CHAPTER 3

The Institutional Role of Independent Evaluation

This chapter explains the vital role of the independent evaluation function in changing the institutional framework governing relationships among the stakeholders of the IMF: management, staff, the Executive Board, the membership, and the public at large. It then discusses how ideally to ensure independence in evaluation.

The Benefits of Independent Evaluation

The evaluation discipline as we now understand it emerged approximately six decades ago to support responsive and accountable government. Combining the principles of accounting and auditing together with the social sciences (and some systems analysis), the new profession sought to meet a growing need for impartial, multidisciplinary, evidence-based analysis and advice about what works and what does not work (Morra-Imas and Rist, 2009).

Consider this quote from Picciotto:

> To be sure, evaluation independence is not an end in itself . . . the logic of evaluation independence is rooted in organizational theory (Arrow, 1974). When all is said and done, organizations exist to resolve the inherent tensions that exist between individual and collective goals; to manage information flows; and to coordinate actions through a nexus of contracts that keeps transaction costs in check. Independent evaluation has a key role to play in all of these functions (Picciotto, 2013: 19).

The benefits of having an independent evaluation office have been recognized in the IFIs for more than three decades. Even in IFIs with highly skilled staff, such as the IMF, independent evaluation has added significant value. This is because it provides an independent and credible assessment of the performance of the organization and its activities; input to help improve its functioning through feedback of lessons learned; and an additional mechanism for accountability to its shareholders and the public for the results of its activities. As Picciotto notes:

> 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. . . . 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 (Picciotto, 2012: 37).

As Picciotto restates in somewhat different terms in drawing from Mayne (2008), independence "protects the integrity of the assessment process, enhances its credibility, minimizes bias, and provides fresh perspectives on the policies and programs being evaluated" (Picciotto, 2012: 38). Along these same lines, Lamdany and Edison state that "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" (Lamdany and Edison, 2012: 3).

Hence, independent evaluation enhances the external credibility of the exercise and that of the institution that undergoes the evaluation. Independent evaluation provides a credible assessment of the institution's performance to an array of stakeholders, academics, and policy analysts outside the organization. Having better-informed stakeholders, as a result of credible assessments by an independent evaluation office, also helps in generating more broadly-based public support for the organization and its work. The IFIs are not always understood by the public at large, particularly with regard to how these institutions use public funds and how they make important, indeed critical, decisions that affect the destiny of countries and their respective populations. So, from this perspective too, there is a need to monitor and evaluate what these organizations do so as to make them more transparent and accountable. The means to do this is through independent evaluation.

Independent evaluation becomes even more important in the absence of market criteria and market forces by which to measure the effectiveness of public organizations like the IFIs. As Picciotto and Wiesner note:

> In institutions where profits are not the bottom line, effective evaluation is crucial to ascertain what results are being achieved and why. Such is the case of the World Bank and most public sector institutions. When budgets are not financed directly by the market, evaluation becomes indispensable for ascertaining performance. Evaluation is an essential surrogate for incentives in public markets.
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> Private markets tend to be more efficient than the public sector because evaluation is built into the market system. In business, market failure is quickly identified, evaluated, and resolved. By contrast, government failure is less visible and more difficult to evaluate. Hence, there is a need for formal evaluation processes capable of rectifying public failures (Picciotto and Wiesner, 1998: xii–xiii).

Another well-known benefit of independent evaluation is its complementarity with the self-evaluation practice within an organization. That is, self-evaluation can be enhanced by independent evaluation. As the IEO report on *Self-Evaluation at the IMF* explains:

> Both self- and independent evaluation functions can play important roles in enabling institutional learning, in providing a framework for accountability, and in enhancing transparency. They can complement and strengthen each other if their respective roles are well understood, incentives are structured appropriately, and the organization has a culture geared to learning and transparency (IEO, 2015: 4).

Further, as noted by Picciotto:

> 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 (Picciotto, 2012: 47).

In this vein, the complementarity between independent evaluation and self-evaluation is further strengthened when the evaluation function is understood to be independent from management. At the IMF, this independence can improve the organizational structure most strongly by strengthening the credibility of the evaluation office to "speak truth to power." And, as mentioned in Chapter 1 above, it is also a means for the institution to strengthen relations (especially trust) with external constituencies. As stated during the Executive Board deliberations on whether to establish an independent evaluation office at the IMF:

> Self-evaluation at the Fund is widely perceived to be of high quality. Any extension of the Fund's evaluation capacity must clearly be of the same quality. At the same time, it must complement existing evaluation efforts by augmenting the potential scope of evaluation where Fund expertise may be limited and it must enhance the credibility of evaluations to observers outside the Fund (IMF, 2000a: 15).

