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The politics of performance evaluation: Independent evaluation at the International Monetary Fund

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Abstract How has the Fund institutionalized independent evaluation as a means of assessing its performance? This paper process-traces the contentious creation of the Fund's Independent Evaluation Office (IEO). I use primary interviews conducted at the Fund headquarters in 2008–2010 and Fund archive documents dating back to the beginning of the debate over independent evaluation in 1992 to analyze the interaction of internal and external actors and interests that led finally to the creation of the IEO in 2001. I then comment on the 'performance of the performance evaluator.' I draw from a recent external evaluation of the IEO (Lissakers et al. 2006), as well as interviews and secondary sources, to identify enduring contestation over the IEO's function and scope of authority and to discern how this has affected the ability of the IEO to inform and shape the Fund's process and outcome performance. To this end, I discuss four issues currently facing the IEO: the need to establish both actual and perceived independence, the problems of ambiguous or non-existent metrics for assessing Fund performance, difficulties in balancing candor of evaluation reports with credibility in the eyes of multiple constituencies, and the challenges of fostering a culture of learning in the Fund.

Keywords International Monetary Fund · International organizations
Performance evaluation · Accountability · Transparency · Organizational learning

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1 Introduction

There is little doubt that the performance of the International Monetary Fund (hereafter Fund) has been the subject of intense scrutiny for many years. The Fund

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has been widely accused of performance problems, including unchecked mission creep, weaknesses and biases in central surveillance activities and conditionality practices, and failures to anticipate and preempt financial crises in a timely manner.[1] After the Asian financial crisis ten years ago, many traditional borrowers turned away from the Fund towards private capital or sovereign wealth funds, resulting in several years of negative net lending and a budget crisis that led to a near 13% staff layoff in the summer of 2008. Although recent events have renewed demand for Fund bailouts and thus resolved some debate surrounding its relevance, the institution continues to face considerable criticism regarding its legitimacy and efficacy. This has in turn fueled demands for more accountability and organizational learning, particularly through stronger performance evaluation.

This paper seeks to explain the tensions inherent to the creation, evolution and current status of the IMF's Independent Evaluation Office (IEO), which was established in 2001 after a prolonged debate both within and outside the Fund about the need for enhanced performance evaluation. The IEO is an interesting case for scholars of IOs for three reasons. First, it is surprising that the IMF did not have independent evaluation until 2001—a curious case of the "dog that didn't bark" during a period when independent evaluation was widely viewed as an essential institutional feature of any legitimate global governor (Avant et al. 2010; GTI 2008).[2] Second, the long and contentious gestation of the IEO challenges notions regarding the "rational design" of IOs, illuminating how design and delegation decisions at IOs are often the products of complex political bargaining and pressures that reveal the influence of non-state actors as well as external norms and internal organizational culture.

Finally, efforts to create and institutionalize independent evaluation in the Fund directly speak to this issue's goals of explaining complex aspects of IO performance. To date, many excellent academic studies exist on the political economy of Fund programs (e.g., Vreeland 2003 and Steinward and Stone 2008). While these studies offer analyses of the Fund's performance in both lending processes and macroeconomic outcomes, they do not directly examine the institutional processes and mechanisms through which the Fund assesses its own performance and holds itself to account. Detailed studies of independent evaluation policies and practices, and their impact on process and outcomes performance, are largely absent from international relations scholarship, despite recent attention to related questions such as IO transparency, legitimacy, deviance, dysfunction, hypocrisy, and pathology.[3] As Gutner and Thompson (2010) note, self-evaluation by IOs has the potential to contribute to improved process and outcome performance. Yet self-evaluations, conducted in-house, often attract negative attention and can be seen cynically by IO critics as "back-patting" exercises (Welch 2004, 50). Independent evaluation—as opposed to internal, self-evaluation—is designed to counteract this. Independent evaluation provides critical reflection to improve process and outcome performance

[1] For an excellent discussion of these issues, see Cotarelli (2005), Kapur and Webb (2006), Boorman (2008), Helleiner and Momani (2008), Boughton and Lombardi (2009), Griesgraber (2009) and Weiss (2009).

[2] By comparison, the World Bank established its Operations Evaluation Department (now the Independent Evaluation Group) in 1973 and the Asian Development Bank OED was created in 1978.

[3] See, e.g. Barnett and Finnemore (2004), Grant and Keohane (2005), Buchanan and Keohane (2006), Hawkins et al. (2006), Hurd (2007), Grigorescu (2008), Hale (2008), Weaver (2008).

and engenders external legitimacy by removing perceived incentives and biases for evaluators to provide positive reports and increasing transparency to allow external stakeholders to hold the IO to account.

In the first section of this paper, I seek to identify the internal and external factors that explain the design and delegation of performance evaluation authority to the IEO. In theory, enhanced evaluation policies and practices (one aspect of the IO's process performance) should translate into better results on the ground with respect to the intermediate and long-term impacts of Fund programs (the IO's outcome performance). But even getting to point A—creating the mechanisms for independent performance evaluation—is inherently difficult in complex political organizations such as the Fund. So it is interesting to unpack the belabored debate over the structure and goals of the IEO in order to better understand the challenges it currently faces in conducting and delivering the reports that are expected to inform and improve both Fund process and outcomes performance.

I thus start with a specific question: why and how did the Fund finally pursue independent evaluation when it did, as opposed alternative mechanisms of performance evaluation and accountability, such as the in-house or ad hoc external evaluations that were used for years? In other words, why did the Fund not have an independent evaluation mechanism until 2001, nearly 40 years after its sister institution, the World Bank, established its independent evaluation office? I trace debates over the creation of the Independent Evaluation Office, using primary interviews conducted at the Fund headquarters in 2008–2010 and Fund archive documents (foremost the transcriptions of meetings of the Board of Executive Directors) dating back to the beginning of the debate over independent evaluation in 1992.

