation a further workshop with external advisors and experts is held to discuss emerging conclusions and recommendations. Often these workshops give rise to further questions and suggestions requiring further work.
- A draft evaluation report is prepared and reviewed within the IEO and by selected external advisors.
- The revised draft report is then sent to IMF staff for written comment, typically within three to four weeks. These comments are meant to focus on factual errors and inaccuracies. Where appropriate, relevant country authorities are also given an opportunity to correct factual errors.
- After careful review, taking account of all comments, the IEO Director approves the final version of the evaluation report, for circulation initially to the Evaluation Committee and IMF Management.

Two IEO evaluations in this early period (*Evaluation of the IMF's Role in PRSPs and the PRGF* and *Financial Sector Assessment Program*) involved reviews of activities where the Fund's cooperation with the World Bank was very close. In each case, the Bank's Operations Evaluation Department/Independent Evaluation Group undertook parallel evaluations of World Bank activities, and the two offices collaborated closely on inputs, including through joint country case studies and joint surveys.

In addition to evaluation reports, the IEO established a practice of producing progress reports to the IMFC and regular annual reports. Regular progress reporting to the IMFC began in the fall of 2001. The first full annual report of the IEO, setting out progress in the first two years, was submitted to the Board and published in 2003; it was followed by a report in 2004, and a further report covering the two years 2005–06. The first annual report set a pattern followed in many subsequent reports by including reflections on common themes emerging from IEO evaluations (Box 6.4).

BOX 6.4

Themes from IEO Evaluations Highlighted in Annual Reports, 2003–06

IEO's *Annual Report 2003* highlighted:

- The need for greater candor in IMF surveillance.
- The need to deal better with uncertainty in program design and the benefits of contingency planning.
- The lesson that underlying domestic political commitment is more important than the specific structure of IMF conditionality.

The *Annual Report 2004* noted:

- The need for greater clarity about intermediate objectives and performance indicators in program design.
- A number of weaknesses in the IMF decision-making process, including the way that the candor of assessments tended to become muted as they are transmitted through the institution, a reluctance to address what should be the alternative strategy if the preferred approach fails, and some questions about the respective roles of Management and the Executive Board.

The *Annual Report 2005–06* repeated two of these themes—the need for greater candor in papers submitted to the Board and clarity about objectives and criteria for judging the Fund's performance—and added a further lesson about the need for the Fund to explain better the rationale for policy advice and program design in particular countries.

Change of Director

Montek Singh Ahluwalia, the IEO's first Director, resigned in June 2004 to take up a cabinet-level position in the Indian Government, and David Goldsbrough, the Deputy Director, took over as Acting Director while a search was instituted for a new Director. The search process used was essentially the same as that used in appointing the first Director.

On the recommendation of the outgoing Director, one change was made in the terms of reference for the job. It was decided that allowing for an appointment to be renewable after an initial four years could be perceived to compromise the Director's independence as he approached the point where he might seek reappointment. Thus the IEO's second Director was offered a nonrenewable term of appointment of six years.

After the Board reviewed and interviewed candidates shortlisted by the chosen executive search firm it was decided to offer the appointment to Thomas Bernes (at the time Secretary of the Development Committee of the World Bank and IMF and former Canadian Assistant Deputy Minister of Finance, and former Executive Director of the IMF), who took up his appointment in June 2005.

The Lissakers Report: Evaluating the Evaluators

As noted above, the IEO's initial terms of reference provided for an external evaluation of the office after a period, to assess its effectiveness and to consider possible improvements to its structure, mandate, operations, or terms of reference. To do the job the Board chose an independent panel in September 2005, chaired by Karin Lissakers (former U.S. Executive Director at the Fund).[23] The panel reported in March 2006.[24]

The panel concluded that the IEO had served the IMF well, but also identified "certain weaknesses and . . . trends that are cause for concern about its future," noting the "biggest challenge facing the IEO [as being] to avert the tendencies, pressures, and practices that may push it in the direction of becoming bureaucratized, routinized, and marginalized." The panel's specific recommendations are set out in Box 6.5.

These recommendations reflect the panel's findings, which include the following:

- While IEO reports had led to some improvements, both Board and Management had paid too little attention to systematic follow-up.
- Management and staff should take an open and constructive approach to the IEO's findings.
- There was a risk of duplication of work with the Fund's Policy Development and Review Department (now the Strategy, Policy, and Review Department), which had a deliberate policy of working on topics being looked at by the IEO, partly with a view to being ahead of IEO recommendations. The panel saw this as wasteful duplication.

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[23]The other two members were Ishrat Husain, Governor of the Central Bank of Pakistan, and Ngaire Woods, Director of the Global Economic Governance Programme at Oxford University.

[24]"Report of the External Evaluation of the Independent Evaluation Office," March 29, 2006 (Lissakers Report), available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf. The Summing Up of the Executive Board discussion of the report may be found in Part IV of this volume.

BOX 6.5

Summary of Lissakers Report Recommendations

- First, the IEO should address issues that are fundamental to how effectively the IMF is fulfilling its mandate, and its terms of reference should be changed to make this clear. The IEO should be assured full access to information.
- Second, the IEO should diversify its staff and contractual mix and make greater use of people of eminence from outside the Fund to lead evaluation teams. Strong outside personalities with limited IMF exposure are likely to bring a fresh perspective and questioning attitude and ensure that the IEO adds value to the array of evaluations already being undertaken within the Fund.
- Third, a more systematic approach is needed to follow up the recommendations of the IEO and monitor their implementation. The Board and the Evaluation Committee need to take responsibility and play a more active role in this regard.
- Fourth, the IEO's dissemination and outreach activities need a complete overhaul, particularly to raise the IEO's profile in developing and emerging economies where the IMF's role is considered most contentious.
- The IMF will reap the full benefits of a strong IEO if the Board plays an active role and senior management takes a constructive and open stance toward the evaluation office. The IEO in turn must be bold—about what it evaluates, how it evaluates, and who it hires to do the job.

- Too many evaluations had focused on process issues and not enough on issues of systemic and strategic institutional importance.
- Reports had become too long, and should be made more punchy.
- There had been insufficient engagement with governments and other stakeholders—an important way of getting the IEO's messages across.

The panel also expressed a concern that in one case[25] the IEO "had accommodated management and staff sensibilities to the detriment of the information value of its evaluation and its contribution to Board oversight."

The Executive Board considered the Lissakers Report on April 26, 2006 and endorsed some but not all of these findings (see Part IV of this volume for summary). A few Directors suggested that the practices for submitting the IEO's draft reports to Management and staff for comment should be reviewed. There was much discussion of the panel's concern that the IEO's independence could have been compromised (particularly in the *IMF and Argentina* report) by pressures from Management to alter draft reports. On this the Summing Up notes that:

[25] *The IMF and Argentina, 1991–2001*, 2004, available at www.ieo-imf.org.

> Directors discussed extensively the feedback process for draft IEO evaluation reports . . . and its implications for the IEO's independence, both actual and perceived. They agreed that best practice requires the IEO to solicit comments from staff, management, and other players on its draft reports but, at the same time, to exercise its independent judgment and responsibility on whether to take these comments on board. Thus, any changes introduced by the IEO in the feedback process would be expected to be based on the exercise of best judgment by the IEO, rather than constituting evidence of accommodating management or staff sensitivities. . . .

With one exception—that no changes were made to the policy on the IEO's access to information[26]—the recommendations from the Lissakers Report were broadly implemented by the IEO Director and the Board over the following two years, as summarized below.

Evaluation reports became shorter and more focused. A separate retrospective of IEO evaluations to date[27] finds that that there was a modest increase in "bite" in post-Lissakers evaluations, with more attention paid to issues of substance and a reduced focus on process, but that both of these trends were partly due to a change in the nature of evaluations. There was also a marked sharpening of presentation and shortening of reports, as the result of a deliberate policy introduced by the incumbent Director.

The Board review process was formalized, with set limits on timing. In early 2007 the Executive Board and Management agreed on guidelines including that the Board's consideration of an IEO report would generally be scheduled within six weeks of its circulation to the Board, and that Executive Directors would receive any comments from Management and staff at least two weeks before the Board discussion.[28]

New follow-up mechanisms were introduced. In January 2007 the Board agreed on a new framework for follow-up to IEO reports. This requires:

- Management to provide, soon after the Board's discussion of each IEO report, a forward-looking Management Implementation Plan (MIP) for the recommendations endorsed by the Board; and
- Management to present to the Board an annual Periodic Monitoring Report (PMR) on the state of implementation of Board-endorsed recommendations and MIPs.

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[26]As detailed in a 2002 memorandum from the Managing Director, IEO has the right to obtain all information except to the extent that the information is covered by attorney-client privilege or falls in the "zone of privacy" with respect to confidential communications of the Managing Director and Deputy Managing Directors' office with persons or institutions outside the Fund and within and between their immediate offices or between Executive Directors and their authorities and within and between their office. The Director of the IEO is also to be granted access to side letters on the same terms as those that apply to the Executive Board.

[27]Salop, Chapter 8 in this volume, contains an analysis of the extent to which the recommendations about the content of evaluations and evaluation reports have been implemented.

[28]If specific circumstances require a departure from this guideline, Management must explain the reasons at a special Board meeting and consult with the Chair of the Evaluation Committee.

The first MIP (for the evaluation of *The IMF and Aid to Sub-Saharan Africa*) and the first PMR were produced in FY2008.

IEO's outreach and communications strategy was strengthened. Outreach was revamped following the Lissakers Report, and strengthened to the extent possible within the limitation set by the Board: that there would be no increase in the budget for this purpose (see below). Most importantly, the IEO launched a new website in early 2007, giving easy access to all IEO material and reports. Steps were also taken to actively manage the IEO's email data base and to issue a biannual newsletter. And the number of outreach seminars, both to contribute to ongoing evaluations and to disseminate the results of completed evaluations, was stepped up, often in cooperation with and at the request of third-party organizations.[29]

Changes were made to the IEO's human resources policies. In September 2007 the Board approved some minor changes in the terms of reference for the IEO Director and in the terms and conditions of appointment for some categories of IEO employees,[30] and in early 2008 the Board agreed to the publication of these revised terms on the IEO website. In May 2008, responding to the Lissakers Report recommendation to strengthen the IEO's actual and perceived independence, the Board agreed that any IEO project leader hired in the future should have a cooling-off period of 12 months before he or she could be employed as an IMF staff member.

IEO practices regarding Management and staff review of draft evaluation reports were clarified. In December 2007, the Director of IEO confirmed his intention to maintain the practice of allowing Management and staff the opportunity to comment on draft reports, while acknowledging that interaction with IMF staff at this stage of an evaluation could be perceived as potentially compromising the independence of views of the evaluation team. His decision was based on an earlier review initiated by the IEO, and took account of the concerns about IEO's independence that had been raised during the Board discussion of the Lissakers Report. He proposed that any subsequent material changes reflected in the final version of the evaluation report would be explained to the Board and recorded in an internal memorandum, along with a redlined version to facilitate subsequent internal reviews or external panels reviewing the IEO's work. He also confirmed that the IEO has no obligation to take on board any such comments received.[31]

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[29]The IEO's *Annual Report 2007* lists 23 outreach activities between May 2006 and April 2007. Sixteen took place in the following year.

[30]The most significant elements were to exclude administrative and staff assistants from the six-year term limit for regular IEO staff positions and to remove the constraint of a minimum initial appointment of two years for noncontractual employees.

[31]As reflected in the Summing Up of that discussion, the Board reaffirmed the IEO's original TOR and the 2002 memorandum providing that Management and staff may not insist on any changes to evaluation assessments.

The Second Five Years (2007–11)[32]

The IEO's second five years started with the implementation of a number of improvements recommended by the Lissakers Report, as discussed above. Other important developments over the period were a reduction in the IEO's budget and staffing, following parallel reductions across the IMF; a change in the process used to identify new topics for evaluation; exceptionally high staff turnover; the appointment of Moises Schwartz as IEO's third Director in 2009, following the retirement of Thomas Bernes that year; and continuing discussions on the process for follow-up on IEO evaluations and ways to strengthen the process of learning from them.

Reductions in the IEO's Budget and Staff

Initially IEO's budget was set at a level that was estimated would be sufficient to produce about four evaluations a year. This estimate turned out to be over-optimistic. Throughout the 2007–11 period, the IEO's approved budgets remained at about 0.5 percent of the IMF's total administrative budget and its number of approved staff posts remained at 13.[33] The IEO experienced high turnover (especially in 2008–09, at the time of the IMF downsizing) and difficulties in recruitment, largely because of the restrictions on length of tenure, which are much more stringent than in other similar organizations. This led to some posts remaining unfilled for long periods, and in some years to a high vacancy level. During the IMF downsizing, the idea of raising IEO resources to permit the preparation of five evaluations a year was explicitly abandoned, and the IEO budget was cut in line with that of the IMF. In fact, most evaluations turned out to be more complex and resource-consuming than anticipated, and output remained at between one or two evaluations a year.

After FY2006, IEO's budget and staffing began to be reduced in real terms, following parallel reductions across the Fund. Year-on-year budget reductions of around 6 percent in real terms took place over the years up to FY2010. To accommodate these cuts the number of economist positions in the IEO was reduced by one, bringing staff numbers down from 13 to 12. There was a parallel reduction in the office's expected output. While in 2007 the aim was still to work on three evaluations at any one time, by 2009 the Director spoke of the Office "struggling to produce two evaluations a year," and by 2011 the budget was thought to be sufficient to continue actively working on two evaluations a year, with fewer than two completed in any year. This was in part also a reflection of the complexity of topics chosen, as noted below.

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[32]The main sources for this section are IEO annual reports for the years 2007 to 2011.

[33]This figure includes the Director, a Deputy Director, and two senior project leader employees, as well as seven economists and two administrative assistants. During this period, research assistants and research officers continued to be engaged on a shorter-term, contractual basis.

A New Director

About halfway through the 2007–11 period Thomas Bernes announced, in January 2009, his intention to retire as Director that summer and he left office at the end of July. The Evaluation Committee recommended and the Board agreed to use the same procedure for selecting a new Director as on previous occasions, with a search firm identifying a shortlist of candidates from which the Board would make its choice. The decision to offer the post to Moises Schwartz (former senior Ministry of Finance and Central Bank official in Mexico and former IMF Executive Director representing Mexico and seven other countries), the current Director, was taken in November 2009 and he started work as Director in February 2010.[34]

Choice of Evaluation Topics

The way evaluation topics are chosen was also changed, recognizing that evaluation priorities were likely to change quite quickly with the evolution of the global economy and the Fund's work. The new approach was to consult annually on which topics should be chosen from a shortlist that changed as potential new topics emerged.[35] Thus in April 2006 the IEO circulated to the Board, and published, a list of 23 possible topics for evaluation that had been identified following discussions with a variety of stakeholders.[36] Following feedback on priorities and timing, in July 2006 the Director selected four of these topics to add to the IEO's future work program.[37] Consultations on subsequent topics, which began in 2008, were interrupted by the change in Director in 2009, but not before the topic of IMF Performance in the Run-Up to the Financial and Economic Crisis had been added to the evaluation work program. Work on this evaluation started before Bernes's departure and was completed in 2010. Following consultations in 2010 on a further menu of 17 possible evaluation topics, two new evaluations were launched,[38] and in 2011 an evaluation was launched on a third topic from the list.[39]

Several of the topics chosen required complex evaluation with many country case studies and/or extensive research on stakeholder attitudes or on practices in

[34]Two successive Deputy Directors acted as Director in the interim period: John Hicklin and Ruben Lamdany.

[35]For example, the case for an evaluation of the Fund's performance in the run-up to the 2008 financial and economic crisis could not have been anticipated until the crisis occurred.

[36]See "Possible Topics over the Medium Term" (May 8, 2006), available at www.ieo-imf.org/ieo/files/workprogram/050806.pdf.

[37]These were "Aspects of IMF Corporate Governance—including the Role of the Board," "The IMF's Interactions with Its Member Countries," "The Fund's Research Agenda," and "The Fund's Approach to International Trade Issues." See "Final Work Program for FY2007 and Beyond," at www.ieo-imf.org/ieo/files/workprogram/wp072606.pdf.

[38]"International Reserves: The IMF's Advice and Country Perspectives" and "The Role of the IMF as Trusted Advisor."

[39]"Learning from Experience at the IMF: An IEO Assessment of Self-Evaluation Systems."

other institutions. Their complexity, together with the IEO's staffing difficulties, contributed to limiting the Office's output to two or fewer evaluations a year. The selection of complex topics also represented a change from the original intention, which had been to balance (1) evaluations of broad and complex topics, which often allow cross-country comparison, with (2) simpler evaluations, for example those concentrating on experience with Fund-supported programs in a single country. The change in the balance reflected a recognition (one of the messages of the Lissakers Report) that broader evaluations can provide a better opportunity for learning, and that single-country cases with limited broader application make little sense when the office is only carrying out two or three evaluations a year. It may also partly reflect an assumption that the IMF's self-evaluation processes provide an effective way to evaluate its approach in individual countries.[40]

Conduct of Evaluations

While the evaluation process remained essentially unchanged over this period, at times the IEO had to adapt given its own circumstances or the characteristics of certain evaluations. For example, the evaluations of *The IMF and Aid to Sub-Saharan Africa* and *IMF Involvement in International Trade Policy Issues* were led by external consultants rather than by IEO staff members. Also, for the evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis*, the IEO constituted an advisory group of eminent persons that discussed a preliminary version of the report and prepared a summary of its views that was published alongside the final report.

Presentation of Reports

The Lissakers Report had recommended that the IEO produce shorter reports, and the average number of pages fell by more than half between the IEO's first and second five-year periods (pre- and post-Lissakers Report). At the same time the IEO experimented with a variety of approaches for accommodating additional background material.[41]

The numbers and presentation of evaluation findings and recommendations varied widely across the evaluation reports produced in 2007–11. Numbers of main recommendations ranged from 2 to 14 and numbers of sub-recommendations from 0 to 25. The translation of evaluation findings into recommendations also varied;[42] one approach was to frame only a few recommendations at a general level, while another was to list a (usually larger) number of specific actions

[40]The only examples of single-country evaluations were *The IMF and Argentina, 1991–2001*, which itself was quite complex and controversial, and *IMF Support to Jordan, 1989–2004*. The latter is generally regarded as not being as useful as others, in part because it was seen as addressing a topic that IMF staff could approach in a similar fashion.
[41]See Salop, Chapter 8 in this volume.
[42]See Salop, Chapter 8 in this volume.

to address identified concerns. There are arguments for and against both approaches, as discussed in the IEO's *Annual Report 2011*:

> In designing its recommendations the IEO faces important trade-offs regarding the degree of specificity. The IEO can provide general recommendations to complement its conclusions, leaving it to IMF Management to propose specific actions to effect change. This approach has the advantage of focusing attention on big-picture goals and allows the Board to endorse the direction of needed reforms while allowing Management the flexibility to propose how best to pursue these goals and to present specific actions in the MIP to achieve them. On the other hand, this approach makes it very difficult for the Board to assess the extent to which Management's proposed actions would address the goals endorsed; further, often these actions are such that it is difficult for the Board to monitor their implementation.
>
> Alternatively, the IEO can recommend specific actions to address goals and concerns raised by its evaluations. Detailed IEO recommendations have the advantage that they are more likely to be closely aligned with the conclusions of the evaluation and easier for the Board to monitor. But this approach may diminish Management and staff ownership of the implementation plan, and would not make full use of their greater institutional knowledge and their ability to integrate the implementation of Board-endorsed competing approaches. . . .

Annual Reports and Common Themes

IEO annual reports continued the practice of highlighting common themes from evaluations conducted. Box 6.6 shows the common themes as summarized in the *Annual Report 2009*.

BOX 6.6

Common Themes Noted in the IEO Annual Report 2009

The 2009 report noted that themes emerging from earlier evaluations emphasized the need for:

- Better management of institutional change at the IMF.
- Greater clarity about the goals of various IMF initiatives and a properly aligned external communications strategy.
- Strengthened partnership between the IMF and partner institutions and donors.
- Clearer metrics for the assessment of the impact of IMF's policy advice and whether the IMF is meeting its commitments to countries.
- The IMF to be more explicit about who is accountable for what and to whom.

The report added a number of lessons for the IEO itself from the emerging financial and economic crisis:

- The need to be more pointed in challenging the evenhandedness of Management in dealing with members.
- The need to examine more critically the Fund's ability to "speak truth to power."
- The need to be bolder in highlighting downside risks.
- The need to do more to encourage follow-up on evaluation findings.

Staff Turnover and Other Staffing Issues

High staff turnover became a critical issue for the IEO during its second five years. For example, during the two-year period before 2009, there were 11 departures from the 7 nonmanagerial economist positions. Because of high staff turnover, over the period FY2009–11 staff numbers in management and economist positions were on average one or more below budget.

Employment Policies

The continued turnover and difficulties in recruitment imposed significant costs on the IEO. Factors that contributed to the high turnover included the impact of the employment conditions, such as the six-year term limit on regular IEO staff positions, that were imposed initially on the IEO to strengthen its perceived independence. These employment conditions could also have affected the IEO's ability to attract high-quality staff. Following a 2009 IEO review of its employment policies, in April 2010 the Board approved changes to address these issues and enhance IEO's technical excellence and institutional knowledge while maintaining its diversity and freshness of perspectives, and to strengthen its actual and perceived independence (Box 6.7).

BOX 6.7

Changes in IEO Employment Policies Approved in April 2010

- The possibility, in limited circumstances, to extend the term limit for senior employees and economists from 6 to 12 years.
- The possibility of hiring some research assistants/officers as noncontractual employees for up to six years.
- The adoption of a policy whereby employees hired from the IMF would lose their guaranteed right of return to the Fund if they remain at the IEO for more than 6 years.
- An expansion of the categories of IEO staff subject to a 12-month "cooling-off" period before they can join Fund staff.

Follow-Up on IEO Reports

Experience with the follow-up mechanisms that were introduced in 2007 (see the section "The Lissakers Report: Evaluating the Evaluators" above) has been mixed. The first PMR,[43] which reviewed the status of implementation of all Board-endorsed recommendations from the first 10 IEO evaluations, was discussed by the Board in January 2008. In the course of that discussion the Board asked the IMF staff to produce well-defined benchmarks or other measurable criteria to

[43]"Periodic Monitoring Report on the Status of Board-Endorsed Recommendations and Monitoring Implementation Plans" (December 3, 2007), available at www.imf.org/external/np/sec/pn/2008/pn0825.htm.

monitor progress in implementation. When the Evaluation Committee came to review the Third PMR in October 2009, it noted that all key benchmarks had been met or were on track for timely completion; but it also noted that in some cases more needed to be done to achieve the broader policy objectives underlying specific IEO recommendations, and that the PMR process might need to be revised. Later, the Committee again broached the possibility of improving the PMR process: in July 2011, discussing the Fourth PMR, the Committee recommended and the Board agreed that the coverage of PMRs could be expanded to cover broader policy objectives as well as specific recommendations, and by describing the status of past implementation plans. The Committee also pointed out that the process for endorsing IEO recommendations needed to be strengthened, including by reforming the Board Summing Up process to improve clarity and accuracy.

How to improve the follow-up on Board-endorsed recommendations has been a recurring question throughout the five years since the Lissakers Report. There are several difficulties in dealing with this issue. First, there is the strength or otherwise of incentives provided by the Board, starting with closer monitoring, to enhance the commitment of Management and staff to implementing these recommendations. Second, some categories of IEO findings and recommendations by their nature are unlikely to be amenable to monitoring follow-up by tracking specific benchmarks. Examples are recommendations that are pitched at a general or broad level, leaving Management to propose the detail of implementation (see discussion of this issue in the above section). Finally, some recommendations require actions by country authorities or Board members, leaving Management constrained in its ability to propose or implement an action plan. For example, some of the recommendations from the evaluation of IMF governance are directed to the Fund's governors.[44]

Concluding Comments

Over the past decade, the IEO has followed closely the vision for its creation. Thus far the results have met, if not exceeded, the initial expectations. The IEO has produced what are generally acknowledged to be independent, objective, and high-quality evaluations of complex and sometimes sensitive issues. Its work has been held up as an example of the kind of evaluations that should be carried out elsewhere. Many of the IEO's recommendations have led to practical improvements in the Fund. Another measure of success is that some of the IEO practices that have led to its exceptional degree of institutional independence have been replicated elsewhere.[45]

To ensure the IEO's continued success will (as recommended in the Lissakers Report) require sustained efforts and support by the Board, and willingness by IMF Management and staff to engage constructively. For the Board, in addition

[44]See Louellen Stedman, "IEO Recommendations: A Review of Implementation," Chapter 9 in this volume.

[45]Evaluation offices in other international organizations and in certain governments have emulated arrangements that help ensure IEO's independence. Examples include the World Bank's Independent Evaluation Group, and the Independent Commission for Aid Impact established in the United Kingdom in 2011 to evaluate its aid programs, which reports directly to Parliament.

to protecting the IEO's independence and ensuring that it has sufficient resources, this means working with Management on ways to strengthen the follow-up on IEO recommendations. For Management and staff, it means further efforts to strengthen the institution's learning culture to better incorporate IEO lessons into IMF operations and practices. These issues will no doubt continue to be debated in the years ahead, informed also by the second external evaluation of the IEO that is now under way.

Annex. Key Events in the History of Independent Evaluation at the IFIs

1970	The Inter-American Development Bank (IDB) establishes an evaluation function.
	The World Bank President creates the Operations Evaluation Unit within the Programming and Budgeting Department.
1973	The World Bank Executive Board establishes the Operations Evaluation Department (OED).
1975	The World Bank-International Finance Corporation Joint Audit Committee establishes an evaluation subcommittee to review project evaluation reports and assess the project evaluation system.
1978	The Asian Development Bank (ADB) establishes a Post-Evaluation Office.
	The International Fund for Agriculture and Development (IFAD) establishes an internal evaluation function as part of the Monitoring and Evaluation Division, reporting to an Assistant President.
1980	The African Development Bank (AfDB) Evaluation Unit is set up in the Research and Planning Division.
1987	The AfDB Evaluation Unit becomes the Operations Evaluation Office, reporting to the President.
1990	The Islamic Development Bank (IsDB) establishes the Operations Evaluation Office under the authority of the Adviser for Operations Evaluation and Audit, headed by a Director who reports to the President.
1992	The European Bank for Reconstruction and Development (EBRD) establishes the Project Evaluation Office.
1994	IFAD establishes the Office of Evaluation and Studies.
	The IDB former Ex-Post Evaluation Unit and the External Review and Evaluation Office merge to create the Evaluation Office.
	The World Bank Committee on Development Effectiveness (CODE) is established as a standing committee of the Executive Board.
1995	The European Bank for Investment (EIB) establishes the Operations Evaluation Department.
	The AfDB Operations Evaluation Office is upgraded to a department whose Director reports to the Board of Directors and administratively to the President.
	The Informal Subcommittee of CODE is established to consider assessments submitted by OED and whether adequate follow-up action has been taken on CODE-endorsed OED recommendations.
	The International Finance Corporation Operations Evaluation Unit is reorganized as a department, the Operations Evaluation Group (OEG).

(continued)

Annex (*continued*)

1996	The Evaluation Cooperation Group (ECG) is established. Founding members are evaluation offices from the AfDB, ADB (Secretariat), EBRD, IDB, and the World Bank Group. Subsequent members are evaluation offices from the EIB, IMF, IFAD and IsDB. The Organization for Economic Cooperation and Development–Development Assistance Committee and United Nations Evaluation Group are permanent observers.
1999	The IDB Office of Evaluation and Oversight (OVE) is created to be independent of Bank Management, reporting solely and directly to the Board of Executive Directors.
	The ADB Post-Evaluation Office becomes the Operations Evaluation Office. In December 2000, the Board of Directors establishes the Development Effectiveness Committee.
2000–01	The Independent Evaluation Office of the IMF (IEO) is created to be at arm's length from the Board and becomes operational in July 2001. A Board Evaluation Committee is created in November 2001.
2002	The World Bank Multilateral Investment Guarantee Agency (MIGA) evaluation office (OEU) is established. The office transmits its reports to the Board through a Director General.
2003	IFAD creates an independent Office of Evaluation whose Director is responsible to the Executive Board.
2004	The ADB Operations Evaluation Office becomes the independent Operations Evaluation Department, reporting to the Board of Directors through the Board's Development Effectiveness Committee.
2005	The EBRD Project Evaluation Office becomes an independent evaluation office, headed by a Chief Evaluator who is responsible directly to the Board.
2006	OED, OEG, and OEU merge. The World Bank Group Independent Evaluation Group (IEG) is led by a Director-General who appoints three Directors in consultation with management and the CODE chair.
2009	The ADB Operations Evaluation Department is renamed the Independent Evaluation Department by the Board of Directors to enhance the independence and effectiveness of the evaluation function.
	The IsDB Operations Evaluation Office becomes the Group Operations Development Department. The Director reports to the Board through the Audit Committee and to the Chairman of the IsDB Group.
	The EIB Operations Evaluation Department is put under the responsibility of the Inspector General who performs independently and is accountable to the President and to the Board Management Committee.

CHAPTER 7

Independent Evaluation at the IMF: Understanding the Evaluation Cycle

ALISA ABRAMS AND RUBEN LAMDANY

This chapter describes the processes involved in preparing IEO evaluations, starting with how evaluation topics are selected and ending with how the IMF monitors the implementation of IEO recommendations. It also provides a tentative assessment of some of the main aspects of this process. Other chapters in this volume describe how IEO's evaluation reports have evolved over time, and provide illustrative assessments of the implementation of its recommendations.

The IEO was established in 2001 to conduct independent and objective evaluations of Fund policies and activities. Under its terms of reference (TOR) the "IEO will be independent of Fund management and staff and will operate at arm's-length from the Fund's Executive Board. Its structure and modalities of operation must protect its operational independence—both actual and perceived." The IEO reports regularly on its activities and findings to the IMF Executive Board (the Board) and to the International Monetary and Financial Committee (IMFC).

Given its resources and the IMF's capacity to absorb lessons and effect change, the IEO works on up to three evaluations at any time and, on average, issues fewer than two evaluations per year. During its first decade, through 2011, the IEO completed 18 evaluations (listed in Part IV of this volume). Though the evaluation cycle has changed over time and continues to evolve, it has a number of permanent features, the most salient of which are described below.

The Evaluation Cycle

Typically, the IEO evaluation process comprises the following steps:

- Consultation on work program and topic selection
- Design of evaluation and preparation of an Issues Paper (IP)
- Evaluation research: methods, findings, lessons, and recommendations
- Preparation and issuance of evaluation report

The authors thank Hali Edison and Louellen Stedman for their comments.

- Board discussion of evaluation report and Summing Up (SU) of Board discussion
- Management Implementation Plan (MIP) for Board-endorsed IEO recommendations
- Board monitoring of implementation by means of a Periodic Monitoring Report (PMR)
- Post-evaluation activities: dissemination and Evaluation Completion Report (ECR).

Consultation on Work Program and Topic Selection

The IEO's TOR specify that "The Director of IEO will be responsible for the preparation of the Work Program. The content of the Work Program should focus on issues of importance to the Fund's membership and of relevance to the mandate of the Fund. It should take into account current institutional priorities, and be prepared in light of consultations with Executive Directors and Management, as well as with informed and interested parties outside the Fund."

In practice, the IEO continuously discusses possible evaluation topics and priorities with country authorities, Executive Directors (EDs), IMF Management, staff, and external stakeholders. Based on these discussions, the IEO prepares a long list of topics every one or two years that serves as the main tool for consultation on a possible medium-term work program. This list is issued to the Board, Management, and IMF staff for their comments. It is also posted on the IEO website to seek comments from external stakeholders and other interested parties.

IMF Management and staff provide detailed comments on each proposed topic and indicate which would be their priorities. The IEO conducts consultation workshops that have been effective in gathering feedback from external stakeholders. IEO also uses its website to solicit ideas for evaluation topics from external stakeholders.

To ensure broad and detailed consultation with EDs, the IEO Director organizes an Informal Board Seminar, at which most EDs indicate which topics they consider to be a priority and which they might not consider important. While priorities tend to differ across constituencies, usually there are a few topics that receive EDs' broad support.

Following these consultations, the IEO Director decides on topics for the next two or three evaluations. In selecting these topics, the IEO tries to balance stakeholder views and the need to avoid interfering with the Fund's operational activities, as well as basing the decision on an independent assessment of institutional priorities.

Design of the Evaluation Project and Preparation of an Issues Paper

Once a topic is selected, a project leader is named and an evaluation team is put in place. After a few months of research, the evaluation team prepares a concept note, with a short description of the project design, including the scope, main questions to be addressed, and methods to be used. The concept note is used as the basis for a workshop with external advisors to brainstorm about the focus and methodology of the evaluation.

Based on the initial research and comments received from external advisors at the workshop, the IEO prepares a Draft Issues Paper (Draft IP) that is circulated to the Board, Management, and IMF staff for comment. Board members provide comments in an Informal Board Seminar organized and chaired by the IEO Director. IMF staff provide detailed written comments on the proposed design and methods. To gather feedback from external stakeholders, the IEO organizes workshops with country authorities, academics, and civil society organizations and posts the Draft IP on its website.

The IEO revises the Draft IP in light of all comments received and issues a final Issues Paper (IP) that is posted on the IEO website. The IP describes the scope of the evaluation, main questions, and evaluation methods, as well as a general work plan.

Evaluation Research: Methods, Findings, Lessons, and Recommendations

In its research, the IEO uses many of the methods common in evaluation. The starting point is a review of published and unpublished IMF documents, previous IEO reports, documents found in internal repositories, and documents requested from selected IMF departments.[1] The IEO also conducts surveys, structured and semi-structured interviews, focus groups, and statistical analyses. Each of these techniques has been used in different forms and to different extents in each evaluation.[2] Also, background papers addressing evaluation issues are prepared by IEO staff and/or external consultants. Background papers undergo extensive quality assurance checks, but the views and judgments presented in these papers are those of the author and do not necessarily reflect the views of the IEO, the IMF, or the evaluation team.[3]

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[1]The IEO has the right to obtain all information except to the extent the information is covered by attorney-client privilege or falls in the "zone of privacy" with respect to confidential communications of the Managing Director and Deputy Managing Director's office with persons or institutions outside the Fund and within and between their immediate offices or between Executive Directors and their authorities and within and between their offices. The Director of the IEO is also to be granted access to side letters on the same terms as those that apply to the Executive Board.

[2]See Joanne Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF," Chapter 8 in this volume.

[3]Part of the evidence supporting the findings and conclusions of an evaluation is included in the corresponding evaluation report or in background documents that accompany the report. Some of the evidence can also be found in background papers that are published around the time that the evaluation report is issued. On the other hand, evidence and supporting information obtained from member country authorities or other stakeholders with the understanding that the source and sometimes the information will remain confidential is not published in any form. Instead, this information is filed by the IEO, and its location is recorded in a corresponding Evaluation Completion Report (ECR) (see below).

Once the evaluation team is ready to draw initial conclusions and lessons, the IEO organizes a workshop to discuss emerging messages and recommendations. The workshop on emerging messages is chaired by the IEO Director; and participants usually include former country officials, former IMF Management and staff, academics, relevant civil society stakeholders, and IEO evaluators. The evaluation team presents the evidence it has gathered; discusses main findings, emerging messages, and potential recommendations; and usually reviews an outline for the evaluation report. In turn, the team receives feedback. In most cases, these workshops lead to new evaluation questions that require a few months of additional research and gathering of evidence.

Preparation and Issuance of Evaluation Report

Once the IEO Director is satisfied that all issues raised at the workshop on emerging messages have been addressed, the evaluation team prepares a draft evaluation report. Under the leadership of the IEO Director, the draft report is discussed within the IEO and reviewed by selected advisors. Comments are incorporated and messages are clarified. Also, recommendations are scrutinized to make sure that they address the main issues found by the evaluation. Since 2006, following the recommendations of the "Report on the External Evaluation of the IEO,"[4] IEO Directors have emphasized the need for shorter evaluation reports, with more focused assessments and recommendations.[5]

The draft report package, including background papers, is circulated to IMF staff, who are usually given three or four weeks to provide written comments. IEO carefully reviews these comments, although neither Management nor staff may insist on any changes beyond factual corrections. At this time, when appropriate, relevant country authorities are also given the opportunity to provide comments. The IEO revises the evaluation report in light of all the comments received.[6]

After additional careful review, the IEO Director approves the final evaluation report package (including background papers) for circulation to the Evaluation Committee (EVC). The report is issued to the EVC, and copied to other EDs for information. It is also sent to IMF Management for comment.[7] The Board Secretary sets a date for a Board discussion of the evaluation, which must be held

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[4]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

[5]Also following the recommendations of the Lissakers Report, there has been an attempt to link the evaluation conclusions and recommendations more closely to the levels in the IMF organizational structure (e.g., Board, Management, staff) that are best placed to implement the corresponding changes.

[6]At this point, the report is also reviewed for readability and presentation, often involving a professional editor.

[7]From this point onward, the report may not be changed other than to correct factual errors or to improve its readability. In fact, the IEO needs to inform the Board of any factual changes, but it is very unlikely that additional factual errors would be found at this stage, since the draft report would have already benefited from IMF staff scrutiny. In practice, IEO rarely makes additional changes beyond editing for presentational purposes.

within six weeks of the issuance of the report. The IMF staff issues a response to the IEO evaluation report and the Managing Director issues a statement reflecting on its findings and recommendations. These statements are to be issued no later than two weeks prior to the Board discussion. The Managing Director's Statement and the Staff Response become part of the official record and are included, along with any IEO responses, in the final version of the evaluation report, which is then issued to the Board no later than two weeks prior to the Board discussion.[8]

Board Discussion and Summing Up

The Board discussion of an IEO evaluation is chaired by IMF Management (usually the Managing Director or the First Deputy Managing Director), as is the case with all formal Board meetings. The Chair facilitates the discussion, and helps reach a consensus view whenever this is possible.

Executive Directors may submit written preliminary statements (Grays) and questions up to 48 hours prior to the Board meeting. EDs discuss their views at the Board meeting, focusing on the findings, conclusions, and recommendations. They may also seek clarification or ask questions of IMF staff or the IEO. The IEO Director usually makes a brief introduction, and responds to specific questions with the assistance of the team leader for the corresponding evaluation and other relevant IEO staff.

At the conclusion of the discussion, the Chair reads a draft Summing Up (SU) reflecting the Board's overall views and explicitly or implicitly stating which IEO recommendations it endorses. The draft SU is prepared in advance of the meeting by IMF staff, typically from the Strategy, Policy, and Review Department. They, together with staff from the Secretary's Department, modify the draft during the Board meeting as necessary to reflect the discussion. The SU is subsequently circulated to EDs for approval on a 48-hour lapse-of-time basis during which time Directors may ask for changes.[9]

The manner in which the Board endorses recommendations varies. Recommendations range from calls for changes in broad IMF policies or practices to detailed suggestions which are sometimes presented as an illustration. In some

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[8]Procedures regarding the scheduling of Board discussions and deadlines for submission of the Managing Director's Statement and the Staff Response for IEO evaluations were agreed by Management and the Board following the 2006 "Report of the External Evaluation of the IEO." In the event specific circumstances require a departure from this norm, Management must explain the reasons to the Executive Board in a Board meeting and in a timely fashion following consultation with the Chairman of the EVC (EBAP/07/4).

[9]The process of summarizing the Board's views on IEO reports is different in many important ways from the process of summarizing the Board's views on reports prepared by IMF staff. First, in the case of IMF staff reports, the draft SU is usually prepared by the "originating" unit, that is, the unit that prepared the report being discussed. In this case, IEO prepares the report being discussed but is not involved in preparing the draft SU or in modifying it during the Board discussion. Second, according to accepted Board procedures, the Board operates under the assumption that silence of an ED on an issue reflects his/her consent with a report's views. Past experience suggests that this procedure is not applied in the case of IEO reports, at least not in a systematic way.

cases, the Board endorses a policy or operational change, but not a specific IEO suggestion on how to implement the change. In other cases, the Board endorses a specific suggestion but not the recommended broader underlying reform. In practice, the Board also endorses statements on general goals or objectives of IMF policies or programs.

As a result, most SUs are written in very general terms, and do not contain clear-cut statements on which aspects of an endorsed recommendation are considered critical by the Board or which aspects are considered to be suggestions on possible approaches to implementation. This often leads to a lack of clarity that is problematic, given that the SU is used as the basis for the Management Implementation Plan.[10]

After the approval of the SU, IEO discloses the report package along with a Press Release (initially by posting it on its website and eventually by publishing the report). In parallel with IEO's disclosure of the report, the IMF issues a Press Release containing the Managing Director's Statement, the Staff Response and a Public Information Notice (which incorporates the SU).

Management Implementation Plan

Since 2006, Management has been required to present to the Board soon after the Board discussion a forward-looking Management Implementation Plan (MIP) that explains how it expects to implement Board-endorsed recommendations. MIPs are supposed to include a timetable of actions and an estimate of their costs (EBAP/07/4). To date, staff has produced seven MIPs that set implementation benchmarks for Board-endorsed IEO recommendations. They cover the following IEO evaluations: *The IMF and Aid to Sub-Saharan Africa, IMF Exchange Rate Policy Advice, Structural Conditionality in IMF-Supported Programs, IMF Involvement in International Trade Policy Issues, IMF Interactions with Member Countries, IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07,* and *Research at the IMF: Relevance and Utilization.*[11]

As mentioned above, at times SUs have not been clear about what the Board has endorsed—for example, a goal, a policy change, a strategy, or a practical suggestion. While it is incumbent upon staff to issue a forward-looking implementation plan, in practice MIPs seem to address IEO recommendations only as part of ongoing or planned processes or initiatives. This approach of embodying staff's proposed actions within ongoing activities may have the benefit of strengthening ownership of the MIP, but it poses the risk that the IEO recommendation itself will be lost within the wider process or initiative. Another problem created by the lack of clarity of SUs is that MIPs sometimes propose actions that address goals that only indirectly respond to those IEO recommendations actually endorsed by the Board.

[10]SUs play a key role in ensuring Board guidance and oversight over the IMF. In its evaluation of IMF Governance (2008), IEO pointed to several aspects in the preparation of SUs that need reforms to ensure greater accuracy and clarity. The Board has agreed on the need to reform aspects of the SU process, including those reflecting the discussion of IEO reports.

[11]The annex presents the timeline for the preparation and approval of these MIPs.

The MIP is discussed at an EVC meeting.[12] In the past, for most MIPs the EVC has recommended Board approval on a lapse-of-time basis. In rare instances, however, the EVC has asked Management to revise the MIP—in which case the MIP has had to be resubmitted for EVC consideration—or recommended a full Board discussion.

The approved MIP is disseminated externally by the IMF through a Public Information Notice (PIN) which may include a Board assessment of the report recommendations and/or a link to the MIP.

Periodic Monitoring Report: The Board's Tool to Monitor Implementation of IEO Recommendations

Implementation of IEO recommendations is tracked by means of a Periodic Monitoring Report (PMR) which Management is required to present to the Board on an annual basis. Monitoring the follow-up on IEO recommendations endorsed by the Board is vital to establishing accountability and completing the cycle of learning to which independent evaluation contributes. Each PMR summarizes the status of implementation of actions from new MIPs agreed since the last report, as well as the actions that are pending from prior reports. PMRs are also supposed to indicate any difficulties in implementing MIPs and to propose remedial or substitute actions wherever appropriate.[13]

The PMR is reviewed at a meeting of the EVC. As with the MIP, the EVC has usually recommended that the Board approve the PMR on a lapse-of-time basis. The Chairman also issues an assessment and proposed decision to the Board regarding implementation performance and benchmarks to be reviewed in the following PMR. Once approved by the Board, the PMR is disseminated externally by the IMF through a PIN.

IMF staff has produced four PMRs to date since 2007. The first of these included a summary of the Executive Board discussion, a summary of the monitoring status and, in some instances, a staff assessment of the implementation of selected endorsed recommendations to date. To avoid overloading the monitoring process with large numbers of recommendations, the Board agreed with staff that there was no need for additional reporting on recommendations that were deemed implemented or on track for timely implementation.

In practice, this sometimes has meant that the monitoring of recommendations has been discontinued after the implementation of one-off actions that fell short of achieving the broader goals endorsed by the Board. As a consequence, the broader recommendation has been dropped from the next PMR, leaving no vehicle for Directors to track implementation.

The Third and Fourth PMRs concluded that all key performance benchmarks from related MIPs had been met or were on track for timely completion, and that

[12]As with all IMF Board committees, nonmembers may also attend and speak at committee meetings. In practice, representatives of all constituencies participate in most MIP discussions.

[13]The PMR is meant to track status of implementation, not to assess the effectiveness of the recommended actions. Currently, there is no system for assessing the effectiveness of actions. In discussing

no new remedial actions were needed. They essentially left almost no recommendations to be monitored from earlier evaluations.

Though the EVC broadly endorsed this assessment, it noted at the same time that more needs to be done in some cases to achieve the broader policy objectives underlying specific IEO recommendations. The EVC further emphasized the need to improve the implementation of Board-endorsed IEO recommendations, possibly including revisions to the PMR process.

Post-Evaluation Activities: Dissemination and Evaluation Completion Reports

In addition to posting its reports and background documentation on its website, the IEO publishes these reports and distributes them to authorities in member countries and other stakeholders through the channels regularly used by the IMF to distribute its documents. The IEO also conducts dissemination activities among member country authorities, IMF staff, and stakeholders around the world. Given the IEO's limited resources, most of these activities take place around events organized by other parties.