Safeguards to Ensure Independence in Evaluation

For an independent evaluation office to function in a way that is truly independent requires certain safeguards. The Evaluation Cooperation Group, which is comprised of all the independent evaluation offices of the IFI s and other select international organizations, has developed a list of four such safeguards. As discussed in Picciotto (2012), these are:

(i) *Organizational independence.* Evaluation staff are not controlled or influenced by decision makers who have responsibility for the activities being evaluated. Also, evaluation staff have access to the information needed to do their job.

(ii) *Behavioral independence.* The evaluation office is able to set its work program, produce high quality uncompromising reports, and disclose its findings to the Board without management interference.

(iii) *Protection from conflict of interest.* There are safeguards to guarantee that the evaluator's judgments or objectivity are not affected by prior, current, or immediate future professional or personal relationships.

(iv) *Protection from outside interference.* There is a guarantee that the evaluator is not subject to pressure (either direct or indirect) from management.

To ensure these four requirements can be put in place, it is important to build a coherent institutional framework that supports the independence of the evaluation function, by governing the relationship between the independent evaluation function and all of the institution's stakeholders and thereby credibly establishing and protecting its independence.

This framework should lay out the rules, processes, and methods that safeguard the independent evaluation function. Such a framework should provide guidance and transparency on the process, protect evaluators from the pressures noted above, and make sure that all the institutional settings are appropriate for independent evaluation so that evaluations are credible, of high quality, and thus able to offer multiple benefits—and it should be built in such a way as to support both learning and accountability within the organization. The framework needs to be perceived as legitimating the independent evaluation function within the organization.

The Creation of the IEO: The Establishment of a New Contract

As a long-standing proponent of structural reform in its member countries, the IMF itself understood the need for significant structural reform in 2001 with the creation of the IEO. The creation of the IEO institutionalized independent evaluation within the IMF. Seen in terms of the New Institutional Economics (Box 3.1), it profoundly altered

BOX 3.1

New Institutional Economics

For some years, economists have been giving increasing attention to the role of institutions in society, recognizing that institutions matter to economic performance, since they reduce the uncertainty caused by arbitrary behavior and provide a necessary structure to human interactions. The resulting "New Institutional Economics" has emerged in the past 30 years as a sub-discipline of economics.

New Institutional Economics studies institutions and how institutions interact with organizational arrangements. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change, and how if at all they should or can be reformed (see Klein, 2000; Williamson, 2000). Institutions are defined in this perspective as the written and unwritten rules, norms, and constraints that people devise to reduce uncertainty and control their environments (Menard and Shirley, 2005).

To quote North:

> In the jargon of the economist, institutions define and limit the set of choices of individuals. Institutional constraints include both what individuals are prohibited from doing and, sometimes under what conditions some individuals are permitted to undertake certain activities. . . . They are perfectly analogous to the rules of the game in a competitive team sport (North, 1990: 3–4).

In a later article North wrote:

> Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behavior, conventions, self-imposed codes of conduct), and their enforcement characteristics. Together, they define the incentive structure of societies and specifically economies (North, 1994: 360).

In the same piece, North defines institutions as the rules of the game and organizations and their entrepreneurs as the players. Thus it is the interaction between institutions and organizations that shapes the institutional evolution of an economy. As he writes:

> Organizations are made up of groups of individuals bound together by some common purpose to achieve certain objectives. . . . The organizations that come into existence will reflect the opportunities provided by the institutional matrix (North, 1994: 361).

the prevailing contract regarding the conduct of evaluation within the IMF, changing "the rules of the game" on evaluation and transforming the institutional and regulatory framework governing relationships among the management, staff, Executive Board, and membership. For example, IEO evaluators do not report to those in charge of the programs or practices that are being evaluated. Furthermore, the IEO has autonomy on the evaluation topics it chooses, over its budget, and on all personnel decisions.

The establishment of the IEO also introduced a new set of interactions between the IMF and the public at large. Essentially, the emergence of the IEO modified incentives within the Fund staff, information flows among different stakeholders, and made for a more accountable institution.

Economic change is an ever-present, ongoing, incremental process that is a consequence of the choices individual actors and entrepreneurs of organizations are making every day. While the vast majority of these decisions are routine, some involve altering existing "contracts" between individuals and organizations. Sometimes that "re-contracting" can be accomplished within the existing structure of property rights, and political rules; but sometimes new forms of contracting require an alteration in the rules. Equally, norms of behavior that guide exchanges will gradually be modified or wither away. In both instances, institutions are being altered. "Hence institutional change is a slow, deliberate process or it occurs in discrete jumps through war, revolution, or upheaval. But even when institutional change occurs, it does so on the debris of the older institutions and is always path-dependent" (Chhibber, 1998: 45).