I find that external normative and material pressures were certainly relevant to explaining why this debate occurred when it did. These external factors include mounting pressure from international non-governmental groups, member state parliaments, peer institutions and a shift in international norms. At the same time, the evidence suggests that the timing and design (with respect to the rules and mandates) of the IEO—and specifically the long delay in establishing the self-standing unit—can be better explained through reference to the *internal* debates within and between the Fund's Executive Board, management, and staff. In particular, the internal debate surrounding the creation of the IEO reveals much about the strategic agency or "norm advocacy" (Momani 2010; Park and Vetterlein 2010) of the Fund's Executive Board. Key Executive Directors rallied Board support and put pressure on the reluctant Fund management to cede to the idea of a self-standing independent evaluation group. Timing here also matters, as the convergence of external pressures along with the impending transition in Fund management in 2000, appears to have presented a window of opportunity for the IEO's early champions after nearly eight years of open discussion on the subject.

In the second section of the paper, I offer a few comments on the current "performance of the performance evaluator." I draw here from a recent external evaluation of the IEO (Lissakers et al. 2006), as well as interviews and secondary sources, to identify continuing internal and external contestation over the IEO's function and scope of authority and how this might affect the ability of the IEO to inform and shape the Fund's process and outcome performance. To this end, I discuss four issues currently facing the IEO: the need to establish both actual and perceived independence, the problems of ambiguous or non-existent metrics for assessing Fund performance, difficulties in balancing candor of evaluation reports with credibility in the eyes of multiple constituencies, and the challenges of fostering a culture of learning in the Fund.

2 Creating the IEO

Calls for an independent evaluation office in the Fund go back to the early 1970s, when such offices were created in many other multilateral financial institutions (IMF Archives EBAP/92/166, p.1). However, the Fund stuck with internal, self-evaluation long after it became apparent that Fund remained one of the few multilateral financial institutions that did not have an independent evaluation unit (IMF Archives EBM/93/9: 19). Instead, area departments conducted ex-post reviews of country-specific programs, the Policy Development and Review Department (PDR) conducted periodic conditionality reviews and other systemic assessments, and other departments conducted ad hoc studies of specific aspects of Fund policies and practices. Public dissemination of these reports was rare.

There was very little serious discussion of independent evaluation at the level of the Board until the early 1990s, despite some internal advocacy within the Fund staff and growing external pressure from international non-governmental organizations (NGOs) and national parliaments to increase Fund transparency and accountability (interviews with Fund and IEO staff; see also IMF Archives EBAP/00/20). In 1991, a task force of senior staff members prepared a background paper on the idea of an independent evaluation office (then referred to as the EVO) (IMF Archives EBAP/92/166). On the basis of this report, Managing Director Michel Camdessus proposed the creation of an EVO to the Fund Executive Board in late 1992 (IMF Archive BUFF/92/141). However, by all accounts Camdessus did not wholly support the idea of an evaluation unit independent of Fund management and preferred existing internal evaluation mechanisms (Mussa 2007; interviews with Fund staff). Thus, in response to the task force report, Camdessus proposed that the EVO function much like an internal unit to the Fund, reporting directly to the Managing Director (MD) and run by an internally-chosen director appointed by the MD (and approved by the Board) for a three year tenure. Camdessus fully expected that the candidates for EVO director would come from present or recently retired member of the Fund staff or Board, given his presumption of the need for extensive expertise of the Fund's organization in order to carry out effective evaluations.

Staff, management, and several Executive Directors immediately raised concerns about the proposal. Fund staff were less concerned with the apparent lack of independence of the proposed EVO than the constraints it would put on Fund resources. In comments on the background paper, Fund staff expressed reservations that the EVO would draw needed Fund staff away from operational work at a time that the Fund was stretched thin in its efforts to respond to the entry of former Soviet States (foremost Russia) into the Fund. Many also voiced concern about what this might mean in terms of internal culture and operating norms. If the EVO focused too much on holding staff to account for program results, it would create perverse incentives for staff to become overcautious in program design. Moreover, they argued, independent evaluation would suffer from vague mandates, insofar as there was an intrinsic difficulty of evaluating Fund programs given the absence of clear and unambiguous metrics for determining the impact of the Fund's programs on borrower countries (IMF Archives EBAP/00/29).

In a long Board discussion of the Task Force Report in January 1993, several Executive Directors also criticized the proposal, but with much more concern directed to the perceived independence of the proposed EVO from Fund management. The first objection concerned how the public would perceive the EVO if it reported to the Managing Director. For example, Godert Posthumus (the Executive Director from Netherlands) argued that "an evaluation office that gets its work program from management, reports to the Managing Director, and submits its reports to a special committee chaired by the Managing Director, which then makes recommendations to the Board—also chaired by the Managing Director—is as independent as a cultivated plant placed under a glass flowerpot in a hothouse" (IMF Archives EBM/93/9). Likewise, many directors believed that drawing EVO staff directly from Fund staff would undermine the EVO's appearance of independence. At the same time, according to transcripts of Board minutes, there was no discernible consensus amongst the Executive Directors on whether or not the EVO should be able to determine its own work program or whether its annual reports should be published.

More reticent executive directors sided with the MD and Fund staff on functional grounds, and considered the Fund's existing self-evaluation mechanisms to be sufficient. They feared that the proposed EVO would only add another bureaucratic layer and contribute to mission creep. For example, Stefan Schoenberg (the Executive Director from Germany) argued that there was more than enough staff evaluation to enable exhaustive Board oversight. He argued "I am not a believer in the effectiveness of more bureaucracy; rather, I see the risk of double work, and of an extra demand imposed on all the recipients of the work of the evaluation office, as they will be flooded with an additional series of documents to digest" (IMF Archives EBM/93/9: 11). Several other Executive Directors, while not overtly opposed to the idea of independent evaluation, nonetheless agreed that the proposed EVO was too redundant with the internal evaluations conducted by PDR and thus rejected the proposal on efficiency grounds (see, e.g., Lissakers 2004).