An Evaluation Completion Report (ECR) is prepared after the disclosure of each evaluation report to analyze the process of preparing the evaluation, focusing on good practices and challenges and providing future teams with lessons for improving the way they carry out their work.[14]

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the Lissakers Report, the Board decided to postpone the establishment of a mechanism to assess the effectiveness of actions until after experience had been gained with the MIP/PMR process.

[14]ECRs include a list of interviewees, note the location of confidential information gathered in the evaluation process, and contain information on any changes made to the report after it has been issued to the Board. ECRs are confidential documents because they include the names of interviewees (who are promised confidentiality to ensure that they are candid in their responses) as well as other confidential information (e.g., the location of strictly confidential documents given to the IEO for its work and of disaggregated survey responses). As such, ECRs are shared only with the external evaluators of the IEO.

Annex. Timeline for Consideration of Management Implementation Plans, 2007–12

Report	Board Discussion of Report	Proposed MIP Issued	Board Approval of MIP
The IMF and Aid to Sub-Saharan Africa	March 5, 2007	June 6, 2007	June 29, 2007
IMF Exchange Rate Policy Advice	May 9, 2007	August 17, 2007	September 12, 2007
Structural Conditionality in IMF-Supported Programs	December 12, 2007	April 8, 2008	May 2, 2008
Governance of the IMF: An Evaluation	May 21, 2008	—[1]	
IMF Involvement in International Trade Policy Issues	June 8, 2009	November 13, 2009	December 17, 2009
IMF Interactions with Member Countries	December 14, 2009	June 1, 2010[2] November 19, 2010	December 27, 2010
IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07	January 26, 2011	March 29, 2011[3] December 22, 2011 February 14, 2012	May 25, 2012
Research at the IMF: Relevance and Utilization	June 13, 2011	June 18, 2012	November 27, 2012

[1]In light of the distinct nature and content of the evaluation the Board decided that it was not appropriate for Management to prepare a MIP as for other evaluations. Instead, the Board and Management launched processes aimed at preparing follow-up plans. The Dean of the Executive Board established a Working Group of Executive Directors which issued a work plan approved by the Board in September 2008. At that time, the Managing Director established three other entities on IMF governance reform: a committee of eminent external persons (the Manuel Committee), a process to gather civil society views, and a Joint Steering Committee to prepare a report to distill concrete proposals taking into account the views of all four streams. However, the Joint Steering Committee did not issue a report; and in January 2011, the Dean of the Board announced that any follow-up and remaining issues would be taken up by the whole Executive Board. Thus, there has been no MIP-like document for this report.

[2]The paper was withdrawn to allow the Evaluation Committee to discuss it first. A Supplement report on progress on various issues was issued on December 10, 2010.

[3]The initial MIP was not approved by the Evaluation Committee. A revised MIP was discussed by the Evaluation Committee and referred for discussion by the full Board. The revised MIP was reissued and discussed at a Board meeting chaired by the Managing Director.

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CHAPTER 8

IEO Retrospective: Ten Years of Independent Evaluation at the IMF

JOANNE SALOP

This chapter reviews the 18 evaluations issued by the IEO since its inception in 2001. It looks at country coverage (advanced vs. developing economies) and evaluative orientation (investigations vs. studies); it concludes that from an institutional risk management perspective greater attention to advanced economies and investigations is warranted. It also looks at evaluation recommendations, where it finds (1) wide variation across individual evaluations and (2) ambiguity in some about the standing of sub-recommendations relative to headline recommendations; it concludes that greater consistency and clarity are needed, including in explaining the links between evaluation findings and recommendations. It finds considerable scope for the IEO to examine internal IMF governance (from the perspective of "Management and below"), especially with respect to questions about exactly how the IMF and who within the IMF decides what position is taken when institutional policies are either not clearly defined or not fully implemented. In light of several evaluations' findings of a lack of evenhandedness in IMF advice and/or conditionality, it concludes that future evaluations should do more to document and assess cross-country differences in treatment, as a basis for recommending possible remedies.

Introduction

This chapter discusses the 18 evaluation reports issued by the IEO between its inauguration in 2001 and 2011.[1] It brings together facts and observations on the reports as a basis for informing conversations within the IEO and between the IEO and stakeholders about evaluation strategies and actions going forward. It draws on inputs and comments on earlier drafts from current and former IEO staff and lead authors of the 18 evaluations. Unless otherwise stated the views expressed are solely those of its author, who it must be said as a matter of disclosure was the lead author of one of the 18 evaluations and a contributor to and/or reviewer of several others.

[1]See Part IV of this volume for a full list of evaluation reports.

The exercise was commissioned by the IEO as part of a broader effort to take stock of IEO's first 10 years and hence provide a basis for forward thinking. Another motivating factor was the IEO's interest in preserving and promoting institutional memory among IEO staff and managers, including with respect to challenges and lessons learned in carrying out evaluations. Also, an important milestone in IEO's history was the issuance in 2006 of a report of the external evaluation of the IEO—the "Lissakers Report;" five years on, the IEO thought it timely to assess how well it was following up on that report's recommendations.[2]

The retrospective looks at the coverage, evidence, findings, recommendations, and evolution over time of IEO evaluation reports. Its emphasis is on the 18 reports as a group and on differences across evaluations within the group. It does not and is not meant to provide an in-depth review of individual evaluations, or an evaluation of the IEO. Nor does it consider the impact of IEO evaluations or the effectiveness of the IEO. These issues are being addressed in the context of other IEO initiatives.

The remainder of the chapter is organized as follows. The first section discusses the coverage of IEO evaluations, with respect to both countries and evaluation orientation. The second section discusses the evaluations' evidence—the underlying data and methods used by the IEO. The third section discusses the evaluations' findings and recommendations. The fourth section briefly discusses the IEO's evolution over time. The final section summarizes the retrospective's conclusions.

IEO Evaluations: Coverage

This section looks at the country coverage and evaluation orientation of IEO evaluations to date. It aims to shed light on where the IEO has focused its attention, as a basis for discussions within IEO and with IEO stakeholders about prioritization and evaluation selection going forward. It also aims to facilitate the work of future IEO evaluation teams by providing them with a typology for associating their evaluations with the appropriate evaluation comparators from the IEO's first 10 years.

For ease of reference, Table 8.1 lists the 18 evaluations issued by IEO to date in two columns, dividing them chronologically into the first half of the review period and the second half. This split conveniently corresponds to before and after the Lissakers Report, though of course there was a gray zone between the two periods. (The *Multilateral Surveillance* evaluation, for example, was launched before, drafted in parallel with, and finalized after the Lissakers Report; its inclusion below in the second half of the review period was validated by its lead author who indicated that the Lissakers Report influenced its final shape.)

[2]See "Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf. The Terms of Reference and Summing Up of the Executive Board discussion of the report may be found in Part IV of this volume.

TABLE 8.1

IEO Evaluations to Date

First Half Evaluations	Second Half Evaluations
Prolonged Use (2002)	*Multilateral Surveillance* (2006)
Capital Account Crises (2003)	*Aid to Sub-Saharan Africa* (2007)
Fiscal Adjustment (2003)	*Exchange Rate Policy Advice* (2007)
PRSPs and the PRGF (2004)	*Structural Conditionality* (2007)
Argentina (2004)	*Governance* (2008)
Technical Assistance (2005)	*International Trade Policy* (2009)
Capital Account Liberalization (2005)	*Interactions with Member Countries* (2009)
Jordan (2005)	*Financial and Economic Crisis* (2011)
Financial Sector Assessment Program (FSAP) (2006)	*Research* (2011)

Note: Dates are taken from print-version covers, and vary somewhat vis-à-vis the dates the reports were discussed by the IMF Board.

Country Focus

Table 8.2 summarizes the country focus of the 18 evaluations, grouped according to the IMF's standard country classifications. Seven of the evaluations (or 39 percent) covered the entire membership and 10 (55 percent) exclusively covered emerging economies and/or low-income countries. One focused primarily on advanced economies.[3]

Different ways of looking at the distribution of IEO resources across country groups lead to different conclusions. One view focuses on the distribution across countries/groups of the 11 evaluations that concentrated on specific countries/groups. According to this view, over the 10-year retrospective period the IEO devoted about 10 percent of its evaluation resources to IMF work with advanced economies, and the other 90 percent to IMF work with developing countries, especially emerging economies. The main alternative view focuses on how many of the 18 evaluations dealt with a particular country group, including in the context of all-member evaluations. According to this view, 45 percent of the 18 evaluations covered IMF work with advanced economies, and 94 percent covered work with developing countries—still a major difference in coverage between the two country groups, but a significantly smaller one.

When the 18 evaluations are broken down into the two time periods defined above, the share of all-member reports is seen to have increased sharply (Table 8.2). All-member evaluations increased from only 1 in the first period to 6 in the second period, with a corresponding drop in narrowly targeted attention to IMF work with the emerging economies and low-income countries. In the first period,

[3]*Multilateral Surveillance* is counted as an all-member report, although the big picture does not change materially if it is counted as an evaluation covering the advanced economies. According to its lead author, "The focus of the multilateral surveillance evaluation was on large economies, which for the most part meant advanced economies. China was explicitly included among the large economies, though Brazil and India were not (as least to the same extent). At the same time, [the evaluation] also looked at the feedback from multilateral surveillance to bilateral (i.e., bilateral surveillance as a user of [multilateral surveillance] outputs). In this sense, all members were included in the evaluation."

TABLE 8.2

Distribution of IEO Evaluations by Country Grouping

IEO Reports Classified by Country Coverage	Entire Period	First Half	Second Half
All member countries: *FSAP* (2006); *Multilateral Surveillance* (2006); *Exchange Rate Policy Advice* (2007); *Governance* (2008); *Interactions with Member Countries* (2009); *International Trade Policy* (2009); *Research* (2011)	7 (39%)	1 (11%)	6 (67%)
Advanced economies: *Financial and Economic Crisis* (2011)	1 (6%)	—	1 (11%)
Emerging economies: *Capital Account Crises* (2003); Argentina (2004); *Capital Account Liberalization* (2005); *Jordan* (2005)	4 (22%)	4 (44%)	—
Emerging and/or low-income countries: *Prolonged Use* (2002); *Fiscal Adjustment* (2003); *PRSPs and the PRGF* (2004); *Technical Assistance* (2005); *Aid to Sub-Saharan Africa* (2007); *Structural Conditionality* (2007)	6 (33%)	4 (44%)	2 (22%)
Total	18 (100%)	9 (100%)	9 (100%)

8 of the 9 evaluations focused on IMF work with developing countries, and only one (*FSAP*) was an all-member evaluation. In the second period, only 2 evaluations (*Aid to Sub-Saharan Africa* and *Structural Conditionality*) focused exclusively on IMF work with developing countries.[4]

Evaluative Orientation

With respect to issues and orientation, the retrospective classified 8 of the 18 evaluations as "investigations" of topics where serious prior concerns had surfaced about IMF performance in the areas of institutional governance, financial crises, and operational policies; it classified the other 10 as evaluation "studies." It found this distinction between evaluation investigations and evaluation studies a useful tool for probing and comparing differences and similarities across evaluations with respect to evidence, findings, and recommendations; for prioritizing among competing evaluation proposals; and for informing debate. This said, it also recognized that there were areas of overlap between the two groups, with, for example, all IEO evaluations highlighting and investigating problems that their examinations of the evidence happened to unearth and studies starting with hypotheses about Fund performance.

When the 18 evaluations are broken down into the two time periods, the share of investigations is seen to have increased (Table 8.3). The share of investigations rose from 33 percent in the first period to 56 percent in the second period driven by the focus in 2007 on evaluations that focused on compliance with IMF operational policies. Table 8.3 also shows a further breakdown into five subcategories (three for investigations and two for studies): governance, financial crises, operational policy compliance, soft mandates, and activity management.

[4]For the low-income countries the degree of exclusive attention stayed broadly unchanged between the two periods, with the *PRSPs and the PRGF* evaluation in the first period and *Aid to Sub-Saharan Africa* in the second.

TABLE 8.3

Distribution of IEO Reports by Evaluation Category

	Number of Evaluations (Percent share)		
	Entire Period	**First Half**	**Second Half**
Investigations	8 (45%)	3 (33%)	5 (56%)
Governance: *Governance* (2008)	1 (6%)	—	1 (11%)
Financial crises: *Capital Account Crises* (2003); *Argentina* (2004); *Financial and Economic Crisis* (2011)	3 (17%)	2 (22%)	1 (11%)
Operational policy compliance: *Prolonged Use* (2002); *Aid to Sub-Saharan Africa* (2007); *Structural Conditionality* (2007); *Exchange Rate Policy Advice* (2007)	4 (22%)	1 (11%)	3 (33%)
Studies	10 (55%)	6 (67%)	4 (44%)
Soft mandates: *Fiscal Adjustment* (2003); *Capital Account Liberalization* (2005); *International Trade Policy* (2009)	3 (17%)	2 (22%)	1 (11%)
Activity management: *PRSPs and the PRGF* (2004); *Technical Assistance* (2005); *Jordan* (2005); *FSAP* (2006); *Multilateral Surveillance* (2006); *Interactions with Member Countries* (2009); *Research* (2011)	7 (39%)	4 (44%)	3 (33%)
Total	18 (100%)	9 (100%)	9 (100%)

As shown there, the largest sub-category is activity management studies, which have accounted for almost 40 percent of IEO evaluations.

Evaluation Investigations

Evaluation investigations covered three areas—governance, financial crises, and operational policies. They generally started from the hypothesis that there was something amiss in Fund performance—with, for example, the *Exchange Rate Policy Advice* evaluation noting that it focused "deliberately on what [was] not working well"—and then set about assembling and analyzing evidence in order to accept/reject/refine that hypothesis, considering possible reasons for it, and identifying steps for correcting underlying problems.

Unique in its focus on "Management and above," the *Governance* evaluation looked at the IMF's accountability systems (or the lack thereof) for the Executive Board and Management. This evaluation was launched against the backdrop of widespread questioning of the IMF's legitimacy and criticism, especially with respect to the small shares of emerging and other developing economies in Fund decision-making structures, relative to those of the advanced economies. A unique aspect of this evaluation was the fact that no Summing Up was issued following the Executive Board discussion; instead, the Managing Director and Board issued a joint statement embracing the report "as part of an ongoing process to strengthen the IMF's governance framework" while also pointing to the complexity and interrelatedness of the various issues involved and the fact that addressing them would take time.[5] Three crisis evaluations (*Capital Account Crises, Argentina*, and *Financial and Economic Crisis*) investigated Fund

[5]See "Joint Statement by the Executive Board and the IMF Managing Director," Press Release No. 08/121, May 27, 2008, available at www.imf.org.

performance in the run-up and/or response to major crises. These three evaluations spanned an eight-year period that saw the origins of major financial crises passing from emerging economies to advanced economies. The shift was reflected in the IEO's coverage—with 2003's *Capital Account Crises* evaluation, which focused on Brazil, Indonesia, and Korea, and 2004's *Argentina* evaluation, giving way to 2011's *Financial and Economic Crisis* evaluation, which focused on the United States and the United Kingdom. Broadly speaking, each of these evaluations analyzed (1) what happened before, during, and/or after the crisis; (2) what role the Fund played; (3) how the Fund might have performed better; and (4) what had prevented the Fund from performing better. This said, they differed in their coverage of these questions, with much greater attention given to the diagnostic question—what had prevented the Fund from performing better—in the 2011 crisis evaluation than in the 2003 and 2004 crisis evaluations.

Four policy-related evaluations (*Prolonged Use, Aid to Sub-Saharan Africa, Exchange Rate Policy Advice*, and *Structural Conditionality*) investigated the extent of and reasons for noncompliance with specific IMF operational policies. These evaluations spanned a six-year period, with *Prolonged Use* the IEO's first evaluation, issued in 2002, and the other three all issued in 2007. Each covered compliance with a specific IMF operational policy, though the roots of those policies varied—from an implied mandate in the case of *Prolonged Use* to explicitly Board-approved policies in the case of *Aid to Sub-Saharan Africa* and *Structural Conditionality* to the Fund's 1977 Surveillance Decision in the case of the *Exchange Rate Policy Advice* evaluation. Each of these evaluations explored the foundations of the governing policy, as a benchmark for assessing the degree of compliance deviations therefrom, and the reasons for any deviations.

Evaluation Studies

IEO's 10 evaluation studies were typically undertaken with a more agnostic view about Fund performance than were the investigations, and fell into two broad sub-categories. One sub-category—containing *Fiscal Adjustment, Capital Account Liberalization,* and *International Trade Policy*—dealt with the Fund's practices and positions on "soft mandates": substantive issues for which the institution did not have a clearly defined or Board-approved operational policy. The other sub-category—containing *PRSPs and the PRGF, Technical Assistance, Jordan, FSAP, Multilateral Surveillance, Interactions with Member Countries,* and *Research*—dealt with the execution and impact of Fund activities and how these might be improved.

The three "soft-mandate" evaluations took varying approaches, though documentation of IMF practice was central to all three. All were closer in spirit to the policy investigations than to the other evaluation studies, looking at what the institution did when it had no specific policy on the issue in question. *Capital Account Liberalization* and *International Trade Policy* gave explicit attention to the legal and operational policy foundations (or lack thereof) of Fund advice. *Capital Account Liberalization* took as a central premise the lack of an actual policy and/or Board decision; it looked at Fund advice on capital account liberalization during a period of shifting views that was characterized by IMF Management support for an amendment to the Articles in the pre-East Asia crisis period, giving way to a more open position after the East Asia crisis erupted. *International Trade Policy* explicitly summarized the debate surrounding the legal and operational policy foundations of the Fund's work on trade, before setting that discussion aside and selecting as evaluation benchmarks whether the IMF's advice was well thought out, linked to macro policies, and evenhanded. *Fiscal Adjustment* took a similar approach in its selection of evaluation benchmarks: it judged programs' fiscal stance by their appropriateness relative to countries' underlying economic and financial situations. However, unlike *Capital Account Liberalization* or *International Trade Policy*, the *Fiscal Adjustment* evaluation made little mention of the governing IMF policy framework. Exceptionally, as discussed in the section "IEO's Findings and Recommendations" below, it analyzed poverty reduction and social protection issues arising in the context of Fund-supported programs, and recommended that the Fund delineate a clear operational framework for dealing with such issues.

The seven activity-management evaluations focused on how and how well the Fund carried out different activities. IEO selected these activities for study for a variety of reasons.

- Three of the activity management evaluations—*Jordan, Multilateral Surveillance,* and *Interactions with Member Countries*—focused on core IMF activities of multilateral surveillance and country relations. The latter two both covered bilateral surveillance, programs, and technical assistance but they had very different origins and scope. *Interactions with Member Countries* shared some of the motivational elements of an investigation, following up on concerns about relationship management that had surfaced in the *Exchange Rate Policy Advice* evaluation. By contrast, the *Jordan* evaluation had been launched as an IEO experiment (subsequently abandoned) in periodic examinations of more-or-less routine IMF work on country matters. The two evaluations also differed fundamentally in scope. In *Interactions with Member Countries*, the very broad all-member coverage provided a natural comparative framework for the evaluation, which focused on how IMF interactions varied across the different country groups, but that same breadth of coverage complicated the execution of the evaluation. The *Jordan* evaluation, in contrast, had the execution advantage of narrow focus, but as a single-country study it lacked built-in comparative benchmarks, forcing it to consider Fund performance against some absolute—albeit never explained—standard. In terms of scope, the *Multilateral Surveillance* evaluation had the best of both worlds: like *Jordan*, it was narrowly focused, easing its execution, but like *Interactions with Member Countries* it successfully established an internal comparative framework, looking at the Fund's *World Economic Outlook* on the one hand versus the *Global Financial Stability Report* on the other and also specifically comparing multilateral surveillance with aspects of bilateral surveillance.
- Two evaluations—*PRSPs and the PRGF* and *FSAP*—focused on IMF initiatives that were both relatively new at the time and that had been developed and executed in close partnership with the World Bank. Carried out in

parallel with evaluations by the World Bank's Operations Evaluation Department/Independent Evaluation Group, they assessed experience with the programs to date, focusing on the Fund's role and performance. They were very much akin to IMF staff progress reports on these initiatives, with their main value over such staff reviews being the independence of their perspective. They were launched in advance of Board reviews of the initiatives, and provided inputs into those reviews.

- The remaining two activity management evaluations, on *Technical Assistance* and *Research*, had limited operational policy content albeit significant operational relevance—*Technical Assistance* in direct and obvious ways and *Research* in that the evaluation's scope included the selected issues papers prepared for Article IV consultations. Like the *PRSPs and the PRGF* and *FSAP* evaluations, those of *Technical Assistance* and *Research* provided straightforward assessments of Fund performance, and identified ways of improving it. Both evaluations dealt with how the Fund decided on resource allocation and project selection within the particular activity (whether the overall technical assistance program or the overall research program). But neither addressed in any depth the issue of the appropriate amount of resources to be devoted to the activity in light of the IMF's comparative advantage relative to other providers of technical assistance and research an issue highlighted in the Lissakers Report, as discussed in the section "Evolution over Time" below.[6]

Evaluation Evidence: Data and Methods

This section looks at the data and methods that IEO evaluations have used. It considers the approaches followed in the 18 evaluations, and briefly comments on the relative contributions of the various data sources and methods.

Qualitative sources and methods (interviews, IMF documents, and field visits) were used by all evaluations, while quantitative sources and methods (confidential surveys and regression or other empirical analysis) were used somewhat more selectively, in part because not all evaluations were amenable to such approaches. Where used, quantitative methods proved powerful in sharpening both the evaluation findings and the debate on them with IMF staff and Management. The handling of evaluation data and methods has been a frequent topic in IEO evaluation completion reports (ECRs), which are a self-assessment initiative launched in 2007.[7]

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[6]The *Research* evaluation (para 2) did set out reasons why research is important to the Fund's credibility and contribution; however, like the *Technical Assistance* evaluation, it did not analyze the magnitude of the Fund's investment in research either relative to comparators or relative to possible alternative models involving more or less outsourcing.

[7]By end-2011, the IEO had produced evaluation completion reports (ECRs) for all evaluations since *Aid to Sub-Saharan Africa*. The main audience for ECRs is the IEO staff, but the reports are also available to the IEO's external evaluators. Most ECRs contain about 10–15 pages of text, discussing the strengths and weaknesses of the evaluation process and highlighting lessons learned by the team about evaluation execution and constraints the team faced. This is supplemented by extensive annex material detailing a number of issues, such as outreach, and notes on how particular issues were developed. ECRs contain a list of people interviewed for the evaluation and an inventory of where data and information is stored. These lists are confidential and to be shared only with the external evaluators of the IEO.

TABLE 8.4

Data and Methods in IEO Evaluations

	Internal Documents	Interviews	Field Visits	Case Studies	Surveys	Regression Analysis	Expert Papers
Governance	•	•	•	•	•		•
Crises							
Capital Account Crises	•	•	•	•			•
Argentina	•	•	•	•			
Financial and Economic Crisis	•	•	•	•			•
Policies							
Prolonged Use	•	•	•	•	•	•	•
Aid to Sub-Saharan Africa	•	•	•	•	•	•	
Exchange Rate Policy Advice	•	•	•	•	•		
Structural Conditionality	•	•	•	•	•	•	
Soft mandates							
Fiscal Adjustment	•	•	•	•		•	
Capital Account Liberalization	•	•	•				
International Trade Policy	•	•	•	•	•	•	•
Activities							
PRSPs and the PRGF	•	•	•	•	•	•	
Technical Assistance	•	•	•	•		•	
Jordan	•	•	•	•			
FSAP	•	•	•	•	•		
Multilateral Surveillance	•	•	•		•		
Interactions with Member Countries	•	•	•	•	•		•
Research	•	•	•	•	•	•	•
Total	18	18	18	16	11	8	7

All 18 evaluations used internal IMF documents and interviews (of authorities, staff, and sometimes others), with field visits required in some instances to complete the interviews; other evaluation methods were used more selectively (Table 8.4 above). Sixteen evaluations used case studies. Eleven used confidential surveys of authorities and staff (and in some instances other stakeholders as well). Eight used regression analysis of IMF practice. Seven commissioned background papers by outside experts to provide perspectives on relevant external practice and/or to review and assess internal IMF work.

IMF documents were an important data source for IEO evaluations; publicly available documents were used by all evaluations and internal (not publicly available) documents were used by most.

- The most basic use of IMF documents common to almost all evaluations was for deep background, as IEO teams used them to familiarize themselves with how particular issues were viewed by the Executive Board and by IMF Management and staff.
- A second use of IMF documents was in comparing how the Fund had treated particular issues across large samples of countries, whether in the context of programs or surveillance. This approach was much less common but important in several evaluations, notably *Exchange Rate Policy Advice, Fiscal Adjustment,* and *Interactions with Member Countries*. Where successful, it enabled evaluations to, in effect, quantify underlying qualitative evidence about how particular issues were treated in Fund documents. But an important lesson learned from these evaluations is that the success of such approaches depends critically on the quality and consistency of the evaluation team's coding effort. This effort is greatly complicated when IEO coders have different backgrounds and degrees of familiarity with the issues under study. The use of Fund documents to compare experience across countries therefore carries major implementation risks, as highlighted in the Evaluation Completion Report for the *Exchange Rate Policy Advice* evaluation, which detailed the challenges of managing a team of coders tasked with making consistent judgments about the treatment of exchange rate issues in IMF documents.[8] Similar challenges surfaced in the evaluation of *Interactions with Member Countries*, which relied initially on a large team of coders of varying degrees of familiarity with IMF operations before shifting to a smaller and more cohesive team.
- A third use of IMF documents was in informing in-depth evaluation case studies, where internal documents—especially on the review process—provided a clear window onto the staff debate surrounding the Fund's approach to a particular issue. In *Interactions with Member Countries*, for example, the evaluation team's access to internal IMF staff memoranda enabled it to piece together what had happened behind the scenes many

[8]"IEO Evaluation Completion Report—*IMF Exchange Rate Policy Advice, 1999–2005*," September 2007.

years previously, despite contradictory interview reports about the associated events. And in some cases evaluation reports usefully cited specific internal memoranda, thereby providing Executive Directors and external audiences with highly relevant information about the internal staff debate that had surrounded the activities being evaluated. For example, in *Argentina*, such citations revealed the nature of the debate about whether briefing papers should include instructions for missions to discuss alternative policy frameworks, and thereby gave the reader a fuller picture of what had happened. But not all evaluation reports used this privileged source equally effectively. For example, the *Jordan* evaluation mentioned problems in Bank-Fund collaboration on public expenditure priorities and on conditionality regarding privatization, but went no further in explaining the nature of the problems, despite the team's access to the internal documents that told all.

All 18 IEO evaluations used interviews, and, as with IMF documents, in three different ways. But because the different ways were not always clearly spelled out in IEO evaluations, there is room for confusion about IEO protocols for recording the findings of exploratory interviews, and for reflecting them in evaluation reports.

- Exploratory interviews provided deep background and helped IEO staff to understand developments and formulate hypotheses both in preparing issues papers and throughout the evaluation process. In *Interactions with Member Countries,* for example, extensive interviews were carried out at the start of the evaluation, raising many questions that were then pursued via other evidentiary sources (such as the survey and field visits) for triangulation in the final report.
- Second, several evaluations aimed to quantify their interview results in terms of statements about "all," "most," or "many" interviewees' views on particular issues. In these cases, the interview process was used as a variation on a survey process, with common questions asked across interviewees in structured or semi-structured interviews with pre-set questionnaires and careful recording of the results of the interviews as the embodiment of evaluation evidence. The *Governance* ECR highlights as a lesson learned the importance of taking a systematic approach to interviews, using structured questions that are sent to interviewees in advance, clear and timely minutes, and so on.[9] Clearly, such steps are important for evaluations that rely on the quantification of interview evidence.
- Third, in some other evaluations, extensive survey and/or empirical analysis lessened the reliance on interview evidence, except for purposes of interpreting or deepening the understanding of other evidence or for in-depth country case studies. In some cases interviews, just like documents, provided "smoking-gun" evidence—a feature especially relevant for investigation evaluations.

[9]"Evaluation Completion Report—*Governance of the IMF: An Evaluation*," July 2009.

> The 2002 evaluation report on *Prolonged Use*, for example, quoted from an interview with a senior Pakistani official to the effect that: "Most IMF-supported programs primarily supported political purposes. Thus it should come as no surprise that they did not achieve much in economic terms. . . ."

All 18 evaluations also used field visits, albeit with considerable variation in how these visits were pitched, conducted, and documented. Some field visits were part of in-depth evaluations' country case studies (as for example in *Prolonged Use*, *Capital Account Crises*, *PRSPs and the PRGF*, *Argentina*, *Jordan*, *Aid to Sub-Saharan Africa*, and *Interactions with Member Countries*) and involved extended country stays and meetings with partners and stakeholders beyond the authorities. Country visits undertaken for some other evaluations (such as *FSAP* and *Exchange Rate Policy Advice*) were more narrowly focused, and mostly undertaken for the purpose of targeted meetings with key IMF interlocutors with whom IEO staff had not been able to connect during the Annual or Spring Meetings or by phone. Yet other country visits were in between. In terms of managing the interface with authorities and stakeholders in the context of field visits, IEO Management devoted considerable administrative effort to ensuring that the IEO appeared organized, relying on a centralized system for tracking staff interactions with country authorities and Executive Directors' offices. Going forward, it would be useful for the IEO to develop a more decentralized and broadly accessible data base about past field visits and so on—mindful of confidentiality concerns where relevant—so that IEO staff planning future visits can do so more knowledgeably about prior IEO activities and, accordingly, more cost-effectively.

Country case studies were used in 15 evaluations, with issue-specific case studies used in a sixteenth evaluation. The depth and presentation of case studies varied widely, ranging from the *Argentina* and *Jordan* evaluations, which were themselves, in effect, case studies, to *Exchange Rate Policy Advice*, which identified 30 economies for "detailed analysis" of the dialogue on exchange rate issues; *Interactions with Member Countries*, whose case studies simply informed the treatment of the different country groupings in the main text; and *Research*, where the country (regional) case studies underpinned the analysis in the main report but are to be subsequently published. In between, IEO evaluations varied in the depth to which they developed their case studies and in the detail with which they presented their findings in reports. For example, *Prolonged Use* and *Capital Account Crises* both included lengthy case-study sections in the main reports; *PRSPs and the PRGF* summarized its case study results in a free-standing volume issued jointly by IEO and the World Bank's evaluation group; *Aid to Sub-Saharan Africa* and *International Trade Policy* both included annexes briefly summarizing their case-study findings; and *Technical Assistance* included tables in its main text summarizing its assessment of the effectiveness of technical assistance in each case. On the whole, the retrospective found that country case studies can be an important qualitative tool, especially for supporting and complementing quantitative methods such as surveys and regression analysis. Used in this way they can deepen understanding of empirical results—both central values and outliers—as for example in the *Aid to Sub-Saharan Africa* and *Technical Assistance* evaluations, as discussed below.

Surveys were used in 11 evaluations, with their use increasing over time.[10] A frequent topic in ECRs, surveys are the data source that has most benefited from learning over time. IEO's more recent survey use has built on the survey experience gained by earlier IEO teams with respect to the management of survey design, responder interface, and the selection of contractors for survey execution.[11] Importantly, the growing popularity of surveys has reflected their ability to put numbers on qualitative issues—a very important feature in concretizing debates about performance, especially in a numerate staff culture like the IMF's. Evaluation surveys have enabled fruitful sets of comparisons, for example across country types, or between staff, authorities, and partners, that in turn have allowed the data to stand on their own, without requiring an absolute benchmark for judging whether the favorable (or unfavorable) responses were "high" or "low."

IEO's survey evidence has proved a powerful tool for the evaluations that have used it—especially to *Aid to Sub-Saharan Africa*, *Exchange Rate Policy Advice, Interactions with Member Countries, Governance,* and *Research*—enabling comparative statements that advanced understanding of the issues under study in important ways. In *Aid to Sub-Saharan Africa*, for example, survey evidence was critical in establishing the relative harmony between IMF staff and authorities' views and the relative disharmony between IMF staff views and those of partners, such as World Bank staff, donors, and civil society. It also highlighted how staff views on the IMF's treatment of the Millennium Development Goals and related PRSP issues differed from the spin that the Fund's External Relations Department was putting on the same issues. In *Exchange Rate Policy Advice*, survey evidence showed how the large emerging economies held the Fund's exchange rate analysis and advice in much lower regard than did other country groups, especially the low-income countries. This finding found reflection across a number of issues in the survey work done for *Interactions with Member Countries*, which identified major disconnects between the views on Fund performance held by the authorities of advanced and emerging economies and by the IMF staff working on these countries. In *Governance*, the survey evidence revealed Executive Directors' views about the Board's limited expertise on financial management and other issues that they saw as important, and the even lower regard that the surveyed senior staff had of Board members' competence in this and other areas. In *Research*, the survey evidence showed that many authorities felt that IMF research was message-driven and that a majority of staff felt that their own research and its conclusions needed to be aligned with Fund views.

Eight evaluations used regression analysis, four of them in the first part of the retrospective period and four in the second.[12] Among the eight, the analysis was decisive in producing key findings in three: *Fiscal Adjustment, Technical Assistance*,

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[10]Among the 11, *Prolonged Use* used a written questionnaire managed by the IEO.

[11]For example, "Evaluation Completion Report—*An IEO Evaluation of IMF Involvement in International Trade Policy Issues*" 2009.

[12]Empirical analysis was also developed for *Multilateral Surveillance*; however, the evaluation report did not include it.

and *Aid to Sub-Saharan Africa*. In those three, IMF operational data were used to analyze Fund practice and the empirical results contributed to the evaluations' core findings. In *Fiscal Adjustment*, the regressions established the facts about trends in program-supported fiscal corrections. In *Technical Assistance*, they showed the disconnect between IMF technical assistance programs and country priorities as proxied by country poverty reduction strategies.[13] In *Aid to Sub-Saharan Africa*, they related countries' starting positions on inflation and external reserves to PRGFs' programmed spending and absorption of aid, and in so doing estimated the magnitudes of key parameters of Fund practice. In the other evaluations in which regression analysis was used, it also made a contribution even if it was not the decisive evidentiary plank: *Prolonged Use* analysis identified the key characteristics of prolonged users compared to intermittent users; *PRSPs and the PRGF*'s cross-country analysis showed how PRGFs generally targeted smaller fiscal adjustment than earlier programs; *Structural Conditionality* analysis showed that compliance with structural conditionality had little impact on sectoral outcomes; *International Trade Policy* analysis found only weak evidence of a favorable effect of trade conditionality on actual trade flows; and *Research* found broadly similar results for the citation and publication of IMF research compared with those of research by other international institutions and by central banks.

Externally authored background papers were used in seven evaluations, mostly in the second half of the retrospective period.[14] These papers took two forms.

- The first were expert papers that the IEO commissioned to bring in relevant external perspectives and/or credibility. Such papers made a major contribution to the *Governance* evaluation, for which qualitative and comparative analysis loomed large in the evidentiary base. For *International Trade Policy*, the IEO commissioned expert papers to assess IMF performance on specific issues, such as trade in financial services and preferential trade arrangements. *Interactions with Member Countries* also drew on external expertise to bring in fresh perspectives, for example on Fund interactions with emerging economies, civil society organizations, and parliamentarians.[15]
- The second type of externally authored papers were consultant reviews of evaluation evidence. For the *Financial and Economic Crisis* evaluation, the IEO commissioned external reviews of the Fund's pre-crisis publications to

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[13]The evaluation, however, did note the finding of correlation between IMF technical assistance support and programs supported by the Poverty Reduction Growth Facility and the Extended Fund Facility.

[14]Additional evaluations, including *Fiscal Adjustment, FSAP, Multilateral Surveillance*, and *Aid to Sub-Saharan Africa*, have utilized team-prepared background papers, some of which have been issued by the IEO and/or other IMF units.

[15]Of course, not all the work commissioned by the IEO ended up in authored background papers. For example, in *Aid to Sub-Saharan Africa*, an outside expert's contribution ended up simply informing relevant parts of the evaluation and its revisions rather than being issued as a freestanding paper, and in *Interactions with Member Countries* at least one commissioned paper was put aside as, ultimately, its topic was not covered in the evaluation report and there were concerns that the paper's conclusions might be construed as endorsed by the IEO.

identify banner messages inter alia, and for the *Research* evaluation, external consultants assessed the quality of IMF selected issues papers and working papers. In some cases, such reviews have not differed materially from team-prepared reviews, but being explicitly labeled as externally authored has afforded them somewhat greater editorial distance from the IEO and hence greater freedom to express their authors' opinions. Such background papers do not enjoy absolute freedom, however, because the IEO's ownership of these papers (and its associated potential reputational risk) is not zero.

IEO's Findings and Recommendations

Findings and recommendations are the twin pillars of all evaluations, and the 18 IEO evaluations considered in this paper are no exception. This section considers their presentational aspects and content, and then the connections between them across individual evaluations.

Findings in IEO Evaluations

IEO's presentation of findings generally took the form of a narrative, rather than the enumerated lists that were more common in its presentation of recommendations.[16] Rough counts are possible to convey orders of magnitude; they tend to number between 5 and 10 findings per evaluation, depending on how finely or roughly the findings were packaged.

Several recurring themes permeated IEO's evaluation findings—in some cases reflecting follow-up on previous evaluation work. The three most frequent findings concerned:

- ambiguity and confusion (among IMF stakeholders and staff) about the IMF's governing policies or mandates—as observed in the policy and soft-mandate evaluations;
- lack of candor in IMF staff reports—as observed in the crisis and country-based evaluations; and
- limited coordination between the Fund's macroeconomic and financial sector analysis—as observed in the evaluations of crises, *Exchange Rate Policy Advice*, *Multilateral Surveillance*, and *FSAP*—and, relatedly, limited IMF coverage of macro-financial sector linkages, as observed in the *Research* evaluation.

These recurring findings also found reflection in recurring recommendations, as discussed later in this chapter.

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[16]Most of the IEO's 18 evaluations contain a prominent section labeled "Findings." The others also contain findings but headline them differently. For example, *Prolonged Use* and *Interactions with Member Countries* label their findings "Conclusions;" *Structural Conditionality* and *Research* label theirs "Findings and Conclusions" or "Conclusions and Findings," *Capital Account Crises* labels its findings "Assessment," and *FSAP* labels its findings "Lessons." The point here is simply that in all 6 of these cases, the existing content would be as suited to a label of "findings" as that in the 12 evaluations that use this term. This section therefore treats them all as findings.

Governance was the only evaluation of its kind but one of its key findings—about the Board's focus on executive rather than supervisory functions—provides a powerful lens for viewing the findings of other IEO evaluations. This is especially the case for the policy and soft-mandate evaluations, which found that member countries received variable treatment in their interactions with the Fund, including in the implementation of operational policies, all with Board concurrence. The key point here is that with a highly involved Executive Board, which approves both policies and decisions about the implementation of those policies in individual country cases, the scope for case-by-case approaches is enhanced, bringing to IMF interactions with countries the benefits of a tailored approach but also the risks of uneven treatment. As reflected in IEO's policy and other evaluations, the use of case-by-case approaches has sometimes created or exacerbated confusion among IMF stakeholders and staff about what Fund policy actually was on particular issues.

The three crisis evaluations found that over-optimism and lack of candor—born of what was seen with hindsight to have been undue concern to maintain good country relations—had contributed to the Fund's poor performance in the run-up and/or response to crises. The facts underlying the crises differed, ranging from the public or private sector origins of the crises in Korea, Indonesia, and Brazil to the questions about Argentina's exchange rate policy and exit strategy to the particulars of the post-Lehman-collapse global financial crisis. But the three evaluations share common ground on the reasons for the Fund's failure to better anticipate each crisis and/or to deal with it once it struck. Each evaluation highlighted analytical weaknesses, organizational impediments, internal governance problems, and political constraints related to concerns about country relations.

In each of the four evaluations of operational policy, IMF policy ambiguity and uneven policy implementation across countries, reinforced by mixed signals from the Board, were central diagnostic findings. Like the crisis evaluations, each policy evaluation offered factual findings on the particulars under review. Thus *Prolonged Use* found that the use of Fund resources had increased in line with various "demand-side" factors that were reinforced by internal Fund cultural conditions related to over-optimistic forecasts, lack of candor, and political constraints. *The IMF and Aid to Sub-Saharan Africa* found mixed implementation of relevant policies, with more conformity with some aspects of Fund policy and less with others. In both cases, this evaluation found messages being communicated by the Fund externally to be at variance with the reality on the ground—aggravating an already confused situation about what the Fund stood for in Africa. *Exchange Rate Policy Advice* found unclear rules of the game, uneven focus on factors driving exchange rate developments, and a lack of operational guidance on key issues such as exchange market intervention. *Structural Conditionality* found that no changes had taken place in the volume of structural conditionality, notwithstanding the Fund's attempt to limit such conditionality through the streamlining initiative introduced several years earlier; it did, however, find a shift in the composition of such conditionality in the direction of the Fund's core competences. These four evaluations also shared several diagnostic findings about the reasons for the Fund's departures from full compliance. All of these findings implied a profound lack of clarity on the underlying policy and its operational implications, born of the apparent differences of opinion on key aspects among Executive Directors.

The three soft-mandate evaluations also found uneven implementation of IMF policies across countries. One of them—*Fiscal Adjustment*—highlighted this as a positive finding, refuting Fund critics' characterization of the institution's approach as "one-size-fits-all."[17] But a common finding of the three evaluations was that the cross-country differences did not reflect the systematic and consistent tailoring to country conditions of a clearly articulated approach; rather they simply reflected differences that were typically unexplained in Fund documents, because there was no policy benchmark against which to gauge the degree of implementation. The three evaluations did not fully explore these cross-country differences in treatment. Instead they focused more on the underlying substantive issues, although the *Capital Account Liberalization* evaluation was able to associate country differences in IMF treatment with differences in country views and preferences—and in IMF staff views. Going forward, these features suggest that IEO evaluation studies of soft mandates could usefully focus much more on how, in the absence of Board-approved guidance, the Fund formulates its positions on particular issues and the extent to which countries receive evenhanded treatment with regard to these issues.

In line with their orientation as studies, the findings of the activity evaluations all tended to focus on the quality, relevance, and effectiveness of their highlighted activities. All found evidence of supply-driven "silo" approaches—though not all of them used that term—with the specialist groups that championed the various programs much more behind the programs than were other Fund staff. Of course, some silo-ism is unavoidable in a complex institution, and can be very efficient. So a key question is really whether the IMF had too much or too little of it. This question has not been explored in IEO evaluations to date but should be in future, especially in activity evaluations. Also noteworthy are the recurring findings of: (1) weak traction with member countries, in the evaluations of *Multilateral Surveillance* and *Interactions with Member Countries*; (2) weak influence of the PRSP process and the FSAP initiative on the operational work of area department staff; and (3) limited attention to inputs from member countries in the design of country programs, in the *Technical Assistance* evaluation, and of research projects, in the *Research* evaluation.

Recommendations in IEO Evaluations

This section briefly considers the number and content of IEO recommendations.[18]

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[17]To some extent, this finding illustrates how these evaluations were the mirror image of policy evaluations; rather than looking at whether and how IMF policies were being implemented (or not), they examined whether and how "non-policies" were being implemented.

[18]All but one of the 18 evaluations contained a prominent section labeled "Recommendations." The exception was the *Jordan* evaluation, which contained a section labeled "Lessons Learned" (see *IMF Support to Jordan: 1989–2004*, 2005; p. 3). As compared with the other 17 evaluations' recommendations, these lessons were broadly similar in nature, though they were worded a little differently. In presenting the lessons, the evaluation report noted that they were not "couched as recommendations" as they had more general applicability beyond the Jordan program. For ease of presentation, this paper treats the *Jordan* evaluation lessons as recommendations.

TABLE 8.5

Numbers of Recommendations in IEO Evaluations

	Number of Headline Recommendations	Number of Sub-Recommendations		Total: Headline and Sub-Recommendations ("Should's" Not "Could's")	Pages Covering Recommendations
		"Should"	"Could"		
Governance	4	25	0	29	2½
Crises					
Capital Account Crises	6	23	0	29	4
Argentina	6	10	1	16	3
Financial and Economic Crisis	5	0	19	5	2½
Policies					
Prolonged Use	14	13	0	27	8
Aid to Sub-Saharan Africa	3	5	0	8	½
Exchange Rate Policy Advice	11	6	3	17	4
Structural Conditionality	6	8	1	14	1
Soft mandates					
Fiscal	5	6	4	11	2¼
Capital Account Liberalization	2	0	3	2	1½
International Trade Policy	6	9	0	15	1¼
Activities					
PRSPs and the PRGF	6	23	0	29	4½
Technical Assistance	6	10	10	16	2½
Jordan	9	0	0	9	1
FSAP	7	12	12	19	6
Multilateral Surveillance	4	8	18	12	3
Interactions with Member Countries	9	0	0	9	3
Research	8	0	0	8	½
Total	117	158	71	275	48½
Average	6½	9	4	15	2½

Numbers of Recommendations

IEO's 18 evaluations contained 117 headline recommendations and 158 sub-recommendations, for a combined total of 275 (Table 8.5). These numbers are, however, a small exaggeration, because some recommendations were made in more than one evaluation and are thus double counted in the simple tally (Box 8.1). When the recurring recommendations are counted only once, the headline total falls to 104 and the overall total (headline recommendations plus sub-recommen-

BOX 8.1

Recurring Headline Recommendations

Six headline recommendations recurred in two or more evaluations.[1]

- The most popular recommendation, recurring in five evaluations (*Prolonged Use, Aid to Sub-Saharan Africa, Exchange Rate Policy Advice, Structural Conditionality, Capital Account Liberalization*) was for clarification of the respective IMF policies and/or positions. Each of the five evaluations called for clarification of the policies in its own area of focus.
- Two recommendations recurred in four evaluations. These concerned the need for greater:
  —Candor about downside risks (*Capital Account Crises, Financial and Economic Crisis, Prolonged Use, Jordan*); and
  —Integration of macroeconomic and financial sector analysis (*Financial and Economic Crisis, Exchange Rate Policy Advice, FSAP, Multilateral Surveillance*).
- Three recommendations recurred in two evaluations. These concerned the need for greater attention to:
  —Country political economy underpinnings (*Prolonged Use* and *Jordan*);
  —Country dialogue (*Exchange Rate Policy Advice* and *Interactions with Member Countries*); and
  —Monitoring and evaluation (*Aid to Sub-Saharan Africa* and *Structural Conditionality*).

