

**STATUS REPORT ON THE
INDEPENDENT EVALUATION OFFICE (IEO)**

October 2, 2001

Following an extensive review of earlier experience with the evaluation of IMF policies and operations, the IMF's Executive Board decided to establish an Independent Evaluation Office (IEO). The terms of reference for the new office provide that it will be "independent of Fund management and staff and will operate at arm's length from the Fund's Executive Board."¹ The terms of reference were endorsed by the International Monetary and Financial Committee (IMFC) in its meetings in September 2000. Subsequently, the Executive Board appointed Montek Singh Ahluwalia as Director of the IEO and he took up his appointment in mid-July 2001.

This note describes progress toward making the IEO operational, based on the principles of independence, objectivity, and transparency which will be central to IEO's mission. It first discusses the approach used to establish the work program, then describes the internal and external consultation that is under way and a proposed communication framework for IEO, and finally considers the possibility of joint evaluations. The note concludes with a proposed timetable for formulation of the IEO work program.

Comments on this note are welcome and should be addressed to ieo@imf.org by Monday, November 5, 2001.

Content of Work Program

According to the terms of reference, the 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". The terms of reference also state that "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". This suggests that IEO evaluations could cover not only the entire range of activities in which the IMF is currently engaged but could even go beyond reviewing IMF activity, to study issues that are relevant to the Fund.

¹ "Making the IMF's Independent Evaluation Office Operational: A Background Paper", August 7, 2000 and "IMF Executive Board Report to the IMFC on the Establishment of the Independent Evaluation Office and Terms of Reference," September 12, 2000. [These will be [hyperlinks](#)]

The terms of reference indicate that the work program will be prepared by the Director “in the light of consultations with the Executive Board and management as well as informed and interested parties outside the Fund”. Accordingly, the work program is being developed with extensive consultations through a two-stage process: first identifying a broad menu of potential topics and then narrowing it down to an actual work program.

To define the menu of possibilities, an effort has been made to identify individual studies relevant for each of the major categories of the IMF’s activities:

- Surveillance
- IMF-supported programs and related issues. (This category would include studies of individual country programs as well as thematic studies looking at individual issues across countries.)
- Technical assistance and training
- Internal IMF processes and governance
- Research

A number of studies under each category, which have surfaced during initial consultations, are summarized in Box 1. This menu is likely to expand further as a result of ongoing internal and external consultations. The actual work program will then be determined with the help of explicit criteria for choosing individual studies from the expanded menu.

There is an inevitable trade-off between the number of evaluations that can be undertaken and their quality and depth. On balance, there is merit in beginning with a small number of high-quality reviews which maximize the learning potential. We expect that around five projects could be undertaken each year once full capacity is reached, depending upon the availability of budget resources for consulting and other support. However, it is likely that only about three projects could be undertaken in the first calendar year of operation.

The first priority therefore is to identify a small number of projects from the menu presented in Box 1 on which studies could be initiated during the remainder of FY2002 and FY2003.² A tentative work program for subsequent years will also be identified, but this will necessarily be modified over time.

The work program will consist of a mix of evaluations focusing on specific country programs and evaluations of broader thematic issues across countries. Some of the criteria that might be used to select subjects for the work program are outlined below.

² The IMF’s financial year runs from May 1 through April 30.

For **country-based studies**, the following criteria are relevant:

- Geographic and economic diversity of country cases is desirable to maximize prospects for learning and to ensure relevance to all categories of member countries. Special attention could be given to country cases where contrasting policy choices were made, as exemplifying alternative approaches (e.g. Thailand, compared with the non-program case of Malaysia).
- Programs with exceptionally large access could be given priority for evaluation.
- Country cases chosen could include a mix of cases that are viewed as “relative failures” (to learn from mistakes) and those viewed as “more successful” (which could provide the basis for defining best practice).
- Country cases likely to generate useful inputs for the “thematic” evaluations that are also on the work program should have priority.

Criteria for choosing **thematic studies**, which would range over several countries, could include:

- those with the greatest immediate policy relevance to a wide range of the Fund’s membership;
- those where there are widely different views about the appropriate approach; and
- those in which the IEO has the greatest comparative advantage in conducting the study (e.g. through access to internal information).

In addition, **major new initiatives** in the Fund should be evaluated on a priority basis as soon as there is sufficient experience to ensure useful feedback into Fund policies. This makes the Poverty Reduction and Growth Facility (PRGF), the Financial System Stability Assessment (FSSA) process, and the Fund’s work on standards and codes good prospects for evaluation. There will inevitably be a trade-off between waiting for more experience to be accumulated, which would help make evaluations more comprehensive, and undertaking reviews at a sufficiently early stage for the results to provide a timely input into policy formulation.