While functionalist concerns seem to strongly inform early opposition to the EVO, the Board also appeared driven by more normative concerns. First, many executive directors were concerned with how Fund staff would react to the EVO proposal. Most directors (with the exception of the strong EVO supporters from the Canadian and Dutch seats) dismissed the notion that Fund staff were not sufficiently self-critical in their internal evaluations. They thus rejected claims that independent (as opposed to in-house) evaluations were necessary to achieve blunt and candid reports. In this same vein, the Board also debated at length how the EVO might vet and publish its reports in ways to enhance perceived independence while engendering staff trust. David Peretz, the Executive Director from Britain, insisted that the proposed EVO report directly to the Board without any prior editing of reports by the Fund management, but also advocated allowing for the Managing Director and staff to comment on or register dissent on particular issues so as not to "alienate the rest of the institution" (IMF Archives EBM/93/9). At the same time, there was a prevailing ideology in the early 1990s held by a majority of the Board members (and shared by Camdessus) that the Fund was not like other IOs and thus need not emulate their models for accountability, transparency and evaluation. Instead, they believed, the Fund was much more like a Central Bank, and Central Banks do not by custom subject themselves to independent evaluation (Interviews with Fund staff).

As a result, no decisive action followed the January 1993 discussion. In large part, this was due to the MD's general reluctance, which was critical, considering the MD's agenda setting power as chairman of the Board and consensus decision-making norms at the Fund. Camdessus believed that the Fund's internal self-evaluations were very high quality and that the creation of a self-standing evaluation office could not be accommodated within the current budget (IMF Archives BUFF/94/10; see also Mussa 2007: 119). While EVO advocates saw independent evaluation as a means to address growing external criticism of the Fund's legitimacy and performance (evident, for example, in the 1994 mobilization of civil society and NGO groups in the "Fifty Years is Enough" campaign), Camdessus worried that the EVO might contribute to the Fund's troubled external relations and interaction with its members. He stated that "an increasing amount of information on Fund activities was being made available to the outside world so that evaluation should be carefully tailored to contribute further to this initiative without hampering the quality of the Fund's relations with member countries" (IMF Archives BUFF/94/10). In the end, Camdessus was also not convinced of the value of a permanent and independent EVO over existing ad hoc external evaluation mechanisms. This stance resulted from Camdessus' assessment of the experience with the external evaluation on the Fund's surveillance as an early warning system during the Mexican financial crisis in 1993–1994 (IMF Archives SUR/95/10). The highly regarded, very critical report (never released to the public) convinced Camdessus, and many of the Executive Directors who were on the fence, that the use of outside experts in ad hoc external evaluations was less costly, less bureaucratic, and "more refreshing …than one involving a separate EVO" (IMF Archives BUFF/95/125).

By 1995–1996, these considerations, on top of further budget problems tied to the expansion of the Fund's surveillance activities, led Camdessus to try to forge a new consensus on the Board around an alternative approach. For a trial period, the Fund would continue with existing practices of self-evaluation by the operational departments and the Office of Internal Audit and Inspection (OIA). In addition, Camdessus proposed that the Board solicit two to three independent evaluations per year by outside experts (IMF Archives BUFF/00/131). Even strong advocates of the proposed EVO were persuaded by Camdessus' argument. Ian Clark, the Executive Director from Canada who had been a lead proponent for the EVO, concurred with the alternative proposal, arguing that "given the budget imperatives facing the institution in the near term, we need to 'walk before we can run'" (IMF Archives EBM/96/16: 28). Subsequently, guidelines for ad hoc external evaluations were endorsed by the Board for a two-year trial period, after which the practice of external evaluations would be reviewed. There was some debate over who would determine work programs for evaluations, with Camdessus supporting his agenda setting power and some directors pushing for more Board initiative and oversight. Overall, however, the Board strongly supported the delay of the EVO's creation, seemingly swayed more by efficiency and budget concerns than by external normative pressures.

In the two years following this decision, the Fund sponsored a small number of external evaluations on the Enhanced Structural Adjustment Facility (ESAF), internal research, and surveillance activities. These evaluations were conducted alongside a number of internal self-evaluations on issues such as Fund-Supported Programs in the Asian Crisis (conducted by PDR), the Enhanced Structural Adjustment Facility and surveillance. In 1996, Camdessus also expanded the activities of the Office of Internal Audit and Inspection (OIA) to conduct reviews of the Fund's organizational structures and work practices, and to assist the Executive Board and management in developing and facilitating the agreed evaluation projects (IMF Archives EBAP/00/29: 7).

The most important change, in terms of understanding the evolution of independent evaluation, was the creation of a small group of four (later six) Executive Directors to monitor the evaluation functions from 1996–1998. The Evaluation Group of the Board, as it became known, became actively involved in the selection of evaluation work programs, external evaluators and terms of reference for each report, evaluation implementation and the budgets. The Evaluation Group was initially chaired by Ian Clark, Canadian Executive Director. Clark was succeeded by Tom Bernes in November 1996 as Canadian Executive Director and Chair of the Evaluation Group—a position from which Bernes aggressively promoted the idea of a self-standing EVO despite continued opposition from Camdessus (Mussa 2007: 119; Lissakers 2004: 48).

Bernes' advocacy of the EVO was facilitated by discernible shifts in the external environment of the Fund. Minutes of the Executive Board meetings in 1996 indicate that Executive Directors (regardless of their stance on the utility of the EVO) viewed the creation of an independent evaluation unit as a foregone conclusion. Externally there was a clear sense that independent performance evaluation was "an important part of any well-managed institution," "a symbol of good standing," and widely expected "in the current era of openness and accountability" (IMF Archives EBM/96/16). Yet despite this normative pressure and peer shaming,[4] internal opposition persisted. Some executive directors continued to believe that the Fund's internal evaluation activities were still sufficient, a sentiment embodied in the statement by Alternative Executive Director Vincente Fernandez (Spain): "if it's not broken, don't fix it" (IMF Archives EBM/96/16: 7). Likewise, Camdessus continued to assert that the EVO was impossible in the current budget of the IMF. As a result, many directors continued to withhold their formal endorsement of an EVO until the Board could reach consensus on the exact terms of reference for selection and size of staff, determination of the work program, and lines of accountability, with respect to rules regarding to whom (the Board or the Managing Director) and in what sequence the EVO would report.