Picciotto proposes an objective examination of evaluation as an institution in terms of its contribution to the process of institutional change. He writes:

> Social institutions exist to help the agents in an economy solve certain recurrent problems. If so, evaluation has a single purpose to help organizations and individuals achieve their objectives, based on societal values and norms. The acid test of its contribution to society is the incremental value of actual outcomes compared to the "counterfactual" which would have materialized in the absence of evaluation (Picciotto, 1999: 9).

According to Picciotto, institutions are relevant because they create and reward incentives which trigger motivation and action in both the public and private sectors, and thus evaluation, because of its capacity to act as an incentive to change behavior, is itself an institution. He writes:

> Thus, the new institutionalists have analyzed sources of national wealth and tracked historical trends. As they turn their attention to decision making processes in organizations and government, they will be inevitably led to assess the role of evaluation as an institution (Picciotto, 1999: 8).

The establishment of the IEO was motivated by recognition of the importance of having objective and impartial assessments of the functioning of the organization but also by the desirable political symbolism of having "independent" evaluation within the Fund. The IEO was thus expected to provide objective analysis, findings and recommendations without the interference or pressure of those being evaluated.

Several elements needed to be present in the IEO construct to enable the office to remain immune from interference or pressures from the parties being evaluated. First, in the creation of the new institution care was taken to provide institutional safeguards that would protect the office's independence and thus increase the credibility of the IEO within the Fund. Given the institutional framework that is now in place, the IEO "is widely considered to be the most independent of the evaluation offices of the international financial institutions" (Ocampo, Pickford, and Rustomjee, 2013: 3).

Key features that characterize the IEO and support its independence are the following:

- The IEO's terms of reference (IMF, 2000b and 2015) specify the following: "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 is appointed by the Executive Board for a non-renewable term of six years;[1]
- At the end of the term of service, the Director is not eligible for appointment or reappointment to the regular staff of the Fund;
- The Director is responsible for the selection of IEO personnel;[2]
- The majority of full-time IEO personnel come from outside the Fund;
- Provisions exist regarding the staff's mobility from the Fund to the IEO and vice versa;
- Even though the work program is discussed with Executive Directors, staff, management, and other stakeholders, the Director is responsible for the selection of topics to be evaluated;

[1] In 2015, the Executive Board amended the TOR for the IEO and the Terms and Conditions of Appointment for the Director, to allow in exceptional circumstances, the term to be extended by no more than one year.

[2] The terms and conditions for IEO personnel have been changed on several occasions to address various issues, as discussed further below.

- The IEO's budget, while subject to the IMF's budgeting and expenditure control procedures, is independent of the budgetary process over which management and the Office of Budget and Planning have authority;
- The IEO has the sole responsibility for drafting its reports and has total independence in deciding whether the IMF staff comments are incorporated.

Taking into consideration the defining features of the IEO, the creation of the office resulted in a new contract that has affected behaviors and incentives among all key stakeholders in the Fund. Some of the most salient results of the new contract are:

- The IEO is able to "speak truth to power" to the Executive Board, management, and staff;
- IEO reports offer the management of the Fund the opportunity to respond to evaluation findings;
- Procedures in place for follow-up on IEO evaluations require the IMF to propose actions to address IEO recommendations that were endorsed by the Executive Board;
- Institutional incentives have been affected in that IMF staff and management understand that their and the Fund's performance could be subject to future independent evaluation; and
- IEO reports have enhanced IMF accountability by providing government authorities and the public at large with an additional and independent source of information about the Fund's work and a credible assessment of what went right or wrong and why.

The IEO's Experience with Independence

The 2006 Lissakers Report found that the IEO had succeeded in securing and maintaining its independence in the early years of its existence. That report also called on the IEO to continue to guard and preserve its independence, inter alia by not shying away from addressing significant policy issues and by exercising firm and bold judgment.

The 2013 Ocampo Report found that in the subsequent period the IEO had remained resolute in maintaining an arm's-length relationship with the Board, management, and staff, as reflected in the confidence and firmness of its evaluations and recommendations. That report also concluded that the IEO had maintained and exercised its independence and was fully respected by its key stakeholders, namely the Executive Board, management, staff, and member countries. The panel's finding that the IEO's independence remained uncompromised—a central requirement for the IEO to satisfactorily fulfill its mandate—was a welcome development.