[1]One sub-recommendation was made in two evaluations. It was on Board Summings Up, and appeared in the *Governance* and *Financial and Economic Crisis* evaluations.

dations) falls to 261—giving an average of 14½ headline and sub-recommendations per evaluation. In addition, there is not total clarity in all cases about what the IEO intended as headline and sub-recommendations, as different evaluations presented their recommendations differently.[19] Nevertheless, there are three key points here. First, these simple counts—whether corrected for double counting and ambiguities or not—provide a starting point for a discussion, in particular by providing a rough metric for comparing the evaluations under study. Second, in so doing, they also provide an order-of-magnitude indicator of the amount of work and resources involved for Fund staff in following up on IEO recommendations. This leads to the final point: whether the total number is 261 rather than 275—or even 200—these are big numbers if they are meant to entail serious follow-up.

The numbers of recommendations contained in IEO evaluations varied widely (Table 8.5). Eight evaluations made relatively few headline recommendations (2–5 each) and two made relatively many (11–14), with eight evaluations falling in

[19]These numbers cited in the text and set out in Table 8.5 reflect earlier attempts to reconcile the various counts for recommendations with counts in the parallel IEO exercise on recommendations. See Louellen Stedman, "IEO Recommendations: A Review of Implementation," Chapter 9 in this volume.

between (6–10). Taking headline and sub-recommendations together, five evaluations made 1–10; nine evaluations made 11–20; and four evaluations made 21–30.

How should these variations in number be understood? Some insight can be gained by looking at those evaluations that provided the largest numbers of headline recommendations: *Prolonged Use* and *Exchange Rate Policy Advice*, with 14 and 11, respectively. Comparison of their recommendations with those of the other two policy evaluations, *Aid to Sub-Saharan Africa* and *Structural Conditionality*, which provided, respectively 3 and 6, suggests major differences in the degree of detail. Though the differences partly reflected differences in style among the lead authors of the four reports, there are also major differences between *Prolonged Use* and *Exchange Rate Policy Advice*. *Prolonged Use* contained a number of new and concrete proposals on a *broad* set of themes, such as on signaling; the need for treating prolonged use by aid-using low-income countries differently from that by other countries; the concept of selectivity; the desirability of ex post assessments; and so on—all of which emerged from the evaluation's diagnosis of why prolonged use had proved so enduring. In contrast, the recommendations of *Exchange Rate Policy Advice* mostly involved variations on a relatively *narrow* theme—related to the need for improved exchange rate analysis and greater assurances of confidentiality as elements in improving the effectiveness of the Fund's exchange rate policy advice.

Even wider variation is seen in the numbers of sub-recommendations, which ranged from 0–5 in six evaluations to 23–25 in three others: *Governance*, *Capital Account Crises*, and *PRSPs and the PRGF*. A brief examination of these three evaluations suggests that they simply contained a lot of detail, which then raises questions for follow-up to IEO recommendations: Does the IEO intend that each and every one of its sub-recommendations has the same standing as its headline recommendations?

- The *Governance* evaluation's 25 sub-recommendations provided specificity for each of its headline recommendations. In positioning the sub-recommendations, the evaluation indicated that it "propose[d] detailed measures specific to the IMFC, the Board, and Management." And while the text occasionally used the term "could" in describing how the proposals might work, they appear to have been be intended as sub-recommendations rather than merely ideas for consideration.
- *Capital Account Crises* provided 23 sub-recommendations under its 6 core recommendations. Each was quite specific, and the language conveys that they were bona fide sub-recommendations, rather than ideas or suggestions.
- The *PRSPs and the PRGF* evaluation also provided 23 sub-recommendations. In introducing them, the evaluation stated that it made 6 broad recommendations, setting out directions for change and some ideas rather than a blueprint. However, the 23 sub-recommendations were fairly specific and prescriptive and in some cases they were complemented by additional ideas on how they might be implemented.

Half of the evaluations also explicitly included suggestions for consideration. These suggestions are not counted in the above totals, and they are listed in

Table 8.5 in the column labeled “could.” Four evaluations—*Technical Assistance, FSAP, Financial and Economic Crisis*, and *Multilateral Surveillance*—account for 70 percent of these suggestions, as discussed below.

- The *Technical Assistance* evaluation provided a total of 20 items that might be considered sub-recommendations. The first 6 were clearly introduced as “suggestions” that might be considered in implementing the evaluation’s recommendation to establish a medium-term country policy framework for technical assistance. Of the remaining 14, 4 were worded tentatively, using terms such as “could” rather than “would;” whereas the other 10 were clearly worded as recommendations rather than ideas or suggestions.
- *FSAP* contained 24 bulleted items that might be considered sub-recommendations. But of these, only 12 called for the IMF to take certain actions.[20] The other half were labeled steps that “could” be considered, rather than actions that “should” be implemented.
- *Financial and Economic Crisis* contained 19 subsidiary recommendations that it put forward as “. . . more specific suggestions on how [the five general recommendations] could be implemented. These specific suggestions should be seen as a starting point for further reflection; they are not necessarily the only way to follow through, and alternative approaches could have significantly different resource implications. . . .”
- *Multilateral Surveillance* contained eight bulleted subsidiary recommendations, with 18 additional suggestions that provided possible steps or options for implementing these subsidiary recommendations.

Content of Recommendations

Though most IEO recommendations were process-related, calling for changes in the way things were done within the Fund, there were exceptions. Notable here are the recommendations on substantive content that were provided by the three soft-mandate evaluations. *Fiscal Adjustment* recommended the Fund to delineate an operational framework for addressing social issues, following the evaluation’s analysis of social spending in programs, though it did not consider the policy consistency of such a recommendation. *Capital Account Liberalization* recommended the Fund to pay greater attention to the supply side of capital movements in its surveillance activities. And *International Trade Policy* called for greater attention to preferential trade agreements and trade in financial services as part of surveillance and program activities. This pattern of calling for substantive changes contrasts with the approach that was taken in most of the policy evaluations, which typically sought greater clarity of the governing policy—so as to facilitate evenhanded implementation—but without taking a position on what that policy should be.

[20]Two of these sub-recommendations are amplifications of other sub-recommendations, describing how their implementation might be tailored to particular circumstances.

Broadly speaking, most recommendations flowed from the evaluations' findings and in turn from the evaluations' questions and evidence. Visual inspection of the findings and recommendations shows their alignment, as for example in the three crisis evaluations where the links between the findings and recommendations were clearly drawn. But it also reveals some looser connections. *Multilateral Surveillance*, for example, based its findings mainly on the evidence it presented about *technical* quality and *internal* coordination and related production challenges. But it focused its recommendations on the *strategic* uses of multilateral surveillance outputs, especially with respect to possible engagement with high-level *external* players. And in *Structural Conditionality*, most of whose recommendations drew on the technical analysis underpinning the findings, one was not linked to the evaluation findings or evidence. Beyond these outliers there is the issue related to the sub-recommendations: many of these appear to have been just the ideas of the evaluators no matter how they were labeled, with the particulars reflecting as much the creativity and experience of the evaluation team as the objective issues of the evaluation.

Finally, not all the evaluations used a logical framework to explain how the IEO moved from evaluation findings to evaluation recommendations.

- Five evaluations—*Argentina, Capital Account Liberalization, PRSPs and the PRGF, Aid to Sub-Saharan Africa,* and *Financial and Economic Crisis*—had useful sections that explicitly bridged from their findings to their recommendations. In two cases—*Argentina* and *PRSPs and the PRGF*—these sections were labeled "lessons learned," and in the other three cases (*Capital Account Liberalization, Aid to Sub-Saharan Africa,* and *Financial and Economic Crisis*) they were labeled differently.
  - In *Argentina* and *Capital Account Liberalization*, the bridge sections covered the implications of the more factual findings, thereby setting the scene for the recommendations to come.
  - The bridge section of *PRSPs and the PRGF* set out the implications of the findings as well as diagnosing some of the reasons for them.
  - The bridge sections of *Aid to Sub-Saharan Africa* and *Financial and Economic Crisis* focused on the causes of the problems identified in the findings, with diagnostic chapters respectively entitled "Institutional Drivers of IMF Behavior" and "Why Did the IMF Fail to Give Clear Warning?" These sections segued directly into the recommendations.
- In the other 13 evaluations, the intermediate steps were either less explicit or less explicitly distinguished from the findings themselves.
  - In 8 of the 13 reports—*Prolonged Use, Capital Account Crises, Jordan, Fiscal, FSAP, Technical Assistance, International Trade Policy, and Exchange Rate Policy Advice*—the evaluations' assessments or lessons were interwoven with the findings.
  - In the other 5 reports—*Multilateral Surveillance, Structural Conditionality, Research, Governance*, and *Interactions with Member Countries*—the findings are presented quite nakedly, with the text proceeding immediately from them to recommendations.

Evolution over Time

The IEO has evolved over time, shaped by a number of factors, including importantly the changing external environment in which the IMF and the IEO operate, feedback from the Executive Board's Evaluation Committee and other stakeholders, and changing IEO Management, staff members, and lead evaluation authors. These factors have driven the changes highlighted earlier between the IEO's first five years and its second five years, including (1) the shift in country coverage to more all-member evaluations; (2) the shift to investigations—especially on policies—away from studies; (3) the increased use of surveys and commissioned papers as evidentiary sources; and (4) the reduction in the number of main recommendations.

An additional influence on the IEO's evolution was the external evaluation of the IEO at its five-year anniversary—the so-called Lissakers Report, which assessed the IEO's performance in the first five years and provided a number of recommendations for change. Several of these recommendations pertained to staffing, external dissemination, and the cultivation of external constituencies for the work of IEO—topics that are not discussed here, as they go beyond the scope of this chapter. But three others are relevant here, and for ease of reference are reproduced in Box 8.2. In brief they are:

- Have more "bite": don't neglect country cases and other sensitive topics.
- Focus on "why" questions when something goes wrong or to explain IMF involvement, and not just on "what" questions about IMF processes and procedures.
- Shorten and simplify: target IEO reports on more senior and broader audiences.

How well has the IEO been meeting these recommendations since the Lissakers Report was issued in 2006?

Has the IEO sharpened its bite? To address this question, the author compared pre- and post-Lissakers evaluations for (1) the depth of important adverse findings; (2) the unbundling of responsibility for any such adverse findings among the Board, Management, and/or staff; (3) the tonality with which any adverse findings were presented; and (4) the degree of positive statements about Fund performance. The comparison suggests that on average there was a modest increase in "bite" between the pre- and post-Lissakers evaluations.[21] It also suggests that the increase reflected three factors, each of which is consistent with the Lissakers report's recommendations.

- First, as noted earlier, the balance of evaluations shifted, towards relatively more investigations and relatively fewer studies in the post-Lissakers period. Since investigations generally have more bite than studies, it is not surprising that bite increased on average.

[21]The bite ratings are based on comparative readings of the evaluation reports, staff comments, and Summings Up, with the reports judged on their degree of criticism (explicit or implicit) of the institution's professional competence, independence, and/or evenhandedness. For the most part this refers to staff, the exception being with respect to the Board on governance.

BOX 8.2

Lissakers Report on IEO Evaluations

The Lissakers Report made several observations on IEO evaluations. The three paragraphs from its executive summary most relevant to this paper are reproduced below.

"Careful topic selection is vital, given the IEO's limited resources. There are strong pressures pushing the IEO in the direction of evaluating broad subjects and staying away from areas, especially individual country cases, deemed sensitive by IMF management or member governments. The IEO should resist these pressures. Country programs are where IMF policies hit the ground and are tested and where the stakes are highest. Heightened sensitivity reflects their importance. Close examination of country cases can shed light on broader systemic issues and the IEO should not shy away, even where programs are on-going. To be effective, a watchdog must have a bite."

"IEO evaluations to date are generally considered of high quality, but several criticisms were repeatedly made to the panel: they do not isolate and analyze in depth the most important questions such as why the IMF misdiagnoses exchange rate trajectories and over-estimates growth, nor do they tackle strategic institutional questions such as the IMF's role in low income countries or why should the IMF (as opposed to other agencies) be engaged in technical assistance. The analyses instead focus heavily on IMF processes and procedures. The panel recommends a different mix of evaluators, greater use of peer review, and sharpening the IEO's Terms of Reference to make clear its systemic role."

"The panel agrees with the many who complain that IEO reports are too long and are becoming indistinguishable from other IMF documents, using the same terminology and the same frame of reference. IEO recommendations suffer the same weakness. This is not just a matter of readability. Making reports shorter and punchier is a way of forcing evaluators to be selective rather than comprehensive, to focus on the most important issues and to offer an analysis that will provoke thought well beyond the IMF staff and management. More disciplined reports will lead to more pointed recommendations."

Source: "Report of the External Evaluation of the Independent Evaluation Office," March 29, 2006, available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

- Second, in identifying and explaining performance issues, there was a pronounced trend towards unbundling in the second period, as the IEO moved from accountability statements about "the IMF" in general to more pointed statements about the Board, Management, and/or staff.
- Third, pair-wise comparisons of individual pre- and post-Lissakers evaluations suggest that a more critical tone was taken in the later period by some—although not all—individual evaluations.
  - Consider the comparison of *Prolonged Use* (pre-Lissakers) with *Exchange Rate Policy Advice* (post-Lissakers). Like all the policy evaluations, both found substantial shortfalls in implementation. However, the tone of *Prolonged Use* was more positive and less normative than the tone of *Exchange Rate Policy Advice*. *Prolonged Use* focused on why the governing policy with respect to the Fund's provision of temporary support had not

been implemented and how that lapse might be remedied through new approaches that dealt with the authorities', creditors', and donors' "demand" for prolonged use. *Exchange Rate Policy Advice* focused on the finding that the Fund's policy advice was not "as effective as it needed to be" and how that finding reflected Management and senior staff failures to ensure the appropriate "supply" of exchange rate analysis.

– However, not all post-Lissakers evaluations were more negative than their pair-wise comparators. For example, the post-Lissakers *International Trade Policy* evaluation praised the staff papers that had been recently issued on trade, just as its pre-Lissakers comparator *FSAP* praised the recent staff implementation of the FSAP initiative; and in both cases IMF staff responded positively to the evaluation. Similarly, both the pre-Lissakers evaluation of *Technical Assistance* and the post-Lissakers evaluation of *Research* took constructive approaches to setting out their findings and recommendations for change, and both were well received by staff.

Has the IEO focused more on "why" questions since the Lissakers Report? Based on the author's ratings of pre- and post-Lissakers evaluations for their coverage of internal governance, culture, and incentive issues, there was indeed an overall increase in attention to "why" and other diagnostic questions in the post-Lissakers cohort. To a large extent, this finding simply reflects the change in composition of IEO evaluations discussed above; policy investigations were more numerous in the post-Lissakers period and they naturally involved questions about why policies were not being implemented. Indeed, *Prolonged Use* merits a higher "why" rating than its post-Lissakers pair-wise comparator *Exchange Rate Policy Advice*, reflecting *Prolonged Use*'s focus on the "demand-side" factors driving the variance between policy and practice, compared with *Exchange Rate Policy Advice*'s focus on "supply-side" factors. Similarly, *Research* merits the same "why" rating as its comparator, *Technical Assistance*—whose approach Lissakers had faulted for not considering why or how much the IMF "as opposed to other agencies" should be involved in service delivery—because it took as given the amount of research the Fund carried out.[22]

Have the IEO's reports become shorter, more disciplined, and selective? Page lengths have shrunk dramatically: the average number of pages of IEO main reports (excluding annexes, references, executive summaries, and so on) fell by more than half, from 58 pre-Lissakers to 27 post-Lissakers. In accommodating the shortening, the IEO has experimented with approaches such as: (1) simply dropping some material, as in *Multilateral Surveillance*; (2) including large annexes in the main volume, as in *Aid to Sub-Saharan Africa* and *International Trade*; (3) including diskettes with additional material in the printed volumes, as in *Structural Conditionality, Governance*, and *Financial and Economic Crisis*; (4) posting background papers on the IEO website, as in *Interactions with Member Countries* and a number of other evaluations; and (5) publishing

[22]The *Research* evaluation report did express the view that the IMF should undertake at least some research in-house.

companion volumes with supplementary material, as in *Governance*. No doubt different readers will differ on their preferred packaging, but clearly it is time for the IEO to decide on what will be its signature approach. In all cases, a strong but brief executive summary should clearly set out the main findings and recommendations, something that was missing from one post-Lissakers report.

Retrospective Conclusions

Two kinds of conclusions emerge from the above. First are those for the IMF and second are those for the IEO. They are addressed in turn below.

For the IMF

For the IMF, the 18 evaluations taken together suggest three major conclusions. These reflect ongoing challenges within the IMF with respect to: (1) how it carries out its core mandates on international financial stability and surveillance; (2) how it interfaces with members; and (3) how its staff work, both among themselves and with others.

- On *core mandates*, IEO evaluations have repeatedly emphasized the need for greater IMF candor; better down-side risk analysis; and closer links between the Fund's macroeconomic and financial sector work.
- On *member interface*, successive IEO evaluations have identified departures from evenhandedness and the need for (1) greater transparency about cross-country differences in treatment; (2) more rules-driven approaches that are less political and not overly responsive to country relations concerns; and (3) greater clarity on approaches, policies, and follow up.
- On *modalities for IMF staff work*, IEO evaluations have consistently highlighted the need for more outward focus on members and less inward focus on staff; greater analytic independence and professionalism; and more cooperation and less silo-ing across units.

For the IEO

For the IEO, the 18 evaluations taken together suggest five main conclusions. These pertain to work program design and work program execution, as set out below.

IEO Work Program Design

- *IEO's country coverage.* The IEO achieved greater balance across country groupings in its second five years, especially in its evaluations of IMF work with advanced economies. But with the exception of the important *Financial and Economic Crisis* evaluation, it did so largely indirectly, that is through the use of all-member evaluations, rather than as the result of an explicit risk-weighted approach. Going forward, it will be important for the IEO to pay relatively more attention to IMF work with the advanced economies—beyond all-member reports—given the demonstrated high global costs of surveillance failures in advanced economies.

- *IEO's evaluation orientation.* As noted above, there was a rebalancing during the second half of the retrospective period in favor of investigations and away from studies. Evaluation studies can be, and some have been, very influential. But timely investigations—in view of their importance for institutional accountability—must trump studies in their command of resources, IEO Management attention, and scheduling priority. Given the scarcity of resources, the IEO will need to consider carefully how to prioritize investigation-oriented evaluations on institutional governance, financial crises, and/or implementation shortfalls in Board-approved policies as compared to more discretionary evaluation studies of programs and other activities.
- *IEO's unfinished business.* The IEO has usefully looked at IMF governance with respect to "Management and above" but there remains considerable scope for it to examine IMF governance from the perspective of "Management and below." This retrospective review has highlighted critical questions about exactly how the IMF decides what position to take when institutional policies are not being fully implemented (as emerged in the IEO investigations of compliance with IMF operational policies) or when there is not an agreed policy (as emerged in the IEO studies of soft mandates). Pending a new evaluation on internal governance, ongoing evaluations could usefully focus on documenting cross-country differences in IMF treatment and probing their causes, as a basis for recommending possible remedies for institutional and/or staff practices.

IEO Work Program Execution

- *IEO's data and methods.* The IEO has learned from experience in executing evaluations. Evaluation tools and data management—especially for surveys—have evolved somewhat as new IEO teams learned from earlier IEO work and innovations. And recent evaluations and evaluation completion reports have refined the IEO's approach to structured interviews. Nonetheless, there is room for greater efficiency in data management and for more systematic approaches across evaluations, though moves in this direction would need to be weighed against possible increases in implementation costs. Meanwhile, to support and complement ongoing IEO efforts to improve its handling of IMF documents, clearer guidance is needed to IEO teams on the use of these documents, especially with respect to two issues: (1) the consistent coding of cross-country documents, so the embodied evidence can be reliably quantified and analyzed—this is clearly an area that warrants a close watch going forward; and (2) the inclusion of quotations and paraphrasing in evaluation reports, while remaining within the strictures of existing protocols safeguarding confidential IMF material. With the IEO serving as the eyes and ears of Executive Directors and external stakeholders, effective and appropriate use of such material is paramount.

- *IEO's findings and recommendations.* There are two main takeaway messages here: First, the number and presentation of recommendations have varied widely across evaluations, with some recurring recommendations, but often without clear prioritization of recommendations and in some cases without clarity on their genesis. To date, the 18 evaluations have averaged six headline recommendations plus nine sub-recommendations each, with some evaluations containing double those amounts. Large numbers of recommendations invite treatment as menus rather than priorities and blur IEO's accountability. It will be helpful for the IEO to be clearer, more systematic, and consistently brief about what it is recommending as priority actions, what it is advising as possible actions, and what it is sharing as ideas for consideration. Second, IEO evaluation reports have not all made clear the logical framework underlying their progression from evidence-based findings to recommendations. Opinions can and do vary on how best to present this progression, in large part depending on views about who constitutes the target audience. For users who want a quick read-out of the IEO findings and conclusions, a brief and bundled presentation in the executive summary is fine. But for those who see the IEO's main value in terms of the evidence it is able to assemble, drawing on its privileged access to people, documents, and numbers, appropriate unbundling into the evaluation's framework of facts, diagnosis, and recommendations—perhaps presented in an annex—is essential.

CHAPTER 9

IEO Recommendations: A Review of Implementation

LOUELLEN STEDMAN

This chapter reviews the implementation of recommendations made by the IEO in its evaluations of the policies and activities of the IMF. The chapter is intended not as a compliance exercise but rather as a contribution to the IEO's ongoing efforts to improve its work; in reviewing the recommendations, the reactions from the Executive Board, and actions taken in these areas by the IMF, the goal is to promote understanding of the successes and challenges of implementation and monitoring thereof.

The exercise covers 7 of the IEO's 18 evaluations, to provide a sense of the overall trend in implementation. It also examines selected recommendations in more detail, reviewing the Board response, summarizing the steps taken to pursue implementation, and describing the current status of each. The recommendations selected provide examples of a range of implementation outcomes.

Our main conclusion is that the IMF has taken some action on the majority of recommendations examined.[1] For instance, policies and Board expectations have been clarified in a number of areas. At the same time, issues remain with respect to the implementation of many recommendations. For instance, actions may have been taken to implement a recommendation but also failed over time to satisfy the objective set out; or an issue may have persisted despite the targeted steps taken to address it. And in a few cases, the IMF has taken no or minimal actions to follow up on a recommendation endorsed by the Board.

The chapter is organized as follows. The first section explains the approach taken in assessing implementation and summarizes the main findings. The second section discusses selected recommendations in more detail. The final section concludes, highlighting ongoing issues.

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[1]A variety of factors drive change at the IMF. Consistent with this fact, we see the IEO as a contributor to change but do not attribute any particular change in policy or practice solely to IEO evaluations or recommendations.

Assessing Implementation: Approach and Summary Results

Typically, IEO evaluation reports include a range of recommendations. High-level recommendations represent overarching proposals, while subsidiary recommendations provide more detailed or technical proposals grouped under the high-level recommendations. Some IEO evaluations also include suggestions, by offering examples of how the IMF might pursue recommended changes that do not rise to the level of recommendations.

Approach

The exercise discussed in this chapter focuses on high-level IEO recommendations that were endorsed in whole or part by the Executive Board. We relied on the Summing Up of the Board discussion of each evaluation to determine whether and to what extent each recommendation was implemented. The Summing Up of a Board meeting summarizes Board views and decisions, which are mostly reached by consensus. Interpreting the Board's position sometimes required a degree of judgment. In some cases, the Summing Up clearly states that Directors agreed with or supported an IEO recommendation; in others, the Summing Up indicates agreement with or support for part of an IEO recommendation; and in others, the Summing Up introduces nuances to an issue by addressing an IEO recommendation indirectly and/or advancing alternative approaches. In this exercise, we considered high-level recommendations that were clearly endorsed and those that were endorsed partially or in a nuanced way.

As input to our analysis, we took note of the IMF's Management Implementation Plans (MIPs) to implement Board-endorsed recommendations. MIPs were introduced in 2007 following the first external evaluation of the IEO and have been produced for four of the seven evaluations covered here.[2] We also collected information provided in past reporting, both the informal reporting provided in IEO Annual Reports from 2003 through 2007 and the formal Periodic Monitoring Reports (PMRs) by IMF staff that began in 2007.[3] We also gathered

[2]MIPs were issued for the evaluation of *The IMF and Aid to Sub-Saharan Africa* and subsequent evaluation reports in the sample except for the *Governance* evaluation, for which a different approach was agreed (see discussion below). The evaluations of *Multilateral Surveillance* and the *FSAP* preceded the adoption of the follow-up framework. For several evaluations covered by the present review, Management/staff established "key performance benchmarks" as part of the reporting on progress. However, often these benchmarks did not correspond one-to-one with recommendations endorsed by the Board; or they addressed only part of a recommendation; and/or they focused on actions to be taken, such as preparation of a policy paper, without reference to whether the paper yielded the result sought by the Board.

[3]PMRs were also introduced as part of a follow-up framework agreed by the Executive Board following the 2006 external evaluation of the IEO. PMRs were created to report on the implementation status of recommendations "contained in the forward-looking implementation plans already in force and not deemed completed on the occasion of a prior periodic monitoring report" (EBAP 07/4). PMRs were also intended to indicate difficulties in implementing the original plan and to propose

and analyzed additional evidence of relevant actions taken by the IMF. We reviewed Fund documents ranging from IMF policy papers to internal IMF policy reviews (e.g., the Triennial Surveillance Reviews undertaken in 2008 and 2011) to information posted on the IMF internal website. We also interviewed IMF staff to gather information and confirm understanding of the extent of actions taken. In addition, we relied on relevant findings from subsequent IEO evaluations.

The analysis undertaken here does not represent a re-evaluation of the issues initially examined by the IEO reports. Rather, it considers the Board position on past IEO recommendations as given and reviews the steps taken to implement them. The assessment required a significant degree of subjective judgment, for instance about whether implementation could be considered adequate if significant actions were undertaken only recently or with substantial time lags. Another example of difficult judgment calls was how much movement would be required to satisfactorily implement recommendations that called for *relative* changes—that is, an improvement or strengthening of policies or practices—rather than citing specific goals. In some cases, because of weak monitoring systems, it was difficult to determine whether any action had been taken or whether, instead, the available evidence did not provide IEO with enough information to discern action. It is likely that some of the recommendations for which the IEO was not able to assess implementation were in fact implemented to a significant degree. At the same time, it is also possible that a more in-depth analysis may find that some recommendations for which implementation was deemed satisfactory did not adequately address the underlying concerns.

Summary Results

We tallied all recommendations across the 18 IEO evaluation reports issued over 10 years and determined that the IEO made 117 high-level recommendations aimed at addressing significant concerns related to IMF policies and operations. The IEO also made about 160 subsidiary recommendations and offered about 70 suggestions and/or examples of how some of the high-level recommendations could be implemented.[4] Of the 117 high-level recommendations, about 85 percent gained support from the Executive Board, whether full endorsement or partial or nuanced support. About 8 percent of the high-level recommendations were rejected by the Board, while about 7 percent were not addressed. The Board supported fully, partially, or with nuance about 40 percent of the subsidiary

remedial or substitute actions whenever appropriate. The first PMR (2007) summarized the status of key recommendations for the 10 IEO evaluations completed by that time. Three subsequent PMRs (dated October 2008, October 2009, and March 2011) each reported on implementation of Board-endorsed recommendations covered in MIPs approved since the last PMR and of any recommendations or benchmarks identified in the previous PMR as outstanding.

[4]Salop, Chapter 8 in this volume, includes a discussion of the distribution of high-level and subsidiary recommendations across the 18 evaluations. The chapter also discusses the variation in number of recommendations across evaluations and the relationship between high-level and subsidiary recommendations.

recommendations made in IEO reports, and it rejected about 10 percent. Nearly half of the subsidiary recommendations in these 18 evaluations were not directly addressed in the Summings Up of Board discussions.[5]

Review Sample

The exercise focuses on the seven evaluation reports that IEO completed between 2005 and 2009.[6] This period is sufficiently in the past to permit a meaningful reflection on implementation. The evaluations covered are:

- *Financial Sector Assessment Program* (2006)
- *Multilateral Surveillance* (2006)
- *The IMF and Aid to Sub-Saharan Africa* (2007)
- *IMF Exchange Rate Policy Advice* (2007)
- *Structural Conditionality in IMF-Supported Programs* (2007)
- *Governance of the IMF* (2008)
- *IMF Involvement in International Trade Policy Issues* (2009).

These evaluation reports contain 41 high-level recommendations.[7] Of these, 38 were endorsed by, or gained partial or nuanced support from, the Executive Board (20 recommendations were clearly endorsed by the Board and the other 18 were supported partially or in a nuanced way).

Status of Implementation

Using the approach outlined above, we assessed the level of implementation for the 38 Board-supported recommendations:

- For about one-quarter of these Board-endorsed recommendations, implementation appeared to have proceeded consistent with the Board position, substantively as well as in terms of the implementation pace.
- For an additional 50 percent, some action had been taken but there were issues with implementation; for instance, some actions were taken but efforts were partial, incomplete, or stalled.
- For about 15 percent, minimal or no direct follow-up action was found.[8]
- For about 10 percent, the evidence found was insufficient to discern the status.

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[5]These figures exclude the 25 subsidiary recommendations made in the *Governance* evaluation.
[6]The evaluation reports are available on the IEO website at www.ieo-imf.org/ieo/pages/Completed.aspx.
[7]In a few cases, key recommendations were expressed as subsidiary to broader recommendations—for instance, the alignment of communications with Fund policy—and thus while essential to addressing IEO's conclusions were not counted as high-level recommendations for the purposes of this review.
[8]In some instances, IMF staff had linked particular actions to certain recommendations, but the IEO judged that these actions were not directly relevant.

These results are based on the seven evaluations examined and thus cannot be considered conclusive across all IEO evaluations. However, the analysis provides a perspective on: (1) the complexities of judging Board support; (2) challenges encountered by IMF Management and staff in implementing IEO's recommendations; (3) the difficulties in monitoring implementation; and (4) the complications of assessing whether implementation was satisfactory.

Assessing Implementation: Selected Recommendations

This section looks more closely at selected recommendations from the seven evaluations. For each of the evaluations in the sample, the following discussion first introduces the recommendations made and then explores the follow-up on one or two of the high-level recommendations, indicating: the Executive Board's position; actions taken by the IMF relevant to the Board's position; and the status of implementation of the recommendation.[9] The examples were chosen to help illustrate the range of implementation of Board-endorsed IEO recommendations, as well as different difficulties encountered in assessing implementation.

Evaluation: Financial Sector Assessment Program (2006)

IEO's evaluation of the *Financial Sector Assessment Program* (FSAP) found that the program had deepened the IMF's understanding of the financial sector and significantly strengthened the quality of its dialogue with member countries on financial issues.[10] The evaluation concluded that the FSAP initiative faced important challenges with respect to setting priorities for coverage and ensuring that FSAP results were fully incorporated in IMF surveillance. The Executive Board agreed with the overall conclusion of the evaluation that the FSAP made an important contribution to the Fund's work and considered that the IEO report provided a balanced and candid assessment of areas for improvement, particularly integrating financial stability assessments into bilateral and multilateral surveillance. An IMF Financial Sector Task Force examined a number of issues that were raised by the evaluation, including the integration of financial stability assessments into surveillance, although the Task Force was not specifically established to follow up on the evaluation.

[9]The annex documents for each recommendation: the Board's views as communicated in the Summing Up, the proposed actions as presented in the Management Implementation Plan, and IMF staff's account of the status of implementation as reported in annual PMRs.

[10]The Financial Sector Assessment Program (FSAP), established in 1999, provides for a comprehensive and in-depth analysis of a country's financial sector. FSAP assessments are the joint responsibility of the IMF and World Bank in developing and emerging market countries and of the Fund alone in advanced economies. They have two major components: a financial stability assessment, which is the responsibility of the Fund and, in developing and emerging market countries, a financial development assessment, which is the responsibility of the World Bank.

Of the seven high-level recommendations that were made by the FSAP evaluation, six received full or partial support from the Executive Board. The following two examples illustrate different implementation outcomes: the first shows actions taken over time to fulfill the intent of a recommendation; the second is a case in which efforts were made but did not achieve the goals in a timely manner.

Recommendation: Set Priorities for FSAP Participation

The IEO recommended that IMF Management provide clear signals to the Board about which countries were the highest priorities for financial stability assessments and updates, even if these countries had not volunteered for the program, and that these lists be taken as the basis for periodic Board discussions of country-specific priorities. This recommendation was aimed at strengthening country incentives to participate in the program and grew out of the evaluation finding that the existing practice had allowed "some authorities' reluctance to participate" to influence IMF staff preparation of priority lists.[11]

Board view: Most Executive Directors supported the recommendation that Management should communicate FSAP priorities to the Board and that Article IV staff reports should explicitly recommend a financial sector assessment or update in priority cases—although some Directors cautioned against using peer pressure, which would contradict the voluntary nature of the FSAP.

Action taken: Following the evaluation, Fund staff prepared annual reports on FSAP participation (in 2006, 2007, and 2008), which were provided to the Board for information after the fact, rather than for discussion. IMF monitoring of the status of this recommendation mentions these reports but emphasizes the Management/staff process for prioritizing and scheduling financial stability assessments, rather than communication with the Board. While this initial approach appears to fall short of the Board position following the evaluation, the issue of coverage was reconsidered in the 10-year review of the FSAP in 2009. Further policy discussions resulted in a Board decision that incentives and prioritization had not been sufficient to gain needed participation. As a result, the Board decided to make financial stability assessments mandatory for 25 systemically important countries at a minimum interval of every five years.

Status: We judged that the root of the recommendation was addressed with the IMF's ongoing attention to participation in the FSAP and to the incentives for doing so.

[11]IEO, *Financial Sector Assessment Program*, 2006, p. 39.

Recommendation: Link FSAPs with Surveillance

The evaluation recommended that the IMF strengthen the links between the FSAP and surveillance by making the FSAP a more central part of the Fund's work and by integrating the follow-up on financial stability assessments into surveillance activities—including in written reports, policy recommendations, discussions with authorities, and peer review in the Executive Board.[12]

Board view: The Executive Board concurred with the IEO recommendation to strengthen the links between the FSAP and surveillance, and in particular to improve follow-up on key vulnerabilities and gaps in country work. Directors called for short summaries of financial stability assessments, highlighting key findings and macroeconomic implications; increased focus in Article IV consultations on highly important financial stability issues; and greater attention to significant macro-relevant issues in Board discussions.

Action taken: The PMR that was issued in December 2007 indicated that implementation had been completed, since the internal review process had been strengthened to ensure clear communication of macro-relevant findings of financial sector assessments and incorporation of this analysis in Article IV reports.

Our analysis confirmed that the IMF devoted substantial attention to integrating financial sector analysis into surveillance through the 2007 Financial Sector Task Force Report and the 2008 Triennial Surveillance Review, and implemented changes including those cited by the PMR.

We also found that the IMF itself continued to raise concerns about insufficient connections between financial sector and surveillance work in the years following the evaluation. The IMF's 2009 "Progress Report on Integrating Financial Sector Issues and FSAP Assessments into Surveillance" noted (p. 7) that financial sector issues had become more central to Article IV consultations but that "obstacles to boosting financial sector coverage remain[ed] and, in some cases, [have] become more acute." Further, in discussing the Fund's mandate and financial sector surveillance in 2010, the Board stated that "despite the progress in recent years, there remains much scope for improving . . . financial sector analysis and the integration among all dimensions of surveillance."[13]

[12]This reflected an IEO finding that while the FSAP had helped broaden the degree to which financial sector issues were monitored as part of surveillance, follow-up on financial sector issues through surveillance in the years following a financial sector assessment tended to diminish—and thus the IMF was "not yet using FSAP results as effectively as it could." IEO, *Financial Sector Assessment Program*, 2006, p. 39.

[13]"IMF Board Discusses Modernizing the Surveillance Mandate and Modalities and Financial Sector Surveillance and the Mandate of the Fund," Public Information Notice No. 10/52, April 22, 2010.

The 2011 IEO evaluation of *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* found ongoing inadequacies in the links between macroeconomic and financial sector analysis and a tendency among IMF economists to downplay financial issues.[14]

The IMF's own judgment in mid-2011 was that "integration of FSAPs into Article IVs remain[ed] insufficient."[15] As part of the 2011 Triennial Surveillance Review (TSR), the IMF undertook to lay out a strategy for financial surveillance, including integration of financial stability assessments; discussion of a work plan in this area was under discussion in April 2012.

Status: On balance, we recognized that some action was taken, and intensified in 2012, but overall judged that the recommendation was only partially implemented.

Evaluation: Multilateral Surveillance (2006)

The IEO evaluation of *Multilateral Surveillance* concluded that many individual components of multilateral surveillance were of high analytical quality but found considerable scope for improvement, in particular identifying a need for better integration of financial and macroeconomic dimensions within the Fund's analysis and for a stronger linking of policy prescriptions to bilateral and multilateral analysis. The Executive Board, in discussing the evaluation, underscored the importance of multilateral surveillance, agreed that there was scope for improvement, and considered ways to accomplish this, based on the IEO's recommendations.

This evaluation made four high-level recommendations, all of which received full or partial support from the Executive Board. Some of the issues that it raised were featured in the subsequent IMF work program—for instance via the Medium-Term Strategy (MTS) in 2006 and the TSR in 2008. The objectives of the following recommendation were only partially addressed by the steps taken.

Recommendation: Enhance Multilateral Surveillance Outputs

The IEO recommended that the IMF improve the content and form of multilateral surveillance through streamlining and more focus on key issues. This recommendation grew out of the evaluation's findings that more attention was needed to exchange rate issues and spillovers and that macroeconomic and capital market

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[14]Olivier Blanchard, "The Crisis: Basic Mechanisms and Appropriate Policies," IMF Working Paper No. 09/80 (Washington: International Monetary Fund, 2009).

[15]"2011 Triennial Surveillance Review—Overview Paper," August 29, 2011, p. 17. More specifically, the staff background study for the 2011 TSR found that "FSAPs are infrequent, are not being incorporated into Article IV reports systematically, and questions have been raised on how to guarantee the quality of financial stability analysis in bilateral surveillance," "2011 Triennial Surveillance Review—Staff Background Studies," August 26, 2011, p. 34.

analysis were insufficiently integrated in the Fund's *World Economic Outlook* (*WEO)* and *Global Financial Stability Report* (*GFSR)*.

Board view: The Executive Board agreed that the Fund's multilateral surveillance outputs would have more impact on the global policy debate if they were better targeted to their core audience, streamlined, and more focused on key issues. The Board discussed but did not endorse a range of accompanying proposals or suggestions made by IEO to advance this goal.

Action taken: Reporting on this recommendation in the December 2007 PMR, IMF staff asserted that multilateral surveillance had increased its focus on cross-country messages and strengthened risk analysis—and that the Fund's outreach on *WEO* messages had been enhanced.

We confirmed several steps taken by the IMF to address the effectiveness of multilateral surveillance—an issue that was also being considered as part of the 2006 Review of the IMF's Medium-Term Strategy.[16] Changes were made to the *WEO*, including addition of an executive summary and quarterly updates. The Statement of Surveillance Priorities was introduced in 2008 as a vehicle to help guide bilateral and multilateral surveillance and to help improve their focus by identifying objectives, priorities, and responsibilities; surveillance priorities were agreed by the Board in August 2007 and October 2008.[17]

Nonetheless, the IMF's own 2008 TSR criticized "the proliferation of vehicles" and called for "[i]mprovements in brevity, timeliness and clarity, and a strategic delivery of few key messages. . . ."[18] In the prior year, the IEO's evaluation of *IMF Exchange Rate Policy Advice* found insufficient attention to the spillover effects of country policies on other countries and to the lack of integration of multilateral surveillance messages and financial sector issues into bilateral surveillance. And in 2011, the IEO *Financial and Economic Crisis* evaluation concluded, among other things, that risks were not highlighted and key messages were not integrated in the *WEO* and *GFSR*.[19] The IMF's 2011 TSR similarly pointed out gaps in coverage[20] and noted that the large volume of surveillance

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[16]See "Implementing the Fund's Medium-Term Strategy—Working Group Reports," SM/06/114, March 20, 2006; and "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy," April 6, 2006.

[17]Operational priorities were also discussed in the context of the 2011 Triennial Surveillance Review.

[18]"2008 Triennial Surveillance Review—Overview Paper," p. 4.

[19]"Some of the risks that subsequently materialized were identified at different times in the *Global Financial Stability Report*, but these were presented in general terms, without an assessment of the scale of the problems, and were undermined by the accompanying sanguine overall outlook. These risks were not reflected in the *World Economic Outlook* or in the IMF's public declarations." *IMF Performance in the Run-Up to the Financial and Economic Crisis*, 2011, p. 7.

[20]See Stephen Pickford, "TSR External Study—IMF Surveillance: Coverage, Consistency, and Coherence," July 20, 2011.

products created risks of "overlap, inconsistency, excessive segmentation of messages, and inefficient work practices."[21]

The International Monetary and Financial Committee (IMFC) requested in April 2011 the preparation of a consolidated multilateral surveillance report (CMSR), and the 2011 TSR concluded that the preparation of such a report "had the potential to increase traction" and to enhance dialogue within the institution about key issues and policies. Although in September 2011 the IMFC welcomed the first CMSR as a way to help focus discussion on key risks and policy issues, it is too early to judge whether this series of reports will sufficiently target the core audience, streamline, and focus on key messages to impact global policy debates—even six years after the evaluation.

Status: This recommendation was judged only partially implemented because insufficient action was taken, at least until very recently.

Evaluation: The IMF and Aid to Sub-Saharan Africa (2007)

The evaluation of *The IMF and Aid to Sub-Saharan Africa* found ambiguity and confusion about IMF policy and practice on aid and poverty reduction, as well as differences of views among members of the Executive Board about the IMF's role and policies in low-income countries (LICs). The overarching message of the evaluation was that the Fund should clarify its policies, be clear and accountable in implementing them, and engage more proactively with partners such as the World Bank. The Executive Board broadly endorsed the report's findings and recommendations, which it noted were particularly relevant to the Board discussions of the Fund's role in LICs that were scheduled in the following months.

This evaluation made three high-level recommendations, each of which was endorsed by the Board. As detailed in the following two examples, clarification of policy came quickly but the IMF did not follow through with mechanisms to hold itself accountable by tracking the implementation of these policies.

Recommendation: Clarify Policies

The IEO recommended that the Board clarify IMF policies on the underlying performance thresholds for the spending and absorption of additional aid, the mobilization of aid, alternative scenarios, poverty and social impact analysis, and pro-poor and pro-growth budget frameworks.

Board view: Executive Directors fully endorsed this recommendation and provided several initial policy clarifications during the discussion of the evaluation itself.

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[21]Nonetheless, the "2011 Triennial Surveillance Review—Overview Paper" concluded that a diversity of stakeholders held multilateral surveillance outputs in high esteem and thus it did not recommend a "radical merger" of products (p. 25).

Action taken: The Board made further clarifications in discussions of policy papers in July and October 2007. In approving the new IMF Extended Credit Facility and other facilities for LICs in 2009, the Board reiterated guidance related to the evaluation, for instance reiterating the policy that aid should generally be fully spent and absorbed over the medium term.[22] Staff whom the IEO interviewed for the current exercise also emphasized that the reformed architecture for the Fund's LIC facilities entails an expectation that programs rely on indicative floors for social and other priority spending, and that documents discuss how programs advance the country's poverty reduction strategy objectives.[23]

Status: We found no issues with implementation.

Recommendation: Monitor and Evaluate Implementation

The evaluation called on IMF Management to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.

Board view: The Board fully supported this recommendation, and reiterated its importance in its discussion of the proposed MIP.[24]

Action taken: The MIP called only for a three-year review of experience, rather than for the creation of mechanisms to track performance on an ongoing basis—which would have provided the input for a subsequent review. Currently, the internal review process serves as the only framework to monitor implementation of the clarified policy guidance, since there is still no other mechanism which is specifically aimed at monitoring. But the review process is intended to ensure adherence to and consistency with IMF policies and not to monitor ongoing performance.

Status: We judged that there had been no or only minimal direct follow-up to establish a mechanism for ongoing monitoring as emphasized by the Board.[25]

Evaluation: IMF Exchange Rate Policy Advice (2007)

The evaluation of *IMF Exchange Rate Policy Advice* concluded that the IMF was not as effective as it needs to be in fulfilling its core responsibility for exchange

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[22]SM/09/55. With respect to the subsidiary recommendation that clear guidance be provided to staff, the Strategy and Policy Review Department website referred staff to a number of policy papers and Summings Up until the issuance of a *Handbook of IMF Facilities for Low-Income Countries* on March 21, 2012.

[23]See "A New Architecture of Facilities for Low-Income Countries," June 26, 2009, paragraph 37, pp. 18–19.