The real turning point in this drawn-out debate over the creation of an independent evaluation unit came in 1997–1998 in the aftermath of the Fund's

[4] It is also likely that the Fund was strongly influenced by peer institutions, especially the World Bank Operations Evaluation Department (just down the street from the Fund) and the Evaluation Cooperation Groups of the Multilateral Development Banks), created in 1996.

response to the Asian financial crisis. Jo Marie Griesgraber (2008: 157) notes that the Fund's behavior during the Asian crisis created a "public political context that was impatient with secrecy." External pressures, both material and normative, started to play a much more significant role in the internal debate over the utility and desirability of independent evaluation.

Foremost was the visible pressure from the United States Congress, which was especially angry with the Fund for withholding information about the Asian financial crisis until last minute. Congress demanded more transparency and accountability in exchange for its increased contribution to the Fund's new credit lines, called the New Arrangements to Borrow. Jim Saxton, then Chairman of the U.S. Joint Economic Committee Study, argued that the Fund was a closed and secretive organization that operated in manner incompatible with U.S. performance and accountability standards. In making his point, he quoted former World Bank Chief Economist for Latin America, Sebastian Edwards, who noted "for any outsider it is extremely difficult—utterly impossible some would even say—to fully evaluate the functioning of the IMF", in most part because all aspects of the Fund's activities were treated as confidential (quoted in Saxton 1998: 2). Other powerful member states started to weigh in as well. For instance, British Chancellor Gordon Brown told the Fund's Interim Committee at the April 1998 meetings that it should more aggressively explore ways to improve the institution's accountability, in part by making the practice of independent external evaluation more systematic via the creation of a full-time evaluation unit that would report directly to the Fund's shareholders and to the public. (Quoted in Bretton Woods Project 1998).

Pressure was also mounting from NGOs, other IOs, and prominent academics. For the NGOs, genuine Fund reform required enhanced transparency and independent evaluation. In 1997, a Study Group on IMF reform was formed by the Center of Concern, which included Fund executives from developed and developing countries, prominent academic economists (like Peter Kenen from Princeton University), NGOs (Friends of the Earth and Center of Concern), and experts on evaluation from other institutions, including the World Bank, Inter-American Development Bank, and the Organization for Economic Cooperation and Development (Kenen 2004). The final report, put together over 18 months and released in mid-1998, was authored by Jacques Polak, the "consummate insider" who had worked at the Fund since its inception at Bretton Woods.[5] The report iterated previous calls for the creation of a formal independent evaluation office that would report directly to the Board, as well as more progressive policies in terms of release of archival and other internal documents. While some of the NGO actors express doubt as to the influence of the Study Report (Griesgraber 2008: 157), internal IMF documents from this time period indicate that this external pressure pushed the Board towards consensus on the creation of the IEO (IMF Archives EBAP/00/105).

Simultaneously, there was public pressure on the Fund to address the belief that its conditionality policies were causing harm to developing countries. In response,

[5] Interview with Jacques Polak, April 2007. See also Polak (1998), Wood and Welch (1998) and Welch (2004).

the Board solicited another ad hoc external review on conditionality (a report that was at first internal, and then released to the public). The resulting evaluation was very revealing, and the Board found the report more useful than prior internal evaluations of conditionality practices. But the Board also started to discover that its own responsibilities in terms of setting up ad hoc external reviews were costly and time-consuming, thus pushing Board members back to a position in favor of the creation of a permanent internal evaluation office (Griesgraber 2008: 157). Around this time, in June 1998, the Board commissioned an external evaluation of Fund surveillance, chaired by John Crow (IMF Archives EBAP/98/64). The Crow Report, released in 1999, was received by the Board as an exemplar of what independent evaluation could provide in terms of hard-hitting analysis and recommendations for Fund policy.

As a result, the Executive Directors as a whole finally reached a consensus on the merits of systematizing formal independent evaluation, against what some see as the continued opposition of the Fund management (Mussa 2007: 119). This decision appears to be the result of a convergence of structural pressures outside the Fund, including by 2000 mounting criticism from the US Advisory Commission (also known as the Meltzer Report) and civil society protests against the IMF organized at the spring 2000 annual meetings of the IMF and World Bank in Prague. Yet many also attribute the decision to move from ad hoc external reviews to a permanent independent evaluation office to the strategic agency of key Executive Directors, especially Tom Bernes (later the second IEO Director), with support from members of the Evaluation Group and other industrialized countries such as the US and France (see Lissakers 2004; Milleron 2004) who had shifted their preferences to favor of a permanent independent evaluation unit. In sum, external and internal factors were mutually reinforcing. External norms and material factors created an opening for independent evaluations' champions to finally persuade the Fund's Board of the normative appropriateness and functional utility of independent evaluation, despite management's lingering concerns.

In April 2000, the EVO (later renamed the IEO) was finally created. Importantly, the original resource investment in the IEO seemed to reflect the longstanding concerns over the viability of financing and staffing the IEO within the business structure of the Fund. The IEO began with a meager budget and skeletal staff of eleven. The Executive Board nonetheless endowed it with four ambitious mandates: (1) to serve as a means to enhance the learning culture within the IMF; (2) strengthen the IMF's external credibility; (3) promote greater understanding of the work of the IMF; and (4) support the Executive Board's institutional governance and oversight responsibilities. By FY 2009, the IEO had the equivalent of around 14 full time employees (including the Director), around half of whom were seconded from IMF staff and the remainder hired from outside the Fund as consultants and short-term contractual staff. Overall, the IEO's total budget of around $4.75 million represented about 0.5% of the Fund's administrative budget in FY2009, which is very small in comparison to nearly 3% devoted to independent evaluation in similar IOs (IEO 2008: 11; Lissakers et al. 2006: 7).