The Need for Consultation and the Proposed Communication Framework

The terms of reference provide that “in carrying out its mandate, including developing its work program, the IEO will be free to consult with whomever and whichever groups it deems necessary, both within and outside the Fund”. They also recognize that the IEO must address multiple audiences:

- Fund staff and management to “enhance learning culture”;
- those interested in the Fund’s activities to “enhance its external credibility”;

- the public at large in all member countries to “promote greater understanding of the work of the Fund”; and
- the Executive Board to “strengthen its institutional governance and oversight responsibilities”.

The multiplicity of audiences has implications for the extent and manner of consultation with different groups of stakeholders.

Informal discussions have been held and are under-way with Executive Directors and with staff of the IMF’s area and functional departments. Meetings have also been held with groups of academics, policy analysts, government authorities, and representatives of NGOs in Boston, Washington, London, Paris and Berlin. Consultations with a broad range of representatives from African countries took place at the time of the African Forum on Poverty Reduction Strategies held in Dakar, Senegal in mid-September. We hope to arrange similar consultations in Asia and Latin America.

Several internal and external observers have emphasized that appropriate definition of the terms of reference for evaluation studies is critical to ensure that all key issues are addressed. External commentators have specifically requested an opportunity to provide inputs into defining the terms of reference of individual studies included in the work program. Consistent with the independence of the IEO, all final decisions on the terms of reference for individual studies must rest with IEO, but there is a good case for establishing explicit procedures for obtaining inputs on the terms of reference of individual studies included in the final program, as well as inputs on substantive issues addressed by the study.

The best approach to ensure adequate consultation with staff, management, member country governments, and external groups is likely to vary depending upon the nature of the evaluation project and will necessarily evolve with experience. The following general approach is being considered:

- Draft terms of reference for each study – identifying the questions to be addressed and also, to the extent practicable, the methodology – would be prepared and comments sought from the Executive Board, staff/management, and member country governments (especially in the case of evaluations involving individual countries). In addition, draft terms of reference would be posted on IEO’s website to elicit comments from external observers. The final terms of reference, as determined by IEO after these consultations, would also be posted on the website. Other means of communicating the terms of reference may also be used, especially in cases involving countries where access to the Internet is limited.
- The IEO evaluation team would conduct its own research and interact with concerned parties inside and outside the Fund. For evaluations involving individual countries, consultations are expected to be held with the authorities and with others. The evaluation team would be open to input on substantive issues covered by the terms of reference from all interested parties. IEO’s website will be used to elicit written comments.

- Draft reports will be submitted to management, and (where appropriate) the country authorities, for their comments. The final reports will then be circulated to the Executive Board, along with comments of management and country authorities (where relevant).
- To enhance the Fund’s ability to learn from IEO evaluations, each report will identify specific lessons and make recommendations for the future. The recommendations should be sufficiently specific to allow management, and subsequently the Executive Board, to indicate whether they agree (in which case they may wish, at their discretion, to indicate specific actions they plan to take) or disagree, with an explanation of the reason for disagreement.

The terms of reference indicate that there is “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 members) unless in exceptional circumstances the Executive Board were to decide otherwise.” The work program to be presented to the Board in December will discuss a strategy for disseminating evaluation results and lessons.

The IEO Annual Report, which is expected to be published each summer, will include a summary of suggestions for evaluation topics received from within and outside the Fund, along with a discussion of priorities set by IEO and a summary of Executive Board discussions of the whole program. The Report will also set out the main conclusions and recommendations of evaluation reports completed during the year and will provide an opportunity to assess the progress made in implementing specific recommendations and in tackling issues identified in earlier evaluations.

Joint Evaluations

Where an activity undertaken by the IMF is part of a broader multilateral initiative, it may be appropriate for IEO to undertake joint evaluations – either with the World Bank’s Operations Evaluations Department (OED) or other agencies. For example, for activities suitable for joint evaluation with the OED include the Financial Stability Assessment Program (FSAP) process, Poverty Reduction Strategy Papers (PRSPs) and PRGF-supported programs, and experiences with privatization; other agencies could be involved in the evaluation of the Fund’s work on standards and codes of good practices. Preliminary discussions relating to cooperation have been held with the World Bank’s Operations Evaluation Department (OED) and there is agreement in principle.

Timetable for Work Program

The timetable for preparing the work program is as follows:

- Comments of external stakeholders on this status note, including the menu of proposed topics, are invited by early-November 2001. This period will also be used for continuing consultations with Fund staff and the Executive Board.