[24]See Annex, pp. 6–7.

[25]A review of lending to LICs that is scheduled for 2012 may serve the function of evaluating implementation of the clarified policy guidance.

rate surveillance. While acknowledging some progress during the time period covered by the evaluation, the report called for a major refocusing of efforts aimed at enhancing the effectiveness of the IMF's analysis and advice, and urged the Fund to re-energize its contribution to policy dialogue with member countries. The Board broadly endorsed the report's conclusion on the effectiveness of the IMF's exchange rate policy advice and also partially or fully supported each of the 11 high-level recommendations.

The following example is a case in which attention was directed to the recommendation made by the IEO and reiterated by the Board, but the issue persisted.

Recommendation: Integrate Analysis of Policy Spillovers

The IEO recommended the creation of incentives to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance. This recommendation aimed to address the evaluation finding that the Fund had been paying too little attention to spillovers including the regional or systemic impact of large countries' policies, offering spotty analysis for most countries and making only limited attempts to assess the effects of intervention activities on other members.

Board view: In discussing the evaluation, the Board underscored the importance of "better incorporating analysis of policy spillovers into bilateral and regional surveillance," and welcomed initiatives taken in this area under the MTS. In preparing a MIP for this evaluation, IMF staff took its cue from the latter statement and proposed no new initiatives beyond continued efforts through the MTS to focus on regional trends, improve assessment of economic and financial market spillovers, and address spillovers emanating from systemic countries. However, in discussing the MIP, Directors identified this as one of the areas meriting further attention: some Directors indicated that additional action on spillovers might be warranted and encouraged careful monitoring of ongoing improvements.[26]

Action taken: The 2008 PMR asserted that this issue had "received renewed emphasis in the refocusing process and in the TSR" and noted that further initiatives were outlined in the Managing Director's Strategic Directions paper.[27] These initiatives included a "renewed" effort by the Surveillance Committee to bring global perspectives into Article IV consultations, especially in systemically important cases;[28] however, these steps also coincided with the IMF downsizing effort.

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[26]"Executive Board Assessment," Public Information Notice No. 07/119.

[27]"Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations," October 6, 2008, Table A.1, p. 19.

[28]"Statement by the Managing Director on Strategic Directions in the Medium-Term Budget," April 12, 2008.

Subsequent analysis of IMF advice in the period before and during the early part of the recent crisis judged the analysis of spillovers "wanting."[29] While the 2011 IEO *Financial and Economic Crisis* evaluation cited increased treatment of spillovers in the Fund's World Economic and Market Developments presentation by 2008, it concluded overall that spillovers had received too little attention in the pre-crisis period. Moreover, the 2011 TSR found that analysis of spillovers in Article IV consultations was limited and that member country officials wanted more. The TSR emphasized that an understanding of spillovers provides an important bridge between bilateral and multilateral surveillance and also serves to enhance the legitimacy and traction of surveillance.

The IMF has sharply increased its work on spillovers very recently as a part of post-crisis enhancements. Spillover reports for five systemic economies were issued in mid-2011, and the IMF intended to prepare three to six more in 2012, including one on financial sector spillovers from major financial centers. Pending Board approval of an integrated surveillance decision, the expectation is that spillover analysis will become a regular feature in Article IV staff reports and multilateral surveillance.

Status: This recommendation was judged to be partially implemented, given the persistence of concerns in this area three years after the evaluation. Action has been taken very recently, and other actions are being considered, in particular for implementation following the possible approval of a new integrated surveillance decision.

Evaluation: Structural Conditionality in IMF-Supported Programs (2007)

The IEO evaluation of *Structural Conditionality in IMF-Supported Programs* found that the average number of structural conditions attached to IMF lending had failed to decline since the introduction of a streamlining initiative in 2000, although some progress had been made in shifting these conditions toward core areas of IMF expertise. It also highlighted the persistence of overly detailed conditions that were not macro-critical, and insufficient explanation of why such conditions were needed to bring about lasting reforms. The report emphasized the need to achieve greater parsimony in the number of conditions and greater focus on core areas of IMF expertise, as well as to concentrate on changing incentives within the IMF to tailor programs more effectively to realities on the ground.

The evaluation made six high-level recommendations, five of which were fully or partly endorsed by the Executive Board. The following discussion highlights an operational change that directly addresses a Board-endorsed recommendation and a case in which the IMF pursued implementation of a subsidiary component while not addressing the core recommendation endorsed by the Board.

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[29] "2011 Triennial Surveillance Review—Overview Paper," p. 10.

Recommendation: Clarify Expectations About the Number and Scope of Structural Conditions

The evaluation findings suggested that the Board should reaffirm the need for the IMF to use structural conditions sparingly and only when they are critical for achieving program objectives or safeguarding IMF resources.

Board view: The Board broadly supported strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives. At the same time, however, a majority of Directors rejected the IEO's specific recommendation on how to achieve this—that is, to cap the number of conditions—because they viewed this approach as overly rigid and mechanistic.[30]

Action taken: After the evaluation, IMF Management issued revised guidance to staff that reaffirmed the importance of parsimony in program-related conditions and clarity in the specification of conditions. Specific criteria were set for judging whether prior actions, performance criteria, and structural benchmarks were justified in terms of their criticality to program objectives. Subsequently, in 2009, the Board decided to eliminate structural performance criteria from IMF-supported programs, while allowing programs to continue to include structural benchmarks to monitor progress during the implementation of the program. A further revised guidance to staff was issued in January 2010 to reflect the Board decision that placed greater reliance on a review-based approach to monitoring structural reforms in Fund-supported programs.

Status: We found no issue with implementation.[31]

Recommendation: Monitoring and Evaluation Framework

The IEO recommended that the IMF develop a monitoring and evaluation framework linking the conditions attached to IMF lending in each program to country reforms and specified goals. As an interim measure, recognizing that developing such a framework could be a lengthy process, the IEO recommended improvements to the conditionality-tracking mechanism already in place (MONA).

Board view: Directors agreed that Board papers for Fund program arrangements should better explain the link between program goals, strategies, and conditions and that this framework should be monitored.

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[30]Subsequently, the Board decided to eliminate structural performance criteria from IMF-supported programs. At the same time, programs could continue to include structural benchmarks towards which borrowing countries are expected to make progress during the implementation of the program.

[31]Although the initial annual report on the Application of Structural Conditionality (ARSC) in 2008 found no change, the March 2010 ARSC reported a subsequent decline in the average number of structural conditions associated with a program review. No ARSC was issued in 2011, but there is evidence that the decline may not have been sustained in that year. IMF staff have indicated that this issue will be considered by the forthcoming conditionality review.

Action taken: The MIP for this evaluation indicated that the IMF would pursue improvements to MONA (the interim recommendation), but did not specify the steps that would be taken to develop a comprehensive monitoring and evaluation system (the main IEO recommendation). Subsequently, PMRs noted that enhancements to MONA were proceeding. But while the enhancements to MONA and full public electronic access to it are positive steps, the IEO found no evidence of a monitoring and evaluation framework that links conditions to reforms and program goals—and no plans to create such a framework.

The Board Evaluation Committee returned to this issue in January 2010 when discussing the Third PMR and suggested that more work could be done on the system to track goals and strategies and their links to the conditions attached to IMF programs. The Fourth PMR reported in March 2011 that work had begun on the 2011 Conditionality Review, utilizing the MONA database to assess how well program conditions had been linked to program goals, and that in the process staff would assess the need for any further changes to the MONA database.

Status: We judged that this recommendation saw no or only minimal direct follow-up, as an ongoing monitoring framework is not yet in place.

Evaluation: Governance of the IMF (2008)

This evaluation examined Fund governance arrangements, focusing on the International Monetary and Financial Committee (IMFC), the Board, and Management. Accordingly, the Board and Management agreed that a joint statement would be released in lieu of a Summing Up and that the requirement for an MIP should not apply. Some of the issues raised were under the purview of Fund Governors and were discussed in a variety of fora, including by the IMFC, and by ministers and heads of state at successive G-20 meetings and in respective communiqués. Several bodies were established to carry work forward, including an Executive Directors' Working Group, which approved a work plan in September 2008. The Managing Director established an external committee on IMF governance reforms led by Trevor Manuel and a mechanism to receive civil society and other external views. The Managing Director also proposed a joint steering committee to consider the IEO evaluation report and other inputs.[32]

The evaluation made four high-level recommendations. Although the Executive Board did not take a view on them, all four were widely recognized as addressing important areas for action. The first of the following examples is a case of partial action on an issue that reached beyond the direct purview of IMF Management and Executive Board, and the other is a case in which we did not come to a conclusion about the status of implementation.

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[32]The Committee was expected to report back one year later, but this did not occur.

Recommendation: Enhance Ministerial Involvement

The evaluation noted that the IMFC functions as an advisory body, without a mandate to set strategic directions and provide high-level oversight of the IMF. The evaluation called for activation of the ministerial-level Council provided for in the IMF's Articles of Agreement to fulfill these roles. Aware that the activation of this Council could take a very long time, the IEO recommended a series of interim (or alternative) reforms to involve ministers more systematically within the existing IMFC structure.[33]

Responses: The need to involve ministers more actively was widely acknowledged in the period following the evaluation. The Joint Statement by the Executive Board and IMF Managing Director (May 27, 2008) acknowledged that the evaluation report had "raised important questions [including] how to ensure effective ministerial and Board involvement in institutional decision-making processes." G-20 leaders also specified the "Fund Governors' involvement in the strategic oversight of the IMF" as a critical issue to be addressed, along with other governance matters, as part of the review of quotas that was to be completed by January 2011.[34]

Action taken: The Executive Board proposed some steps to enhance the IMFC's functioning, though the Board does not have the standing to implement changes. These potential actions included: focusing the Committee's meetings on a few systemic or controversial issues; eliminating set speeches; introducing a three-year term limit for chairmanship; introducing a troika model of past, present, and future chairs to facilitate leadership; overhauling deputies' meetings so that they serve more as agenda-setting sessions; and circulating draft communiqués further in advance.[35] In July 2010, IMF staff proposed the creation of the International Monetary and Financial Board, which would have certain decision-making powers, but many Directors "remained unconvinced of the need for a ministerial decision-making body."[36] In October 2010, Directors emphasized agreement that "engagement by ministers and governors is essential to the effective discharge of the institution's responsibilities, including to promote multilateral cooperation and coherence of policies"—although they could not agree on whether to reform the advisory IMFC or to shift to a body with decision-making power.

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[33]Authority for the establishment of the Council, a ministerial-level decision-making body, is enshrined in the Fund's Articles of Agreement (Article XII, Section 1). Activation of the Council would require support by an 85 percent majority of the total voting power. This level of support has been elusive and no discussions on its activation are currently taking place. See Alisa Abrams, "The IMF Council of Governors," Chapter 3 in *Studies in IMF Governance: A Compendium*, edited by Ruben Lamdany and Leonardo Martinez-Diaz (IEO, 2009).

[34]"G-20 Leaders' Statement," The Pittsburgh Summit, September 24–25, 2009, paragraph 21.

[35]"Executive Board Report to the IMFC on Reform of Fund Governance," October 3, 2009; "Executive Board Report to the IMFC on Quota and Governance Reforms," October 1, 2010.

[36]"The IMF Board Discusses IMF Governance Reform," Public Information Notice No. 10/108, August 2, 2010.

Some changes in procedures and practice of the IMFC have taken place, in line with IEO's recommendations. In 2008, a chairman was chosen from an emerging market country, with a term of three years; the subsequent chairman was also chosen from an emerging market country and given a fixed term of three years. In addition, there is reportedly more consultation with member governments on topics for discussion. Beginning in April 2009, restricted dinner and breakfast sessions were introduced prior to the plenary session. Communiqués are also circulated earlier.

Nonetheless, IMF Governors still saw the need for further action in October 2010, when the IMFC communiqué identified "enhanced ministerial engagement and strategic oversight" as an outstanding issue to be resolved. And in both April and September 2011, the IMFC "look[ed] forward to enhancing the role of the IMFC as a key forum for global economic and financial cooperation."

Status: Given the calls from IMF Governors for further action in this area, we judged this recommendation to be partially implemented.

Recommendation: The Board Should Introduce an Accountability Framework for Management

While the IEO report recognized that work was already under way in this area, it called for clear proposals on: (1) performance criteria for the conduct of the ordinary business of the Fund and the quality and outcomes of the Fund's activities; (2) processes to be used for assessing performance; and (3) the approach for translating of performance assessments into incentives. The IEO report noted that, to be effective, the evaluation of Management's performance might need to be delegated to a Board committee, and that assessments might need to be confidential.

Responses: The Joint Statement of the Executive Board and Managing Director acknowledged that the evaluation report raised important questions in a number of areas, including how to strengthen the management accountability framework. It also noted that work in this area was under way.

Action taken: An Executive Directors' Working Group on the Framework of the Managing Director's Performance Evaluation was in place prior to the completion of the *Governance* evaluation report. The 2008 Report of the Executive Directors' Working Group on IMF Corporate Governance noted that the Working Group on the MD's Performance Evaluation was preparing performance objectives. The contract of the current Managing Director states that she will participate on an annual basis in a confidential and informal performance feedback process between herself and Executive Directors.[37]

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[37]See "Terms of Appointment of Christine Lagarde as Managing Director of the International Monetary Fund," Press Release No. 11/270, July 5, 2011, available at www.imf.org/external/np/sec/pr/2011/pr11270.htm.

Status: The evidence currently available to the IEO is not sufficient to assess the extent of improvements in the framework in place for Management accountability.

Evaluation: IMF Involvement in International Trade Policy Issues (2009)

The evaluation advised the IMF to rebalance its role—with a recommitment to trade policy issues that have potentially significant implications for macroeconomic and systemic stability. The Board broadly agreed that the Fund had "an important role to play on broad trade policy issues and their implications for external stability." It endorsed five of the IEO's six high-level recommendations while providing limited support for the other, citing IMF resource constraints.

The IMF has acted on a number of the recommendations, with the following example illustrating an operational change that is in train but will need future monitoring.

Recommendation: Periodically Review Guidance

The IEO recommended that the Board commit to periodically re-evaluate its guidance on objectives of, approaches to, and modalities of staff work on trade policies, in the context of global trends on trade.

Board view: The Board agreed that such a review is needed every five years.

Action taken: The first review is scheduled for 2014, five years after Board discussion of the evaluation.

Status: We found no issue with implementation of the recommendation. The best time to assess implementation would be after 2014, that is, after the first review is scheduled to take place.

Additional Observations and Conclusion

The assessments made in this chapter add to and are broadly consistent with discussions elsewhere of the follow-up to IEO evaluations. For instance, the 2006 report of the External Evaluation of the IEO noted that IEO evaluations were taken seriously by the IMF, highlighting the Fund's introduction of ex post assessments, better debt sustainability analysis, and the creation of a nonmonetary policy support instrument as a policy benchmark for development assistance flows from other agencies, as well as significant changes that were expected in the framework for technical assistance.[38] But the 2006 report also pointed to minimal follow-through on the need for "greater candor by staff in alerting the Board to risks to Fund-supported programs, even where major shareholder interest is high" (p. 24).

[38]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006, available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

In addition, the first two PMRs concluded that the IEO had "a significant impact" on IMF operations and cited a number of recommendations as examples.

A few additional observations and conclusions about the follow-up process are given below.

Set Clear Expectations About What Is Required to Implement Board-Endorsed Recommendations

The current process allows too much ambiguity about what IMF staff intends to do to implement each recommendation and about how proposed actions address the corresponding issues and problems. The introduction of MIPs provided a mechanism for IMF Management and staff to specify, and the Board to provide feedback on, what would be done to address IEO recommendations endorsed by the Board. Benchmarks were introduced in the first PMR in order to establish key markers for implementation of Board-endorsed IEO recommendations. However, sometimes the proposed benchmarks consisted of activities that IMF staff planned to undertake, such as preparing a policy paper or conducting a review, without explaining how these activities would achieve the policy or operational change requested by the Board. For example, three of the five benchmarks for follow-up on the evaluation of *Aid to Sub-Saharan Africa* called simply for preparation of a policy paper, rather than the objective of achieving Board-clarified policies on aid.

In discussing the first PMR, the Executive Board supported the initial effort by IMF staff to establish criteria for gauging progress in implementation. One Director noted that benchmarks were welcome as a way to try to make the monitoring results more tangible and meaningful, but also expressed concern that the chosen benchmarks seemed more to indicate the path forward than to provide measures for monitoring performance. Overall, the Board considered that monitoring would benefit from greater specificity and clarity of the follow-up actions required—including in their formulation in Board discussions, their recording in the Summing Up, and their articulation by Management in MIPs. In practice, however, the process has continued to rely on benchmarks that are often vague on how they relate to the intended goals.

Track Recommendations Until Their Goals Are Substantially Achieved

Under the current monitoring system, the implementation of an IEO recommendation (and of the corresponding benchmarks) is no longer tracked once IMF staff judges, and the Board agrees, that benchmarks have been met, or that implementation is on track for timely completion. This process allows IMF staff to discontinue tracking the implementation of recommendations without confirming whether the broader policy issue or objective set by the Board has been addressed.

This study identified several examples in which the implementation of IEO recommendations was deemed complete even while the IMF recognized that an issue was still of concern and continued work to address it. For instance, with respect to the recommendation to strengthen the links between the FSAP and surveillance, the first PMR noted that the internal review process had been strengthened in several ways to address this concern and did not identify this recommendation as among those outstanding. Meanwhile, IMF policy papers and discussions concurrent with and after this PMR acknowledged that integration of financial stability assessments and surveillance was an ongoing issue that required further action. Moreover, in 2009, the Third PMR concluded that there was no need to continue tracking implementation of any of the benchmarks for recommendations from previous IEO evaluations.[39] This disconnect may result in part from the narrow benchmarks discussed above and the role they played in the process. In recognition of this issue, the Fourth PMR acknowledged the need for updates on broader issues.

Some IEO recommendations are integrated into the Fund's ongoing work program and receive continued attention and Board review in this way.[40] The recommendation to clarify expectations about the number and scope of structural conditions is one example. However, there is no procedure for identifying which IEO recommendations have been integrated in the Fund's work program and do not require separate future monitoring, which do not need ongoing monitoring, and which should be monitored on an ongoing basis given the nature of the follow-up required. A number of recommendations were identified as outstanding in the first two PMRs, and a brief update on these was provided in subsequent PMRs. In addition, when considering PMRs, the Board Evaluation Committee typically identified several issues for further follow-up, which were then picked up in subsequent reports from IMF staff.

While one-off recommendations may not require ongoing monitoring, recommendations that address more entrenched or challenging issues of policy or practice—for instance, calling for enhanced links between the FSAP and surveillance—tend to be addressed only over time, and efforts to do so may not be easily condensed into a singular benchmark. In addition, when operational changes are introduced to address broader policy objectives—such as the creation of surveillance agendas to improve the effectiveness of dialogue with member country authorities—continued tracking could help assess whether progress is being made in meeting the objective, and whether the operational change is being maintained.

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[39]"All key performance benchmarks related to the MIPs covered in this report have either been met or are on track for timely completion, and no new remedial actions are proposed. There are no outstanding benchmarks to be reviewed in the next PMR." "Third Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations," October 7, 2009, paragraph 7.

[40]The IMF press release for the Board discussion of the Third PMR states that "some aspects of the implementation plans are still being executed, as Board-endorsed IEO recommendations continue to be integrated into the Fund's ongoing work program." Public Information Notice No. 10/23, February 17, 2010.

Identify and Address Shortfalls in Implementation

In reviewing the four PMRs prepared by IMF staff to date, we found that these reports have become more mechanical over time and have gradually ceased identifying and addressing shortfalls in implementation. The Evaluation Committee initially envisioned that the PMRs would identify recommendations not implemented as well as remedial actions to improve implementation of these outstanding recommendations where appropriate.[41] The first two PMRs acknowledged that some recommendations had not been fully implemented, and the first PMR also identified remedial actions to improve implementation. But the practice of identifying and addressing recommendations not fully implemented was not continued in the Third and Fourth PMRs, both of which concluded that there were no outstanding performance benchmarks to be reviewed in the next PMR.[42]

Conclusion

This chapter concludes that the IMF attends to IEO evaluations and has taken actions to implement their recommendations. While recognizing that many IEO recommendations called for action on challenging issues, for which solutions may be difficult or may require a long time to address, the analysis indicates that more can and should be done to advance the implementation of these recommendations. Key steps in this direction include better specification of follow-up actions clearly linked to the intended goals, and a more transparent monitoring system that would allow the Board and Management to identify shortfalls in implementation and specify remedial actions where appropriate.

Annex. IEO High-Level Recommendations, Board Response, and IMF Follow-Up

This annex catalogues the high-level recommendations examined in the main text. For each recommendation, it also provides: excerpts from the Summing Up of the relevant Board meeting, indicating the Board response to that recommendation; the proposed follow-up actions as presented in the MIP, when applicable; and the status of follow-up as communicated in PMRs prepared by IMF staff. Much of the information in this annex is summarized in the main text; the annex reproduces verbatim text.

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[41]"External Evaluation of the Independent Evaluation Office—Follow-Up," EBAP/07/4, January 10, 2007.

[42]The discussion in the Third PMR noted that "most" of the outstanding recommendations from previous PMRs had been fully addressed while noting that action remained to be taken on some. But its overall conclusion was that there were no outstanding benchmarks for review in the next PMR.

Annex *(continued)*

IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
Financial Sector Assessment Program (2006)			
Recommendation 2: To strengthen incentives and drawing upon these country-specific plans, IMF management should clearly signal to the Board those countries that it sees as the highest priorities for FSAPs and Updates, irrespective of whether these countries have volunteered. These lists should be the basis for periodic discussions by the Board of country-specific priorities.	*Summing Up of Board Discussion, January 27, 2006:* [M]ost Directors agreed with the IEO proposal that management should indicate to the Board which countries it considers the highest priorities for FSAP assessments and updates. Annual reporting on country participation, as instituted following the 2005 internal FSAP review, could in this context provide useful information to guide the discussion of priority cases. In addition, most Directors considered that Article IV staff reports should explicitly recommend an initial FSAP or FSAP update in priority cases, although the way this was reported would have to be mindful of potential market sensitivities. Some Directors, however, cautioned against putting peer pressure on countries, as they judged that this runs counter to the voluntary nature of FSAPs. A number of Directors also pointed to the report's finding that the burden of FSAPs on the authorities is high, and stressed that reducing this burden through better planning and focus is critical for increased participation.	[This evaluation predates the MIP instrument.]	*PMR, December 2007:* Scheduling of FSAPs is based on a prioritization process established by staff, based on criteria approved by the Fund and Bank Boards, which is carried out twice a year. Staff assessment of prioritization for individual countries is used to encourage participation of high priority countries in the program and is reflected in the staff appraisal of Article IV consultation reports. Annual reporting on country participation, as instituted following the 2005 internal FSAP review, is also being used to provide the Executive Board with overall information on program coverage (SM/07/272).

Recommendation 3: Strengthen the links between the FSAP and surveillance by mainstreaming FSAPs and follow-up work into the IMF's regular surveillance activities. This means incorporating the assessment of financial sector standing and vulnerabilities into the overall macroeconomic assessment of the country in a way that fosters a greater understanding of stability; policy recommendations that are set in a coherent framework combining macroeconomic and financial sector analysis; more meaningful discussion of financial sector issues with authorities; and enhanced peer review discussion at the Board.	*Summing Up of Board Discussion, January 27, 2006:* Directors concurred with the IEO recommendation to strengthen links between FSAPs and surveillance. Specifically, they underscored the need to follow up on key vulnerabilities and gaps relevant for stability and macroeconomic developments and respective recommendations raised in FSAPs/FSAP Updates in country work, and to integrate such issues into Article IV surveillance reports. Directors agreed that each Financial Sector Stability Assessment should contain a short (1–2 page) section that summarizes in candid language the main macro-relevant findings of FSAPs and potential macroeconomic implications arising from key financial sector risks. Directors stressed that in cases where financial stability issues, including any potential global repercussions, are judged to be of high importance, they should be a major focus of Article IV consultations.	[This evaluation predates the MIP instrument.]	*PMR, December 2007:* The internal review process of FSAP-related documents and Article IV reports has been strengthened to ensure that (i) the Executive Summary summarizes the main macrorelevant findings using candid language, (ii) the FSSAs clearly highlight and summarize macro-relevant findings, (iii) these findings are adequately reflected and incorporated in the analysis of Article IV reports.
Multilateral Surveillance (2006)			
Recommendation 3: Improve the content and form of multilateral surveillance outputs through streamlining and more focus on key issues.	*Summing Up, March 24, 2006:* Directors observed that, to heighten the impact of multilateral surveillance outputs on the global policy debate, they could be better targeted to their core audience, streamlined, and focused on key issues. While most Directors considered that a major streamlining and focusing of the *WEO*	[This evaluation predates the MIP instrument.]	*PMR, December 2007:* The World Economic Outlook (WEO) is placing even greater focus on key cross-country messages and further strengthening risk analysis. Work is ongoing to broaden post-WEO outreach on the key policy messages and to target issues of particular concern in specific regions.

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Annex *(continued)*

IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
	are not necessary and would detract from the quality of the underlying analysis, Directors offered a number of useful suggestions for further consideration. On issues of content, some Directors supported the suggestion to integrate better financial and capital market issues in the *WEO*'s Chapter I. They called for more analytical treatment and discussion of exchange rate issues, with some Directors cautioning the staff to be mindful of market sensitivities in the public communication of such analyses. Several Directors also considered that greater use could be made of scenario analysis, with sharper messages for policymakers. . . .		A new procedure has been implemented in 2007 by which quarterly WEO updates are published—twice a year—between the publications of the Spring and Fall WEO. These update the staff's view of the global outlook on the basis of recent developments and provide greater continuity for the Fund's surveillance and outreach. The GFSR now includes a "global risk map" to help make the staff's overall judgment about global financial stability easier to convey. More public outreach is being coordinated with the External Relations Department to bring GFSR messages to a greater global audience, perhaps outside financial centers.
***The IMF and Aid to Sub-Saharan Africa* (2007)**			
Recommendation 1: The Executive Board should reaffirm and/or clarify IMF policies on: • the underlying performance thresholds for the spending and absorption of additional aid, • the mobilization of aid, • alternative scenarios, • PSIA, and • pro-poor and pro-growth budget frameworks.	*March 5, 2007:* Directors generally agreed with the report's assessment that considerable scope remains for further improvements . . . and that any improvements in the Fund's engagement in low-income countries should, in line with the MTS, continue to be focused on its core mandate. . . . In this context, most Directors confirmed that distributional policies generally lie outside the Fund's core mandate and that poverty and social impact analysis (PSIA) should be conducted by other agencies in the context of the PRSP process,	*June 5, 2007:* Fund policies relating to the handling of aid inflows: Board-endorsed recommendations in this area will be taken forward primarily in the context of two related sets of papers on program design and fiscal policy, both of which benefited from the discussions on the findings of the IEO Report: i. *The Role of the Fund in Managing Aid Inflows and Impact on the Design of Fund-supported Programs* . . . will seek to clarify	*PMR, October 2008:* The Board also discussed *Fiscal Policy Response to Scaled-Up Aid* and *Role of the Fund in Aid Inflows and Impact on the Design of Fund-supported Programs,* which examine Fund policies to handle aid inflows, including bringing all LIC members to the point where all aid can be carefully spent and absorbed without disrupting macroeconomic stability (SM/07/199 and SM/07/210, respectively). Directors noted that the papers provide important guidance for Fund engagement in LICs and stressed the need to

although others saw a continuing role for the Fund. Directors noted that PSIAs have not systematically supported PRGF program design, and emphasized the importance of improving Fund collaboration with development partners, in particular the World Bank, to take these issues into account when helping countries formulate their macroeconomic policies.

Directors confirmed the importance of accommodating higher aid flows through higher spending and net imports, provided that this would not jeopardize macroeconomic stability. They considered that this approach should continue to be implemented on a case-by-case basis and in the context of a multi-year strategy—with the general objective being to bring all low-income members to a situation in which aid can be fully absorbed and effectively spent. Directors concurred on the need for improved transparency and clear communications by the Fund on its stance regarding the use of aid, and on the trade-offs involved.

With regard to other aid-related issues noted in the report, Directors also offered a range of views. On the role of the Fund in developing alternative aid scenarios, many Directors indicated that, in the context of the PRSP, [IMF] staff should be available to prepare scenarios that illustrate the macroeconomic challenges of scaling up aid, including, in the view of some

Fund policy on issues related to the spending and absorption of additional aid, the mobilization of aid, alternative scenarios and pro-poor and pro-growth budget frameworks.

ii. *Fiscal Policy Response to Scaled-up Aid* (and accompanying background papers) . . . will provide the framework for the Fund's approach to the fiscal challenges of increasing aid flows.

[Table 1:]

Follow-up to Malan Report

The Role of the Fund in the PRSP and Donor Coordination Processes

The IMF's Communication Strategy

integrate the proposals in the paper with other ongoing work in the Fund on LICs to have a comprehensive operational framework on LICs (BUFF/07/102). At the operational level, AFR is strengthening its analysis and policy advice in this area. In particular, the department has been providing macroeconomic assessments of scaled-up aid scenarios in a number of countries as a contribution to a UN-led MDG Africa Initiative, and a number of staff reports and selected issues paper provide assessments of the implications of scaled-up aid. [Footnote] Examples of such assessments are in the staff reports of Burkina Faso (EBS/07/153) and Rwanda (EBS/07/04) as well as the SIPs on Madagascar (SM/7/209) and Mozambique (SM/07/167) assess aid-scaling up scenarios.

[Table]

Policy has been clarified by the Board in this respect at the July 2007 discussion of program design and aid (SM/07/199, SM/07/210, BUFF/07/102) and at the October 2007 discussion of the IMF's role in the PRS process and collaboration with donors (SM/07/334, BUFF/07/139 rev).

A chapeau paper on the "The Role of the Fund in LICs" was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).

As follow-up to the Malan Report, a Joint Management Action Plan (JMAP) to improve Bank-Fund collaboration—presented to the Board in October 2007 (SM/07/335)—is being

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Annex (*continued*)

IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
	Directors, those based on estimates by others of additional resources needed for the MDGs when available. Most Directors emphasized, however, that the Fund's role should be limited to assessing the consistency of additional aid flows with macroeconomic stability and the absorption capacity of the country, with more normative advice on the preparation of less likely aid scenarios falling outside the Fund's mandate. On budget frameworks, Directors generally considered that the World Bank and other MDBs should be the lead agencies in providing advice related to expenditure composition issues. Directors supported the report's recommendation on the need for further clarification of Fund policy on several aid-related issues including the mobilization of aid, alternative scenarios, PSIA, and pro-poor budget frameworks. Directors asked the staff to come back with specific and costed proposals on how to clarify relevant policies and implement the report's recommendations.		implemented [and text adds] aiming at translating identified good-practice approaches into standard practices.
Recommendation 2: Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.	*March 5, 2007:* Directors welcomed the report's recommendation to establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.	*June 5, 2007:* Board endorsed recommendations in this area will be taken forward in the context of . . . the next review of the PRGF, currently scheduled for 2010. This review could be	*PMR, October 2008*: A chapeau paper on the "The Role of the Fund in LICs" was discussed by the Board in July 2008 (SM/08/170, BUFF/08/127).

		brought forward if necessary, though consideration would need to be given to the resource cost of such an acceleration. *Board discussion of MIP (June, 29, 2007):* Directors underscored the importance of monitoring and evaluating the implementation of clarified policy guidance, and some noted that, whether or not the next review of the PRGF could be advanced to a date before 2010, a monitoring and evaluation framework (benchmarks) will be needed.	*Third PMR, October 2009:* In July 2009, the Executive Board approved wide-ranging modifications to upgrade concessional financing facilities for low-income countries (LICs), and the Extended Credit Facility (ECF) will succeed the PRGF. Directors agreed to review experience with the new facilities and financing framework within three years of the effective date of the decision.
***IMF Exchange Rate Policy Advice* (2007)**			
Recommendation 8: Incentives should be given to develop and implement guidance for the integration of spillovers into bilateral and regional surveillance.	*May 9, 2007:* Directors underscored the importance of better incorporating the analysis of policy spillovers into regional and bilateral surveillance and welcomed the initiatives recently taken in this area under the aegis of the Medium-Term Strategy.	*August 16, 2007* [subsequent to June 15, 2007 Surveillance Decision]: [Table] No new initiatives. Continued implementation of existing initiatives under the MTS. [Text] The current initiatives under the aegis of the MTS will continue. The initiatives include a focus on overall regional trends through regional outlooks, better assessment of external economic and financial market spillovers affecting individual countries by drawing on the analysis in multilateral and regional surveillance, and spillovers emanating from systemic countries. The analysis of spillovers has benefited from increased use of the Fund's Global Economic Model and	*PMR, October 2008:* This theme has received renewed emphasis in the refocusing process and in the TSR. The Managing Director's Strategic Directions paper outlines some initiatives to integrate a multilateral perspective in bilateral surveillance.

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IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
		Global Fiscal Model. These initiatives were welcomed by Directors, and no new initiatives are planned. *Board discussion of MIP (September 12, 2007)*: Some Directors also suggested that additional action might be warranted to better integrate spillovers into bilateral and regional surveillance. . . . The need for deeper analysis of the link between capital flows and exchange rates was also emphasized.	
Recommendation 6: To improve assessments of the exchange rate level, the IMF should be at the forefront of developing the needed analytical framework, while more successfully translating existing methodologies into advice that is relevant to discussion of individual country cases.	Directors welcomed the finding that analysis of exchange rate levels had improved, although in several cases there remained scope for improvement in the quality of the analysis. Many noted positively that staff's work in this area had been strengthened in recent years, with more sophisticated analytical tools being applied. . . . At the same time, Directors recognized that methodological uncertainties remain daunting in this area, and should not be discounted in Fund assessments of exchange rate levels. Directors generally agreed with the IEO that the Fund should stay at the forefront of developing the analytical framework in this area, including with respect to developing countries. Several Directors advocated caution in the Fund's	[Table] II.3. a. Expand and improve CGER work (including refine methodologies and expand it to key low income countries and producers of exhaustible resources). b. Knowledge dissemination (see above). c. Additional research in area departments, including cross-country work on oil producers in MCD. d. Focus on issue in internal review process—increase the emphasis on assessments of exchange rate levels. This additional emphasis is already coming about as a result of the 2007 Surveillance Decision. [Text] Area departments are planning additional work on exchange rate assessments in	*PMR, October 2008:* Priority in the CGER work program has been given to assessing the performance of past CGER predictions and improving the current methodology. Work is also underway on expanding CGER to LICs and producers of exhaustible resources. Preliminary versions of these methodologies are expected for the Spring of 2009. Work on knowledge dissemination is proceeding and most of it is expected to be completed in the summer of 2008. This work has been designed to cover two areas: —Information repository; housed in a dedicated web space and to contain relevant information on exchange rate analysis techniques (including templates), historical data sets, and good sample cases in Fund's

public communications on its findings on equilibrium exchange rates and misalignments, including those based on CGER assessments. In this context, a few Directors cautioned against over-reliance on model-based estimates of equilibrium exchange rates.

the context of bilateral surveillance, using inputs from the CGER methodology, other quantitative methodologies tailored to individual countries, and qualitative analyses. Analytical work on the issue of exchange rate assessment for oil producers has been initiated in MCD.

work (already available from PDR's website).
—Training materials for CGER methodologies, exchange rate regime classification, and analysis of foreign exchange operations.

Work in area departments (through dedicated working groups) and PDR (real exchange rate benchmarks for oil exporting countries) is ongoing. Table A.2 has a list of recent Selected Issues papers on exchange rate–related topics.

Review process strengthened in the context of the implementation of the 2007 Decision. Guidance on expectations for exchange rate assessments in Article IV consultations was included in the guidance on operational aspects of the 2007 Decision.

Third PMR, December 2009: A Working Paper outlining a methodology to assess current account balances in exporters of non-renewable resources was issued as IMF WP 09/33. A second WP, which presents three CGER-type methodologies for exporters of nonrenewable resources, is forthcoming in the fall of 2009. The extension and adaptation of CGER methodologies to low income countries is also at an advanced stage. Preliminary background notes should be available for circulation in the fall of 2009, with an Occasional Paper ready by the end of the fiscal year.

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IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
Structural Conditionality in IMF-Supported Programs **(2007)**			
Recommendation 1: The Board should clarify what it expects in terms of numbers and focus of structural conditions. The findings of the evaluation suggest that the Board would be well advised to reaffirm the need to use structural conditionality sparingly and only when critical for achieving program objectives or safeguarding IMF resources.	*December 12, 2007:* Most Directors expressed concern that the number of structural conditions did not decline significantly, and that some structural conditionality may have covered areas not critical to program goals. Many Directors recognized that it is important to consider not only the number but also the quality and coherence of structural conditions included in programs. Some Directors highlighted that criticality needs to be tailored to country-specific circumstances. Directors broadly supported strengthened efforts to streamline conditionality, with parsimony as the guiding principle and a focus on measures critical to achieving program objectives. [Rather than considering a notional cap on the number of structural conditions], the preferred way forward appears to be to strengthen efforts to achieve parsimony by focusing on criticality, and requiring rigorous justification for conditions. Better Board scrutiny of programs will also be important.	*April 8, 2008:* [Table] 1.2. Under the 2002 Conditionality Guidelines (CG), program-related conditions will be established on all variables or measures that are (i) critical for achieving the goals of the program, (ii) critical for monitoring program implementation, and (iii) necessary for implementing specific provisions of the Articles of Agreement or policies adopted under them. The Staff Statement on the CG further explains that parsimony requires setting program-related conditions at the minimum necessary to achieve the above listed three categories. In effect this requires avoiding setting SC on reforms that might be desirable but are not critical for achieving the program goals. The staff plans to: • Propose changes to the Operational Guidance Note (OGN)—revised in January 2006—that would highlight the importance of a clear and thorough justification of the criticality of SC— covering to the extent possible the life of the program—in all initial staff reports. See item 2.1 below.	*Third PMR, December 2009:* The Operational Guidance Note (OGN) was revised in July 2008 to emphasize the need to apply rigorously the principles of parsimony and criticality when designing conditionality in Fund arrangements (SM/08/245 and Correction 1). The revised OGN is available on the Fund's external web site. . . . An inter-departmental contact group established in February 2008 developed these OGN revisions. The OGN is being further revised to reflect the recent move towards a review-based structural conditionality framework.

		• Assess the need for additional changes to the OGN that would serve to highlight parsimony and criticality while minimizing subjectivity; this would include guidance on how to deal with donor-driven conditionality and structural conditions introduced at the request of country authorities (see also item 2.4 below).	
Recommendation 4: The Fund should develop a monitoring and evaluation framework linking conditions in each program to reforms and specified goals. This would provide a more robust basis for monitoring the implementation and evaluation of programs, as well as facilitating learning on what works and what does not. Such a framework would allow staff to better define what data need to be collected before, during, and after a program. [Related subsidiary recommendation: As an interim measure, the staff needs to improve the system used to track conditionality (MONA) with a view to disclosing these data and thus facilitating accountability as well as learning by authorities in member countries.]	*December 12, 2007:* Directors agreed that the link between program goals, strategies, and conditions should be better explained in Board papers—and that this should be monitored. In particular, several Directors proposed that initial program requests include a roadmap describing the sequencing and linkage of conditions to stated program goals; some Directors proposed that final program reviews should include a stock-taking to compare stated program goals with their achievement.	*April 8, 2008:* [MIP entry for Recommendation 4 reads: "Develop a monitoring and evaluation framework . . . and improve the system to track conditions (MONA) with a view to disclose this data."] [Table] Establish framework within MONA to monitor the links between goals, reforms, and structural conditionality. Issue annual updates (Board information) on the application of SC. Make data in MONA available on the Fund external website—only for staff reports that are in the public domain.	*Third PMR, December 2009:* [Table] A system to link goals, reforms, and structural conditionality was established within the MONA database framework in July 2008. [Text] The first annual report on the application of structural conditionality, issued to the Board for information in July 2008 (SM/08/246) and made available on the Fund's external web site, provides new data for the period 2005–07. It found that the overall number of conditions had remained unchanged relative to the findings of the IEO evaluation. However, these conditions had become more concentrated in the IMF's core areas of expertise (including those shared with the World Bank). The second annual report will soon be issued to the Board for information and staff will recommend that it be made available on the Fund's external website. *Third PMR—Assessment by the Evaluation Committee to the Executive Board, January 2010:*

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IEO Recommendation	Executive Board Response	Management Implementation Plan (with EVC/Board reactions to the MIP as indicated)	Follow-Up as Presented in IMF Periodic Monitoring Report (with EVC/Board reactions to the PMR as indicated)
			With regard to the follow up on the MONA database, more work could be done on the system to track goals and strategies and its links to conditions. *Fourth PMR, March 2011:* The third PMR reported that the MONA database had been launched on the Fund's external web site in January 2009, and was updated in October 2009 to include a more up-to-date economic classification of structural conditions. Directors suggested that more work could be done on the system to track goals and strategies and its links to conditions. Since then, work has begun on the 2011 Conditionality Review, which is utilizing the MONA database to assess how well program conditions have been linked to program goals. As a part of conducting that review, staff will assess whether any further changes to the MONA database are needed.
***Governance of the IMF* (2008)**			
Recommendation 2: [T]he Fund needs more active and systematic ministerial-level involvement. . . . [T]he IMFC, as an advisory body[,] lacks a mandate for setting strategic directions and providing high-level oversight of the institution. . . . This could be achieved by	*IEO Evaluation Report* *(Joint Statement by the Executive Board and the IMF Managing Director, May 27, 2008)* [T]he report has raised important questions [including] how to ensure effective ministerial and Board involvement in institutional decision-making processes.	N/A	N/A

activating the ministerial-level Council that is envisaged in the Articles of Agreement. . . . The IMFC/Council's decision-making system should strive for consensus . . . and decisions on important issues should be subject to special majorities.	*Executive Board Report to the IMFC on Reform of Fund Governance* (Oct. 2009) [W]hat to advise ministers on this issue has been controversial at the Board, with a few counseling activation, a number of others open to further deliberation (especially once quota reform progresses), and a somewhat larger group considering the proposal to be counter-productive. *Executive Board Report to the IMFC on Quota and Governance Reforms (Oct. 2010)* Directors agreed that engagement by ministers and governors is essential to the effective discharge of the institution's responsibilities, including to promote multilateral cooperation and coherence of policies. However, views on the best means of delivering such engagement—whether through reform of the advisory IMFC or a shift to a decision-making entity—continued to differ.		
Recommendation 4: The Board should introduce an accountability framework for Management. Work is under way in this regard, and will need to provide clear proposals on performance criteria, on the processes to be used, and on how assessments are to be translated into incentives. The criteria should focus on Management's conduct of the ordinary business of the Fund (including the chairmanship of the Board; consultations with authorities, Directors,	*Joint Statement by the Executive Board and the IMF Managing Director, May 27, 2008:* [T]he report has raised important questions [including] how to strengthen the management accountability framework, recognizing that work in that area is already underway.		*July 2008 Report of the Executive Board Working Group on IMF Corporate Governance:* A Working Group on the Framework of the Managing Director's Performance Evaluation chaired by the Dean is currently developing performance objectives that will be used to assess the MD's performance. . . . The framework also envisages that the MD assesses the performance of the Executive Board. . . . [Table] WG to report to the Board by end-08/ early 09.

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Annex (*continued*)

IEO Recommendation	**Executive Board Response**	**Management Implementation Plan** (with EVC/Board reactions to the MIP as indicated)	**Follow-Up as Presented in IMF Periodic Monitoring Report** (with EVC/Board reactions to the PMR as indicated)
and stakeholders; budget execution and financial management; and personnel and other administrative and managerial matters) and on the quality and outcomes of the Fund's activities. To be effective, the evaluation of Management might need to be delegated to a Board committee that would canvass the views of all Directors, and that would inform the whole Board of its assessment once completed. The assessment may need to be confidential to avoid undermining the credibility of the MD vis-à-vis the membership at large.			
IMF Involvement in International Trade Policy Issues (2009)			
Recommendation 1: The Board should commit to periodic re-evaluation of its guidance on objectives of, approaches to, and modalities of staff work on trade policies. Regular reviews of guidance should be undertaken in the context of assessments of current global trends in trade and trade policy.	*June 8, 2009:* Most Directors supported the IEO's recommendation on the need for periodic Board review of guidance on trade policies [and] agreed that such discussions should be more focused than the 1994 Comprehensive Trade Paper and, in line with the cycle for other reviews, might be done at five-year intervals.	*November 2009:* [Table] A1. Five-yearly reviews of Fund work on trade policy will be conducted. As the IEO Evaluation covers much the same ground as staff reviews, an early review of trade policy by staff would be duplicative. Taking the IEO Evaluation as the starting point for the cycle, the first five-yearly review would be expected in 2014.	[T]he new reference notes include guidance for staff on designing effective trade reforms and assessing progress in trade liberalization for occasions when attention to trade reform is appropriate. Staff observance of this guidance would be examined in the five-yearly reviews of trade policy (first one expected in 2014).

CHAPTER 10

Academic and Think Tank Assessment of the IEO and Its Evaluations

Bessma Momani

This chapter assesses the impact of the IEO and its evaluations on academics and think tank analysts. It first examines how academics and think tank analysts view the IEO itself and its relationship to the IMF, and then looks at the impact of IEO evaluations on academic studies. It offers some recommendations for the IEO on how to make its evaluations more accessible for stronger uptake by think tanks, civil servants, and nongovernmental organizations (NGOs).