Since it began work in 2001, the IEO has produced 17 major reports, and has two in progress (as of July 2010). The relatively small number of reports is partially the result of the limited internal resources. Yet it is also a reflection of a prevailing strategy (by both IEO Directors and advocates on the Board) to focus on a few "hard-hitting" evaluations that address cross-cutting issues related to the Fund's overall competency and legitimacy, rather than narrower evaluations of individual country programs that would have more limited impact.[6] In doing so, the IEO appears more focused in its evaluations on what Gutner and Thompson (2010) term the "process" performance of the Fund: the policies and procedures of the Fund in regard to its core activities (for example, in conducting multilateral surveillance and providing exchange rate advice—see IEO 2006 and 2007), as well as the effectiveness and legitimacy of its own organizational governance and interactions with member states (IEO 2008 and 2010).

The choice of IEO evaluations should be noted here, as the office clearly has tackled some of the most controversial and broad-sweeping issues surrounding the Fund's performance on its core mandates. And by most accounts, the IEO does not shy away from cutting criticism of the Fund. For example, the April 2007 report on *IMF Exchange Rate Policy Advice, 1999–2005* concluded that there was a significant "effectiveness gap" in the IMF's main line of business (IEO 2007). Other recent reports on *The Prolonged Use of IMF Resources* (IEO 2002) and *IMF's Role in PRSP and PRGF* (IEO 2004a) provided startling evidence on the contradictions between IMF espoused goals and policies versus actual practices. More recently, the IEO responded to increasing criticism of the Fund's democratic deficit and overall relevance by conducting an evaluation of IMF corporate governance, drawing direct attention to gaps in the accountability and effectiveness of the Board of Executive Directors (IEO 2008).

3 The Politics of Evaluation: Four Key Challenges

What can we say about the IEO's own performance with respect to its role in evaluating the Fund's overall performance? The IEO appears (at least in my opinion) to be living up to its image of "ruthless truth-teller," which indicates that it scores well with respect to its own process performance. At the same time, it is very difficult to determine thus far whether the activities and products of the IEO are directly affecting sustainable policy change and inciting organizational learning at the Fund in a way that would signal a strong outcome performance for the organization as a whole.

Nonetheless, it is possible to assess where the IEO faces internal and external obstacles in its ongoing work. As Gutner and Thompson (2010) argue, the ability of an organization (or any subunit therein) to achieve agreed-upon objectives depends on the consistency of organizational goals, as well as many other factors related to the external and internal environment of the organization (see Figure 2 in Gutner and Thompson). In this section, I explore the sources and influence of four key issues confronting the IEO today in its efforts to achieve "good performance" in its evaluative function. I link this to the prior discussion of the IEO's creation by fleshing out the final negotiations on the creation of the IEO in 2000–2001 and

[6] For a full list of IEO completed reports, see http://www.ieo-imf.org/eval/eval_complete.html.

identifying where the initial decisions regarding the mandates, resources and structure of the IEO have subsequently affected the ability of the IEO to carry out its mission. I draw in this section heavily from the external evaluation of the IEO, led by former U.S. Executive Director Karin Lissakers in 2006, as well as interviews with IEO and Fund management and staff in 2008–2010.

3.1 The Independence of Evaluation—Actual and Perceived

The debate over the creation of the IEO and the subsequent work of the office clearly reveals the tension between the need to install the appearance of independence and the practical (and political) demands of attaining access to confidential information in order to produce effective evaluation reports. The series of Board discussions since 1992 indicate that nearly all Executive Directors thought that an independent evaluation office in the Fund would not enjoy internal or external credibility without the most rigorous assurance of independence. More critically, it was the *perception* of independence that was critical to maintain, as it would grant the Fund an "important public relations advantage" at a time when its legitimacy and relevance were under wide attack.[7]

One perceived impediment to the effectiveness of the IEO today is the actual degree of its *de facto* (as opposed to *de jure*) independence. On paper, the IEO enjoys a great deal of independence, in terms of the budget, staffing, and reporting structures. According to Tom Bernes, the Director of the IEO until mid-2009, this independence is absolutely essential to the ability of the IEO to fulfill its role as "ruthless truth-teller" (Bernes 2007: 3). Yet some recent studies, most prominently the 2006 external evaluation of the IEO express reservations about the IEO's independence due to two issues: the nature of staff selection and perceived interference from the Executive Board.

Concerns about IEO staffing have existed since the early 1990s. The key dilemma here is the need to balance perceptions of independence against the need to employ Fund "insiders" who have the expertise and institutional knowledge necessary to carry out quality evaluations. Earlier discussions about staffing leaned towards strict rules prohibiting IEO staff from returning to the Fund regular staff. This was out of concern that this would create the appearance of a conflict of interest and suspicion that IEO staff would water down reports in order to ease their re-entry into the Fund's regular staff after their time at the IEO.[8] The 2000 paper by the Evaluation Group of the Executive Board predicted this problem, arguing that if the IEO hired insiders, then "management will need to commit to ensuring that EVO staff are offered desirable assignments upon their return to the regular staff, and are in no way discriminated against because of the authorship of reports that are critical of potential receiving departments. At a minimum, an assurance of re-integration back into the home department may be necessary for an

[7] See statements by Executive Director Ian Clark (Canada), IMF Archives (EBM/96/16: 57).