- A draft work program for the next three years will be prepared by early November and submitted to Management for comment.
- The final work program will go to the Board for review in early December, along with proposals for IEO's revised budget for FY2002 and projections for the next three years in the light of the proposed work program.
- The final work program will be posted on the IEO's website in December after the Board discussion.

Box 1

Potential Topics for Evaluation by IEO

The items listed below represent a menu of possible subjects some of which are inter-related and even potentially overlapping. This list will be reduced to a smaller set of studies to be undertaken over the next three to four years. We estimate that about 5 studies a year can be carried out, once full capacity is reached. The work program for the first three years will consist of around 12 topics. Before individual studies are undertaken, detailed terms of reference setting out the questions to be addressed would be drafted and discussed with all interested parties.

Surveillance

Surveillance is a core activity of the IMF and takes up an estimated 40 percent of staff resources. It has gained in importance in recent years in the context of the emphasis on crisis prevention. The following are some possible studies in this area:

1. The IMF's role and effectiveness in crisis prevention based on an examination of recent Article IV reports including all the recent capital account crisis cases. Are “early warning” procedures effective, and do they influence the Fund’s advice and countries’ policies?
2. Review of Financial System Stability Assessments (FSSA). What lessons can be learned from the experience of the first two years? Are they identifying the key vulnerabilities and proposing remedies in a cost-effective manner?
3. Follow-up of the 1999 external review of surveillance. Specifically, the review could focus on how the recommendations agreed to by the Executive Board have been implemented.
4. Effectiveness of IMF surveillance of industrial countries. Is the scope of surveillance appropriate and what is its value added?
5. The IMF’s role in multilateral surveillance, including the World Economic Outlook and the International Capital Markets Report exercises.
6. Role and effectiveness of regional surveillance (e.g., European Community, other regional groupings).
7. The IMF’s approach to liberalization of the capital account. Possible topics include whether the Fund’s policy advice on the pace of capital account liberalization, and its sequencing with other reforms especially vis-à-vis the financial sector has been appropriate and consistent across countries. How has policy changed in the light of experience with capital account crises?

8. The IMF's work on standards and codes of good practice (in collaboration with other agencies). Is the approach effective in building institutional capacity and reducing vulnerability in member countries?

IMF-Supported Programs and Related Issues

The IEO could undertake three different types of studies to learn from actual experience with IMF-supported programs.

Review Individual Country Programs

A sample of programs from the past few years could be chosen for review. The past three to four years would yield a potential universe of about 70 programs. Questions to be addressed would include: was surveillance effective in identifying vulnerabilities prior to the onset of the crisis; was the program design appropriate; was the negotiating process conducive to country ownership; were the key objectives of the program achieved and, if not, why not; and what are the lessons to be learned; and how effectively is post-program surveillance being carried out? The countries chosen should reflect the diversity of country/crisis types as indicated below:

1. Capital account crises (e.g., Argentina, Brazil, Ecuador, Indonesia, Korea, Thailand, Turkey). Some stakeholders have suggested that IEO should evaluate all programs where exceptionally large access to Fund resources is involved.
2. Low-income/highly indebted cases (possible cases include Bolivia, Burkina Faso, Cameroon, Honduras, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Uganda, Vietnam, Zambia)
3. Transition countries (Bulgaria, Hungary, Poland, Russia, Ukraine, other FSU countries).
4. Selected countries that have had repeat programs could be chosen (e.g., Bolivia, Madagascar, Philippines, Zambia). Are there problems with program design that contribute to such repeat usage?

Review of broad policy issues cutting across programs:

This category covers thematic studies focusing on particular policy issues and what can be learned about these issues from cross-country experience. The following are some possibilities:

1. Exchange rate policies in IMF-supported programs and the Fund's policy advice on exchange rates as part of surveillance. Has the Fund's policy advice on exchange rate regimes and associated policies been consistent across countries? Has the design of exit strategies from exchange rate pegs been appropriate? Have the contractionary consequences of devaluations, stemming from their balance sheet consequences, been underestimated in program design? Has financial program design adapted effectively to inflation targeting regimes?