The challenge in this study is that it is difficult to hear "the dog that doesn't bark." In other words, the study is based on publicly available information such as online and print publications in which authors have commented on the IEO and its evaluations, but it cannot gauge opinions that are left unpublished.[1] I conduct both a broad-ranging content analysis and a qualitative context survey of publications that reference the IEO and its evaluations to highlight the challenges and opportunities these evaluations hold for academics and think tank analysts (see McCain and Turner, 1989).

Google Scholar was used as a starting point to identify cross-disciplinary academic and think tank studies, reports, books, and articles from academic publishers, university websites, and online repositories that made specific references to the term "IEO."[2] More than 2,000 Internet hits were initially retrieved. After limiting these search engine hits to English-only publications, and after eliminating hits that referred to the natural sciences, a compilation of 158 relevant publications was found (listed in Annex 1). Analysis of the qualitative content of these 158 publications yielded observations on how academics and think tank analysts view the IEO and its evaluations.

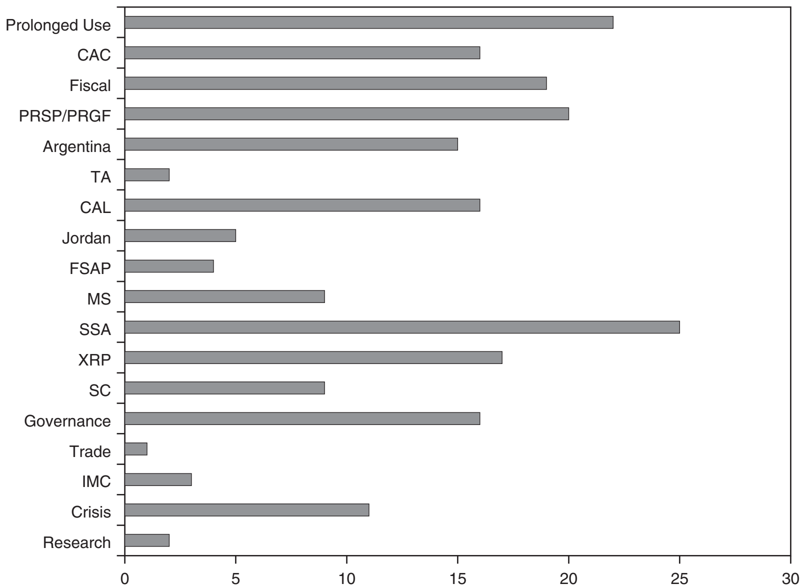
[1]One way to address this issue would be to survey academics and think tank analysts to assess their views, opinions, and motivation for citing IEO evaluations (a method pioneered by Garfield, 1962).
[2]A Google Scholar search of the words "independent evaluation IMF" garnered well over 50,000 hits. However, this type of search casts too wide a net as it captures sources where these words appear in any order and not necessarily in reference to the IEO. Searches of "independent evaluation" IMF and "independent evaluation office" IMF yielded 3,500 and 1,600 hits, respectively.

Who's Who: IEO Citations in Academic and Think Tank Publications

Academic and think tank publications refer to IEO evaluations in a number of issue areas and topics. Among the 158 publications reviewed, 139 specifically refer to IEO evaluations (a list of evaluations and their publication dates may be found in Part IV of this volume). The evaluations most often cited are: *The IMF and Aid to Sub-Saharan Africa* (2007), *Prolonged Use of IMF Resources* (2002), and *Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility (PRSPs and the PRGF)* (2004) (Figure 10.1). It could be argued that development issues and the IMF's relationship to its poorest members are a key focus in many of the publications examined. There is less interest, it seems, in IEO evaluations that focus on specific topics such as IMF technical assistance or trade matters.

To better understand the audience that is using IEO evaluations, the 158 publications reviewed were categorized by author type. Specifically, the occupation of these publications' authors was sorted based on their credentials and academic or professional affiliation, and labeled as think tank analyst, academic, international/domestic civil servant (such as employee of central bank or international development agency), or staff of nongovernmental organization. While some individuals may span more than one of these categories (e.g., "think tank analyst" and "political scientist"), for simplification they were categorized

Figure 10.1 Publications Referencing IEO Evaluations *(Number of Individuals)*



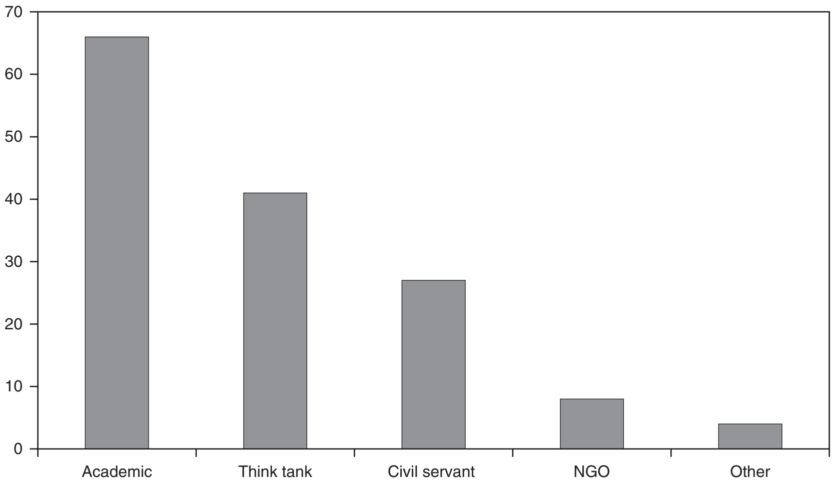
Source: Author's estimates.

Note: CAC=*Capital Account Crises;* Fiscal=*Fiscal Adjustment;* PRSP/PRGF=*PRSPs and the* PRGF; TA=*Technical Assistance;* CAL=*Capital Account Liberalization;* FSAP=*Financial Sector Assessment Program;* MS=*Multilateral Surveillance;* SSA=*Aid to Sub-Saharan Africa;* XRP=*Exchange Rate Policy Advice;* SC=*Structural Conditionality;* IMC=*Interactions with Member Countries;* Crisis=*Financial and Economic Crisis.*

according to their occupation at the time of the publication being reviewed and according to the category in which they were most senior. Authors of multiple publications were counted once, according to author type.

The findings indicate that IEO evaluations are used slightly more by academic authors than by think tank analysts (Figure 10.2).

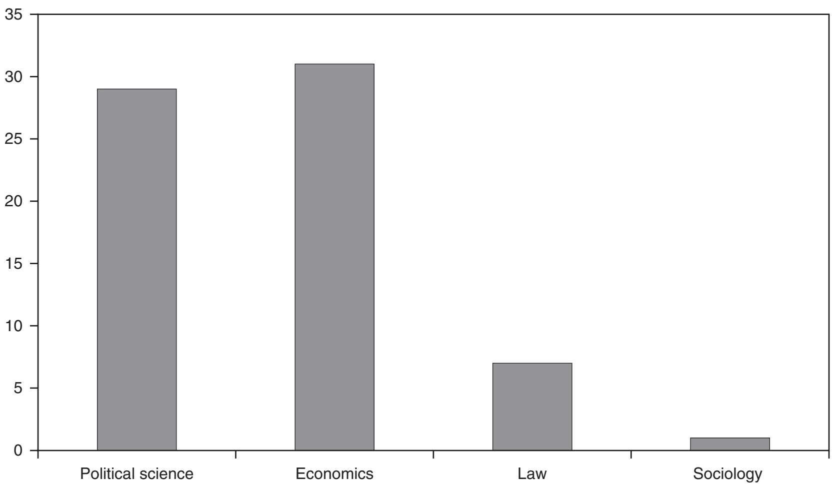
Figure 10.2 Audience of IEO Evaluations *(Number of Individuals)*



Source: Author's estimates.

Taking the findings noted in Figure 10.2 further, a breakdown of the academic authors by discipline was also determined, as shown in Figure 10.3.

Figure 10.3 IEO Audience by Academic Discipline *(Number of Individuals)*



Source: Author's estimates.

Among the academic authors, political scientists and economists are the ones most likely to use IEO evaluations in their publications.

Political scientists generally use IEO evaluations to better understand the internal workings of the IMF or to understand the IMF's role in global governance, international political economy, or bilateral debt negotiations with governments. Exemplifying the political scientists' tendency to examine the IMF in the light of the IEO's work, Lütz and Kranke's (2010) work on European Union and IMF lending to Central and Eastern European Countries finds that:

> [k]nowledge management necessitates drawing a distinction between useful and useless (or no longer useful) institutional knowledge. This is, generally speaking, what the IEO was created for. Given the timing, however, we can speculate that its establishment was a response to the Asian crisis, which the IMF, according to a great many critics, mismanaged rather than managed. . . . The creation of the IEO can [thus] be interpreted as an attempt to counter widespread charges of bureaucratic inertia and cultural ignorance [at the IMF] but also to retain established, and acquire new, knowledge so as to be better prepared for future crises (p. 14).

Economists, in contrast, tend to use IEO evaluations to refer to IEO data, empirical findings, and issues related to IMF surveillance. Bird and Willett (2007), for instance, in an assessment of the IMF's role of coordinating global macroeconomic policy, cite the 2006 IEO evaluation of *Multilateral Surveillance*; this evaluation found that "[t]he confluence of a diminution in one of the Fund's conventional roles [in the realm of multilateral surveillance], and an increased perception of global economic vulnerability, along with the need for policy action to reduce it, tended naturally to focus on what the Fund might do to help [improve its surveillance role]" (p. 186). Führmann (2006) cites the IEO evaluation of *PRSPs and the PRGF* along with progress reports by the World Bank and the IMF; she finds that "the PRS process has had a limited impact in generating discussions of alternative policy options with respect to the macroeconomic framework and related structural reforms" (p. 19).

Many academics teach courses on topics where IEO evaluations have been used as reading material. The number of such courses is difficult to estimate because most universities do not archive their course syllabi and often Internet links to courses are updated with the most recent version of the course offered. Annex 2 provides an illustrative list of 12 courses that include IEO reports in their syllabi.[3] Most of the courses where IEO evaluations are used are in economics, political science, international law, and international development.

Authors' Use of IEO Evaluations

In the 158 publications reviewed for this study, a number of adjectives are often used to describe IEO evaluations. Most notably, many academic and think tank publications describe IEO evaluations as "critical" of IMF policies and operations.

[3]Course syllabi were obtained through a Google Scholar search. Where possible, relevant documents were cross-referenced with academic institutions and departments to determine course level, year, and significance on the reading list (i.e., "required reading" versus "recommended reading").

The term "critical" is used as a qualifier of IEO evaluations in nearly a quarter of the publications reviewed. Others generally deem IEO evaluations "valuable," "thorough," or "outspoken," suggesting that the IEO is indeed deemed to be independent from the IMF by most of the academics and think tank analysts that use IEO evaluations in their work.

Moreover, in the 158 publications reviewed it is rare to find references to the IEO and the IMF as synonymous. The IMF is not erroneously referenced as the author of IEO evaluations, or vice versa—which further suggests a clear understanding that the IEO is distinct from the IMF, and therefore supports the assumption that the IEO is deemed independent of the Fund. Again, the limitation here is that academic and think tank studies that may not refer to IEO evaluations are not represented in the 158 publications being sampled.

To better understand how IEO evaluations are used by academic and think tank authors, a content analysis of IEO citations was conducted using a method adopted from Krampen and others (2002, p. 69), by reviewing "the semantic content of the citing passage for the purpose of characterizing the cited works" (as quoted in Bornmann and Daniel, 2008, p. 55).

The results are reported in Table 10.1. All 158 publications that refer to IEO evaluations were reviewed and it was determined that most academic and think tank publications had either reflected upon or incorporated IEO evaluation findings into their own studies.

The academic authors generally tend to cite IEO evaluations to reinforce their own evidence and findings. Paternostro, Rajaram, and Tiongson (2007, p. 49), for example, write that "[t]he social sector bias in pro-poor allocations is . . . present in the PRSP programmes, which include countries not eligible for HIPC [Heavily Indebted Poor Countries] assistance. In a review of the role of poverty reduction and growth facility programmes in supporting PRSPs, the Independent Evaluation Office (IEO) of the IMF reached similar conclusions." Similarly, Arpac, Bird, and Mandilaras (2008, p. 1497), in an analysis of the implementation of IMF-supported programs, deem the Fund's Monitoring of Fund Arrangement (MONA)-based measure of implementation "to be largely unsatisfactory" and

TABLE 10.1

Content Analysis of IEO Citations

Citation Category (from 158 Source Articles)	Number of Citations	Percent of Citations
Direct reference to an empirical finding in an IEO evaluation	79	25
Simple mention of IEO or evaluations without specific reference to finding or idea	97	31
Direct reference to an idea, concept, or recommendation argued for in IEO evaluations	28	9
Provide overview of pertinent issues covered in IEO evaluation	6	2
Use of a data collection method from an IEO evaluation	5	2
Word-for-word quotation of IEO evaluation text	80	28
Use of statistics, table, figure from an IEO evaluation	13	4
Total	308 citations	

write that this is "an opinion shared by the IMF's Independent Evaluation Office." Academic authors rarely use IEO data to create new hypotheses.

Think tank analysts tend to adopt IEO data and evaluation findings, taking them at face value and using them to support their own policy recommendations. Lombardi's (2009) report on behalf of the New Rules for Global Finance Coalition offers a good example:

> IEO (2008) [*Governance of the IMF*] found that protected arrangements for staff who report misconduct are lacking. Without credible protection from retaliation, staff members cannot safely report concerns about corruption, conflicts of interest and other ethical problems. The IMF should establish a whistleblower protection policy as well as an impartial office that reviews retaliation complaints and enforces a protection-from-retaliation policy. A new policy must be based on the accepted criteria for credible whistleblower protection at the inter-governmental organizations (p. 25).

Arguably, the academic authors' provision of their own data and findings—contrasting with the think tank authors' acceptance of IEO findings at "face value"—may be explained first by the comfort enjoyed by academics of having more space and time to research and publish their studies and, second, by think tank analysts' focus on brevity and policy-relevant reports that do not emphasize methodology and data collection.

The recommendations made in IEO evaluations have had only a weak uptake. A total of 113 recommendations are offered in IEO's 18 evaluations (also see Kranke, 2011). But disappointingly, recommendations are mentioned in only 9 percent of the citations to the IEO.

Academic and Think Tank Impressions of the IEO

Some observed views of the IEO as an organization are worth noting.

Lütz and Kranke (2010) see the IEO's role as that of a manager of knowledge that can distinguish between "useful and useless (or no longer useful) institutional knowledge." In this sense, they argue, the IEO helps the IMF retain institutional memory and points out potential errors in IMF judgment. Since the IMF is constantly battling economic crises and external criticism of its very legitimacy, the IEO plays an important role as both a bank of collective memory and an organization that suggests lessons to be learned from IMF mistakes (Lütz and Kranke, 2010, p. 16).

Perhaps less nuanced, other academic and think tank publications overwhelmingly characterize the IEO as a voice of criticism against the IMF. It is often mentioned that the IEO acts like an internal "watchdog" that operates "at arm's length" from the Fund (for example, see Weiss, 2008, p. 6; Momani, 2008, p. 9; Lütz and Kranke, 2010, p. 16).

Though most of the academic and think tank studies that reflect on the purpose of the IEO do so in passing, there is a growing academic literature interested in the organizational behavior of the IMF. Spearheaded by the work of political scientists Barnett and Finnemore (2004), who study the workings of international organizations, this literature is increasingly incorporating the work of the IEO as a means to better understanding the internal workings, culture, and ontology of the IMF as a vital international economic organization. According to Weaver (2010, p. 383), for example:

> [T]he story of independent evaluation in the IMF illustrates the extent to which performance is contingent on numerous factors internal and external to the organization. The IEO is dependent for its success on acceptance by staff and management within the Fund to empower it to carry out its evaluations and ensure the feedback loops needed to spur organizational learning. In addition, the IEO must garner approval from international actors, both states and civil society, whose perceptions of the IEO's necessity and legitimacy will continue to shape Board and management's support for the IEO's continued role in Fund evaluation (see also Momani, 2007; Moschella, 2011).

Most of the 158 publications reviewed contain positive comments and opinions of the IEO, which they credit with "doing an excellent job" (Martin and Bargawi, 2004, p. 47), being "very active" (Santor, 2006), and helping to reduce "information asymmetries" in IMF operations (Kahler, 2004).

Reflecting on the genesis of the IEO, Kenen (2004, p. 4627) notes that the very creation of the IEO and its evaluations "signals that the IMF is serious about turning the light inward to confront its mistakes and shortcomings and draw relevant lessons for its future work." In a similar vein, Raffer (2005, p. 9) suggests that the very creation of the IEO was "commendable" and in "the right direction."

In sum, the IEO is often credited for playing a valuable and productive role, but as the section below describes, questions are raised about IEO autonomy.

Critical Analysis of IEO Evaluations by Authors

Few, if any, of the academic and think tank studies criticize IEO methodology for data gathering or analysis. In contrast, most are positive, noting that the IEO offers a "detailed evaluation," a "rich source of data," "a very useful source of material," "useful information," or "a thorough evaluation." Consequently, most concur with or imply that the IEO's "main findings appear to be robust and secure."

Further reflecting on the quality and candor of IEO evaluations, Buckley (2011, pp. 200–201) adds that each evaluation has been "an extensive, detailed, reasoned document, some more forthright and direct than others, but most tending to be relatively clear and critical in their findings." Buckley further quotes a number of passages from IEO reports and adds that "these are not the words of [IEO] bureaucrats seeking to be coy or to obfuscate. These are honest assessments of the Fund's policies and achievements." Similarly, Lee (2007, p. 135) claims that the IEO evaluation of *PRSPs and the PRGF*, for example, is a "critique as devastating as any of the many furnished by the IMF's critics among the academic and NGO communities."

A number of authors note that they believe the IEO and its evaluations provide a positive feedback loop on IMF operations and policies. According to Bird

(2005), IEO reports helped increase attention to targeting errors in the Fund's Enhanced Structural Adjustment Facility and started to "highlight the issue and to correct the information asymmetries that previously allowed it to occur" (pp. 1371–72). In an earlier assessment, Husain (2002, p. 6) optimistically notes that the IEO will help enhance the quality of IMF governance. Both Bloom (2011, p. 802) and Kothalawala (2012, p. 1) suggest that the 2007 IEO evaluation of *Structural Conditionality* led the Fund to revamp its Conditionality Guidelines in 2009. And, according to one nongovernmental organization, the IEO's advice on changes in IMF conditionality motivated aid agencies such as the United Kingdom Department for International Development to make changes in their own loan conditionality (Rowden, 2011).

In the 158 publications reviewed, a number of authors comment on specific issue areas of concern. Martin and Bargawi (2004, p. 47) advocate for the IEO to do more Poverty and Social Impact Analysis and ex post assessments of Fund arrangements. Husain (2002, pp. 6–7) argues in favor of an IEO study on IMF internal decision-making. McBeth (2009) urges that to improve the IMF's record regarding human rights the IEO needs to consider adding impact studies of IMF policies, by consulting the people affected by the issues it is evaluating.

In the minority opinion, a number of academics and civil society activists note that IEO evaluations can appear indecisive in their findings and conclusions and that the IEO is then "unable to form a firm judgment." That is, the IEO is said to be notably stronger at diagnosing the problem at the IMF than in offering an alternative course of direction. One NGO activist (Rowden, 2011) observes that the IEO's analysis and documentation of IMF failures are quite critical, but that its recommendations are often weaker than its assessment of Fund policies and hence have little impact on future Fund outcomes. Fischer (2008) argues that the IEO has often seemed to struggle in its reports to offer an alternative to IMF analytical frameworks, and has not seriously attempted to formulate an alternative. As a critic of mainstream economics, Raffer (2005, p. 9) adds that the IEO does "not change the underlying problem. While officially recognizing fault, they [the IEO and the World Bank's Inspection Panel] do not provide real relief, economic redress." Raffer's criticism may be unwarranted, particularly considering the fact that by the IEO's own admission, the economics discipline has been unable to provide an alternative theoretical framework to underpin much of the IMF's analysis. Hence, the expectation that the currently meager number of IEO staff could provide a new economic framework of analysis is, frankly, implausible.

Strengthening IEO Autonomy

Among the studies that reflect on the impact of the IEO as an organization, several note that it is difficult to have an impact on the IMF. Buckley criticizes that the IEO has yet to change the IMF or affect the IMF's culture and policies. Along the same lines, I would note that over 10 years of evaluations, the IEO has continued to recommend a change in IMF staff culture.

While it is indeed a "work in progress" to change IMF staff culture, and organizational behavior changes at glacial speeds, we do not have a metric to determine how and whether cultural change is happening, as called for in IEO evaluations and the IEO's own mandate of bringing in a "learning culture at the Fund" (also see Weaver, 2010). Santor (2006, p. 7) rightly notes that the IEO's impact on the IMF is yet to be determined or measured. The IEO ought to consider some standardized method of measuring cultural change, perhaps through periodic surveys of IMF staff members. The IEO may want to consider building on a survey of IMF staff that was conducted for the 2006 "Report of the External Evaluation of the Independent Evaluation Office."

While most of the academic and think tank publications reviewed argue that IEO evaluations have been critical of the IMF, questions continue to be raised regarding the IEO's autonomy from the rest of the IMF. In particular, several of the publications reviewed express concerns about possible tensions between the IEO and the IMF Executive Board. Bossone (2008, p. 46), for example, suggests that despite IEO evaluations, the IMF Executive Board has "devoted at best only passing attention to them." Baker (2009, p. 54) argues that the Executive Board reacted to the IEO's *PRSPs and the PRGF* evaluation with "cool indifference, essentially business as usual."

It should be expected that in any relationship between an organization and its internal evaluator, ombudsperson, or auditor, some healthy tension would arise from the latter playing its role of assessor. This is not in question. Instead, the concern raised by some of the authors examined is that of how and whether the IMF Executive Board is in some way undermining the authority and activity of the IEO and its work. Clark and Perrin (2008, p. 4) herald the IEO as among the most independent of similar bodies in multilateral financial institutions, but they also point out that the IEO reports are sanctioned by the IMF Executive Board and that management approval is required for implementation of IEO recommendations. Similarly, Head (2005 and 2010) finds the IEO is not a truly independent and external actor because the appointments of its Director and staff are subject to IMF approval (also see McBeth, 2009). "Possessing the form but not the substance of independence," adds Lee (2007, p. 135). Consequently, Lee points out, the IEO cannot "counterbalance" what he terms the more powerful IMF internal evaluation units: the Office of Audit and Inspection and the Policy Development and Review Department.

Having taken these arguments into consideration, it should be noted that the IMF Executive Board discusses each IEO report and provides its reflections in a summing up paper that is annexed to the report (along with the evaluation responses of IMF staff and Management). The inclusion of this Summing Up paper in the IEO report is particularly useful as it serves as a quality check on IEO evaluation. The concern here is whether the IMF Executive Board blocks publication of IEO findings or censors elements of IEO reports.[4] It would be useful to

[4]While in theory member countries, through a Board decision, could stop publication of an IEO report, this has never happened and nothing has ever been censored. It is also important to point out that IMF Management does not have a formal way to block the publication of IEO's evaluations, and has never attempted to do so.

lay out the parameters of IMF Board involvement in IEO evaluations and to clarify these at the outset of IEO evaluations to overcome any misperceptions.

As another means to strengthen IEO autonomy, Kahler (2006) argues for "a super IEO" that would look at the interaction of IMF staff and Management with external political actors, allowing for clearer guidelines on shareholder intervention in internal IMF decision making. Referring to the IEO's evaluation of the Argentina crisis as an example, Kahler (2006) argues that the IEO has inappropriately limited itself to examining the roles of the IMF staff and Executive Board, and that ignoring these internal actors' interaction with shareholders has led to "blame shifting" on to the Fund's internal operations.

Martin and Bargawi (2004, p. 47) suggest that an IEO with added resources and more staff could enhance its effectiveness. Bradlow (2009) calls for further enhancing the IEO and expanding its responsibilities. Kim (2010, p. 77) suggests that the IEO needs to expand its purview by hosting a permanent ombudsman or an independent review panel to investigate complaints from stakeholders (also see Lombardi, 2009). Yen (2005, p. 1) points out that the IEO staff is quite small and therefore can only focus on a limited number of issues and topics at a time. He argues that the IEO needs to be enhanced and given a wider scope; he suggests increasing its "capacity and timeliness" by creating task groups of individuals from academia, civil society, and staff from other UN agencies.

Recommendations for Improving Accessibility to Researchers

For the present study the IEO evaluations were analyzed to assess their readability, accessibility, and layout. Generally, IEO evaluations are accessible online via the IEO website. However, they do not feature in the databases that are most used by academic researchers and think tank analysts: Google Scholar, National Bureau of Economic Research, Social Science Research Network, or the Web of Science research database. This makes it difficult to find the IEO evaluations unless one is directed to the IEO website.

The two-column page layout of IEO evaluations makes these reports difficult to read and scan. This layout is foreign to most academics and think tank analysts and discontinuing its use could improve utilization. A number of IEO evaluations use flow charts that are useful ways of illustrating organizational relationships and decision-making processes. Box inserts to illustrate issues or debates are very useful ways of breaking up the text and allow researchers to quickly focus on desired topics. In IEO evaluation reports where bold typeface is selectively used, readability is easier. For example, the 2008 evaluation of *Governance of the IMF*, strikes an excellent balance by "bolding" the concepts and terms at the start of each paragraph, directing the reader to the required information and concepts. It is noted that IEO evaluations have become more succinct and brief over time. But while at times background material is available as part of an IEO evaluation, it can be confusing to researchers as to what material is pertinent, what counts as part of the evaluation, and what counts as raw data.

To improve academic and think tank analysts' uptake of the recommendations contained in IEO evaluations, it is suggested that a summary of findings and recommendations be positioned at the start of each evaluation, as was notably done in the 2005 *Technical Assistance* evaluation and the 2006 *Multilateral Surveillance* evaluation. Recommendations placed at the end of an evaluation report can be buried and lost. Moreover, numbering each paragraph of IEO evaluations in the two-column layout is confusing. For example, in the 2011 *Research at the IMF* evaluation, the first recommendation appears only on page 25 and is headed by paragraph number 82. It would be helpful to have recommendations listed and numbered in the executive summary and expanded on in subsequent chapters.

Conclusion

Academic and think tank analysts clearly have an overall positive view of the IEO. Many view the IEO as an independent organization with the tough task of auditing the IMF's performance. Not many academics seem to see the IEO as having affected the IMF's policies and performance, but that said, few if any academic studies have examined this question.

There remains overwhelming sentiment among academics and think tank analysts that the IEO may not be as autonomous as it could or should be. Again, this is more of an impression than a finding from rigorous investigation. Removing or addressing this (mis)perception would be beneficial.

The impact of the IEO and its evaluations on academics and think tank analysts has been varied. Academics, both economists and political scientists, in practice constitute a larger part of the IEO's audience than think tank analysts or civil society organizations. While generally most IEO evaluations are evenly cited by the reviewed publications, topics pertaining to the IMF's poorest members and to surveillance issues have tended to be of greatest interest to academics and analysts.

Finally, there are means of improving the readability of IEO evaluations that could improve the uptake of these reports and their recommendations.

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PART III

Views on the IEO

CHAPTER 11

Views on the IEO from Current and Former Executive Directors

This chapter presents the views of current and former Executive Directors. It contains remarks by the following current or former Executive Directors: Christopher Legg, Eduardo Loyo, Meg Lundsager, Moeketsi Majoro, Thomas Moser, Yaga Venugopal Reddy, and Arrigo Sadun.

Remarks by Christopher Legg

I take as a given that a strong culture of evaluation, including self-evaluation, is crucial in any effective institution. I therefore attach a lot of importance to the role of the IEO.

Moreover, as an IMF Board member over the last three years, I have seen at first hand the value the IEO can contribute. Naturally, I am thinking primarily of the IEO reports that have come to the Board during my tenure. But I have also dipped into earlier reports, such as those on the Fund's approach to capital account liberalization[1]—in search of some institutional history—and on IMF governance.[2] The evaluation of IMF governance, as Joanne Salop points out in her very useful retrospective on the IEO's activities,[3] is unique because it directly addresses some of the key issues that underlie many of the challenges tackled in other IEO reports. (This is also the only IEO evaluation that directly addresses the Board's own operations and effectiveness—and it is perhaps not a good sign in terms of the Board's commitment to independent evaluation that this is one of the few IEO reports not to have been well received by the Board!)

Before making some specific proposals for strengthening the evaluation system, I want to make two overarching general observations.

Institutional Ownership of the Evaluation System Is Crucial to Effectiveness

First, I would argue that the overall effectiveness of any institutional evaluation system depends on the extent to which all parties—in this case, IMF staff, Management, the Board, and the IEO—buy into it in a constructive way.

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[1]IEO, *The IMF's Approach to Capital Account Liberalization* (2005).

[2]IEO, *Governance of the IMF: An Evaluation* (2008).

[3]Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF" (see Chapter 8 in this volume).

This point is a little analogous to a point my chair has made from time to time about surveillance. Surveillance is a collective responsibility, not just the Fund's. Similarly, we cannot just look to the IEO to make evaluation work: we are all responsible for ensuring we get the most value out of the evaluation system. If we did all accept that collective responsibility, process design would be less important. Put another way, without such a collective commitment to effective evaluation, no amount of reform of processes may improve things much.

The Effectiveness of the Evaluation System Is Constrained by the IMF Governance Structure

Second, an evaluation system is only likely to be as good as the overall institutional governance structure within which it sits.

The Fund's governance structure has a number of unique strengths; but, as the IEO has pointed out, it has not evolved in a way that encourages a strong focus on driving strategic direction from the Board. Experience suggests that this situation requires Management to be actively engaged in shaping the strategic vision in alliance with the Board. And that, in turn, reinforces my earlier point about collective responsibility.

Topic Selection, External Consultations, and Evaluation Methods

As regards the early stages of the evaluation cycle, I have been broadly satisfied with the process for selecting evaluation topics. I also found the note on the evaluation cycle[4] illuminating and reassuring, in its description of the effort made to bring in external experts to shape each study. And I have been impressed with the quality of IEO reports. I am confident that the IEO will give careful consideration to Joanne Salop's analysis regarding the evolution of IEO methodology and continue to build on the progress on that front.

Follow-Up: Stressing the Learning Function of Evaluation May Help Reduce Defensiveness

The aspect of the evaluation system that probably gives rise to most frustration, for me and for others, is that of follow-up to evaluation findings. Rather than focusing on processes at the tail end of the cycle, I want to pose the question whether the challenge in achieving follow-up reflects a collective lack of clarity about the objectives of evaluation. I suspect we have not spent enough time thinking about the balance that needs to be struck in the evaluation function between learning and accountability. Unless we have a common view on this fundamental question, we cannot sensibly debate or design appropriate follow-up arrangements.

Certainly, learning and accountability are not an "either/or" proposition. Indeed these two objectives can support one another.

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[4]Alisa Abrams and Ruben Lamdany, "Independent Evaluation at the IMF: Understanding the Evaluation Cycle" (see Chapter 7 in this volume).

Nevertheless, my strong inclination for an institution like the Fund is to stress the learning objective as the primary focus. Emphasizing learning is central to building a collaborative partnership between the evaluator, staff, Management, and the Board. And I would argue that re-emphasizing the learning function would go a long way to laying the basis for a revitalized commitment to effective follow-up.

Evaluation in the Fund is far less likely to add value if we allow it to degenerate into a game of "gotcha." I am not suggesting that this is the IEO's agenda, but I sense we are nevertheless drifting in that direction, to some extent with the implicit endorsement of the Board. Such a tendency too easily degenerates into an adversarial model, in which Management and staff default to a defensive mindset too much of the time. Defensiveness is understandable. But at present, I sense it is too predominant, as evidenced for example in the inordinate delays in the staff's preparation of responses, and other passive (and not so passive) resistance.

Equally, defensiveness distracts the IEO into worrying about process issues—such as what is the best way to pitch its recommendations—that are unlikely to solve the underlying problem. For example, while pitching recommendations at a high level of generality allows them to be too easily subsumed and lost in existing Management agendas, more concrete recommendations run the risk of fostering a mechanical "check the box" approach to accountability—in which, again, the key messages from the evaluation are likely to be lost. It is very difficult to get this balance right if one is caught in an adversarial mindset.

My preferred model would comprise relatively high-level findings and recommendations, more specific suggestions on how staff and Management might operationalize such recommendations, and a commitment to a collaborative, and most likely iterative, process for taking the issues forward. Often the key need at the outset will be to ensure that all parties have a shared understanding of the problem. But this sort of model can only work if all parties agree that the primary focus is on learning.

Broaden Involvement in Early Consultations on Evaluation Studies

Perhaps one "process" reform that could be considered would be to involve Management and staff in the early consultation processes for an evaluation, including seminars and so forth, designed to help define the issues to be studied and to shape individual studies. It should be possible to explore such involvement without compromising the IEO's crucial independence.

Role of the Board

Let me turn finally to the role of the Board, which I suggested may be inadvertently complicit in the drift towards a "gotcha" mentality.

Clearly a more collaborative, learning-focused approach will require buy-in from the Board and the active leadership of the Evaluation Committee. Accountability mechanisms will need to focus less on specific actions, and more on whether systems are in place to promote agreement on the key lessons from

IEO studies and to foster their internalization. We will need to look carefully at the forthcoming IEO review of self-evaluation processes in the Fund, to see how better to leverage IEO and Evaluation Committee processes to strengthen self-evaluation, and at the same time build on these processes to strengthen the IEO/Evaluation Committee approach to follow-up. It may also be worth making use of follow-up studies by the IEO on progress in addressing key findings of specific investigations, after a lapse of say, three to five years.

I recognize that the Board may itself struggle sometimes to reach a common interpretation of the key problems identified by the IEO. We Board members are not immune from the tendency, identified by the IEO in the context of its study of the Fund's pre-crisis performance, to attach greater weight to those pieces of evidence that confirm our individual prejudices. And we all have agendas to pursue—hence the tendency to interpret some aspects of recent IEO studies quite selectively, in terms of, say, diversity, or the need for rebalancing voice as part of governance reform. This is not to deny the relevance of such issues. But the Board too will have to get beyond using IEO reports as stalking horses for its members' individual agendas if it is to make the best use of the IEO in strengthening the Fund's effectiveness.

As I noted above, any evaluation system will be constrained by the effectiveness of the institution's overall governance arrangements. Nevertheless, the onus is first and foremost on the IMF Board to take the lead in recalibrating the current balance between accountability and learning in favor of the latter. I believe this is necessary if we are to lay the basis for a more collaborative, less adversarial approach that is more likely to reap long-term gains for the institution from its evaluation architecture.

Remarks by Eduardo Loyo

You will not be surprised if I shamelessly refer to the main legacy of my short and otherwise uneventful tenure as Evaluation Committee Chairman: the creation of the follow-up system for IEO recommendations that is now in place. Although I am no longer an insider, my concern is that the system has not lived up to initial expectations. As I will argue in this brief note, it may have improved things, but it does not seem to have entirely solved the problems.

The evaluation follow-up system is not seen to have had much effect. IEO's retrospective paper, just issued,[5] basically views the IEO's history as being split between the first five years and the second five years, with the Lissakers independent evaluation report[6] as the watershed between the two periods. It was the Lissakers Report that first recommended the IMF to introduce a follow-up system. And of all the recommendations in that report, this was probably the one

[5]Joanne Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF" (see Chapter 8 in this volume).

[6]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

that received the clearest endorsement by the Board. It is unfortunate that the introduction of the follow-up procedure is not recorded as playing a more central role in whatever transformation took place between the IEO's first and the second five years. This may be a fair interpretation, but if the follow-up system has not worked well, that is regrettable, and the parties should work harder to improve things.

Follow-up on IEO recommendations seems mainly perfunctory. From other, more recent, documents, I sense that those who are supposed to operate the system—IMF staff, Management, and Board—are using it in a perfunctory manner to satisfy the formal, bureaucratic element that has been put in place, but not really taking it to heart. I cannot say for certain that this is the case. But apparently it has been the object of complaints. It seems to be true of Management's implementation efforts, where because IEO recommendations are scattered it is easy to focus on little things and to lose track of the bigger picture—and so risk doing more harm than good. It also seems to be true for the Periodic Monitoring Reports. There is a complaint that Management, the Board, and everybody else have been a bit too quick to close files. Of course the ultimate objective of a follow-up system is always to close files. Files are not supposed to be open forever. But neither should they be closed too early—first you are supposed to be sure that implementation has been completed.

Lack of will is a problem hard to solve. There is little that can be done to redesign a system to make it foolproof if what really prevents it from functioning perfectly is lack of will. So I do not think that there is an obvious answer to how to make the follow-up system more effective except calling upon every one of the parties involved to actually make the best use of it.

Remarks by Meg Lundsager

The support of the IEO for the Executive Board's oversight of the IMF cannot be divorced from the IEO's other goals, particularly that of promoting a learning culture within the Fund. IEO reports have succeeded in promoting learning and improving accountability on the part of all involved in the IMF: Board, staff, Management, and member-country authorities. In this brief note I will first review some key features of the IEO and its successes in the first 10 years, and then make recommendations for strengthening the IEO's contribution to oversight.

Two Key Features of the IEO

A crucial feature of the IEO is that it operates independently of staff yet has access to internal staff documents (including those not available to the Board). This feature furthers learning and oversight, as well as the Fund's external credibility.

Another valuable feature of the IEO is that it stands back from the daily workflow of the institution, and can hence take a broader perspective. At the same time, its evaluations descend into technical details in specific areas.

IEO Influence on IMF Practices

The IEO has been most effective when its reports led to specific improvements in the Fund's practice. Here I will cite three examples of IEO recommendations that have received strong Board support, leading to changes in practices:

- The first IEO study, on prolonged use of IMF resources,[7] was very revealing of how some country authorities viewed serial IMF loans. Board endorsement of this study's conclusions led the Fund to conduct systematic ex post evaluations, in which IMF staff have generally been very candid in what approaches worked and what did not in promoting adjustment in the borrowing country.
- The evaluation of the Fund's exchange rate policy advice[8] led to noticeable improvements in surveillance in this area, and a subsequent bilateral Surveillance Decision reasserted this key focus of the IMF's mandate.
- The IEO evaluation of structural conditionality[9] resonated with many Board members and led IMF Management to issue guidance on streamlining conditionality, including a decision to discontinue the use of performance criteria for structural measures in all Fund arrangements.

Looking forward, I have several recommendations, including on the crucial issue of follow-up to IEO evaluation findings.

Recommendations

Help to improve follow-up. The Executive Board has ultimate responsibility for follow-up on IEO recommendations, but is open to ways in which IEO can play a constructive role. In this regard it might be useful for the IEO to assess the implementation of those of its recommendations that have received Board support—particularly since many of the obvious Fund policy and operational issues have already been the subject of evaluations over the past 10 years.

I do believe that IEO recommendations should be more specific. This is important particularly with regard to how the IMF conducts its work, given the IEO's access to internal documents and notes. While the Board is not Management, it can help Management bring about changes in internal practices if Board members know enough about them.

Consult more with the Board. The IEO is very transparent about the preparation of its reports, and its website is very accessible in laying out draft and final issues papers for ongoing reports as well as outlining plans for future projects. IMF staff are also personally responsive and I find IEO recommendations to be a useful impetus to improvements. The IEO could usefully consult with the Board while it is doing a study, much as it consults with country authorities and other stakeholders. In particular, such outreach could complement the IEO's consulta-

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[7]IEO, *Evaluation of Prolonged Use of IMF Resources* (2002).
[8]IEO, *IMF Exchange Rate Policy Advice* (2007).
[9]IEO, *Structural Conditionality in IMF-Supported Programs* (2007).

tions with country authorities—which are important in assessing the effectiveness of IMF policy advice through surveillance or programmatic lending—as well as the IEO's discussions with staff and Management regarding sensitivities.

Make reports shorter and issue them sooner. IEO reports are of generally high quality and provide sufficient evidence to support their findings and recommendations. However, in some cases they could have more of an impact if they were shorter and thus could be prepared more quickly. This could also reduce the front-running problem that was identified by the external evaluation of the IEO.[10] I note that the IEO's high-quality report on the IMF's performance in the run-up to the financial crisis[11] was only completed this year—after the Fund had already instituted reforms to remedy the shortcomings in its pre-crisis surveillance.

Consider holding seminars on evaluations in progress. Holding seminars for interested Board members and/or staff ahead of Board consultations could be a useful way to deliver a timely preview of the IEO's analysis. However, I hope that presenting IEO analysis to a broader audience while it is still in draft form does not lead to a softening of a report's final conclusions.

Remarks by Moeketsi Majoro

The IEO has served the IMF well, helping the Fund to deliver its mandate more effectively, and has earned strong support for its work from a broad range of stakeholders. In these comments I will first outline the purpose and mandate of independent evaluation at the Fund, and then point out actions that are needed—by the IEO, Management, and the Board—to strengthen the evaluation process.

Purpose and Mandate of Independent Evaluation at the IMF

The general view within the Executive Board is that the IMF needs an Independent Evaluation Office not only to facilitate the Board's task of oversight and governance but also to contribute to the institution's learning culture. For the IMF to remain relevant and thrive, learning better and faster is critically important. As Charles Darwin said, it is not the strongest of the species who survive nor the most intelligent. Rather it is those most responsive to change. A learning organization values the role that an independent evaluation organization can play in developing organizational effectiveness. For effectiveness in instilling a learning culture in the IMF, IEO's independence must be protected and nurtured through goals that are shared by the Executive Board, Management, IMF staff, the IEO, and the membership.

[10]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

[11]IEO, *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* (2011).

As a watchdog the IEO must "tell it like it is," bringing out both successes and shortcomings in its evaluations. The IEO's mandate to improve the effectiveness of the IMF can be categorized into four goals: (1) to enhance the learning culture of the IMF and enable it to better absorb lessons for improvement in future work; (2) to help build external credibility by undertaking objective evaluations in a transparent manner; (3) to provide independent feedback to the Executive Board in its governance and oversight responsibilities over the Fund; and (4) to foster greater understanding of the work of the IMF.

Benefits Achieved from Evaluation in the First Ten Years

The Fund has come a long way to fully embracing and facilitating the work of the IEO. Over time the Fund has implemented changes to its strategies, policies, and programs that have been driven in part by IEO recommendations. It has introduced ex post assessments in the surveillance process, and issues regarding internal processes have been brought to the attention of Fund Management. Such changes have been improving professionalism and even-handedness in Fund operations. IMF Management has been providing the Board with forward-looking implementation plans for IEO recommendations as well as with annual monitoring reports on the status of those recommendations. Written management responses checked by the Executive Board have certainly improved organizational learning and accountability.

Looking Ahead

To increase the value added from independent evaluation calls for adhering to strategic principles, sharpening evaluation strategies, distinguishing recommendation typologies, making recommendations that are clearer and more closely linked to findings, and taking action on recommendations. I perceive three specific needs:

- *IEO should become more focused and strategic.* A more focused and strategic orientation by IEO, together with strong support from the Board and Management, will help ensure the IEO's continued usefulness and relevance. IEO's recommendations, as endorsed by the Board, need to become integral to the Fund's work. For the IEO, this implies that the relevance and usefulness of IEO evaluation findings to core audiences should be enhanced through better selection of evaluation topics. The IEO should also improve the timeliness of its evaluations and increase access to and exchange of the lessons they draw.
- *IEO should strengthen its outreach.* The IEO should also strengthen its outreach, in order to promote greater understanding of IMF work in the context of critical issues raised in its reports. This is especially the case in developing and emerging market economies, where greater efforts may be needed to enhance understanding of the IMF's role, including in dealing with long-held myths about IMF operations.

- *IEO recommendations need more committed follow-up.* There is a strong feeling within the Evaluation Committee and the Executive Board that not enough has been done to follow up on IEO recommendations, and that a lack of traction undermines the many motives of independent evaluation. Addressing this concern is a priority for the Evaluation Committee in engaging with Management. Looking ahead, there is a need to establish an ambitious mechanism for a far-reaching review of the effectiveness of the actions that have been undertaken based on IEO recommendations. With IEO reports in the public domain it is critical that IMF Management and the Executive Board be viewed by IMF members as responding to the issues raised in these reports. Recommendations that are repeated across various evaluation reports and other internal evaluation processes point to the need for Management and the Board to show readiness to implement evaluation recommendations.

An external evaluation of IEO is planned for 2012. The Evaluation Committee on behalf of the Executive Board is committed to strengthen the evaluation process for better learning and accountability by the institution. As part of continuing efforts to improve the evaluation cycle, the Executive Board is to undertake an external evaluation of the IEO in 2012 with a view to strengthening the evaluation process.

Remarks by Thomas Moser

I have a confession to make. Ten years ago, I was against the establishment of the IEO. Not because I was against regular evaluations of IMF activities but rather because I did not believe it would be possible to establish a truly independent evaluation unit within the IMF.

I am glad that I was wrong. While people may disagree on many aspects concerning the IEO, everyone would agree that it has proven to be independent—and more so than the evaluation unit of any other international organization. This alone is a reason to celebrate.

In this note I will focus on the ownership of independent evaluation within the Fund and make some suggestions on how ownership—and hence the application of evaluation findings—can be strengthened.

Has the IEO Assisted or Strengthened the Board in Its Oversight Function?

The answer to this question is clearly yes but it needs to be qualified: (1) there has been too little ownership of the IEO's findings and recommendations by the Executive Board and by Management; and (2) as a consequence, the Board has not made full use of the IEO.

This does not mean that the IEO has had no impact. Many of the IEO's analytical insights and recommendations have been incorporated into IMF policy. Moreover, interaction with the IEO has led to introspection by staff and in the

Board. And finally, the mere prospect of possible future evaluations has influenced the way staff (and probably also Executive Directors) work (better documenting their decisions, for example).