[8] Specifically, officials were concerned that evaluation staff wishing to return to the Fund might rationally be deterred from pushing reticent managers for sensitive information or reporting critical findings that may embarrass future bosses or client governments. See Lissakers et al. (2006: 13) and Easterly (2006).

effective rotation system" (IMF Archives EBAP/00/84: 8). The main lesson here seems to be taken from the World Bank. Very early on, the Fund acknowledged that "the experience of other institutions suggests that if mobility is not encouraged and actively promoted, the Evaluation Office could run the risk of becoming a preserve—if not a pre-retirement pasture—for staff members who (for whatever reason) have run into career obstacles in other departments" (IMF Archives EBAP/92/166).[9] Likewise, there remain concerns that the advantages of insider knowledge may be outweighed by "importing too much of the 'mindset' and 'culture' of the IMF, rendering evaluators less able to ask questions 'outside the box' and to use methods of investigation in which Fund macro-economists are typically not trained" (Lissakers et al. 2006: 11).

The need for internal expertise ultimately won out against concerns over impartiality. Soon after the IEO was established, the original rules restricting the hiring and re-entry of Fund insiders were relaxed as a result of immediate difficulties encountered by the IEO Director in finding high quality staff who would be willing to serve in the IEO without the "right of return."[10] At the same time, in order to maintain the appearance of independence, there was (and still is) emphasis on maintaining a significant number of external consultants on each report.

The one exception was the selection and terms of employment for the Director of the IEO. The Fund Board and Management strongly agreed that the IEO Director would not be eligible to join or rejoin the regular staff of the Fund at any point after his or her tenure in the IEO. More importantly, the Board's early discussions regarding the Director's selection emphasized that the Director be someone widely respected inside and outside the institution for the sake of building the authority and credibility of the office among the multiple constituencies of the IEO's reports. Many staff that I interviewed in June 2008 argued that the selection of Montek Ahluwalia, the highly regarded economist from India, as the first Director of the IEO in July 2001 was an important element of the IEO's early success in gaining the trust of the Fund's staff, management and Board.[11]

The second tension between actual versus perceived independence is in regards to the determination of the IEO's work program and the production and dissemination of its reports. In the case of the selection of evaluation topics, the IEO enjoys a considerable amount of *de jure* independence from the Management and Board (which can weigh in, but not veto, the selection of topics), although its mandates do prohibit evaluation of on-going programs or engaging in evaluation that threatens client confidentiality. Likewise, the Board and Management can offer comments on

[9] In a January 1993 Executive Board meeting, Executive Director Prader argued that any rules assigned to staff selection in an EVO must avoid the "drawback of creating the same kind of dual staff structure in the Fund, in which all the ambitious economists would try to avoid secondment to the evaluation office" (IMF Archives EBM/93/9: 26).

[10] This strongly reflected the experience of the World Bank. The World Bank created its Operational Evaluation Department (now called the Independent Evaluation Group) in 1973—one of the first to be established in a large intergovernmental organization. The OED's history reveals a long struggle with the recruitment of staff in light of the widely held perception within the Bank that a move to the OED was "career-ending." The World Bank ultimately abandoned its "one-way rule." See Picciotto (2003).

[11] Interviews with IEO and Fund staff. Ahluwalia stepped down as IEO Director in 2004 to return to India as Deputy Chairman of the Planning Commission. He was succeeded by David Goldsbrough as Acting Director, and then by Tom Bernes in April 2005.

IEO reports, which are published, but they cannot edit or censure IEO reports prior to publication.

The Lissakers Report (2006) nonetheless points to small loopholes in these rules that may (in theory) allow for the Board to find ways to interfere (with some evidence drawn from the experience with the IEO's report on Argentina) (IEO 2004b). For example, the Board approves the IEO budget and can dismiss the IEO Director at will (Lissakers et al. 2006: 10).[12] A staff survey conducted in conjunction with the external review of the IEO in 2006 revealed that 75% of the Fund's regular staff found the IEO's work "very independent or independent." At the same time, staff indicated that they see the Executive Board as playing a very strong role in directing the work of the office, particularly in the choice of topics for evaluation. Interviews with IEO staff, on the other hand, consistently and persuasively rebuked this notion.

3.2 Ambiguity in IOP Measurement and Goals

As Gutner and Thompson mention in their framework article, one central problem in assessing the performance of IOs is the lack of clear benchmarks or performance targets with which to evaluate the success or failure of various programs (sometimes the result of an incoherent or ambiguous mandate). This essential problem of "evaluability" was anticipated in the 1992 Task Force Report on the EVO, in which the authors noted (and pursuant Board discussions echoed) that the Fund's activities are inherently different from those of multilateral development banks, which have concrete projects or programs that lend themselves to more distinct metrics for evaluation, such as "economic rates of return." Fund programs, on the other hand, tend to tackle the whole economy of member states. The fear was (and still is) that attempting to disentangle the effects of Fund policies and advice from the complex set of political and economic factors driving outcomes would be an extremely difficult process usually involving a precarious counter-factual effort to determine whether the outcome would have been better or worse absent Fund involvement.[13] "Where economic relationships are imperfectly understood and changeable; where feasible economic policies must pass the test of political acceptability; where experience is diverse; where the Fund, like any other creditor, is inevitably taking some risk in making its resources available, the drawing of clear and practically applicable lessons will not be easy for anybody" (IMF Archives EBAP/92/166: 5).

Ultimately, the danger here is that trying to establish clear metrics for assessing Fund performance may undermine continued support for independent evaluation. The 1992 Task Force report pointed out that no single methodology could be recommended, and evaluation would thus be quite subjective. As such, it would be seen (by both internal and external audiences) as more open to manipulation and bias. If evaluations were received in this way, it would undermine their credibility and effectiveness in spurring organizational learning, as the "lessons" and

[12] However, dismissal of the IEO director requires a 70% majority vote on the Board.

[13] Increasingly sophisticated quantitative analyses offer an improved understanding of IMF effectiveness but also contain many contradictory results, as one survey concludes (Steinward and Stone 2008).

"recommendations" of the evaluation reports would be dismissed as simply the weakly substantiated opinions of evaluation staff. In this way, the ambiguity of IOP measures reinforces concerns about the independence of the IEO and the rigorous selection of staff.