The Ocampo panel did conclude, however, that in one respect the exercise of independence had become problematic. It noted that the concern among all parties not to compromise or be seen to compromise the IEO's independence had exacerbated the tensions that naturally arise around an office that is independent but still part of the Fund. The panel concluded that relations between the IMF management and staff with the IEO had been affected and that a lack of collaboration had lessened the IEO's effectiveness.

In reflecting on this finding, we contend that the IEO construct entails some natural structural tensions, or "friction by design" (further elaborated in Chapter 6). But this tension needs to be kept in check so that it does not obstruct collaboration between the evaluation office and the rest of the organization. Achieving greater collaboration would not only allow the IEO to do its work better but would also be more beneficial to the Fund.

It is our experience that the IEO is as independent as this type of organization can be. We feel that the IEO has independence in administrative and budgetary matters, in its outreach activities, and in determining its work program and evaluation topics, as well as on the drafting of its reports and its findings and its recommendations. While the IEO is always subject to pressures from various stakeholders, when taking the key features of the office's independence noted above into consideration we are not aware of any challenge to this independence. We therefore infer that the institutional setup to safeguard the IEO's independence is appropriate.

Independence Is Not Isolation

An issue that is still contentious for the evaluation community is whether the evaluator should remain isolated from those whose work is being evaluated. The argument in favor claims that isolating the evaluation function from the rest of the organization minimizes the possibility of a conflict of interest, minimizes the probability of potential bias, and prevents the evaluator from being influenced by the evaluee. In this perspective, isolation is close to a guarantee of independence. But this scenario is not conducive to proper collaboration between the evaluation office and the rest of the organization and thus limits the effectiveness of independent evaluation. Quoting Picciotto:

> 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 the strategy formulation, to amplify the voice of legitimate stakeholders, and/or to provide credible and reliable performance information to management and higher governance authorities (Picciotto, 2012: 49–50).

Thus, confusing independence and isolation leads to a suboptimal outcome. Without a close link to the organization, independent evaluation cannot serve the purpose for which it was created.

From the evaluator's perspective, remoteness from the organization inhibits understanding of the organization's work. Isolating the evaluation function inhibits information-sharing and mutual understanding. In such circumstances, evaluation findings are less valuable and potentially more resisted by the organization, and hence the possibility of learning from evaluation is diminished.

Nonetheless, independent evaluation needs to retain its objectivity, ask the relevant questions (whether comfortable or not), and work hard to avoid institutional capture or that its analysis is unduly influenced. The challenge then becomes to find a way for an evaluation office to attain this ideal situation—of independence simultaneous with proximity and connectedness with the rest of the organization. Accurate and fair evaluations must combine intellectual detachment with understanding, trust, and empathy (Picciotto, 2013). And this understanding from an independent evaluation office can only be achieved with closeness and cooperation with the organization.

IMF management and staff have remained "respectful of the IEO's independence," as the Ocampo Report noted, and have realized that some coexistence with the IEO is necessary and unavoidable. At the same time, the senior staff has kept the IEO at a distance. As both the Lissakers and Ocampo reports indicate, this isolation has marginalized the IEO. It is our view that senior staff has found what would seem to them an optimal level of cooperation with the IEO, in which some interaction takes place, but they are often not open to what the IEO can offer in terms of learning.

Rather, it has been the IEO's experience as well as the observation of others that in some instances the Fund keeps on doing its work while minimizing or "watering down" the IEO's recommendations (Ocampo, Pickford, and Rustomjee, 2013). After every evaluation since follow-up procedures were created in response to the Lissakers Report in 2006, the organization has offered specific actions in order to address IEO findings and Board-endorsed recommendations (this follow-up process is discussed further below). However, it is our view that most of these responses have been mechanical and with a lack of enthusiasm, which hardly stimulates institutional learning from evaluation. It is our contention that management and staff should acknowledge that the best way for the IMF to fully benefit from the presence of an independent evaluation office is to be more welcoming of, and more open to, the IEO's contributions.

For this to happen, the environment within the Fund needs to change so that it is clearly committed to learning and accountability. The Fund needs to create a culture that legitimizes independent evaluation and uses evaluation findings and insights for policymaking, performance improvements, and organizational renewal. Those whose work is evaluated have an important responsibility to incorporate an evaluation culture within the organization and be more open to it relative to their own work.

The objective is to make independent evaluation and the rest of the IMF "a principled partnership with shared objectives, reciprocal obligations, and distinctive accountabilities" (Picciotto, 2005: 354). As the Ocampo Report emphasized, effective functioning of independent evaluation in the Fund depends on IMF management more actively and regularly stressing the importance of the IEO for enhancing the Fund's credibility and learning culture, and encouraging increased engagement, both formally and informally.