Why has there been insufficient ownership, and what can be done about it? I propose that: (1) the attitude/culture on the part of Management and Board could and should become more positive about evaluation; (2) the IEO should do more to encourage ownership by the Board, and possibly by Management.

Evaluation Culture

Leaders—in the Fund's case, Management and the Board—have a particular responsibility for framing and promoting an institution's vision and culture of evaluation and learning. In the Fund, this promotion has been insufficient. This is not a problem unique to the IMF. But the IMF as an international public institution that gives advice to governments around the world should seek for itself the highest standards of evaluation and learning. Management and Board should recognize and raise awareness of the positive side of evaluations and frame them accordingly for staff.

Management and Board should have a genuine interest in evaluations. In my experience, evaluations are often a good tool to get unfiltered information from staff below the senior level. Auditors and evaluators—rather than finding unidentified problems—often learn from staff about problems that staff are well aware of but have not been addressed.

Is there a negative side to evaluations? I know there has been a concern among Management, Board, and senior staff that regular public criticism by the IEO could over time damage the Fund's reputation. On the contrary, however, I believe that the IMF's courage in establishing a truly independent evaluation office, coupled with the professionalism of the IEO, have served to strengthen rather than weaken the Fund's reputation.

Management and staff often argue that IEO evaluations tie up too many staff resources. However, I believe that this is partly a problem of the evaluation culture. Particularly, behavioral economics suggests that framing matters. It makes a difference whether something is framed as a potential loss or a potential gain. Rather than consider the IEO as a threat to the IMF, Management and the Board should consider IEO evaluations as a learning opportunity. If evaluations are framed as a threat, too many staff resources are committed to defend the status quo and staff time spent on IEO evaluations is naturally not considered time well spent. Management and Board should be less defensive and more curious about IEO evaluations.

A strong evaluation culture should come naturally to the IMF. An institution that aspires to solve real-world problems should seek and value evidence on the results of its efforts. An institution run by professionals who consider peer reviews a seal of quality when it comes to publications should value feedback given by its IEO peers as a way to improve the quality of its work. And frankly speaking, an institution that sends mid-level staff around the world to evaluate the performance of ministers and central bank governors should clearly have the guts to expose its own performance to professional independent evaluations.

What Could the IEO Do to Increase Management and Board Ownership?

The IEO could and should better engage the Board. It does this well in the process of topic selection, but could engage better in the presentation of its findings. One single Board discussion on an IEO evaluation is simply not enough. There should be presentations and discussions of findings and recommendations before the Board meeting, possibly in the Evaluation Committee.

Also, the IEO should put more effort into motivating its topics and recommendations. An evaluation should clearly convey the reasons why its topic merits the time of Management and Board, and why they should care about its findings. Recommended changes in policies need to be significant and worthwhile.

However, a good evaluation does not necessarily have to identify problems and recommend change. It should not be considered a failure of an evaluation if it does not entail negative findings. Reporting positive achievements and exploring the reasons for success are just as valuable. Evaluations should place equal emphasis on problems and achievements. Emphasizing also positive achievements could help improve the ownership of evaluation among Management and staff.

An often-heard criticism of IEO evaluations is that its recommendations are not tangible enough. While this criticism is itself rather intangible, the IEO should try hard to make its recommendations clearer and better prioritized. Audit reports usually list their recommendations in order of importance/urgency. The IEO should do the same, offering a clear separation of what needs to be urgently addressed and what would be nice to have.

The weakest part of the evaluation process—and the clearest manifestation of a lack of ownership—remains the follow-up to IEO recommendations, despite the improvements that have been introduced since the Lissakers Report.[12] Action plans are currently prepared by Management alone. The process would be strengthened if they could be prepared jointly by Management/staff, Board, and the IEO, and worked out jointly in the Evaluation Committee.

Finally, process—especially the question of how decisions are reached—is extremely important and relevant. I do not agree that the IEO should focus less on process and that its recommendations are too process-related. For example, if one day the IEO evaluates the IMF's current involvement in Greece, it will probably be more productive to ask *how* the IMF reached its decisions rather than to ask what decisions were reached and why. It will also be more productive to make recommendations on how to improve process in order to avoid undue political pressure in the future, rather than to simply state—once more—that staff should be more candid and outspoken.

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[12] "Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

Remarks by Yaga Venugopal Reddy

My involvement with the IEO has been close since the IEO's inception and has been in several capacities, helping me to gain multiple perspectives on the IEO's functioning. After leaving the IMF Board in late 2003, I was involved with IEO activities as Governor, Reserve Bank of India, for five years. Subsequently, I have been associated with the Office in advisory capacities in addition to maintaining an interest in it as an academic.

The IEO has impressed me by the interactive process by which it continues to improve the quality of its work. Its reports are lucid and presentations including supporting evidence are good. Its credibility has increased significantly in recent years. And I notice the increased attention being paid to its reports in several global and national forums I am associated with now.

In my comments below, I first emphasize the need to view the role of IEO within the overall IMF governance structure, and then address some specific aspects of the IEO's work and the follow-up to evaluation recommendations. I conclude by exploring how changes in the global economy are likely to increase the demand for IEO evaluations.

IEO and the Executive Board in the IMF Governance Structure

The IEO's contribution to the Board's oversight is critical but is only one of the IEO's several mandates. The IEO assists the IMF Board in its oversight responsibilities by providing independent feedback on the appropriateness and effectiveness of the IMF's policies and operations. In the process of evaluation, the IEO is required to enhance learning by the Board and Management as well as the staff. IEO is also expected to strengthen the Fund's credibility with the authorities of IMF member countries and with the public.

The IEO's contribution to the Board's work occurs mainly through feedback. The IEO puts Management on the defensive, and enhances the Board's capacity to discharge oversight by providing insights into operational details that are generally not otherwise available to the Board.

IEO evaluation is a process in which the staff is closely involved. The process itself contributes to learning since it entails revisiting of issues and retrospection by all who were involved in the decisions that are being evaluated.

The follow-up to evaluation depends on Management and staff. Given the overall structure and functioning of the Fund's governance arrangements, the real effectiveness of IEO depends critically on the response of Management and staff to IEO recommendations.

Selection of Evaluation Topics

The IEO's selection of topics for evaluation appears well thought out and appropriately balanced between substantive and process issues. Going forward, however, a change in the mix may be warranted in view of the dynamics of the IMF's role in the global economy. The ultimate test of balance is in better learning and desirable outcomes of policies.

Consultations and Discussions

In my view the IEO has held adequate consultations with all stakeholders including academics and researchers, and drawn on the available literature.

From my experience, I find seminars for Board members, ahead of formal Board discussions, generally very useful. They contribute to frank discussions, interaction, and mutual understanding because they give Directors an opportunity to go beyond the formal positions of their authorities.

Outreach and Dissemination

I note that the IEO's reports are publicly available. Possibly outreach to multilateral institutions relevant to the IMF's work, such as the UN, UNCTAD, World Bank, regional development banks, and some policy research institutions and think tanks could be strengthened. The best way of reaching out to the public at large is through honesty and candor backed by competence and objectivity. Commentators and analysts can then do the outreach based on the quality of IEO's work.

IEO Recommendations and Follow-Up

IEO recommendations pertain both to high-level policies and strategies and to actionable specifics. In regard to follow-up, I would attach greater weight to recommendations dealing with high-level policies and strategies, and consider specific recommendations as illustrative. Specifics are often contextual and ideally they should be treated as illustrative ways to achieve the broader priorities and policies.

Proper follow-up to IEO recommendations is crucial. But I would not advocate an active role for IEO here: once the IEO submits its report, follow-up is the responsibility of Management, with oversight by the Board. The IEO should not engage in the follow-up process unless it is specifically asked to evaluate the follow-up process itself.

Changing Realities and Future IEO Role

Changing realities in the global economy are likely to strengthen the Fund's need for independent evaluation and receptiveness to evaluation findings.

Changing economic balances among countries will be reflected in new approaches to discussions in the Board and actions of Management and staff. These changes may foster a better learning culture in the Fund and hence greater attention to the work of the IEO.

The qualitative divide between developing countries that take money from IMF and developed countries that do not is dwindling. This strengthens the role of objective evaluation since all Fund members may then seek objective reality rather than politically convenient reality.

Within the IMF, the recent experience with global crisis may produce greater intellectual humility and more openness to learning. Looking ahead, the IMF's close involvement in the euro zone crisis will be a great learning experience. This subject will be a challenging and complex task for IEO in the near future.

Today the IMF is generally accepted as a very important pillar of the global financial architecture, though a few years ago its relevance was questioned by some. The IMF is virtually an operating arm of the G-20, and the links between the G-20 and governance in the IMF may strengthen. The IEO can provide independent feedback to the G-20, perhaps in an indirect fashion.

Remarks by Arrigo Sadun

In this short statement I will make two points about the role and relationships of the IEO and offer two opinions about appropriate evaluation practice and topics.

IEO's role is to keep the IMF intellectually honest. Imagine an anthropomorphic picture. In the IMF, Management arguably is the heart of the organization, while the staff and particularly the missions are the arms, and Strategy, Policy, and Review Department perhaps is the brain. What is the IEO? To me the IEO is the Fund's conscience, our good conscience and our bad conscience. As the Managing Director has said, very few organizations will tolerate an independent evaluation organization within their ranks. The IEO has not only been tolerated but fostered. Its role is not to nag the staff and the Board per se, but to keep the IMF intellectually honest.

IEO acts as a bridge between the IMF and external stakeholders. For the IMF the IEO has in practice provided an important bridge with the external world. Maybe at the beginning that was not the intention, but I think it has been very beneficial, and something that should be encouraged.

Cooling-off periods are necessary for objective evaluation. Should the IEO tackle current issues? Previous IMF senior managers have stressed the need to have a cooling-off period between the time the IMF confronts an issue and the time that the IEO starts to evaluate it. I believe that a postmortem is a very useful exercise, and that it is most useful when it is done after the patient is dead. Indeed if the patient is not dead, then it is not a postmortem but a prescription. Being a doctor is not really the IEO's role. So I myself subscribe to the need to allow time to elapse before very important issues confronting the IMF are taken up by the IEO.

IMF governance. Should the IEO get more involved in this type of topic? Previous managers of the IMF have said that other bodies should be more involved than the IEO in the debate on IMF governance, and have explicitly quoted the Manuel report.[13] Certainly I believe that the IEO should not be doing what Management or the Board has the primary responsibility for doing. We have a collective responsibility to impose into the IMF the best practices in governance, but it is not primarily the responsibility of the IEO.

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[13] *Committee on IMF Governance Reform: Final Report*, March 24, 2009.

CHAPTER 12

Views on the IEO from Current and Former Management and Senior Staff

This chapter presents the views of current and former members of Management and senior staff. It contains remarks by: David Lipton, Anne Krueger, Takatoshi Kato, Murilo Portugal, Jack Boorman, and Leslie Lipschitz.

Remarks by David Lipton

Can we make independent evaluations work better for the institution and its members? The current IMF Management team believes unambiguously the answer is yes and wants the Fund staff to follow IEO reports and conclusions and follow up on their recommendations. In this note, I will review some of the strong points of the IEO's record and, then looking forward, discuss how we can improve IEO-IMF interactions in the process of follow-up to evaluation findings and recommendations. Finally, I will suggest some topics for future evaluations.

Strong Points in the IEO's Record

IEO has helped the Fund to become more transparent. When I worked at the Fund, from 1980 to 1989, not only did the IEO not exist, but it would not have been very welcome. In those days, there really was not much transparency. Article IV documents were not published. The reviews of conditionality were never reviewed by anyone else, and that is the way everyone liked it. The IMF did not speak much publicly and if it did, it was because someone inside had made a mistake that had to be clarified. Nowadays, the Fund is a much more open and transparent institution, and is trying to move as much in that direction as it can. The IEO's 10-year record of accomplishment has boosted the credibility of the Fund's effort.

There are areas both large and small where the IEO has been very influential. The IEO review of technical assistance[1] was very much used and I think continues to be so. Similarly, the reviews of programs—and what we expect to be the ongoing reviews of high-profile exceptional access cases—make a huge difference. In fact, the Fund staff now working on Greece have been reading the IEO report on Argentina[2] and anticipate an ultimate IEO report on Greece. And so in a

[1]IEO, *IMF Technical Assistance,* 2005.

[2]IEO, *The IMF and Argentina, 1991–2001,* 2004.

sense, the IEO has an effect before it even puts pen to paper. And the IEO will have even more of an impact as it produces more reports on exceptional access cases. I think, though, that on a subject as broad as Fund governance, which engages large global policy issues, it is hard for the IEO to have traction.

Going Forward, Work Needed on the Follow-Up Process

Work is needed to make IMF-IEO interactions less cumbersome and more of a constructive dialogue. We in the Management team certainly want to see the IEO continue to produce hard-hitting analysis and assessments. We are open to how we can follow up better on IEO recommendations and understand that we ourselves will have to be responsive, interactive with the IEO, and transparent. To me the value of the independent evaluation system will lie not just in what the IEO does but in the ways that the Fund integrates and follows up on IEO conclusions in its detail of work. We do not want our interactions to be bureaucratic or cumbersome, but rather a constructive and useful dialogue so that the IEO and its work really function as a tool for improvement. We also want to be able to follow up IEO conclusions and recommendations in a way that allows the books to be closed and the IEO to move on to a new subject. Closing the books need not mean that we stop working on the matters, but that we can make discrete efforts for the integration of evaluation conclusions and recommendations.

Integration and follow-up perhaps already happens more than is recognized. One does see that even after an evaluation report has been made public, been discussed, and been "processed," Fund staff continue using the results. I certainly hear plenty of staff comment, as they shape and frame their work about choices they are making that take into account IEO findings and recommendations. And, in Board discussions, IEO conclusions are frequently cited as part of the explanation for why we are doing things the way we are.

A subject that is sometimes raised is the appropriate timing of evaluations—should they be highly topical, or be done longer after the fact, to allow more time to acquire objectivity? I believe that when the Fund is deeply engaged in a subject, it needs to be able to carry on making decisions without being second-guessed in the middle of its thought processes. But I know that waiting to do an evaluation can also have its own costs and difficulties; sometimes evaluations do not come out until after the Fund has already taken corrective actions, so their findings may be either stale or misinterpreted in light of what has been done. Somehow this dilemma has to be worked through—a hard job, but an important one.

As regards evaluation topics, there are many areas in which we in the Management team believe independent evaluation can help the Fund improve. Some of these are substantive: the Fund's risk analysis, macro-financial linkages. Some concern the way in which the Fund does business: its even-handedness, candor, analytic independence. And some concern the culture that we have been accustomed to and the ways in which we reach out and explain what we are doing to our member countries, to the public, to nongovernmental organizations, and to others who are interested in the Fund's work. All these are areas where we believe we can learn from independent evaluation.

I look forward to my further interactions with the IEO.

Remarks by Anne Krueger

I start this short note by congratulating the IEO. The challenge it faced when it was set up was daunting: to intermediate between the IMF staff and the Board, to be independent, to speak truth to power but not to antagonize people so much that they shut the office down. I think the IEO has carried out those tasks about as well as is humanly possible. My responses to the questions below should be taken in this context.

"*Have IEO lessons and recommendations been helpful to IMF discussions on strategies, policies, and design of activities and operations?*" I would answer "yes," though with two qualifications. One is that each situation is different. Everything that one can learn from the past is helpful, but the next problem will always be different in some regard, and one must always adapt. The second qualification is that part of the reason why the IEO has been able to influence Fund discussions is that the Fund has always had a learning culture. As an example I would cite the Asian crisis in the late 1990s, and the reports on the observance of standards and codes and then the financial sector assessment programs that the Fund introduced in reaction to the problems underlying the crisis. I think the Fund since its inception has been more of a learning institution than almost any other institution I can think of, in the sense of adapting to the problems of the time. And I think the IEO makes it even more so.

"*Have IEO lessons been integrated into IMF operations?*" An important point is that there must of necessity be a time lag between when something happens and when the IEO evaluates it and makes a report. This is because, aside from simply the time that is needed to carry out an evaluation—to talk to people to establish what happened, and so on—we need time to get distance and perspective. What one might say about a certain situation six months later and what one might say two years later are not necessarily the same. Time does help provide perspective to evaluation. It can also ease the acceptance and integration of evaluation findings and lessons. A problem in integrating IEO findings, that is difficult to surmount, is that when matters are politically sensitive, and the political actors who were involved are still in place, it is very difficult to view them in a way that is balanced enough for evaluation findings to be internalized and acted on. On the whole, I think IEO recommendations have been integrated into operations. Not necessarily only by the process of going through Board discussion, but also by staff talking among themselves informally as they read the reports and react to them. Many informal mechanisms have helped that integration.

"*Has the IEO helped to promote a stronger learning culture?*" Yes, though I think this culture was already very strong at the Fund. "Has the IEO helped to bring about alternative ideas and helped staff to challenge prevailing assumptions?" I always have misgivings on this issue. On the one hand, of course you want staff to challenge, but on the other hand we do not need every new staff member who comes to the Fund to try to rediscover the wheel or, worse yet, to decide that the wheel is really square when it is not. The IMF was always good at learning, and I think it still is. How much more challenging of assumptions is desirable is hard to say.

"*Has IEO found the right balance of learning and accountability in the selection of topics?*" Some of the evaluation reports that were issued when I was at the Fund made criticisms that could only be addressed by altering systemic features of the IMF, rather than by improving the management of the specific activities that were evaluated. Let me give an example. The Fund should be stronger than it is on trade issues, as the IEO has argued. But it cannot be. The reason why is very simple. IMF staff, like all staff, look at their career prospects. To make a valuable contribution and be respected in the trade community takes a very different skill set than the one you need to make a valuable contribution in the macroeconomic or financial area. When I was at the Fund, staff who had trade interests very soon moved away into the more mainstream staff, and to get good work done on trade issues was a matter of bringing people in from outside for temporary assignments. Thus, to evaluate what the Fund did in trade calls for looking at the nature of the Fund's career stream. I could give other illustrations of where something in the nature of the Fund's overall institutional practices influenced what happened in particular cases. For example, the lack of institutional memory in the Fund is breathtaking: very few people stay in their jobs for any length of time, and there is no built-in opportunity for continuity in a way that one might wish. To say that this is a problem, and creates problems, is true. But it is not at all clear that an alternative might not create more problems. I mention this merely to emphasize that some of the difficulties IEO has pointed to are not specific to single issues, but are systemic to the way the Fund conducts its operations.

"*How can IEO better explain and disseminate its conclusions and recommendations among Management and staff?*" I do not know that it can. IEO reports are unquestionably well written. I do not think evaluations should be issued much sooner than they are—largely because of political sensitivities. I believe that there should be discussion with Fund Management along the way. Management has disagreed quite strongly with some of IEO's recommendations and that needs to be sorted out. I do not think the solution is to make recommendations to the Board before Management gets into the act. I do not have any strong suggestions here except that Management must be allowed to have a say before a set of recommendations gets "cast in concrete."

Having said all this, let me go back to where I started and say I think that the IEO in difficult and treacherous terrain has done a wonderful job. I hope the next 10 years are as productive as the last.

Remarks by Takatoshi Kato

I worked for the IMF over the years 2004–10 as a member of the Management team and thus observed six years out of the IEO's first decade. In this note I first review the different dimensions of my engagement with the IEO and then propose three areas for improvement in the IEO's functioning: creating more buy-in for the IEO's role from outside stakeholders, strengthening evaluation reports, and streamlining the interactions with IMF staff.

Three Levels of Engagement with the IEO

During my time at the Fund my engagement with the IEO occurred on three levels. First, the IEO came up frequently in Management discussions, largely in regard to Management's stance on interaction with the Office. While Management acknowledged the critical contribution of the IEO's work, a constant concern was whether interaction with the IEO was absorbing excessive staff time. The Fund's work process is so institutionalized and highly mechanistic that quite a few Fund staff need to be involved in responding to requests from the IEO, whether for factual checks or for comments on IEO drafts. And, after IEO findings are discussed at the Executive Board, staff are asked to prepare an action plan responding to the IEO recommendations.

Second, certain reviews by the IEO were "must" reading for Management as basic reference points in dealing with external stakeholders. In my case I can cite such works as *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil* (2003) and *The IMF and Argentina, 1991–2001* (2004). The lessons identified in these reports did influence the thinking of the Fund's staff and Management, including in dealing with a large number of requests from member countries for Fund financial assistance in the period of the global recession following the collapse of Lehman Brothers.

Third, certain IEO reports are relevant regardless of whether or not one agrees with their recommendations. The findings of *Structural Conditionality in IMF-Supported Programs* (2007) were, in my view, subsequently operationalized in Fund work. As regards Fund assistance to Sub-Saharan member countries, as evaluated in *The IMF and Aid to Sub-Saharan Africa* (2007), it is my view that Fund advice and in certain cases Fund conditionality contributed to sound economic management in no small number of these countries. At the same time, I accept that report's view that there are gaps between what is expected of the Fund and what the Fund delivers, and that the Fund needs to engage a wider range of stakeholders.

A Free-Functioning IEO Is Indispensable

Looking ahead, let me start by stating the obvious: for the Fund to be credible the free functioning of the IEO is indispensable. The need for an IEO is one critical lesson the Fund learned from its experiences in dealing with the 1997–98 Asian currency crisis.

Three Proposals for Improving the IEO's Effectiveness

- *Work to create more buy-in for IEO from outside the Fund.* It seems to me that the IEO needs to raise its profile to popularize its legitimacy. Various means could be used for this purpose, for example regularly seeking inputs from the media community, or undertaking dialogue with high-profile external stakeholders such as IMF's regional advisory groups.

- *Strengthen the analytical foundation of IEO reports and make them quicker to read.* The second area for improvement concerns the substance of IEO reports. To the extent that an IEO report is an independent critique of Fund policy developments, it must be thorough: its writers must do a detailed examination of Fund documents and seek the views of the authorities. But I must say that to read an IEO report requires lots of mental and physical stamina. To encourage reading by a wider audience, a different format—such as around ten pages of main report, with detailed annexes—might be more appealing. Further, in some cases the analysis in IEO reports seems too conventional. It might be worthwhile to invest more heavily in the preparatory phase of a report in order to create a more solid analytical foundation, in some cases seeking inputs from an academic advisory panel the IEO might wish to establish.
- *Streamline IEO interactions with IMF staff.* The third area for improvement is the IEO's working relationship with the Fund staff. By design, the existence of tension between the two sides is healthy. As viewed by Fund Management and staff, however, the whole IEO process over time has become very mechanical and bureaucratic. There may be room to streamline this process. One idea might be to conduct extensive discussion on IEO recommendations between the IEO and the Fund staff before an evaluation report is finalized, at the same time reducing the number of comments by Fund staff on the draft report.

Lastly, I feel that IEO's first decade of experience has been very rewarding, both to IEO itself and to the Fund Management and staff. And so I would like to pay tribute to the history of IEO in the first decade.

Remarks by Murilo Portugal

The following are the remarks that I intended to deliver at IEO's Ten Years Conference. Regrettably, at the last minute I had to take care of unexpected obligations and I was not able to travel to Washington. Still, I submitted this statement and I am delighted that it will be included in the edited volume. Some brief general remarks about my experience with the IEO in its ten years of existence, before I try to address the questions about the IEO's contribution to IMF operations suggested by the organizers of the conference.

My overall view is that the IEO has made an essential and very positive contribution to the IMF during these 10 years and that it has largely met the objectives for which it was created. Of course, as with everything else in life, there have been shortcomings in the IEO's performance and there are things that can be improved, and I will return to these later on. But on the whole, I have no doubt that the balance is largely positive: we have much more to celebrate in these 10 years of existence than we have things to improve in the IEO's performance going forward.

I was an IMF Executive Director when the IEO was created in 2001. There were then many doubts about whether or not to establish such an office, and especially about how to structure it to avoid some of the pitfalls experienced by other organizations that had established evaluation entities. We did not want just an internal evaluation department working only on technical topics with an inward-looking orientation. But neither did we want a tribunal-type of office to judge external complaints on the Fund's performance, working solely on provocation by and on behalf of external audiences.

I think that on the whole the initial design and the actual practice of the IEO during its 10-year life have managed to produce an agency that is totally independent from IMF Management and staff, and works at an adequate arm's length from the Board, setting its own work agenda, directly recruiting its own staff, and having budgetary independence—an agency that has as its major focus to promote a learning culture inside the IMF, but that also contributes to strengthening accountability and that has had a concrete, discernible, and positive impact on IMF operations in general.

This success is certainly a tribute to the IEO staff and directors over the last decade, who have managed to conduct 18 evaluations on difficult topics producing concrete recommendations based on facts and findings. And I compliment them for their achievements.

But perhaps IEO's success is an even bigger tribute to the IMF staff, Management, and Board who understood the importance of learning from mistakes and who cooperated in good faith with the IEO in its mission. Only an institution like the IMF—which values the power of ideas and is staffed by people of such technical caliber, high values, and strong work ethic—would have the confidence to acknowledge that mistakes are inevitable due to the fallibility of any human undertaking; that the only positive aspect of mistakes is that they provide an opportunity for learning; and that correcting and avoiding mistakes in the future is more important than apportioning blame for the past.

Has the IEO Been Helpful in IMF Discussions of Policy and Operational Design?

Let me turn now to the issues suggested for discussion by the panel, of which the first is whether the IEO has been helpful in the IMF's discussions of strategies and policies and in the design of activities and operations.

My answer is yes. Of course, the IEO has not been the only or even the most important influence in setting strategies and policies—but it has been a positive and important one. The process of setting strategies and policies in the IMF is complex, and responds to many stimuli and considerations, the first of which is each country's own national interest and the distribution of power among countries in the decision-making process. Other important factors include the urgency of decision-making and threats posed by the country's external environment, and the leadership of the IMF that is provided by the Board and Management. But also important are past experience, past performance, and past mistakes, and it is in this area that the IEO's contributions have occurred and can be felt.

My impression is that, in general, the IEO's influence is likely to be larger in the design of activities and operations than in the setting of broad strategies and policies. I would mention here two examples with which I became more familiar during my period as Deputy Managing Director and which had been subject to past IEO evaluations: technical assistance (TA) and the Financial Sector Assessment Program (FSAP).

On technical assistance, we did follow through on the IEO's recommendations to discontinue the use of prioritization filters in the allocation of TA, to develop a medium-term framework for setting TA priorities, to involve country authorities more in the design of TA activities, to improve ex-post evaluations, and to put in place more systematic procedures for disseminating lessons with the wider-circulation publication of TA reports. However, some major strategic decisions that came to be made in the design of the Fund's new TA policy—such as increasing the delivery of TA through regional technical assistance centers (RTACs), with an expansion of 66 percent in the number of RTACs, and greater reliance on external resources—did not evolve from IEO's suggestions but were responses to the tight budget constraints that the IMF faced.

On FSAP, the IEO recommended sharper criteria for priority setting, with IMF Management signaling priorities for the Board independent of whether countries volunteered to undergo these assessments. This recommendation was followed through, as were the IEO's recommendations to strengthen the link between financial stability assessments and Article IV surveillance, to more clearly prioritize the recommendations of these assessments, and to have a mechanism to coordinate better with the World Bank. But the Fund is still struggling with the recommendation to strengthen the link between financial sector issues and macroeconomic issues and to have more coverage of cross-border financial issues, even if some progress has been made in this area.

Are IEO Lessons and Recommendations Integrated into IMF Activities and Operations?

Another set of topics we were invited to discuss is whether IEO lessons and recommendations are being integrated into IMF activities and operations and how the process of monitoring the implementation of these recommendations can be improved.

Again my general answer to these questions would be that, yes, the recommendations are being integrated into IMF operations. I have already mentioned two cases I am familiar with. But in general I think there was an improvement in the follow-up of IEO recommendations with the creation in 2007, after the Lissakers Report,[3] of a monitoring report that is periodically presented to the Board.

Of course, improvements can still be made in this area. On the Management and staff side it is important to avoid the risk that after a recommendation is

[3]"Report of the External Evaluation of the Independent Evaluation Office" (Lissakers Report), March 2006. Available online at www.ieo-imf.org/ieo/files/evaluationofieo/032906.pdf.

documented as implemented in one of these periodic reports, it is forgotten in practice. The reports document whether a recommendation has been mainstreamed or not. But even after it is mainstreamed it still needs to be followed as a work routine.

One improvement that would help is if the IEO were to be more selective in its recommendations. The average number of recommendations per IEO evaluation report has been six headline recommendations and nine sub-recommendations. (Some IEO reports have offered twice these average numbers.) The total number of recommendations and sub-recommendations of the 18 evaluations is 261. This is too large a number to monitor permanently except at very high cost. And making too many recommendations also leaves the way open for staff and Management to choose which recommendations to follow up.

So my suggestion is to make fewer recommendations, to prioritize more clearly among them, and to distinguish more sharply between the objectives that the IEO believes must be pursued and the good ideas that the IEO considers that the Fund may choose to explore or not.

It is also important to frame the recommendations appropriately. Recommendations pitched at too general a level leave room for different interpretations and for claims that they have been implemented. Here it is important to stress that the recommendations should be specific in terms of the *objectives and the goals*, but not on exactly *how* the objectives are to be achieved: decisions on specific actions should be left to staff and Management.

I believe that the IEO's main purpose should continue to be to promote a stronger learning culture, and not to establish who was responsible for which mistake that was made. Individual accountability is very important and should be more strongly promoted in the IMF, but I see this task as the function of other bodies and mechanisms than the IEO, for example, direct supervisors, Management, the Board, and structures such as the Office of Internal Audit and Inspection. The Fund needs an instrument for learning that is different from the instruments for promoting individual accountability. Making these two institutional imperatives the task of a single instrument may reduce the openness to recognize mistakes and correct them.

IMF staff, Management, and Board all work under severe pressure. Urgent and difficult decisions need to be made using only incomplete information and within sharp political, financial, and operational constraints. It is easy to be the engineer of a project that has already been built. And it is easy to find mistakes with the benefit of hindsight. We should punish gross negligence. But we should accept genuine, good-faith mistakes. We should not discourage staff and Management from taking measured risks for fear of later blame. The mistakes of inaction are usually greater than the unavoidable mistakes of action.

Remarks by Jack Boorman

I was not initially supportive of establishing an IEO in the Fund. So I will start this note by saying that I have been persuaded that I was wrong, and I now believe that the IEO has done well in performing a much needed function for the Fund. I am less sure about whether the Fund has learned to effectively consider the findings and recommendations drawn from the IEO's work and integrate them appropriately into its organization and its work.

So, notwithstanding my conversion, there are some issues that I think warrant consideration to help increase the impact of the work done by the IEO and to increase its effectiveness. I will raise just two: (1) the monitoring or tracking of the Fund's reactions to IEO recommendations; and (2) the selection of topics for evaluation, and then make a recommendation about interactions between the IEO and IMF staff.

Follow-Up to Evaluations

Clearly the effectiveness of the IEO's work depends on the quality of its assessments, the relevance of its recommendations to the problems that are identified, and the action taken by the Fund in response to those recommendations. My impression is that the processes set up to monitor the way in which recommendations are followed up leave something to be desired. The main vehicle is the Periodic Monitoring Reports (PMRs) that are prepared by Fund staff and that key off the Summings Up of the Board discussion of the evaluation. These monitoring reports are discussed by the Evaluation Committee of the Board. My impression after looking through some of them is that they follow too closely a "check the boxes" approach on actions taken in response to the IEO's recommendations. They report the status of the implementation of promised actions, but give little, if any, assessment of the effectiveness of such actions. This problem seems to be recognized by the Evaluation Committee of the Board. (In its most recent report to the full Board, the Committee indicates that "the process for endorsing IEO recommendations and related follow up needs to be strengthened.")

But what needs to be done? I would make several suggestions.

First, and perhaps most important, reviews of progress need to go beyond "checking the boxes." They need to delve into the effect of the actions taken in curing the ills and achieving the goals at which the IEO's findings and recommendations were aimed. There may also be questions as to whether the Summings Up themselves serve as an appropriate vehicle to determine exactly what the Board endorsed. (This problem with Summings Up is, in my view, not limited to those related to IEO evaluations.) Like the PMRs and Management Implementation Plans, there may be fundamental flaws in these documents and the processes they are intended to serve.

Second, in many cases, the issues raised are too important to be left to a committee of the Board—the entire Board should review the progress made in implementation and its effectiveness. Perhaps this could be done by the Board meeting in formal session as a Committee of the Whole. Such a meeting could be chaired by someone other than Management and could report its conclusions to Management. This might also help reduce some of the perceived and real conflicts of interest that are apparent in the current procedures.

The clearest case for this kind of procedure can be made with respect to the recommendations that were made in the IEO evaluation of IMF governance.[4] Governance is an overwhelmingly important issue for the Fund, and one on which many people remain disappointed. I realize that novel procedures, not used in the follow-up to other IEO reports, were employed in the follow-up to the *Governance* report.[5] But Fund governance is an issue requiring continuous review by the Board. I also recognize that the full Board can be asked to review any report from the Evaluation Committee. But the language used in the Board's guidance on the issue prejudices the case. It says "It (is) expected that, although a Board discussion could not be ruled out, in most cases the Evaluation Committee discussion would replace a Board discussion." To me, this creates the wrong expectation.

Third, the IEO itself should periodically review the actions taken by the Fund in response to its evaluations. I will come back to this point.

Topics for Evaluation

Has the IEO missed anything important in its selection of topics to review in the last 10 years? It would be surprising if it had not. Below I will suggest some topics that the IEO might consider addressing in the near future.

Ongoing crisis in Europe. As Joanne Salop's "Retrospective" paper[6] shows, the IEO focused most of its attention in its first five years on the IMF's work with developing countries. In the last five years that has changed somewhat, with greater attention to surveillance issues and the fact that the 2008 financial and economic crisis cried out for an examination of what and why the Fund had missed in the lead-up to that crisis. I agree with Salop that the IEO will need to pay greater attention to the IMF's work with the economically advanced economies. In fact, it is not too early, in my view, to start a timely investigation of the IMF's role in the lead-up to and the handling to date of the ongoing crisis in Europe. I recognize that the IEO's Terms of Reference say that "In conducting its work, the IEO should avoid interfering with operational activities, including programs, or attempting to micro-manage the institution."

That is a proper constraint on its activities. But I believe the IEO should be able to take on a study of the issues raised by the Fund's involvement in this crisis without violating those constraints. There are critical issues crying out for examination. If the topic is too large and still too sensitive, perhaps it can be broken down into parts as the beginning of a more complete evaluation. I am not naive about the sensitivities here, but I believe the critical issues raised by the Fund's involvement in this crisis warrant an early look at the experience thus far.

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[4]IEO, *Governance of the IMF: An Evaluation* (2008); discussed by the Board in May 2008.

[5]The appointment of a committee chaired by [former Executive Director] Thomas Moser, which reported in July 2008, and the subsequent appointment of a committee chaired by Trevor Manuel. See *Committee on IMF Governance Reform: Final Report*, March 24, 2009.

[6]Joanne Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF" (see Chapter 8 in this volume).

IMF downsizing. An issue that does not raise these kinds of problems and is overdue for assessment is the IMF downsizing exercise of 2007–08. There are important questions about what—and who—motivated that exercise; what kind of analysis led to the plan that was finally adopted; how it fit with the vision of the role of the Fund going forward; and the price that was paid in terms of the Fund's capacity to deal with the crisis that began in the United States before the downsizing was even completed—and with the current crisis in Europe. In this context, a study could be done of the expectations that were emerging at the time the downsizing decisions were taken, regarding the Fund's future financing role. Some parties seemed to think that since the IMF's role as a provider of financing to all but the poorest member countries was over, it would be appropriate to downsize the institution. Such an evaluation could also be a medium for raising questions about the appropriate financial size of the Fund. To me, it is not at all clear why the IMF should be raising financial resources in an ad hoc manner in the face of crises in the way that it has been doing. Among other things, that practice is an impediment to better governance.

IEO assessments of follow-up actions. Finally, I would relate the future agenda for work of the IEO to the need I mentioned above, for the IEO itself to conduct periodic assessments of the actions taken by the Fund in response to IEO findings and recommendations. These reviews should include an assessment of whether the recommendations that were endorsed by the Board left out something critical to reaching the goals that were laid out in the IEO report. Further, and as I mentioned above, I believe the Board should be assessing the *effectiveness* of actions taken and not simply the *status* of those actions.[7] Follow-up evaluations by the IEO could provide helpful feedstock for such assessments.

Whether or not the Board takes that next step, I believe the IEO itself should take on the task. I would put high on the list a follow-up to the 2008 IEO study of *Governance*. There have been important changes since this evaluation was issued: including the decision to increase the IMF quotas and associated voting power of members; improving the workings of the International Monetary and Financial Committee, including in the face of a newly revitalized G-20; and others. But there remain serious weaknesses in the Fund's governance structure that continue to impede its effectiveness. This is a critical issue for the Fund, warranting periodic review by the IEO of the steps being taken to deal with the problems that have been identified, and the effectiveness, or not, of those actions.

IEO Interactions with IMF Staff

A last point I want to raise is the *attitude of* and the *involvement of* Fund staff with the IEO in the process of IEO evaluations. Clearly some of the IEO reports have riled some staff. This is to be expected if the IEO is doing its job. But it is not healthy if it reflects a tendency on the part of the staff to reject criticism. If there is an element of this, IMF Management needs to send a strong signal that the

[7]See Table 1, page 5 of the Fourth PMR.

institution is expected to absorb and act upon lessons from the outside—including from the IEO, and that staff will be supported for doing so constructively.

Plenty of contacts take place between the IEO and Fund staff. Staff are surveyed and/or interviewed for most IEO investigations and studies. Similarly, staff get to react to proposals for IEO evaluations and to completed evaluations. Staff also prepare the PMRs and MIPs that are submitted to the Board. There is also some one-on-one contact between Fund staff and the IEO working on evaluations.

But I believe more Fund staff members could benefit by spending time in the IEO and experiencing first-hand how evaluation projects are managed and carried out. (I also believe that the diversity of skills and experience that Fund staff could bring to the IEO's work would be valuable for the IEO.) Of course there are issues that would need to be dealt with to assure the independence of the work of the IEO, and there are also confidentiality issues. But these can probably be resolved. The benefits for the Fund and the IEO, as well as for the individual staff members, could be significant.

Remarks by Leslie Lipschitz

First I will comment on the implications of evaluating sensitive topics and topics that are "live" now rather than retrospective. I will then take issue with the view that the IMF itself lacks institutional memory; and, finally, I will say something about the duration of country assignments for IMF staff.

The need for a cooling-off period before evaluation, so as not to stifle IMF internal debate. An unwritten injunction in the IMF when I was working there was, "First let's figure out what we believe and then let's figure out what we're going to say." This sounds simple but is actually quite profound. Without this injunction, staff will implicitly be encouraged to anticipate what their bosses want to hear or what will be seen as the politically sophisticated and wise position—one doesn't get promoted for taking contrarian positions. Thus contrarian or even imaginative views will be stifled. On the other hand, if the leadership of the institution follows this injunction it allows—indeed encourages—the airing of a wide spectrum of views, from mainstream to contrarian, *before* deciding on what is right. It may then be another step to decide what is politically feasible and how to move that toward what is right—this will determine the official institutional view. I can think of numerous occasions where I personally argued vigorously against the consensus, but then went to the Board the next day to defend it. That is the mark of a really disciplined, effective organization. Inside the organization you can have a completely frank discussion, but this will not be the case if you believe staff members will go to the press the next day to push their own particular views.

And this is why I think that issues that are really live and sensitive are probably not right for the IEO to examine. The IEO must be careful about this because by underscoring and publicizing differences in views within the institution, one can kill open debate and the willingness of the leadership to elicit a broad range of views.

Parts of the Fund have an excellent institutional memory. I spent a lot of my time in the IMF Policy Development and Review Department which, as far as I recall, had an absolutely phenomenal institutional memory. Some strange quirk would come up in capital markets, for example, and I would ask staff if we had any prior examples and they would answer, "Yes, this happened here in 1977 and there in 2002, and this is how we examined it at the time." This, to my mind, was always a unique strength of the institution.

Mission assignments should last longer. IMF staff who are assigned to work on a particular country tend to be reassigned after two years and only a few missions. This does a disservice to member countries. Longer assignments facilitate an accumulation of knowledge, understanding, and wisdom within mission teams, and often a tremendous buildup of trust on the part of the authorities in the mission teams with whom they are having discussions over a period of years. The Fund would do better to lengthen assignments, to let a talented economist get promoted to senior economist and perhaps to mission chief as she continues to work on the same country or group of related countries and as she builds a reputation in the country and the region.

CHAPTER 13

Views on the IEO from External Stakeholders

This chapter presents the views of external stakeholders. It contains remarks by Joseph Eichenberger, Jo Marie Griesgraber, Michael Hammer, Jin Liqun, and Edwin Truman.

Remarks by Joseph Eichenberger

I began my job as chief evaluator at the European Bank for Reconstruction and Development (EBRD) quite recently, unburdened by much deep knowledge of the evaluation business, although I have been an avid consumer of evaluation work as a member of management in other multilateral development banks. At EBRD it has fallen to me to do some basic thinking about what we as evaluators are trying to accomplish and what value we bring to our organization. I subscribe entirely to the view that evaluation is only worthwhile insofar as it helps illuminate issues of consequence and helps institutions to improve their performance in carrying out their mandates. In this short comment I will highlight some key aspects of the challenge at EBRD, as I see it, and then suggest some issues for possible consideration by the IEO.

Experience at EBRD

EBRD is an institution with immense self-confidence and a relatively narrow mandate (much narrower than the mandate of the World Bank, for example). It is a transactions institution with relatively straightforward products. The evaluation function at EBRD seems to have had a kind of symbolic value for many; valued because it existed, but few could say with much conviction or evidence that it had a systemic impact. It had an accountability function, but without much evident traction inside the organization. It had elaborate processes, but little evidence of value added or of infusing the organization with an evaluation perspective. It had high transactions costs—in the sense of negotiating individual papers, generating vastly more heat than light—but was also systematically underperforming relative to expectations. From the Bank's operations staff, it evoked a defensive "circle-the-wagons" mentality.

To begin to assess a way forward, the first thing we did was a client survey. This had never been done before. We asked people inside the organization, "What do you think about the work of the evaluation department?" The answers were brutal. We asked, "Has a member of your management spoken to you about evaluation in the last 120 days?" "No." "Do you seek out evaluation work?" "No." So we found that a great deal of effort was going into a process that was essentially disconnected from the work of the organization.

Our first conclusion was that we needed to change our product mix. The front-line product of our department has been lengthy deep-drilling exercises into individual transactions, which were actually read by very few. We are now moving to produce multiple products for different audiences, including shorter pieces. We hope to see much more uptake, but this will take time, and we have a variety of quite different audiences.

Second, and vitally important, we are trying to find a better balance between the department's traditional core accountability focus, and a much underserved learning role. How one delivers in each or both of these core areas has deep implications for the way one approaches the evaluation challenge and for the kind of products that evaluation should produce. The accountability focus is typically about ratings, about negotiations, about assigning responsibility. It is typically ex post. By contrast, evaluation rooted more in assisting organizational learning must go further upstream. It implies providing a service for the organization, more inclusive processes, and products and guidance that are operationally useful. We feel we need to move more in this direction, and our Board has agreed.

Third, is the critical importance of effective self-assessment to good institutional evaluation—for both accountability and learning. A fully separate ex post evaluation process that essentially rates and grades people's work is inherently divisive. And it has the effect of essentially outsourcing accountability and reflection to the evaluation department. But an evaluation department cannot be the tool for accountability inside the organization. Accountability has to reside with management and the board.

I think our new strategy has largely been welcomed, partly because everybody understood that the old one was not working. It remains to be seen what the buy-in will be. But the approach is giving signs of having greater traction inside the organization.

Four Issues for the IEO and IMF

In view of our experience, a basic question I would pose to the IEO and the IMF is: what are you asking evaluation to do, and are you asking it to do things that are better suited to other parts of the organization?

Second, I think the evaluation *process* matters hugely. A process that engages operations staff in a collegial way upstream—through, for example, crafting approach papers in advance and discussing them in advance and getting some buy-in, and having people understand what you are trying to do, is much more likely to succeed than an often litigious process that takes place entirely ex post.

My third point is that perhaps the IEO should address more topics. My own sense is that releasing only one paper a year simply does not give an evaluation department a sufficient presence to allow an ongoing conversation with staff and management on the issues of consequence.

My final point concerns the roles of the Board and Management. In the end the IMF Board itself has to decide what it wants from evaluation. But, as I said above, you cannot ask evaluation departments to accomplish what boards and managements themselves are not willing to accomplish—including on matters such as quality assurance.

Remarks by Jo Marie Griesgraber

I salute the Independent Evaluation Office for 10 years of exceptional academic research and intellectual integrity. This is truly an excellent record. I have been working on the IMF—not *in* the IMF—for 22 years, and I can attest that change is very slow.

With a view to the future, I shall discuss three main points below for consideration by the IEO and the IMF. First, though, I should note that the IEO does indeed need an external monitoring group and I am happy to be part of that group. On behalf of New Rules for Global Finance I commit this organization to work with you at each phase: when you are looking for new ideas, when you have a draft issues paper, and when you publish a new report.