It was widely perceived early on by the Board that, given the inherent subjectivity of evaluating Fund work, the leadership of the IEO would have to carefully protect the office's reputation and maintain the highest level of transparency and integrity. If not, its reports would be ignored, would engender the distrust and resentment of staff and management, and potentially serve as arsenal for outside critics.

3.3 The Problem of Candor and Constituents

A third critical issue facing independent evaluation in the Fund is the enduring problem of multiple constituencies or audiences for the IEO's work. Anne Krueger, First Deputy Managing Director of the Fund, summed this up well in 2004. She noted first that the Fund (meaning management and staff) had long resisted the idea of a separate evaluation office and independent scrutiny of their work, putting the onus on the IEO to "convince staff that this was a worthwhile exercise and that they could expect fair, if not always uncritical, analysis of their decision." Likewise, the IEO had to convince a skeptical Board that it was able to provide "useful assessments of the Fund's work in a way that drew lessons for the future direction of policy." Finally, Krueger argued, the IEO had to navigate a skeptical external audience and "earn the respect of those who are, by nature, cynical about such evaluation exercises" (IMF Archives PR/06/67).

The relationship between the Fund and its principal member states factors prominently in discussions of the effectiveness of independent evaluation. On the one hand, donor countries are pushing hard for increased resources and attention to independent evaluation to help achieve "results-based management" and to reduce information asymmetries to enable donors to better hold Fund staff and management to account for process and outcome performance. Pressures from borrower countries, on the other hand, may be having the effect of dampening the potential impact of independent evaluation. This is visible in the case of the IEO, where many borrower states (and sympathetic donor states) pushed successfully to limit the IEO's scope and authority by prohibiting country-specific evaluations (Lissakers et al. 2006: 4, 15).[14] The countries here simply wished to avoid "embarrassing information" from getting out and inadvertently hurting their credibility in international creditor markets. As a result, the IEO has focused thus far on the broader strategies of the Fund and avoided loan-specific investigations.

Pressures from borrower countries (to whom the Fund was increasingly subservient in the face of declining loans prior to the 2008 financial crisis) affect

[14] There have been only two country-specific reports to date from the IEO. The first was on Jordan, which had ended its relationship with the Fund prior to the evaluation and was thus considered a "safe" topic. The other was Argentina. This report was fiercely debated when it was presented to the Board. In the case of the IEO's report on capital account crises, the discussion and publication of the report was delayed at the request of the Indonesian government and opposed by Fund management due to fears that the release of the report would adversely affect the Fund's credibility in the East Asian countries (Lissakers et al. 2006: 16). See also IEO (2003a, 2004b, 2005a, b).

the way staff and management approach evaluation—a clear example of an external factor shaping evaluation performance. One "upstream" constraint mentioned frequently in reports on the IEO is the reluctance of organizational staff and management to provide or reveal sensitive information about programs that would negatively affect their interactions with borrower governments (IMF Archives EBAP/92/166: 5; Mussa 2007: 119). In the IEO reports, this is articulated as an "impediment to candor" with the result of "watered-down" or "softened" input that accomplish little in terms of generating useful lessons for future operations. Likewise, one "downstream" constraint is the pressure from staff, management, and Executive Directors to resist the public release and dissemination of particularly negative reports of the IEO (Lissakers et al. 2006: 5). Tom Bernes articulates this dilemma well: "tough messages are hard to give. Of course, they are even harder to receive. Because of that, staff too often perceive pressures to mute their public criticisms of countries' policies and actions in their documents unless their evidence is absolutely watertight" (Bernes 2007: 6).

It is also evident from interviews and various official reports that candid and blunt independent evaluation may provide ammunition to the Fund's many critics, and even may assist those advocating the demolition of the Fund. In 1993, Executive Director Ismael (Indonesia) argued that "I have to caution that the establishment of an evaluation office will offer a convenient conduit for undue outside influence on the work of the Fund" (IMF Archives EBM/93/9).

This today presents a challenge akin to the problem of performance metrics discussed above, although here the problem raises more questions on how to report results. According to my interviews, staff are keenly aware that standards of successful performance are highly subjective. For example, in the IEO's report on the Fund's exchange rate policy advice, the evaluators found that borrowers are generally quite satisfied with the Fund's performance, but there is no clear benchmark for determining what percentage of respondents need to report satisfaction for the Fund's overall performance to be deemed a success or failure. Success inevitably, as Gutner and Thompson point out, is in the eye of the beholder. As one of the authors of the report told me, "if you report 95% success, critics will grab onto the 5% failure. So how do you report in a balanced way?"[15]

3.4 Independent Evaluation and the Culture of Learning

Perhaps the biggest challenge for independent evaluation (or any performance evaluation,) is to ensure that the evaluation's lessons and recommendations have an actual influence upon organizational behavior and change, or what is more commonly referred to as organizational feedback and learning. In the case of the

[15] Interview with John Hicklin, former Deputy Director of the IEO. Another example concerns the IEO's report on *Fiscal Adjustment in IMF-Support Programs* (2003b). The IEO found little evidence to support the commonly held notion among Fund critics that Fund-supported programs adopt a "one-size-fits-all" approach, are inflexible, cause a decline in social spending, and are associated with lower growth. IEO staff expressed concern that such "positive findings" might be seen by NGOs as evidence of bias on part of the IEO, thus making its conclusions and recommendations suspect.

IEO, there is some evidence that suggests that IEO reports are having such an effect upon Fund policies and operational routines (what we may call here process performance). For example, interviews with Fund staff members, as well as the annual reports of the IEO and periodic monitoring reports of the Fund staff (see below), argue that the IEO's evaluation of the Fund's Technical Assistance (TA) had a major effect on the way the Fund now conducts TA work, including greatly enhanced coordination between area departments who previously worked in a "silo" model. Moreover, the Board instituted an institution-wide strategy for TA, and adopted the IEO's recommendation for country departments to become coordinators for the TA work.[16] Likewise, subsequent reports indicate some success with respect to implementing the IEO's recommendations on exchange rate analysis in Fund surveillance, including the adoption of a new 2007 Bilateral Surveillance Decision (IEO 2006).