2. Fiscal adjustment in IMF-supported programs. Does fiscal adjustment take sufficient account of longer-term goals (e.g., for growth, poverty reduction) and is it implemented in a sustainable manner? Has the potential, immediate adverse impact of programs on particular vulnerable groups been adequately assessed and taken into account in program design?
3. Policies toward financial sector stability and financial sector restructuring. In addition to the effectiveness of IMF policy advice in helping member countries avoid financial crises (also discussed above under surveillance), possible issues could include whether the design of financial sector restructuring packages has been appropriate, how the fiscal consequences have been handled, and how the macroeconomic consequences of corporate restructuring were taken into account in program design.
4. Debt reduction and debt sustainability issues. Possible issues (either in the context of the HIPC cases or more generally) could include whether the approach to assessing the sustainability or unsustainability of debt positions (external or public debt) has been appropriate and consistent across countries; whether debt sustainability analyses in surveillance reports have been adequate; what use has been made of the sustainability analysis; and what can be learned from 'best practice' approaches.
5. Has IMF support of a country's program had a positive "catalytic effect," in terms of generating additional external financing flows within a specific timeframe? Are there objective measures of this catalytic effect? What factors influence the impact on market credibility?
6. The nature and effectiveness of conditionality and issues involving the "ownership" of national/IMF-supported programs. Also, IMF policy toward structural conditionality has been modified recently; a review of the impact of the new policy could be undertaken at the end of the first two-year experience (that is, in FY2004).
7. Why do many IMF-supported programs remain uncompleted and what difference does it make? Are there particular aspects of program design (e.g. optimism of projections, extent of conditionality) that have a strong influence on the probability of completion? Do outcomes depend on the extent to which programs are completed and what lessons can be learned from uncompleted programs?
8. Conditionality with respect to trade policies. Has the IMF adopted a consistent approach to trade policies in the design of conditionality? Is the approach consistent between the surveillance stage and the program stage?
9. Private sector involvement in crisis resolution. This is a growing area of concern in which policy is still evolving but there are lessons to be learnt from experience thus far. Does the existing experience suggest that some forms of PSI are likely to be more successful than others? Many of the questions involved are also closely related to the size of the IMF financial support, including through the Supplemental Reserve Facility (SRF) for countries undergoing crises that are centered primarily in the capital account.

10. Experience with privatization in IMF-supported programs. Possible questions to be addressed could include: was the sequencing with regard to implementation of regulatory frameworks appropriate? How realistic was the timeframe for privatization? What was the impact on prices for services and investment in the privatized sectors? And what was the social impact?

Review of experience with particular lending facilities and related issues

1. The role of the Poverty Reduction and Growth Facility (PRGF) and the need to evolve special procedures to overcome problems in achieving stated objectives in countries with PRGF-supported programs has been much discussed. Although an internal review is currently under-way, there is scope for an independent review beginning perhaps in late FY2003. The review could address such issues as: Have all of the lessons from the ESAF reviews and 'best practices' on particular policy issues been incorporated into PRGF adjustment strategies? Has the increased emphasis on country ownership resulted in real changes in the approach to negotiations? Has program design effectively incorporated the analysis of the social impacts of major reforms? Has program design and monitoring improved the targeting of spending in key sectors relevant to growth and poverty reduction? Have resources been effectively channeled to social sectors?
2. An external review of the Enhanced Heavily Indebted Poor Country (HIPC) Initiative would be important once a "critical mass" of countries reach their completion points.
3. The Contingent Credit Line (CCL) would also be a candidate for evaluation, but only after there is sufficient concrete operational experience with country cases.
4. The strategy vis-à-vis member country arrears to the IMF.
5. The IMF's role in countries emerging from conflicts.

Technical Assistance and Training

Technical assistance is extremely important for capacity building, especially in low-income countries. More recently, it is also viewed as critical for crisis prevention in the more advanced emerging market economies. The following possible evaluations could be explored:

1. A follow up of the 1999 internal review of technical assistance. This could include an assessment of whether there are effective and consistent internal systems for evaluating technical assistance advice and for setting priorities.
2. Does technical assistance help improve national ownership of Fund supported programs? Has it been effective in improving program implementation or in enhancing crisis prevention?
3. Assessment of the effectiveness of technical assistance in such areas such as:
 - Tax policy and revenue administration

- Expenditure policy and expenditure management
- Banking supervision/financial stability
- Debt and external reserve management

Internal IMF Processes and Governance

The IMF's effectiveness of the Fund in pursuing its objectives depends clearly on the procedures it adopts both for operational work and Executive Board supervision. The following studies seem relevant:

1. Are the IMF's internal review systems adequate? For example, are there adequate mechanisms for early internal re-assessments of the adequacy of program design?
2. Is World Bank-IMF collaboration effective? How can it be improved, given their distinct operational approaches and objectives? Is the division of labor/degree of overlap between the two institutions appropriate?
3. Do staff papers on country programs contain the necessary information and analysis for the Board to make an informed judgment on the probability of success?

Research

Research is an important part of the IMF's work but since the Research Department is currently being restructured this need not be a high priority area for review. A following-up on the recommendations of the 1999 External Evaluation of Research Activities could be considered for the longer term.

Appendix I

The IMF's Independent Evaluation Office (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.

A Director, to be appointed by the Executive Board, will head IEO. The Director's term of appointment will be for a period of four years, renewable for a second term of up to three years. 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.