Several Aspects of the Current Evaluation Process Raise Concerns

- Reading examples of the implementation plans for IEO recommendations and the Board responses to these plans, I found them as dry as dust and so repetitive they are just not credible. I do not believe that any institution that writes in this language is telling the truth. On a certain level, it is technically accurate, but scarcely the truth.
- Why does the IEO not write its own Summing Up of Board discussions for the Board, as any other originating unit would do? If the Secretary of the Board answers to the Managing Director, and is therefore part of Management and therefore under the scrutiny of the IEO, why should the Secretary write the Summing Up document? This practice interferes with the appearance of independence, if not the actual independence, of the discussion of the report. This should be changed. The Board should have its own secretary or hire one for the occasion.
- Why are there distinct responses from Management and staff? What is the distinction between IMF staff and Management? Surely staff answers to Management?
- A clear conflict of interest is for Management to chair the discussion of IEO reports that are directed to the Board. Instead of the Managing Director or a Deputy Managing Director chairing the Board discussion of an IEO report, should not the Dean of the Board or the head of the Evaluation Committee chair the discussion?

- Who leads the discussion of IEO reports and "helps reach a consensus view"? If someone were writing my evaluation, I would be glad to help them reach a consensus view. Clearly having Management leading the discussion of an evaluation of Management performance is not appropriate.
- Footnote 7 on pages 5 and 6 of the note "Independent Evaluation at the IMF: Understanding the Evaluation Cycle" (December 6, 2011) reveals a stunning discrepancy: "According to accepted Board procedures, the Board operates under the assumption that silence of an Executive Director on an issue reflects his or her consent with a report's view."[1] By itself, this is fine. But based on past experience, the footnote continues, in the case of IEO reports, Management and the Board actually employ the opposite assumption: that silence by an Executive Director on a recommendation is interpreted as *disagreement* with such a proposed change. Certainly changing the assumptions in this way is not playing fair.

Does the IEO Have an External Fan Club?

Are there civil society organizations that know about the IEO, follow its work, and care about it? The sad, succinct answer is, No. If you want an external audience to be really engaged in your work, if you want civil society to be engaged, you must be aware that the timelines of civil society organizations are really short. You must be fast on your feet—and have shorter timelines and products that are quicker to produce. You also need to publicize your activities more extensively and intensively. And perhaps most important, at present, very few foundations are funding nongovernmental organizations to work on the IMF. Those nongovernmental organizations that can pay attention to the IMF need to have a signal from the IEO saying, "Pay attention to me now" whenever you issue a new report, when you are looking for new ideas, or when you have a draft issues paper, so that they know this is happening and can respond.

Is the IEO a Substitute for an External Complaint Mechanism?

Civil society organizations hope that the IEO will respond to external complaints these organizations hear repeatedly from their partners in developing countries. Such an external complaint mechanism would be a useful addition to the IMF's structure, enhancing its accountability enormously. Regrettably, handling external complaints does not seem to be within the IEO's mandate. As an interim feature perhaps the IEO could receive complaints, direct them to the responsible party within the IMF, and make sure to provide the complainant with a prompt response. In addition to strengthening the IEO as described above, the Fund

[1]"Independent Evaluation at the IMF: Understanding the Evaluation Cycle," December 6, 2011, a note prepared by Alisa Abrams and Ruben Lamdany with Hali Edison and Louellen Stedman.

needs to further strengthen its accountability infrastructure through a formal external complaints mechanism.

Remarks by Michael Hammer

A few years ago I saw a cartoon in *Le Monde*. A man sitting behind a desk was saying to his son, "I don't mind if you put my latest book or document online, but you could at least wait until I've finished writing it." I think that displays where the tension is for evaluation work in our age of immediacy. Many people want the IEO to evaluate and communicate its findings quickly, yet for reasons either self-imposed or externally imposed, evaluators may not be able to deliver so speedily. In fact the different stakeholders of the work of the IEO have different ideas about how close to the point in time evaluators should be working, and for the IEO this poses the question of how to prioritize stakeholder relationships and demands.

I will first review some of the IEO's strengths and then highlight some current challenges, returning to the question of the need to reconcile the demands of different stakeholders. My perspective is shaped by the comparative review and assessment work that we do at the One World Trust about global organizations overall. From that perspective, evaluation is part of the IMF's toolbox of instruments and mechanisms for accountability.

Strong Points in the IEO's Record

Against its terms of reference, the IEO is doing an excellent job. It is an innovative and in some ways even courageous piece of accountability equipment for the IMF. It enhances credibility. It is productive and rigorous in its work and it displays a very critical stance on some issues, coupled with political sensitivity.

Some of the IEO's strong points are that:

- In formal terms, the IEO satisfies good accountability principles in that it reports to the IMF Board and not to Management.
- It uses a very consultative approach. Its semi-insider role allows it to go into depth on a number of things.
- There is transparency about final evaluation reports, including about how key internal stakeholders have responded to evaluation findings. We all know how mediated and edited the final products are, but the evaluation follow-up process is more than many organizations attempt to do. While the process involves key internal stakeholders, there are also many external stakeholders and it would be interesting to obtain their feedback and to make that public, too.
- A formal Board response is published as part of the final output of evaluations, adding to transparency.
- With a few boundaries, the IEO has access to IMF data and documentation. Such access would be closed to many other institutions of the same kind.
- The IEO develops recommendations for reform, and there is a learning orientation.

Challenges

Today the IEO faces several challenges:

External and internal stakeholders have different perceptions and expectations of the IEO's role. External stakeholders generally look to the IEO to address political rather than technical or work process issues, although that preference may not be necessarily the most productive or even the most legitimate. And they tend to value the IEO more for its accountability and reform function than for its learning function. Programmatically, many external stakeholders view the IEO's way of working as largely ex post, and focused on serving IMF internal stakeholders rather than balancing their needs with those of external stakeholders. And often it is not clear to external stakeholders why the IEO is communicating certain of its findings in a particular way to the Board; a little more explanation around those choices would be beneficial.

A complaints mechanism? Quite a strong stream of thinking outside the Fund contends that the IEO should have a review and adjudication mechanism or a complaints handling function, focusing on substantive issues or on the way that the Management responses to evaluation results are being implemented. This is not currently part of the IEO's mandate but is clearly perceived as useful by external stakeholders.

How effective are the recommendations made by the IEO? Arguably, the IEO does not have powers to enforce compliance; essentially it exercises its influence through persuasion. This lack of enforcement capacity is particularly relevant in view of the pressures I have just mentioned for the IEO to adopt more of an adjudicational, complaints-handling role. It also raises the question of whom you want to persuade, about what issues.

Recommendations

More needs to be done to map out the external stakeholder environment and to achieve a common view on this with the Board and the other internal stakeholders, including Fund members. I would suggest that the IEO probably has a more open view than the IMF overall does of who the external stakeholders are for IEO work. It is important to open up that debate and to create a consensus about who is taking a real interest in evaluation work, partly as an accountability tool for the IMF. For example, I think very few people on the outside would see IMF staff as stakeholders in the IEO's work, either because they do not see staff as separate from Management, or because they do not see the IEO's work as a learning tool. I am not suggesting that IMF staff are not stakeholders, but simply emphasizing that there is no consensus around that view, and that the lack of consensus creates difficulties in communicating and making more visible the role of the IEO as an organizational learning and improvement mechanism for the IMF, to external stakeholders. That said, I think that for external stakeholders the IEO has played an important role in building confidence in the Fund.

The IEO should engage more with external stakeholders and use more of their input about the priorities for evaluation topics. It should introduce reporting and dialogue on the external responses to evaluation results, before these results are finalized. And it should give the Board an opportunity to see what external observers think of evaluation results. Civil society organizations are dealing with topics in a very fast-paced way, and they also tend to be very reactive. This implies that the IEO needs to try to work with a constituency whose attention is hard to keep and which often faces challenges in maintaining a consistent engagement. But the onus is on the IEO to make the relationship work. Using more targeted communications for strategically important stakeholder groups is important—and particularly so for groups that are vital to the legitimacy of the IMF. These would be people who are outside the privileged relationship with treasuries, finance ministries, and central banks, including for instance parliamentarians and civil society organizations.

To conclude, it is good that the IMF had the courage to set up the IEO. Maybe the next step is to see whether the IEO should have more powers around compliance, tracking, and public reporting about Management's implementation successes or failures.

Remarks by Jin Liqun

I was involved in the IEO's evaluation of the IMF's performance in the run-up to the global financial crisis of 2008. This very important work documents the decision-making process and operational issues that were dealt with in the IMF. To my knowledge the final report[2] was very well received by the IMF Executive Directors and by all of the governments across the membership. The IEO had courage to pick such a topic for evaluation, and the result is a prime example of how the IEO can contribute to the IMF's transparency and its operations. The Fund's own willingness to face the consequences of its failure to predict the crisis speaks volumes about the importance of transparency and will enhance the public's confidence in the IMF as a learning organization. Drawing on this experience, I offer three points below for consideration by the IEO and IMF.

The IEO Needs Full Access to Information

First I want to highlight the nexus between evaluators' independence and their access to information. Normally attention focuses on the former, without adequate attention to the latter. But, for an evaluation unit, independence does not make a lot of sense without full access to all of the information in the institution concerned. I am very happy to see that the IEO in principle has access to all the necessary information. But I still find some restrictions in practice. There are probably some memos or e-mails from Management that will not be made available to the IEO. I do not understand why there should be such restrictions, because by the time the IEO evaluates an IMF-supported program, it is a fait

[2]IEO, *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07*, 2011.

accompli, a done deal. Once a program is finished, disclosure of information to the IEO should not be considered harmful, and so everything should be transparent. In this regard, I would just like to urge IMF Management to provide whatever information needed to the IEO, with minimum restrictions, if any, on information access.

Evaluating Both "How" and "Why" Is Important

In my view, the crucial importance of IEO's evaluation report on the run-up to the crisis lies in its analysis of not just *how* the IMF failed to provide timely information, but also *why* it failed in this responsibility. Frankness is important about the IMF's effectiveness in discharging its duty, about its success or failure in varying degrees in supporting particular countries. But it is necessary to go a step further—to understand *why* this has been the case. This requires analyzing the workings of the IMF, understanding its governance, the relationships among the staff, the relationship between the staff and Management, and the relationship between Management and the Board.

IEO's Choice of Topics Should Include the Basic Principles Underlying IMF-Supported Programs

My last point concerns the topics chosen for evaluation. IEO is a window through which the public can see some of what is going on in the institution. But it is only a window, and so the way it opens is very important. A window may open on to a blank wall. Or, like the front door in a Chinese house, it may open on to a screen, and you have to bypass the screen to see what is inside. As regards transparency in the IMF, I believe that evaluating cross-cutting topics is of special significance, because such evaluations allow the public to see the workings within IMF and to understand why things went well or wrong. Reports on such topics can greatly enhance the IEO's credibility and improve perceptions of the Fund's transparency.

In particular, I would like to see the IEO evaluate the way the IMF is guided by some of the fundamental macroeconomic theories. I remember what Paul Krugman said at the London School of Economics in June 2009, not long after receiving his Nobel Prize in Economics: "For most of the last 30 years, macroeconomics has been spectacularly useless at best and positively harmful at worst."

If the IMF is guided by the wrong macroeconomic policies how can we expect it to succeed? Its advice to Asian countries in 1997 is still a fresh memory, and the IMF has yet to refurbish its reputation in this region. Its handling of the recent crises shows much improvement over its handling of the Asian crisis. Because of the very rosy picture painted by the IMF, my government was still talking about keeping down inflation and keeping down the growth rate early in 2008, when the crisis was already looming large in the United States. My government had such great trust in the IMF as the institution providing the final word on the global economy. Within three months' time, however, China had to reverse its policy. This was a really big lesson for China.

To conclude, I would say that unless the IEO does a good job in analyzing the fundamental guiding principles of IMF reform programs or rescue programs, I do not think that the IMF will be very successful in implementing its mandate. I believe that evaluating some of the important cross-cutting issues is far more important than evaluating specific country cases.

Remarks by Edwin Truman

I served at the Federal Reserve and U.S. Treasury during the extensive debates that led up to the establishment of the IEO, though in that enterprise I was only a marginally engaged cheerleader. My perspective at the time was that the IEO's establishment was a victory over those—inside and outside the IMF—who for various reasons had resisted it for a long time. Among international organizations, the IMF was rather late in the external evaluation game. This meant, however, that the IEO's initial structure was more robust and inherently independent than similar entities linked to other organizations. Now I can say, Congratulations.

In this note I will comment on how I see the goals of the IEO and then review four dimensions of the IEO's contribution to IMF transparency over the past 10 years. Lastly, I will offer some recommendations.

Goals of IEO Establishment: Accountability and Transparency

The IEO's establishment was very much about IMF accountability, though maybe more about accountability within the IMF as an institution than about accountability vis-à-vis those outside, in particular those who do not serve in the governments of members of the IMF. Transparency is an important ingredient of accountability. Curiously, neither word appears in the IEO's terms of reference or in any IEO document (assuming the search engine on the IEO's website is accurate and my use of it was correct, which may not be the case). Nevertheless, those concepts were implicit in the IEO's mandate to "promote greater understanding of the work of the Fund throughout the membership." That language itself, however, implies a somewhat limited and limiting goal. How far does membership extend? Who consequently qualifies as a stakeholder? Perhaps each of us is merely self-nominated. In any case I am just one stakeholder.

What type of a stakeholder am I? What is my perspective? I am a think-tank researcher who is a long-time observer of the IMF and its policies and practices and an advocate for IMF reform. IEO reports inform my work. I regard those reports as focused primarily on the IMF's existing mandate, policies, and practices rather than an independent force for transformational reform.

Multidimensional Contribution to Transparency

For me, the IEO contributes to IMF transparency in four dimensions: (1) offering clarifications, (2) revealing analytical holes, (3) uncovering inconsistencies, and (4) exposing omissions. I have not read all 18 reports produced by the IEO over the past decade, but I have been involved with or read at least half of them and have reviewed the comprehensive documents that were produced as background for the IEO's Ten Years Conference. In each of these four dimensions, I can point to positive contributions to IMF transparency via the IEO's work.

With respect to *offering clarifications*, a major contribution of several IEO reports has been to narrow the gap between perceptions and reality. For example, the report on capital account liberalization[3] should have laid to rest the view that during the 1990s IMF Management and staff systematically promoted capital account liberalization. Sad to say, appreciation of this reality has not entirely caught up with prior misperceptions, but that report has facilitated the constructive revisiting of these issues over the past two years. Similarly, the report on fiscal adjustment in IMF-supported programs[4] documented that the IMF does not follow a one-size-fits-all approach. In this case, too, perceptions continue to lag behind reality—which is a serious matter. It was important that neither of these reports white-washed IMF policies and practices in these areas even as they clarified extreme misperceptions.

With respect to *revealing analytic holes*, the IEO's work is underappreciated. But the reports sometimes lack balance and perspective about what they reveal. For example, the report on the capital account crises of the late 1990s[5] highlighted the lack of understanding of the balance-sheet effects of crises. However, this was a hole in the profession's analytical apparatus, which has now been partially filled, and not principally a failing of the IMF Management and staff. The report on IMF exchange rate policy advice[6] criticized staff advice on key analytical issues while only indirectly acknowledging that neither economists nor policymakers agree on many of those issues.

The more recent IEO report on the global economic and financial crisis[7] highlighted the incomplete link between traditional macroeconomic and modern financial analysis, and many IEO reports bemoan the failure to make connections between financial sector vulnerabilities and the performance of the real economy. The simple fact is that we do not have an analytical handle on these issues. This situation argues for humility from the IEO about what the IMF can do and for more analytical work by economists and analysts inside and outside the IMF. Unfortunately, I did not find in the recent IEO report on research at the IMF[8] as much acknowledgement of this situation as I think there should have been. I found a few passing references to inadequate coverage of macro-financial linkages and aspects of monetary policy. Gerard Caprio prepared a background paper[9] on this topic, which I have not had time to read, but nowhere in the report itself did I find the statement that the profession lacks an agreed framework for addressing these issues.

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[3]IEO, *The IMF's Approach to Capital Account Liberalization* (2005).
[4]IEO, *Fiscal Adjustment in IMF-Supported Programs* (2003).
[5]IEO, *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil* (2003).
[6]IEO, *IMF Exchange Rate Policy Advice* (2007).
[7]IEO, *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* (2011).
[8]IEO, *Research at the IMF: Relevance and Utilization* (2011).
[9]Gerard Caprio, Jr., "Macro-Financial Linkages in IMF Research," IEO BP/11/07 (2011).

A major contribution of many IEO reports has been to *uncover inconsistencies* in the IMF's work, or a failure to follow established policies. (I am not focusing on so-called "gotcha" revelations.) In my view, one of the most glaring failures uncovered was that for many years prior to 2007, Article IV reports routinely ignored surveillance of members' obligations with respect to their exchange rate policies. I understand the reasons for three decades of neglect; they were grounded in the lack of consensus on the nature of the Article IV obligations when the Article IV compromise was struck in 1976. Consensus is still lacking today among the members of the IMF, but in my view that is no excuse for the IMF Management and staff to ignore these obligations.

Closely related to the exposure of inconsistencies is the fourth dimension of IMF transparency via IEO reports: the *exposure of omissions* in the work of the IMF staff and Management. Examples are the absence of underlying rationales for program designs that was identified in the reports on Jordan[10] and on structural conditionality.[11] The failure to connect bilateral surveillance with multilateral surveillance also is noted in many IEO reports, though that failure is rooted in part in the lack of an established framework for IMF multilateral surveillance, which may be in the process of correction.

Examples of each of these four dimensions of transparency about the IMF can be found in many IEO reports. But they are by-products of the reports. Like the connection between IEO reports and IMF accountability, the linkage in IEO reports is indirect.

Recommendations

My main recommendation is that the *IEO should evaluate IMF transparency policies*. These policies include the release of information to various stakeholders, including but not limited to the general public and national and international interest groups.[12] The relevant information includes topics such as votes, documents circulated by Executive Directors, and minutes. It also includes the release of data and documents with respect to ongoing policy discussions, such as on reforming the IMF quota formula. Another example is the recent decision on the Precautionary and Liquidity Line (PLL), replacing the Precautionary Credit Line (PCL). The decision was released on November 22, 2011, but the background documents were not posted on the IMF's website until about 10 days later and the date of actual posting is not recorded, which suggests a manipulation of transparency. Some of these issues were implicit in the IEO report on interactions with member countries.[13] If the IEO were to do a report on IMF hiring and promotional diversity, where I suspect there is a significant gap between perception and reality, the issue of transparency would be very important.

[10] IEO, *IMF Support to Jordan: 1989–2004* (2005).

[11] IEO, *Structural Conditionality in IMF-Supported Programs* (2007).

[12] The issue of transparency of national data provided to the IMF and policy conversations with the IMF is a related, but separable, topic in my view.

[13] IEO, *IMF Interactions with Member Countries* (2009).

My subsidiary recommendation is that each IEO report in the future should *include a section that directly addresses IMF transparency on the particular topic*. I recognize that this is a delicate subject and that notions of the appropriate degree of transparency differ among IMF members with their different histories and cultures. The IEO can make a positive contribution if it merely identifies some of the issues, even though some of us so-called external stakeholders would prefer more. Of course, as is suggested in several places in Joanne Salop's review,[14] the IEO also must strive to be transparent and self-critical about its own operations.[15]

Addendum on "Uneven Treatment"

As an addendum, I would like to share my uneasiness about the topic of the IMF's "uneven treatment" of member countries. This issue has been an ongoing theme in many IEO reports, but any examination of these issues must try to distinguish perception from reality. In my view, undocumented passing references in IEO reports can become part of the problem rather than part of the solution to this complex issue.

The general perception is that one's own country receives from the IMF staff and Management tougher criticism in surveillance and harsher conditions in programs than other countries. As a logical proposition, this perception cannot be the universal reality: all countries cannot be below average. Moreover, the evidence in IEO reports is often difficult to interpret. For example, in just one IEO report—the report on research at the IMF—one finds statements that (1) research is too much focused on advanced countries; (2) the view is universal that research is not linked to country realities; and (3) the percentage of respondents from advanced economies that reported that the research does not allow for alternative perspectives is above the overall average though that percentage is less than the percentage for respondents from large emerging market countries. Where is the unevenness?

The more nuanced perception is that smaller and less economically developed countries are treated disproportionately severely, but this perception too needs to be examined carefully. For large, systemically important countries, the IMF is but one of many critical voices. It is not surprising that the IMF's criticisms appear to be less harsh, and no better informed, than those of many others.

In the work of the IEO, the null hypothesis should be that countries are evenly treated, and the tests applied should try to reject that hypothesis. I sometimes have the impression that the IEO and others are testing the opposite hypothesis, which may be easier to describe but more difficult to reject scientifically.

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[14]Joanne Salop, "IEO Retrospective: Ten Years of Independent Evaluation at the IMF" (see Chapter 8 in this volume).

[15]As an aside, but an illustrative example, I was struck that the IEO report on *Research at the IMF* reports that staff read and use in their work the *World Economic Outlook (WEO)* but less so the *Global Financial Stability Report (GFSR)*. This is contrary to the finding in the recent Triennial Surveillance Review. In that review, staff in area departments reported that they rarely drew extensively upon either the *WEO* or the *GFSR* in their work.

PART IV

Background Material and Contributors

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IEO Terms of Reference

Purpose

The Independent Evaluation Office (IEO) has been established to systematically conduct objective and independent evaluations on issues, and on the basis of criteria, of relevance to the mandate of the Fund. It is intended to serve as a means to enhance the learning culture within the Fund, strengthen the Fund's external credibility, promote greater understanding of the work of the Fund throughout the membership, and support the Executive Board's institutional governance and oversight responsibilities. IEO has been designed to complement the review and evaluation work within the Fund and should, therefore, improve the institution's ability to draw lessons from its experience and more quickly integrate improvements into its future work.

Structure and Accountabilities

IEO will be independent of Fund management and staff and will operate at arm's-length from the Fund's Executive Board. Its structure and modalities of operation must protect its operational independence—both actual and perceived.

The Director will be appointed by the Executive Board for a non-renewable term of six years. The Director will be an official of the Fund, but not a staff member. The Director's appointment may be terminated at any time with the approval of the Executive Board. At the end of the term of service, the Director will not be eligible for appointment or reappointment to the regular staff of the Fund. The Director will be responsible for the selection of IEO personnel (including external consultants) on terms and conditions to be determined by the Board, with a view to ensuring that the office is staffed with independent and highly-qualified personnel. The majority of full-time IEO personnel will come from outside the Fund.

Responsibilities

The Director of IEO will be responsible for the preparation of the Work Program. The content of the Work Program should focus on issues of importance to the Fund's membership and of relevance to the mandate of the Fund. It should take into account current institutional priorities, and be prepared in light of consultations with Executive Directors and management, as well as with informed and interested parties outside the Fund. The Director will present IEO's Work Program to the Executive Board for its review.

IEO, through its Director, will report regularly to the Executive Board, including through the preparation of an Annual Report. It is also expected that the IMFC will receive regular reports on the activities and findings of IEO.

With respect to individual evaluations, staff, management and—when appropriate—the relevant country authorities, will be given an opportunity to comment on the assessments being presented to the Executive Board.

The Director of IEO, in consultation with Executive Directors, will prepare a budget proposal for IEO for consideration and approval by the Executive Board. Its preparation will be independent of the budgetary process over which management and the Office of Budget and Planning have authority, but its implementation will be subject to the Fund's budgeting and expenditure control procedures. IEO's budget will be appended to that of the Executive Board within the Fund's Administrative Budget.

If requested by the Executive Board, IEO will provide technical and administrative support for any external evaluations launched directly by the Executive Board.

Consultation, Publication, and External Relations

In carrying out its mandate, including in the preparation of its Work Program, IEO will be free to consult with whomever and whichever groups it deems necessary, both within and outside the Fund.

IEO will have sole responsibility for drafting IEO evaluations, Annual Reports, press releases and other IEO documents or public statements.

IEO's Work Program will be made public and there will be a strong presumption that IEO reports will be published promptly (within the constraints imposed by the need to respect the confidentiality of information provided to the Fund by its members), unless, in exceptional circumstances, the Executive Board were to decide otherwise.

Publication of evaluations will be accompanied by comments from management, staff, and others, including relevant country authorities, where appropriate, along with the conclusions reached by the Board in considering the evaluation report.

Relations with Fund Staff and Management

In conducting its work, IEO should avoid interfering with operational activities, including programs, or attempting to micro-manage the institution.

Review of Experience with IEO

Within three years of the launch of IEO operations, the Executive Board should initiate an external evaluation of IEO to assess its effectiveness and to consider possible improvements to its structure, mandate, operational modalities, or Terms of Reference. Without prejudging how that review would be conducted, it should be understood that the review would include the solicitation of broad-based input from outside the official community.

IEO Evaluations, 2002–11

1. *Evaluation of Prolonged Use of IMF Resources* (2002)
2. *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil* (2003)
3. *Fiscal Adjustment in IMF-Supported Programs* (2003)
4. *Evaluation of the IMF's Role in PRSPs and the PRGF* (2004)
5. *The IMF and Argentina, 1999–2001* (2004)
6. *IMF Technical Assistance* (2005)
7. *The IMF's Approach to Capital Account Liberalization* (2005)
8. *IMF Assistance to Jordan, 1989–2004* (2005)
9. *Financial Sector Assessment Program* (2006)
10. *Multilateral Surveillance* (2006)
11. *The IMF and Aid to Sub-Saharan Africa* (2007)
12. *IMF Exchange Rate Policy Advice* (2007)
13. *Structural Conditionality in IMF-Supported Programs* (2007)
14. *Governance of the IMF: An Evaluation* (2008)
15. *IMF Involvement in International Trade Policy Issues* (2009)
16. *IMF Interactions with Its Member Countries* (2009)
17. *IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07* (2011)
18. *Research at the IMF: Relevance and Utilization* (2011)

Summaries of IEO Evaluations, 2002–11

1. Evaluation of Prolonged Use of IMF Resources (2002)

This evaluation assesses the causes and consequences of countries having repeated access to IMF financing. For the report, any country engaged in an IMF-supported program for at least seven of the previous ten years is classified as a prolonged user in that year. Under this definition, 51 of the 128 countries that borrowed in the period 1971–2000 were prolonged users at some point. Prolonged use has increased over time and is persistent; few countries "graduate" from such use. While most of the increase involved low-income countries eligible for IMF concessional financing, the bulk of financial commitments to prolonged users came from nonconcessional resources.

The evaluation identified five factors contributing to prolonged use: (i) a broadening of the rationale for IMF program involvement in recognition that many balance of payments problems, especially in low-income countries, arose from deep-seated structural problems that needed more time for adjustment; (ii) a demand for IMF lending as a "seal of approval" by many donors and creditors; (iii) the extension of programs because of judgments that IMF surveillance is insufficient for signaling the soundness of the macroeconomic framework or promoting desired policy changes; (iv) weaknesses in program design and implementation, including over-optimistic growth projections, too broad conditionality on structural policies, and insufficient attention to the domestic ownership of core policy commitments; and (v) lack of effective follow-up within the IMF on already approved elements of a strategy to reduce prolonged use. One reason for this lack of follow-up was the absence of an explicit definition of prolonged use, which made it difficult to enforce due diligence requirements for identified cases.

The evaluation recognizes that prolonged use can be justified in cases where the simultaneous challenges of macroeconomic adjustment, structural reform, and institutional development take considerable time to resolve. However, prolonged use can also hinder the development of robust domestic policy formulation processes, undermine country "ownership," and lead to pressure to agree to a series of weak programs to unlock other sources of financing. IMF surveillance can also be "crowded out" by short-term program issues.

The evaluation makes a number of recommendations covering institutional arrangements, program design, surveillance, and internal IMF governance that would help reduce prolonged use. First, the IMF should adopt a definition of prolonged use as a trigger for enhanced due diligence actions, including systematic ex post assessments of previous programs and forward-looking consideration of "exit" strategies. It should also provide credible alternatives to IMF lending arrangements as a signaling device to donors and creditors. Greater selectivity in program content, aligned with steps to maximize ownership, are also needed, along with better tailoring of the program timeframe to the foreseeable length of a country's adjustment needs. A greater operational separation between surveillance and program activities is also needed in prolonged use cases.

2. The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil (2003)

The evaluation examines the crisis management role of the IMF in Indonesia (1997–98), Korea (1997–98), and Brazil (1998–99). Among the major findings are:

- Surveillance was more successful in identifying macroeconomic vulnerabilities than in recognizing the risks in financial sector and corporate balance-sheet weaknesses. Even when the diagnosis was broadly accurate, insufficient candor limited the impact.
- Macroeconomic outcomes turned out to be very different from program projections, because insufficient attention was paid to (i) the possibility of a large depreciation and (ii) the balance-sheet effect of currency depreciation.
- In view of output developments and the initial stock of debt, fiscal tightening was not warranted in Indonesia and Korea. In Brazil, it was appropriate because fiscal sustainability was a major issue.
- Monetary policy was initially set tight, in recognition of the trade-off between higher interest rates and a weaker exchange rate. However, the experience is mixed and does not provide definitive evidence on the stabilizing effect of high interest rates.
- The official package for Korea was inadequate because of ambiguity over the "second line of defense," which contributed to the program's failure. When major countries decided to involve the private sector, the IMF played a useful facilitating role.
- The Indonesian and Korean programs were heavily loaded with conditionality in structural reform. Measures to rehabilitate the financial sector were necessary, but many other measures were not essential. The experience suggests that a successful bank closure and restructuring program must include a comprehensive and well-communicated strategy in which transparent rules are consistently applied.
- A program for restoring confidence must include a strategy to communicate the logic of the program. None of the three programs initially contained such a strategy.
- While the close involvement of the Executive Board and the major shareholders was proper and necessary, frequent contacts at multiple layers unnecessarily subjected staff to micromanagement and political pressure.

Key recommendations:

- Article IV consultations should take a "stress-testing" approach to the analysis of a country's exposure to a potential capital account crisis.

- Additional steps should be taken to increase the impact of surveillance, including through making staff assessments more candid and more accessible to the public, and providing appropriate institutional incentives to staff.
- Since restoration of confidence is the central goal, the IMF should ensure that the financing package, including all components, should be sufficient to generate confidence and also of credible quality.

3. Fiscal Adjustment in IMF-Supported Programs (2003)

Fiscal adjustment plays a key role in IMF-supported programs, and it has also been the subject of some controversy in two dimensions. First, the quantitative dimension: does the IMF's approach to fiscal adjustment reflect a "one-size-fits-all" approach leading to an unnecessary economic austerity? Second, the qualitative dimension: could the efficiency, sustainability, and equity of that adjustment be improved by an alternative mix and sequence of revenues and expenditure policies? The evaluation is based on a cross-section analysis of 133 programs and a detailed examination of 15 programs.

Key findings:

- The evidence does not support the view that IMF-supported programs adopt a one-size-fits-all approach to fiscal adjustment. In fact, there is significant variability in program design. About 40 percent of programs targeted a larger current account deficit (as a percent of GDP) and about one-third targeted an increase in the primary deficit and primary spending. Program targets are often revised during implementation, suggesting some flexibility.
- Further, in spite of significant variability, the cross-country evidence does not show that growth rates decline systematically, although the capital account crisis cases are notable exceptions. There is, however, the possibility of a contractionary bias in the fiscal design because programs tend to be over-optimistic in projecting the recovery of private spending, thereby targeting stronger fiscal adjustment than necessary. Programs are reluctant to project a slowdown or negative growth—hence the possibility for some countercyclical fiscal policy is rarely discussed explicitly.
- Program documents often do not clearly explain the rationale for the magnitude and pace of the fiscal adjustment and how the proposed adjustments fit into other assumptions of the program. This reduces the transparency of the program and the ability to identify the critical assumptions that need to be monitored for possible midcourse corrections. Sustained progress in structural fiscal reforms that improve resilience is often not satisfactory, and Article IV consultations are not sufficiently candid in flagging policy inaction. A core issue is how to match the shorter time frame of a program with the longer time frame often necessary to carry out these reforms.

- There is no evidence that IMF-supported programs, in and of themselves, have an adverse effect on aggregate social spending. However, maintenance of aggregate spending may not be sufficient to protect the most vulnerable groups under crisis situations.

Key recommendations:

- Programs documents should explain much better the rationale for the magnitude and pace of the fiscal adjustment and how it is linked to other program assumptions.
- The internal review should give more emphasis to the earlier stages of the process.
- Programs should give more importance to the formulation and implementation of key fiscal structural reforms—even if they cannot be fully implemented during the program period.
- Surveillance should provide such a longer term road map of reform and assess progress.
- Clearly delineate the operational framework in which social issues will be addressed within program design in non-PRGF countries. This could include encouraging countries to identify critical social programs they wish to protect in case of shocks.

4. Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility (2004)

This evaluation, conducted in parallel with one by the World Bank's Operations Evaluation Department, assessed the role of the IMF in the PRS process and the extent to which the PRGF is living up to its key features. It concludes that while the PRS approach has the potential to encourage the development of country-owned and credible long-term strategies for growth and poverty reduction, actual achievements thus far have fallen considerably short of potential. This outcome is attributed, in part, to shortcomings in the design of the initiative, including a lack of clarity about the role of the IMF.

Participation in the formulation of PRSPs is more broadly based than in previous approaches, although it was typically not designed to strengthen existing domestic institutions for policymaking and accountability (e.g., through parliaments). Results in terms of ownership are mixed, with the least change in macroeconomic policy areas where there is relatively strong ownership in the narrow circle of official stakeholders but much less among other domestic stakeholders. Most PRSP strategies are an improvement over previous efforts, in terms of providing greater poverty focus, a longer-term perspective, and some orientation toward results. However, most PRSPs still do not provide a strategic road map for policymaking, especially in the area of macroeconomic and related structural policies, often avoiding difficult strategic choices. Insufficient attention was given to strengthening implementation capacity, including in the areas of IMF competence. Budgetary processes remain weak, and the linkages between the PRSP, medium-term expenditure frameworks, and budgets are generally poor.

The effectiveness of the IMF contribution has varied considerably, with marked difference between "good" and "average" practice. IMF staff typically did not participate actively to inform the policy debate on macroeconomic policy issues during the PRS formulation process and made limited contributions to understanding country-specific micro-macro linkages. Success in embedding the PRGF in the overall growth and poverty reduction strategy has been limited, partly reflecting shortcomings in those strategies. Nevertheless, program design under the PRGF has incorporated greater fiscal flexibility to accommodate aid inflows, and the IMF has been more open to considering alternative, country-driven policies. There is no evidence of generalized "aid pessimism" or a systematic "disinflation" bias.

The report makes two broad sets of recommendations. The first set recommends greater flexibility in the PRS approach to fit better the needs of countries with different administrative capacities and political systems as well as a shift in emphasis from the production of documents to the development of sound domestic policy formulation and implementation processes. The second set aims to improve IMF effectiveness by clarifying what the PRS approach means for IMF operations and strengthening accountability on what the IMF itself is supposed to deliver, guided by the priorities emerging from the PRS process.

5. The IMF and Argentina, 1991–2001 (2004)

The evaluation examines the role of the IMF in Argentina during 1991–2001. Among the major findings are:

- Surveillance underestimated the vulnerability inherent in the steady increase in public debt, when much of it was dollar-denominated and externally held, and did not consider exit strategies when meaningful progress in structural reform was not forthcoming.
- In late 2000, the IMF increased its commitment of resources by viewing any exchange rate or debt sustainability problem as manageable with strong policy action. This may have worked, but the authorities proved unable to implement the policies as agreed.
- Even when two successive Ministers of Economy resigned in March 2001, and the new Minister began to take a series of controversial and market-shaking measures, the IMF continued to support the existing policy framework.
- By mid-2001, it should have been clear that the initial strategy had failed and that Argentina's exchange rate and public debt could not be considered sustainable. However, the IMF did not press the authorities for a fundamental change in the policy regime.
- The decision to call the program off-track in December 2001 was fully justified, but the way it was done limited the ability of the IMF to continue to be engaged with Argentina.

- An earlier shift in the IMF's strategy could have mitigated the costs because Argentina's economic health would have deteriorated that much less and more resources would have been available to moderate the inevitably painful transition process.
- The Argentine experience reveals weaknesses in the IMF's decision-making process: (i) contingency planning was insufficient; (ii) from March 2001 on, the IMF accepted a less cooperative relationship with the authorities; (iii) the IMF paid little attention to the risks of giving the authorities the benefit of the doubt beyond the point where sustainability was in question; and (iv) the Executive Board did not fully perform its oversight responsibility.

The evaluation suggests six sets of recommendations, the major points of which include:

- IMF surveillance needs to be strengthened further, by making medium-term exchange rate and debt sustainability the core focus. Systematic discussion of exchange rate policy must become a routine exercise on the basis of candid staff analysis.
- The IMF should have a contingency strategy from the outset of a crisis. Where the sustainability of debt or the exchange rate is in question, the IMF should indicate that its support is conditional upon a meaningful shift in the country's policy.
- The IMF should refrain from entering a program relationship with a country when there is no immediate balance of payments need and there are serious political obstacles to needed policy adjustment or reform.
- To strengthen the role of the Executive Board, procedures should be adopted to encourage: (i) effective Board oversight of decisions under Management's purview; (ii) provision of candid and full information to the Board on all relevant issues; and (iii) open exchanges of views between Management and the Board on all topics.

6. IMF Technical Assistance (2005)

The evaluation examines the technical assistance (TA) provided by the IMF to its member countries. It is based on desk reviews of a sample of countries, cross-country data on TA, and in-depth country case studies with country visits. The evaluation unbundles TA into three stages—priority setting; delivery; and monitoring and evaluation of impact. Key findings include:

- *Prioritization*: Seventy percent of IMF TA is directed to countries with per capita income below $1,000. The volume of TA provided to countries is also positively associated with having a Poverty Reduction and Growth Facility (PRGF) or Extended Fund Facility (EFF) supported program. However, there is a weak link between TA priorities and Poverty Reduction Strategy Papers (PRSPs) or key policy issues identified in Article IV consultations. In most cases, the PRS process has still not been able to clearly identify major capacity-building needs to be taken up by TA. Thus, TA activities do not appear to be guided by a medium-term country-based policy framework.

- *Delivery*: Country officials have generally been satisfied with the resident experts provided by the IMF, particularly their hands-on role. However, there is little involvement of the authorities in the preparation of their TA. This reduces their ownership and often masks important differences in expectations between authorities and staff.
- *Monitoring and impact evaluation:* There has been progress in enhancing the technical capacity of the agencies receiving IMF TA. Significant variability was found in whether agencies have made full use of the increased capacity in order to have an impact on the ground. It is critical that the IMF should understand fully what prevents agencies from doing so. Part of the problem is that IMF documentation and reporting does not clearly unbundle and track the different stages of progress and hence limits the discussion with the authorities.

  Frequently, political interference or lack of support by the authorities prevents agencies from using the knowledge transmitted by TA effectively. Indeed, the case studies suggest that resistance by vested interests may mount as these agencies improve their ability to act. Such constraints are not candidly reported and discussed with the authorities.

Main recommendations:

- The IMF should develop a medium-term country policy framework for setting TA priorities, incorporating country-specific strategic directions and linked to more systematic assessments of factors underlying past performance.
- The IMF should develop more systematic approaches to track progress on major TA activities and to identify reasons behind major shortfalls.
- The IMF should emphasize greater involvement by the authorities and counterparts in the design of TA activities and arrangements, as a signal of ownership and commitment.
- TA experts should make stronger efforts to identify options and discuss alternatives with local officials prior to drafting TA recommendations.
- The program of ex post evaluations of TA should be widened and more systematic procedures for disseminating lessons put in place.
- Prioritization filters should be discontinued or replaced by ones that would more effectively guide TA allocation.

7. The IMF's Approach to Capital Account Liberalization (2005)

The evaluation reviews the IMF's policy advice to emerging market economies on capital account liberalization and related issues during 1990–2004. Among the major findings are:

- In multilateral surveillance, the IMF's analysis emphasized the benefits of greater access to international capital flows, while paying less attention to the risks inherent in their volatility. As a consequence, its policy advice was directed toward emerging market recipients of capital flows, and focused on how to manage large capital inflows and boom-and-bust cycles; little policy advice was offered on how source countries might help to reduce the volatility of capital flows on the supply side.
- In country work there was apparent inconsistency in the IMF's advice. Sequencing was mentioned in some countries but not in others; the intensity of advice on capital account liberalization differed across countries or across time; and a range of views was expressed on use of capital controls. Analysis of country documents suggests that this largely reflected reliance on the discretion of individual IMF staff members.
- The lack of a formal IMF position on capital account liberalization gave individual staff members freedom to use their own professional and intellectual judgment in dealing with specific country issues.
- In more recent years, somewhat greater consistency and clarity has been brought to bear on the IMF's approach to capital account issues. While the majority of staff members now appear to accept the new paradigm (the so-called "integrated approach" that emphasizes sequencing and preconditions), there continues to be some uneasiness with the lack of a clear position by the institution.

On the basis of these findings, the evaluation makes two sets of recommendations:

- There is a need for more clarity on the IMF's approach to capital account issues. Possible steps could include: (i) clarification by the Executive Board of the scope of IMF surveillance on capital account issues; (ii) development of an operationally meaningful indication of the benefits, costs, and risks of capital account liberalization as well as moving at different speeds; (iii) a statement by the Board clarifying the common elements of agreement on capital account liberalization, in order to provide staff with clear guidance on what the IMF's official position is.
- The IMF should give greater attention to the supply-side factors of international capital flows and what can be done to minimize the volatility of capital movements. Building on recent initiatives, the IMF should provide analysis of what can be done to minimize the volatility of capital flows by operating on the supply side.

8. IMF Support to Jordan, 1989–2004 (2005)

The report assesses the extent to which the IMF contributed to tackling Jordan's major macroeconomic challenges during the period of the country's engagement in IMF-supported programs. Jordan "graduated" from reliance on such programs in July 2004 after 15 years of almost continuous involvement. The main focus of the evaluation was on the effectiveness of the IMF-supported programs to Jordan. Jordan was on the verge of defaulting on its external debt payment obligations following a severe balance of payments crisis during late 1980s. In addition to high external debt, twin deficits, rigid fiscal structure, and structural impediments to growth, Jordan was susceptible to external shocks in the region.

Main Findings

The report's overall assessment of the IMF's role in Jordan was that it had been moderately successful. The IMF helped the authorities to address macroeconomic stabilization challenges successfully, but some of the main structural rigidities that underlay the financial crisis that led Jordan to its first IMF-supported program still remained, especially on the fiscal side. The evaluation found that most staff papers to the Board on Jordan did not provide a clear rationale for the magnitude and composition of targeted adjustment. This made it difficult for the Board to make judgments on the factors underlying any subsequent failures to achieve key objectives, and on the appropriateness of any program modifications. A greater focus on public expenditure policy to advice on the major expenditure cuts envisaged in the early programs would have been desirable. In general, there was not much difference in the macroeconomic policy discussions undertaken during Article IV consultations and those in program discussions.

Key Lessons

The report highlighted broad lessons relevant to IMF operations in other countries and two specific lessons for the IMF in Jordan.

Lessons with broad applicability:

- The underlying rationale for key program design elements should be explained clearly in Board papers.
- There is need for more candor in staff report assessments of risks to programs.
- The programs need to be set in an explicitly longer-term perspective.
- Fiscal reforms should be emphasized at an early stage of formulation of institutional reforms.
- The IMF and the World Bank need to set clear objectives signaling what the needs and obligations of each institution are on specific items in the program.
- Timetables need to take into account the political economy aspects.
- There is need for wider dissemination of IMF TA reports to have a more informed public discourse on policy advice.

IMF's future role in Jordan:

- There is need to help the authorities design a macroeconomic framework to manage a decline in grants and preserve fiscal sustainability.
- There is need to help design strategies to tackle Jordan's key remaining fiscal rigidities.

9. Financial Sector Assessment Program (2006)

This evaluation assesses the IMF role in the FSAP along with a parallel report by the World Bank's Independent Evaluation Group. The evaluation concludes that the FSAP significantly improves the IMF's ability to conduct financial sector surveillance and to understand the key linkages between financial sector vulnerabilities and macroeconomic stability. Key features to be preserved going forward include an integrated approach to assessing financial sector vulnerabilities and development needs; an institutional linkage to surveillance; and a mechanism to coordinate IMF and World Bank inputs.

Despite these achievements, the initiative is at a critical crossroads and some of the gains could be eroded without significant modifications to address two related sets of problems. First, financial sector assessments (FSAs) have not been fully integrated as a regular part of IMF surveillance. Second, there are serious doubts that current incentives for participation and associated priority-setting will ensure adequate coverage of systemic and vulnerable countries. Moreover, while the evaluation concludes that the overall average quality of the FSAP exercises is quite high, several shortcomings are identified. Most notably, insufficient attention has been paid to cross-border financial linkages and their potential consequences. In addition, many FSAPs inadequately prioritize the urgency of their recommendations, which hampers effective follow-up by both surveillance and technical assistance.

The evaluation's recommendations focus on three key themes. First, changes are needed in how country choices for FSAs are made and in how those assessments are integrated into IMF surveillance. The approach proposed by the report contains three mutually supporting recommendations: sharper criteria for priority-setting, with choices for country-specific strategies across a range of modalities for financial sector surveillance; strengthened incentives for comprehensive assessment exercises to foster coverage of countries of systemic importance, albeit within a still voluntary framework for the FSAP; and strengthened links between FSAPs and Article IV surveillance.

Second, steps are needed to improve further the quality of the FSAP and strengthen its impact. These would include clearer prioritization of recommendations and candid discussion of potential consequences; more systematic inclusion of cross-border financial sector issues; and greater involvement of the authorities in the overall process. Changes are also needed in the organization of IMF mission activities to utilize scarce financial sector expertise more effectively in the surveillance process.

Third, the evaluation found that the use of joint IMF–World Bank teams (as well as outside experts) enhanced the depth of analytical expertise and credibility of the findings. But if strengthened incentives for participation are successful, more concrete guidelines for setting priorities and contributing resources will be required, with the IMF taking the lead where significant domestic or global stability issues are present.

10. Multilateral Surveillance (2006)

The evaluation examines the effectiveness of multilateral surveillance. Among the major findings are:

- The outputs of multilateral surveillance are largely successful in analyzing topical issues in ways that reflect the IMF's comparative advantage. However, they give insufficient coverage to exchange rate issues, which is surprising given the IMF's mandate.
- The *WEO* has largely succeeded in identifying relevant issues and global risks in a timely way. In terms of identifying global macroeconomic and financial risks, the *WEO* and the *GFSR* compare favorably with similar publications of other bodies.
- IMF surveillance has a strong country orientation. As a result, multilateral surveillance has not sufficiently enriched the policy advice offered through bilateral surveillance by identifying scope for collective action.
- The *WEO* and the *GFSR* are insufficiently integrated. This owes largely to a "silo" problem in the IMF's internal organization in which different departments pursue their individual mandates with insufficient attention to the organization's overall mission.
- The *WEO* and the *GFSR* enjoy wide media coverage but they reach senior policymakers only indirectly. This is understandable. Still, much shorter G-7 and G-20 surveillance notes are also rarely read by policymakers themselves.
- Interviews with the senior country officials suggest that multilateral surveillance, if effectively conducted and communicated, is able to provide valuable input into policymaking.

On the basis of these findings, the evaluation makes four key recommendations:

- Define more clearly the goals of multilateral surveillance and the mechanisms to achieve them. Multilateral perspectives must be better integrated into bilateral surveillance.
- Engage more deeply with such intergovernmental groups as the G-7 and the G-20, as they provide opportunities for a more frank discussion of policy spillovers and possibilities for collective policy action and for more effective peer pressure.
- Enhance the roles of the Executive Board and the IMFC in multilateral surveillance. The Board should identify key global policy actions while the IMFC should focus on policy spillovers and opportunities for collective action.
- Key multilateral surveillance products must be more "customer" focused, by streamlining their content and targeting them more strategically at various audiences. Surveillance notes should concentrate on spelling out the consequences of policy spillovers and identifying options for dealing with them.

11. The IMF and Aid to Sub-Saharan Africa (2007)

This evaluation examined the IMF's role and performance in the determination and use of aid to low-income countries in Sub-Saharan Africa (SSA). The time period of the evaluation (1999–2005) saw improving performance in much of SSA and increasing aid levels as debt relief gained momentum and donors introduced multi-donor budget support. It also saw the IMF replace the Enhanced Structural Adjustment Facility (ESAF) with the Poverty Reduction and Growth Facility (PRGF) as its primary lending instrument in low-income countries.

Context

A recurring theme of the evaluation was the perceived disconnect between the IMF's rhetoric on aid and poverty reduction and its practice at the country level. Underlying this theme was a larger issue of attempted—but ultimately unsuccessful—institutional change that the evaluation explored in explaining its findings. When introduced, the PRGF was intended to involve a new way of working for the IMF, with programs based on country-owned measures geared to promoting poverty reduction and growth. However, institutional developments within the Fund, including limited support from the Executive Board, which was deeply divided on the Fund's role in low-income countries, and turnover in top Management, prevented the actualization of significant change. The result was widespread ambiguity and confusion—both internally and externally—about what the Fund's policies and practices actually were in the areas under study.

Findings

- PRGF-supported macroeconomic policies generally accommodated the use of incremental aid in countries with high stocks of reserves and low inflation; in other countries additional aid was programmed to be saved to increase reserves or to retire domestic debt.
- PRGFs neither set ambitious aid targets nor identified additional aid opportunities, including in country circumstances in which absorptive capacity exceeded projected aid inflows.
- Of the key features distinguishing the PRGF from the ESAF, fiscal governance (a long-standing IMF mandate) was far more systematically treated than other (newer) elements, such as the use of social impact analysis or the pro-poor and pro-growth budget provisions.
- IMF communications on aid and poverty reduction contributed to the external impression that the IMF committed to do more on aid mobilization and poverty-reduction analysis.
- The IMF missed opportunities for communicating with a broader audience in SSA.

Recommendations

- The Executive Board should clarify IMF policies on the underlying performance thresholds for the accommodation of additional aid, the mobilization of aid, alternative scenarios, poverty and social impact analysis, and pro-poor and pro-growth budget frameworks. IMF Management should provide clear guidance to staff on these policies, including what is expected with respect to working with the World Bank and other partners. The External Relations Department should ensure the consistency of institutional communications with Board-approved operational policies and IMF-supported operations.
- IMF Management should establish transparent mechanisms for monitoring and evaluating the implementation of the clarified policy guidance.
- Management should clarify expectations and resource availabilities for resident representatives' and mission chiefs' interactions with local donor groups and civil society.

12. IMF Exchange Rate Policy Advice (2007)

The main finding is that, over the 1999–2005 period, the IMF was simply not as effective as it needs to be to fulfill its responsibilities to exercise surveillance over the international monetary system and members' exchange rate policies.

The reasons for the IMF's failing to fully meet its core responsibility were many and complex. Among these reasons were: a lack of understanding of the role of the IMF in exchange rate surveillance; a failure by member countries to understand and commit to their obligations to exchange rate surveillance; a strong sense amongst some member countries of a lack of evenhandedness in surveillance; a failure by Management and the Executive Board to provide adequate direction and incentives for high-quality analysis and advice on exchange rate issues; and the absence of an effective dialogue between the IMF and many countries.

Recommendations require action by IMF staff, Management, the Board and authorities:

First, the rules of the game for the IMF and its member countries need to be clarified, with a revalidation of the fundamental purpose of surveillance. At the same time, practical policy guidance should be developed on key analytical issues, including on the stability of the system (flowing from periodic Executive Board policy review of the stability of exchange regimes and exchange rates), and on the use and limits of intervention.

Second, Management should give much greater attention to ensuring effective dialogue with authorities, by developing a strategic approach to identify opportunities for improvement, and by adjusting incentives to raise controversial issues.

Third, actions are required to deal with problems in implementing existing policy guidance. These should: resolve inconsistencies and ambiguities over the issue of regime classification; back up advice on exchange rate regimes more explicitly with analytical work; improve assessments of the exchange rate level, including by developing needed analytical work; pursue the problems of data provision for surveillance; and give incentives to implement guidance for the integration of spillovers into bilateral and regional surveillance.

Fourth, the management of staff's work should be improved. Better focus is needed on the analytical work on exchange rates, including by clarifying responsibility and accountability for exchange rate policy issues, and reconsidering the structure of staff teams.

Fifth, the issues of confidentiality and Executive Board oversight over policy discussions should be clarified. An understanding is needed on what would, and what would not, be revealed to the Board. Confidential discussions about contingent policy actions should be a regular feature of dialogue with member countries, while establishing a way for the Board to exercise its oversight responsibilities in this area.

Finally, since action on global imbalances has not been fully explored, the opportunities for potential multilateral concerted action deserve to be a key strategic management focus.

13. Structural Conditionality in IMF-Supported Programs (2007)

This evaluation examines factors influencing the effectiveness of IMF structural conditionality in bringing about structural reform, and assesses the impact of the streamlining initiative launched in 2000 and of the 2002 Conditionality Guidelines. These aimed at reducing the volume and scope of structural conditionality by requiring "parsimony" in the use of conditions and stipulated that conditions must be "critical" to the achievement of the program goals.

The evaluation finds that during the period 1995–2004 there was extensive use of structural conditionality in IMF-supported programs, with an average of 17 conditions per program/year. Most of these conditions had little structural depth and only about half of them were met on time. Compliance was only weakly correlated with subsequent progress in structural reform. Ownership of the reform program by the economic team and by the line ministries in charge of the specific measures was necessary both for compliance and for continuity of the reform. Compliance and effectiveness were higher in the areas of IMF core competency, such as public expenditure management and tax-related issues, and lower in areas such as privatization and reform of the wider public sector.

The streamlining initiative did not reduce the volume of conditionality, partly because structural conditions continued to be used to monitor other initiatives such as donors' support programs and the European Union (EU) accession process. But it helped to shift the composition of conditionality toward IMF core areas and new areas of basic fiduciary reform. At the same time, the IMF moved away from controversial areas where it had little impact and that largely fell within the World Bank's areas of expertise. Nonetheless, Fund arrangements still included conditions that seem not to have been critical to program objectives.

Recommendations include reaffirming the need to reduce the volume of structural conditionality. As a practical first step, a notional cap could be set, possibly at four or five conditions per year—half the current average for performance criteria and prior actions. The use of structural benchmarks should be discontinued and measures with low structural content should not be part of conditionality. Normally, conditionality should be restricted to the core areas of IMF expertise. In other critical areas such as the wider public sector, the IMF should play a subsidiary role to that of the World Bank, which has greater expertise in these areas. Explicit Board guidance would be needed when reforms in noncore areas are deemed critical but effective cooperation with the Bank is unlikely to crystallize in time. The Fund should develop a monitoring and evaluation framework linking conditions to reforms and goals, which would provide a more robust basis for assessing programs results. Program documents should explain how the proposed conditionality is critical to achieve explicit objectives. For PRGFs, in particular, program requests should be accompanied by an operational roadmap covering the length of the program, explaining the proposed reforms, their sequencing, and expected impact.

14. Governance of the IMF: An Evaluation (2008)

This evaluation assesses the degree to which Fund governance is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views heard. The focus is on institutional structures as well as on the formal and informal relationships between the Fund's main bodies of governance: the Executive Board, Management, and the International Monetary and Financial Committee (IMFC).

For much of the past six decades, gradual reforms in its governance allowed the Fund to remain relevant in a changing world economy. But the reforms have not kept pace with changes in the environment in which it operates. Today, the institution's legitimacy and relevance are being questioned. Much attention has recently been focused on quotas and voting power, but broader governance reform also holds the potential to strengthen the Fund's legitimacy, accountability, and effectiveness.

Overall, effectiveness has been the strongest aspect of Fund governance, allowing fast and consistent action particularly in times of systemic crisis. On the other hand, accountability and voice have been its weakest aspects, which if left unaddressed would likely undermine effectiveness over the medium term. The evaluation has four broad conclusions and recommendations, and it proposes a series of detailed measures specific to each of the main governance bodies.

First, there is a lack of clarity on the respective roles of the different governance bodies, and in particular between the Board and Management. To strengthen the IMF's effectiveness and to facilitate accountability, the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps.

Second, the Fund needs more systematic ministerial involvement. The IMFC, as an advisory body, lacks a mandate for setting strategic directions and providing high-level oversight of the institution. To fulfill these functions, the evaluation calls for the activation of the Council, as contemplated in the Articles of Agreement, which should operate with a high degree of consensus, perhaps through the use of special majorities.

Third, the Board's effectiveness is hindered by excessive focus on executive, rather than supervisory, functions. The Board should reorient its activities towards a supervisory role, playing a more active part in formulating strategy, monitoring policy implementation to ensure timely corrective actions, and exercising effective oversight of Management. To this end, the Board would need to change many of its working practices, shifting away from executive, day-to-day operational activities, including through more delegation to committees and possibly to Management.

Finally, a framework needs to be put in place to hold Management accountable for its performance. Work is under way to set up such a framework, which should specify criteria and a process for regular assessments.

15. IMF Involvement in International Trade Policy Issues (2009)

Trade policy occupies an unusual and at times problematic place in the work of the IMF. Few would dispute that trade policies of IMF members have strong influences on macroeconomic stability. However, trade policies are often seen as peripheral to the IMF's core competency. This leaves scope for a range of views on the proper role for the IMF in advising on trade policy. Also, the IMF's orientation toward unilateral trade liberalization has stoked the debates on whether such liberalization is always in a country's own interests and whether preferential trade agreements are harmful. Added to these debates are charges that the IMF has pressed harder for liberalization in borrowing countries than in countries with which it has a surveillance-only relationship.

This evaluation, which examines the IMF's involvement in trade policy issues during 1996–2007, addresses five questions. What is the nature of the IMF's mandate to cover trade policy? Did the IMF work effectively with other international organizations on trade policy issues? Did the Executive Board provide clear guidance to staff on the IMF's role and approach to trade policy? How well did the IMF address trade policy issues through lending arrangements and surveillance? Was IMF advice effective?

The evaluation finds that the IMF's role in trade policy has evolved in some desirable and some less desirable ways. In its general streamlining after 2000, the IMF scaled back its involvement in traditional trade policy issues (tariff and nontariff barriers to merchandise trade), especially in the context of conditionality. This is welcome as average tariffs in most countries had fallen to relatively low levels, conditionality often did not achieve lasting changes in trade policy, and the pressure for unilateral liberalization especially through conditionality created tensions with multilateral negotiations in the World Trade Organization.

But in other respects the IMF's scaling back on trade policy advice came at the cost of constructive roles in trade issues central to financial and systemic stability. Three such gaps stand out. First, the IMF has not clearly enough defined or pursued a role vis-à-vis trade in financial services—an area where its perspective is essential. Second, fairly active interest of IMF researchers in macroeconomic and systemic effects of preferential trade agreements has not adequately filtered into bilateral and multilateral surveillance. Third, the IMF has not given due attention recently to global effects of trade policies (such as high agricultural tariffs and subsidies) in systemically important countries.

The evaluation recommends several ways to use the limited resources the IMF can devote to trade policy to fill these gaps. More active interinstitutional cooperation, backed by formal interactions, is essential. Also, however, the IMF needs a small repository for in-house expertise—a division solely devoted to trade policy—to be the locus of such cooperation and to help identify trade policy issues in which the IMF should be involved. Finally, regional and global implications of trade policy developments should be explored in depth periodically in World Economic Outlook and Regional Economic Outlook exercises. The Board should regularly review and give guidance on the IMF's role in trade policy issues.

16. IMF Interactions with Member Countries (2009)

This evaluation assesses the degree to which IMF interactions with member countries were effective and well managed in 2001–08, with particular attention paid to 2007–08. In spite of relatively high perceptions of overall effectiveness in some country groupings, there is evidence of lack of agreement between authorities and staff on the scope of interactions in some cases, and of widely varying effectiveness in particular roles. Interactions were effective in program and technical assistance context, and, in general, in contributing to a good exchange of views and in providing objective assessments. However, in other areas, including in the international dimensions of surveillance, effectiveness and quality were not rated highly.

Evidence suggests that interactions were least effective with advanced and large emerging economies. They were most effective with PRGF-eligible countries, and, to a lesser extent, with other emerging economies. Particularly troubling was the continuing strategic dissonance with large advanced economies, especially about the Fund's role in international policy coordination, policy development, and outreach. The authorities did not give the Fund high marks in these areas. Neither did staff, who nevertheless aimed to do more. The evidence also points to limited effectiveness with large emerging economies, many of whom saw the surveillance process as lacking value and/or evenhandedness.

The evaluation found that outreach with stakeholders beyond government contributed little to the effectiveness of interactions. The Fund's transparency policy did less than staff had hoped to increase traction, as some authorities blocked timely dissemination of mission findings. Dissemination initiatives designed to gain influence in domestic policy debates by repositioning the Fund as an informed analyst—and distancing it from the negative legacy of past engagement—remain work in progress.

The evaluation found that interactions were undermanaged, although some individuals managed particular interactions very well. The Fund was ineffective in enhancing traction with surveillance-only countries. The Fund paid too little attention to the technical expertise and other skills that might have added value, and neglected to manage pressures that staff felt to provide overly cautious country assessments—a finding of major concern, especially in systemically important countries. In PRGF-eligible countries, attractive financing, debt relief, and strong links to donor funding made for an abundance of traction. But in some cases it also led to what authorities perceived to be arrogant and dictatorial staff behavior—though they saw evidence of progress in recent years. Staff incentives and training largely ignored interactions, and responsibilities for relationship management were not clear.

The following recommendations aim at enhancing the effectiveness of interactions:

- To make the Fund more attractive to country authorities and promote traction: (i) improve the quality of the international dimensions of the Fund's work; (ii) recruit specialist skills and bring more experts on country visits; (iii) articulate menus of products and services for emerging-market and advanced economies; (iv) replace country surveillance agendas with strategic agendas.
- To improve the effectiveness of outreach: (v) clarify the rules of the game on outreach; and (vi) decide how to handle the Fund's negative reputational legacy in countries where it is a factor undermining interactions, and equip staff with the skills and resources to follow through.
- To improve the management of interactions: (vii) develop professional standards for staff interactions with the authorities; (viii) increase mission chief and staff tenure and training, and improve incentives for interactions; and (ix) clarify relationship management responsibilities and accountabilities.

17. IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07 (2011)

This evaluation assesses the performance of IMF surveillance in the run-up to the global financial and economic crisis and offers recommendations on how to strengthen the IMF's ability to discern risks and vulnerabilities and to warn the membership in the future. It finds that the IMF provided few clear warnings about the risks and vulnerabilities associated with the impending crisis before its outbreak. The banner message was one of continued optimism after more than a decade of benign economic conditions and low macroeconomic volatility. The IMF, in its bilateral surveillance of the United States and the United Kingdom, largely endorsed policies and financial practices that were seen as fostering rapid innovation and growth. The belief that financial markets were fundamentally sound and that large financial institutions could weather any likely problem lessened the sense of urgency to address risks or to worry about possible severe adverse outcomes. Surveillance also paid insufficient attention to risks of contagion or spillovers from a crisis in advanced economies. Advanced economies were not included in the Vulnerability Exercise launched after the Asian crisis, despite internal discussions and calls to this effect from Board members and others.

Some of the risks that subsequently materialized were identified at different times in the *Global Financial Stability Report*, but these were presented in general terms, without an assessment of the scale of the problems, and were undermined by the accompanying sanguine overall outlook. These risks were not reflected in the *World Economic Outlook* or in the IMF's public declarations. The IMF did appropriately stress the urgency of addressing large global current account imbalances that, in the IMF's view, risked triggering a rapid and sharp decline in the dollar that could set off a global recession. But the IMF did not link these imbalances to the systemic risks building up in financial systems.

The IMF's ability to detect important vulnerabilities and risks and alert the membership was undermined by a complex interaction of factors, many of which had been flagged before but had not been fully addressed. The IMF's ability to correctly identify the mounting risks was hindered by a high degree of groupthink, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches. Weak internal governance, lack of incentives to work across units and raise contrarian views, and a review process that did not "connect the dots" or ensure follow-up also played an important role, while political constraints may have also had some impact.

The IMF has already taken steps to address some of these factors, but to enhance the effectiveness of surveillance it is critical to clarify the roles and responsibilities of the Board, Management, and senior staff, and to establish a clear accountability framework. Looking forward, the IMF needs to (i) create an environment that encourages candor and considers dissenting views; (ii) modify incentives to "speak truth to power;" (iii) better integrate macroeconomic and financial sector issues; (iv) overcome the silo mentality and insular culture; and (v) deliver a clear, consistent message on the global outlook and risks.

18. Research at the IMF: Relevance and Utilization (2011)

This evaluation assesses research produced at the IMF between 1999 and 2008. It focuses on relevance and utilization, but also examines technical quality and management. Research is defined broadly to capture most analytical publications of the IMF, ranging from surveillance-oriented output, for example, selected issues papers (SIPs) prepared for Article IV consultations and the analytical chapters of the *World Economic Outlook (WEO)* and *Global Financial Stability Report (GFSR)*, to more academically-oriented output, for example, working papers (WPs) and publications in external journals. These outputs comprised a large body of research, about 650 publications annually, at a cost of about 10 percent of the IMF budget.

The evaluation finds that IMF research was widely read, that it included a large number of high-quality and very useful publications, and that it was appreciated by country authorities and the research community. This was particularly true for the *WEO* and *GFSR*, but also for many other publications. Nonetheless, several issues merit attention.

First, the relevance of research was often hampered by lack of early consultation with country authorities on research themes and by lack of sufficient country and institutional context. Also, authorities indicated that some important issues, such as macro-financial linkages and aspects of monetary policy, were not adequately covered. To strengthen relevance, the IMF should conduct a periodic strategic review of the function and uses of its research product lines to establish whether they should be strengthened, redesigned, or discontinued. Consultation with authorities on research topics and discussions of results should become standard practice. Increased and earlier interaction with authorities as well as longer country assignments by mission members would enhance the country and institutional context of research.

Second, the technical quality of IMF research publications was quite diverse. The *WEO, GFSR,* and external publications were generally of high quality. On the other hand, the quality of SIPs and WPs, which are not subject to a rigorous quality review, was lower and more variable. To enhance quality, adequate time and resources should be allocated to each research project, even if this leads to fewer publications. The review of research products should be strengthened to improve quality and to prevent the publication of low quality products.

Third, many authorities reported that IMF research was message-driven, and many staff indicated that they often felt pressure to align their conclusions with IMF views. To enhance their quality, reputation, and utilization, working papers should reflect the results of technical analysis even if these are not well aligned with messages in surveillance activities documents.

Finally, there is a need for greater prioritization and coordination of research across the IMF. To this end, Management should designate a senior staff member, the Research Coordinator (RC), to coordinate research activities across the organization, including by setting standards for quality review processes and publication policies, to promote greater openness, and to address other weaknesses identified in this evaluation. The RC should prepare an indicative medium-term research agenda, in consultation with member countries and the Executive Board, and it should report annually to them on its implementation. This medium-term agenda should not be seen as excluding research on other relevant issues.

External Evaluation of the IEO, Terms of Reference, September 14, 2005

1. Purpose of the Evaluation

As foreseen in the terms of reference of the Independent Evaluation Office, the Executive Board has decided to initiate an external evaluation of the IEO. The purpose of the evaluation is to assess the effectiveness of the IEO and to consider possible improvements to its structure, mandate, operational modalities, and terms of reference. The main points of reference for the assessment are the IEO's goals, as set out in its terms of reference, namely to:

- serve as a means to enhance the learning culture within the Fund;
- strengthen the Fund's external credibility;
- promote greater understanding of the work of the Fund throughout its membership;
- support the Executive Board's institutional governance and oversight responsibilities.

2. Focus of the Evaluation

In assessing the IEO's goals as set out in Section 1, the evaluators are requested to give particular attention to the following topics:

(i) *Independence of the IEO*. The actual and perceived independence of the IEO is a key element for its successful operation. Has the framework defining the relationships between the IEO, management, and the Executive Board ensured its independence? Has the staffing of the office (internally and externally recruited personnel) and of the evaluation teams (fulltime IEO personnel and external consultants) contributed to its independence? How independent are IEO evaluations perceived inside and outside the Fund?

(ii) *Topics for evaluation*. The IEO terms of reference contains only very broad guidelines regarding the choice of evaluation topics. Has the choice of topics been appropriate in view of the IEO's goals, as set out in Section 1, and the Fund's institutional needs? How has the broad-based consultation process worked in defining evaluation topics?

Has the guideline regarding the avoidance of interfering with operational activities or attempting to micromanage the institution been effective? Is there an appropriate division of labor between the IEO, the Office of Internal Audit, and the self-evaluation efforts? Should the IEO's role in assessing the Fund's organizational structure and internal processes be strengthened?

(iii) *Conduct of evaluation*. Providing the opportunity for different parties to comment on the evaluation before its finalization while ensuring its independence constitutes a difficult trade-off. How have these issues been dealt with?

(iv) *Evaluation results*. The effectiveness of independent evaluations hinges on the quality of the reports and the relevance and usefulness of their recommendations. How do target audiences (both internal and external) perceive the overall quality of IEO reports? Were the recommendations generally perceived as useful by staff, management, the Board, and external audiences? Was an appropriate balance achieved between generality and specificity of the recommendations? Are follow-up procedures sufficient to ensure effective implementation of approved recommendations? Should the IEO's role in monitoring follow-up be strengthened? Is the current number of evaluations appropriate in terms of the Fund's ability to react effectively to the recommendations? Have the IEO's dissemination and outreach activities within and outside the Fund been appropriate and effective?

3. Evaluators

The evaluation will be carried out by Ms. Karin Lissakers (Chairperson), Mr. Ishrat Husain and Ms. Ngaire Woods. They shall conduct their work freely and objectively and shall render impartial judgment and make recommendations to the best of their professional abilities. As noted in the IEO's terms of reference, an important element of the evaluation would be the solicitation of input from a broad range of stakeholders, both from the official as well as the nongovernmental community.

4. Access to Confidential Information and Protection of Confidentiality

The evaluators shall have unrestricted access to interview staff, management, and Executive Board members, as well as to access all relevant Fund and IEO documents, minutes, and internal staff memoranda needed to carry out their task.

The evaluators undertake not to disclose, deliver, or use for personal gain or for the benefit of any person or entity without the consent of the Fund, any restricted or confidential information in possession of the Fund that they receive in the course of the evaluation. The Chairman of the Evaluation Committee will request an appropriate officer of the Fund to review the draft evaluation report with the purpose of pointing out to the evaluators any inadvertent disclosure of restricted or confidential information.

The evaluators are free to request information from country authorities and other sources outside the Fund as they deem appropriate.

5. Evaluation Report: Publication, Executive Board Consideration, and Comments

The Fund reserves the exclusive right to publish the report, and the evaluators undertake not to publish any part of the report separately. The staff, management, the Executive Board, and the IEO will have the opportunity to respond to relevant parts of the evaluation report in draft form, as well as in final form. Evaluators are free to take account of any comments on the draft evaluation report.

Comments on the final evaluation report shall be considered part of the official record. There is a strong presumption that the Executive Board will decide to publish the evaluation report, any comments thereon, as well as the conclusions of the Executive Board consideration of the report.

6. Resources and Timing

The budget for the external evaluation of the IEO is expected to be US$175,000 (excluding any administrative support from Executive Directors or Fund/IEO staff that might be requested by the evaluators). Within this total, and in consultation with the Chairman of the Evaluation Committee, the evaluators may arrange for research assistant support. The Fund will provide administrative support for the external evaluation.

The evaluators shall be provided with a letter of engagement, setting forth the terms and conditions approved by the Chairman of the Evaluation Committee. The "Terms of Reference of the External Evaluation of the Independent Evaluation Office," dated September 14, 2005, shall be attached to the letter and acceptance of the engagement by the evaluators shall also mean acceptance of the "Terms of Reference." The engagement will expire with delivery of the evaluation report and its consideration by the Executive Board, or if the Executive Board determines that the engagement should be terminated for any reason.

Evaluators will begin work in September 2005; completion of the evaluation report is expected for January 2006. The evaluators will keep the Chairman of the Evaluation Committee informed of the progress of the work.

IMF Executive Board Discussion of External Evaluation of the Independent Evaluation Office[1]

On April 26, 2006, the Executive Board of the International Monetary Fund (IMF) discussed an External Evaluation of the Independent Evaluation Office (IEO).

Executive Directors welcomed the opportunity to assess the effectiveness of the IEO's operations since its creation five years ago, based on a concise and frank report prepared by an External Evaluation Panel. They thanked the Panel for its valuable efforts, and agreed with its main conclusion that the IEO has served the IMF well and has earned strong support for its work across a broad range of stakeholders. They also agreed that the IMF continues to need an independent evaluation office to contribute to the institution's learning culture and facilitate oversight and governance by the Executive Board. In this connection, Directors welcomed the Panel's observation that the individuals it has interviewed inside and outside the Fund are overwhelmingly of the view that the IEO has acted independently. At the same time, Directors noted the weaknesses highlighted in the report, and welcomed its analysis and recommendations for further strengthening the IEO's effectiveness. In particular, Directors concurred that, going forward, a more focused and strategic orientation, together with strong support from the Board and management, will help ensure the IEO's continued usefulness and relevance.

Directors agreed with the Panel that IEO evaluations complement internal reviews by exploiting the IEO's independence in conveying messages. In this context, they generally saw scope for a better sequencing of IEO and internal reviews, which would help reduce the potential for duplication—while recognizing that some overlap is inevitable.

Directors agreed that the choice of topics for IEO evaluations is critical, and that evaluations should focus on the Fund's core activities. Given resource constraints, Directors considered it important that the IEO make a compelling case for the topics selected. They also agreed that the IEO should continue to have maximum freedom in choosing evaluation topics. At the same time, Directors reaffirmed the appropriateness of the current limitation in the IEO's Terms of Reference that the IEO should avoid interfering with operational activities, including programs, or attempting to micro-manage the institution. In this context, most Directors considered that the IEO should continue to evaluate country cases selectively, refraining from evaluations of ongoing Fund-supported programs, but it could review a member's previous Fund-supported program after a reasonable interval. To allow for more in-depth and substantive treatment of the

[1]Text reproduces Executive Board Assessment, Public Information Notice (PIN) No. 06/67, June 15, 2006.

selected topics, a number of Directors also suggested that the IEO consider the option of reducing the number of evaluations undertaken each year. Directors were open to the suggestion to consider sharpening the IEO's terms of reference. Most Directors did not support the Panel's recommendation to transfer the responsibility for conducting ex post assessments from staff to the IEO.

Directors generally supported the recommendations aimed at improving the IEO's effectiveness in fulfilling its mandate, and most considered that their implementation should be carried out within existing budgetary resources. To maintain the high quality of the IEO reports, Directors called for shorter reports, with more focused assessments and recommendations. In this context, most Directors observed that the IEO does not need to prepare cost assessments of its recommendations, unlike proposals in staff papers that are expected to be costed. Such cost assessments can be undertaken later by staff. To enhance the usefulness of IEO evaluations, many Directors emphasized that IEO reports should look beyond process to substance, including judgments on the theoretical foundations and analytical frameworks underlying the Fund's advice.

Directors discussed extensively the feedback process for draft IEO evaluation reports as described in the Panel's report, and its implications for the IEO's independence, both actual and perceived. They agreed that best practice requires the IEO to solicit comments from staff, management, and other players on its draft reports but, at the same time, to exercise its independent judgment and responsibility on whether to take these comments on board. Thus, any changes introduced by the IEO in the feedback process would be expected to be based on the exercise of best judgment by the IEO, rather than constituting evidence of accommodating management or staff sensitivities. In this connection, Directors welcomed the communication sent by the former Director of the IEO stating for the record that at no time was he subjected to any pressure from management to tone down the IEO's criticism in the Argentina report, or any other report. A few Directors suggested that the practices for submitting the IEO's draft reports to management and staff for comment should be reviewed.

With regard to the attribution of responsibility for the missteps leading up to Argentina's currency collapse, Directors noted that the major findings section of the IEO report on Argentina had clearly conveyed a balanced message about the respective responsibility of both the IMF and the Argentine authorities. For this reason, most Directors did not share the Panel's view that the relevant paragraph of the IEO report had focused on misjudgments by the Argentine authorities. Indeed, the assessment of respective responsibility is also consistent with the conclusion reached by the Executive Board at its discussion of the IEO evaluation on Argentina in July 2004. Moreover, Directors recalled clearly that official and public perceptions of the thrust of the IEO's conclusions, both at the time of their publication and subsequently, had been critical of IMF missteps. A few Directors would have welcomed more information to substantiate the Panel's view.

Directors underscored that safeguarding the IEO's independence also requires full access to information for IEO staff. They supported the recommendation to review the existing guidelines for sharing of information with the IEO by management, staff, and Executive Directors. Directors recognized, however, that IEO independence and access to information need to be nurtured by a sense of shared goals and a relationship of mutual trust. In this context, Directors welcomed the former IEO Director's assurance that the IEO had received all requested documents.

While recognizing that IEO reports often contain important findings and lessons that require further careful consideration, Directors stressed the importance of prompt discussion by the Executive Board of IEO evaluations. Some Directors noted that the Board discussion of IEO reports would be better informed if Directors have additional time to consider both the IEO's evaluation report and the statements by the staff and management.

Directors generally welcomed the Panel's suggestions for strengthening follow-up to the IEO's recommendations—including more Board involvement—to enhance the effectiveness of the IEO. They considered that the Panel's call for a more systematic approach for following-up on and monitoring the implementation of IEO recommendations approved by the Board should be further examined, including through greater discussion in the Evaluation Committee and the full Board.

Directors considered that appropriate IEO staffing rules are also an important element in maintaining the independence of the IEO. In this regard, they emphasized the need for a balanced mix of staff composed of insiders and outsiders, and for careful consideration of the rules governing employment of outside IEO staff in the Fund. Directors generally welcomed the recommendation to hire more outside experts to lead some evaluations, within the IEO's budget envelope. They agreed that outside experts can provide a fresh perspective and enhance the credibility of the reports, although peer reviews should not become standard practice.

Directors generally agreed with the Panel's recommendation that the IEO's outreach activities can, and should, be improved and intensified, especially in developing and emerging market economies where greater efforts might be needed to enhance the understanding of the IMF's role. As a first step, some Directors looked forward to the IEO developing an outreach strategy, so that its resource needs in this area can be better assessed. Noting budgetary constraints, however, most Directors suggested that the IEO rely on existing resources, by working more closely with EXR and resident representatives—as well as with the Executive Board where appropriate. These efforts, together with visible management support for the IEO's work, will serve to enhance outreach efforts.

Directors were pleased that the IEO is taking the lead in reviewing its existing publications policy to ensure that it reflects evolving best practice. They agreed that any changes in the IEO's publications policy, including in the handling of corrections, should be consistent with ensuring the independence of the office.

As for next steps, careful consideration will be given to the Panel's recommendations and the Board's views expressed today, and further discussions will be forthcoming among the Evaluation Committee, IEO, staff, and management. Directors also considered it appropriate to conduct another external evaluation of the IEO in five years.

About the Contributors

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Montek Singh Ahluwalia is the Deputy Chairman of the Planning Commission, India. He joined the Government of India in 1979 as Economic Adviser in the Ministry of Finance after which he held a series of positions including Special Secretary to the Prime Minister; Commerce Secretary; Secretary in the Department of Economic Affairs; Finance Secretary in the Ministry of Finance; Member of the Planning Commission; and Member of the Economic Advisory Council to the Prime Minister. In 2001, he was appointed as the first Director of the IEO, where he served until 2004.

Thomas Bernes is the Executive Director at the Centre for International Governance Innovation (CIGI). Prior to this appointment, he was the Director of the IEO from June 2005 to July 2009. He was also Executive Secretary of the Joint World Bank-IMF Development Committee and Deputy Corporate Secretary of the World Bank. From 1996 to September 2001, Mr. Bernes was the IMF Executive Director for Canada, Ireland, and the Caribbean. Prior to that, he was Assistant Deputy Minister of Finance and G-7 Finance Deputy in Canada and served as the senior international economic official representing Canada at high-level meetings. In addition to holding various senior finance, foreign affairs, and trade policy positions within the Canadian government, Mr. Bernes served as head of the OECD's General Trade Policy Division in the mid-1980s. He is a graduate of the University of Manitoba.

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Hali Edison is a Lead Evaluator in the IEO, joining in July 2009 on leave from IMF staff. She has held numerous professional appointments including at the Board of Governors of the Federal Reserve, U.S. Department of Treasury, and Norwegian Central Bank. She has published widely in academic journals, focusing mainly on issues in international finance. She holds a Ph.D. in Economics from the London School of Economics.

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Jo Marie Griesgraber is the Executive Director of the New Rules for Global Finance Coalition, a Washington-based international network of activists and researchers concerned with reforms of the international financial architecture. Previously, she was Director of Policy at Oxfam America where she supervised advocacy programs on international trade, humanitarian response, global funding for basic education, and extractive industries. Before that, she directed the Rethinking Bretton Woods Project at the Center of Concern, a Jesuit-related social justice research center, where she worked on reform of the World Bank, regional development banks, and the IMF. She has taught political science at Georgetown University, Goucher College, and American University, and was Deputy Director of the Washington Office on Latin America, a human rights lobby office. She chaired Jubilee 2000/USA's Executive Committee and edited, with Bernhard Gunter, the five-volume Rethinking Bretton Woods series. Ms. Griesgraber received her Ph.D. in political science from Georgetown University and her B.A. in history from the University of Dayton, Ohio.

Michael Hammer is the Executive Director of the One World Trust since July 2006. Before joining the Trust, he worked as Nigeria, Cameroon, Ghana, and Burkina Faso Researcher, and then Africa Programme Director with Amnesty International, as West Africa Programme Director responsible for Sierra Leone and Liberia with peace-builders Conciliation Resources, and as a consultant and projects manager for European integration and urban planning with Germany-based sustainability and planning consultants Institut Raum & Energie. Prior to this, he lived and worked for several years in West Africa, researching urban and rural land conflicts in the context of slum rehabilitation and environmental resource degradation in Ghana, Senegal, Guinea, and Côte d'Ivoire. Mr. Hammer leads the Trust's work on parliamentary oversight of international affairs, international law, peace and security governance, global democracy, and accountability of policy research. He is co-author of the One World Trust Global Accountability Report and regularly speaks at conferences, and publishes articles and briefings. After studies in Dakar (Senegal) and Hamburg (Germany) he obtained his Research Master's in geography, history and urban planning from the University of Hamburg in 1995. Mr. Hammer is a Trustee of the British Overseas NGOs for Development Network (BOND), and a member of the board of Greenpeace Germany.

Takatoshi Kato is currently President at Japan Center for International Finance. He was Deputy Managing Director of the International Monetary Fund from 2004 to 2010. Mr. Kato has a B.A. from Tokyo University (1964) and M.P.A. from Princeton University (1968). Prior to taking up his current position, he was Advisor to the President, Tokyo-Mitsubishi Bank and a Visiting Professor at Waseda University. He was also a Visiting Professor at Princeton University (1998–99). Mr. Kato has held a series of senior positions at the Ministry of Finance of Japan. These include Vice-Minister of Finance for International Affairs (1995–97) and Director-General of the International Finance Bureau (1993–95). From 1985 to 1987, Mr. Kato served as Executive Director for Japan at the Asian Development Bank. Previously, he held positions at the Ministry of Finance and the OECD Secretariat. In 2002, he published a book on exchange rate policy.

Anne Krueger is Professor of International Economics at the Johns Hopkins University, School of Advanced International Studies (SAIS). She joined the faculty in 2007 after leaving the IMF, where she had served as First Deputy Managing Director from 2001 to 2006 and as Acting Managing Director for three months during 2005. Prior to the IMF, she was Herald L. and Caroline L. Ritch Professor in Humanities and Sciences in the Department of Economics at Stanford University, and the founding Director of Stanford's Center for International Development and a Senior Fellow at the Hoover Institution. Professor Krueger had previously taught at the University of Minnesota and Duke University and held visiting professorships at a number of universities in the United States and abroad. She was Chief Economist of the World Bank from 1982 through 1986. She received her undergraduate degree from Oberlin College and her Ph.D. in economics from the University of Wisconsin. She is a Distinguished Fellow of the American Economic Association, a member of the National Academy of Sciences, and a Senior Research Associate of the National Bureau of Economic Research. She has published many books and articles on international economics, and has also written extensively on aspects of economic development in India, Korea, and Turkey. Her most recent book is *Struggling with Success: Challenges Facing the International Economy*, World Scientific Publishers, 2012.

Christine Lagarde became the eleventh Managing Director of the IMF in July 2011. Born in Paris, Christine Lagarde graduated from law school at University Paris X, and obtained a Master's degree from the Political Science Institute in Aix-en-Provence. After being admitted to the Paris Bar, Christine Lagarde joined the international law firm of Baker & McKenzie, becoming Chairman of the Global Executive Committee of Baker & McKenzie in 1999, and of the Global

Strategic Committee in 2004. Christine Lagarde joined the French government in June 2005 as Minister for Foreign Trade. After a brief stint as Minister for Agriculture and Fisheries, in June 2007 she became the first woman to hold the post of Finance and Economy Minister of a G-7 country.

Ruben Lamdany is Deputy Director of the IEO. Before joining the IEO in 2006, he was Director at the World Bank Institute, which delivers capacity-building programs in developing countries. Prior World Bank assignments include senior positions in the Operations Evaluation Department, as well as in units responsible for operations in the Balkans, Russia, and Ukraine. He has held positions at the IMF, in the Bank of Israel, and at the Planning Institute of Jamaica. Mr. Lamdany holds a Ph.D. in Economics from Columbia University and degrees in Mathematics and Economics from the Hebrew University in Jerusalem.

Christopher Legg is the Executive Director representing Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Uzbekistan, and Vanuatu. Before joining the Executive Board in 2008, Mr. Legg held senior positions in the Australian Treasury, including as Acting Executive Director of Treasury's Macroeconomic Group; General Manager of the Financial System Division; General Manager of the Foreign Investment Policy Division; and executive member of Australia's Foreign Investment Review Board. He was also an Alternate Executive Director of the World Bank between 1995 and 1999.

Leslie Lipschitz was the Director of the IMF Institute from 2003 to 2011. He joined the IMF in 1974, and during his 30 years of service at the Fund held increasingly senior positions in four area departments (Western Hemisphere, Asia and Pacific, European, and African) and the Policy Development and Review Department. He received his Ph.D. in economics from the University of London. Lipschitz has worked extensively in Africa, Asia, and Europe and has led numerous IMF missions. He has participated in the Fund's work on surveillance over the major industrial countries, led program negotiations for both emerging and developing countries, and, most recently, been closely involved in the Fund's policy development work in surveillance and conditionality. Mr. Lipschitz has been a guest scholar at the Brookings Institution and has taught at Johns Hopkins University's School of Advanced International Studies. His publications are primarily in open economy macroeconomics and exchange rate policy.

David Lipton assumed the position of First Deputy Managing Director of the International Monetary Fund on September 1, 2011. Prior to this, he was Special Advisor to the Managing Director of the IMF starting July 26, 2011. Before joining the IMF, he was Special Assistant to the President, and served as Senior Director for International Economic Affairs at the National Economic Council and National Security Council at the White House. Previously, Mr. Lipton was a Managing Director at Citi. Prior to joining Citi in May 2005, he was at Moore Capital Management for five years and, before that spent a year at the Carnegie

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Eduardo Loyo is a managing partner of BTG Pactual, member of the Brazil Management Committee and is based in Rio de Janeiro office. He joined UBS Pactual in 2007 as Chief Economist for Latin America. Prior to that, he was an Executive Director at the IMF (2005–07), elected by Brazil and eight other countries. From 2003 to 2005, he was a Deputy Governor of the Central Bank of Brazil, and in that capacity a voting member of its Monetary Policy Committee. He has been a professor at the Economics Department of the Catholic University of Rio de Janeiro (since 2001) and at the Kennedy School of Government, Harvard University (1998–2003). He was also a visiting professor at Columbia University (2003) and INSEAD (2002). Dr. Loyo holds a B.A. and an M.A. in Economics from the Catholic University of Rio de Janeiro and an Economics Ph.D. from Princeton University.

Meg Lundsager is the Executive Director for the United States. She was officially appointed in April 2007 after having served as the Alternate Executive Director. Previously, she served as Deputy Assistant Secretary for Trade and Investment at the U.S. Treasury Department where she led negotiating teams on financial services, investment, and export credits agreements in the context of OECD activities and WTO financial services negotiations. Previous responsibilities at the U.S. Treasury included Director of the Office of Asian and Middle Eastern/North African Nations and Special Assistant to the Under Secretary for International Affairs. Ms. Lundsager also served as a Director on the National Security Council staff.

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Thomas Moser serves as Alternate Member of the Governing Board of the Swiss National Bank since 2010. He received his Masters and Doctorate in Economics from the University of Zurich. Before joining the Swiss National Bank in 1999, he was an economist at the Swiss Institute for Business Cycle Research at the ETH Zurich. From 2001 to 2004, Thomas Moser served as an Advisor/Senior Advisor to the Swiss Executive Director at the IMF, and from 2006 to 2010, as the Swiss Executive Director at the IMF.

David Peretz was formerly Under Secretary for Monetary Policy at the U.K. Treasury. From 1990 to 1994 he served as U.K. Executive Director of the IMF and World Bank, and from 1994 to 1998 as U.K. Financial Sherpa for G-7/G-8 economic summits. He now works as an independent consultant on international financial and development issues, and has acted as senior advisor for many IEO evaluations, contributing background papers for the evaluations of IMF governance and IMF performance in the run-up to the financial and economic crisis. Between 2007 and 2010 he chaired the U.K. Department for International Development's Independent Advisory Committee on Development Impact.

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Murilo Portugal is the President of Febraban (Brazil). He is a former Deputy Managing Director of the IMF and Deputy Minister of Finance of Brazil. Mr. Portugal also served as an Executive Director of the IMF and of the World Bank. He has held other senior positions in Brazil including Secretary of the National Treasury, Office of the President; at the Ministry of Finance and Ministry of Planning; as member of the board of the Banco do Brasil; and on various corporate boards. Mr. Portugal, who holds degrees in law and economics, was educated at Universidade Federal Fluminense, Brazil, and at the Universities of Cambridge and Manchester.

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Louellen Stedman is a Senior Economist with the IEO, where she has worked since late 2008. From 1988 to 2005, Ms. Stedman was an official at the U.S. Treasury Department, serving in roles including Director of the Office of International Monetary Policy and Financial Attaché in London. She holds an MPA from the Woodrow Wilson School at Princeton University.

Edwin M. Truman, senior fellow at the Peterson Institute for International Economics since 2001, served as Assistant Secretary of the U.S. Treasury for International Affairs from December 1998 to January 2001 and as Counselor to the Secretary from March to May 2009. He directed the Division of International Finance of the Board of Governors of the Federal Reserve System from 1977 to 1998. He is the author, coauthor, or editor of *Sovereign Wealth Funds: Threat or Salvation?* (2010), *Reforming the IMF for the 21st Century* (2006), *A Strategy for IMF Reform* (2006), *Chasing Dirty Money: The Fight Against Money Laundering* (2004), and *Inflation Targeting in the World Economy* (2003).

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