At the same time, the culture of the Fund presents a challenge to the IEO—a problem anticipated in the early debates. The IEO must work within a hierarchical, conformist and technocratic bureaucratic culture in which core ideas are rarely challenged (Lissakers et al. 2006: 23). While there is preliminary evidence from interviews and official materials that the IEO reports are being taken seriously and are actually read by a bare majority of Fund staff, there is still pervasive skepticism regarding the extent to which independent evaluation is fostering greater tolerance for reflection and dissent. One of the major conclusions from the 2006 evaluation of the IEO was that the IEO could become "bureaucratized, routinized, and marginalized" because of weak support on the part of the Fund management and department heads (Lissakers et al. 2006: 3). Interviews with Fund and IEO staff in 2009-2010 revealed that these fears remain.

Nonetheless, recent IEO annual reports indicate that each IEO evaluation gets substantial discussion by the Board, if not always the most enthusiastic response from management and staff. More significantly, in reaction to the Lissakers Report's concerns about the absence of feedback and learning, the Board adopted two new accountability mechanisms to ensure follow-up to the IEO's recommendations. In January 2007, the Board adopted a new requirement for Fund management and staff to formally respond to the IEO's report Management Implementation Plans (MIPs) and staff-written Periodic Monitoring Reports (PMRs) on the Fund's implementation of Board-endorsed recommendations arising from IEO reports.[17] The first MIP was produced and discussed by the Board in FY 2008 and the first two PMRs were discussed by the Board in January

[16] Interviews with IEO and IMF staff; see also the IEO's *Report on IMF Technical Assistance* (2005c) and IMF (2007: 42–44).

[17] Noticeably, the requirement is for the management and staff to report on the implementation of the *Board-endorsed* recommendations of the IEO. The Board has not always agreed with the IEO's recommendations for policy change in the Fund. For example, the Board disagreed with the IEO's recommendation to place a cap on conditions (to four or five per year, which is half of the current average for performance criteria and prior actions in Fund loans). On the other hand, the IEO's report on the Fund's exchange rate policy advice was widely supported by the Board despite a very critical reaction by the management and staff, which may promise more results in terms of change in organizational policy and practice IEO (2008: 3, 5).

and December 2008.[18] The January 2008 Board discussion of the first PMR introduced even stronger accountability measures by calling on Fund staff to produce well-defined and measurable criteria to better assess their progress in implementing IEO recommendations (IEO 2008: 1).

These formal changes signal very positive progress towards more accountability that may produce significant learning. Nonetheless, formal policy change rarely incites spontaneous transformation in organizational practice. In late 2008, Tom Bernes commented on shortfalls of evaluation's impact on organizational learning, which he attributed in part to continued weaknesses in accountability. The empirical context of his remarks were, unsurprisingly, the Fund's failure to preempt or effectively manage the financial crisis that hit in September 2008. Bernes' frustration stemmed from the Fund's absence of learning from prior evaluations regarding its "risk-based surveillance function" (or, in other words, the Fund's effectiveness in monitoring member country economies and providing advice that mitigates the causes of financial crises).[19]

In 1999, the Fund solicited a high profile external evaluation of its surveillance, entitled *External Evaluation of IMF Surveillance*. Better known as the Crow Report, after its lead author John Crow, the evaluation provided a comprehensive list of the Fund's surveillance problems and a series of prescriptions to fix the Fund's ability to identify crisis risks (Bernes 2008: 3). As aforementioned, the Crow report was influential in shifting the Executive Directors' consensus in favor of the creation of the Independent Evaluation Office, whose own subsequent reports specifically targeted the Fund's ability, within its various activities, to address systemic risks caused by spillover effects from one economy and financial sector to another.[20] In later reports, the IEO revealed resistance on the part of staff to depart from their conventional macro-economic analyses, to integrating FSAP (financial sector assessment program) findings into surveillance activities, and a neglect of multilateral and spillover issues with a continued bias towards bilateral and country-related issues.

In short, the Fund staff and management had not followed up on the key recommendations of the Crow Report. In mid-2008, with the US financial crisis looming, Bernes further noted that the IMF work program presented by the current Managing Director Dominique Strauss-Kahn to the Executive Board presented the problems with the Fund's surveillance performance "as though they were coming up for the first time, raising questions as to whether there had been adequate learning from the institution's early stumbles and subsequent evaluation work" (Bernes 2008: 5). Bernes agreed with the gist of the work program outlined by the Managing

[18] The first PMR, published in December 2007, was a very substantial document, which attempted to respond to all of the recommendations stemming from the first ten IEO reports. Interviews with IEO and PDR staff indicate that there was some resistance to this exercise.

[19] The Fund's surveillance activities generally fall into three categories: bilateral surveillance of individual countries through Article IV consultations, multilateral surveillance through the World Economic Outlook Reports and Global Financial Stability Reports, and the financial sector assessment papers (FSAP) (Bernes 2008: 7).

[20] Bernes (2008: 4). Bernes specifically notes three IEO evaluations that followed up on the Crow Report: the 2003 evaluation of the Fund's response to capital account crisis, the 2006 report on the Financial Sector Assessment Program (FSAP), and the 2006 report on multilateral surveillance (IEO 2003b, 2006a, b).

Director, which emphasized the need to use Article IV consultation to identify global spillover risks and increase attention to country-focused financial sector work. However, the point of frustration for Bernes was the Managing Director's "tone of discovery—as though the challenges are new."[21]

4 Conclusion

The opportunities and challenges to the IEO's own performance in evaluating the Fund's performance is strongly shaped by the tensions apparent in the multiple purposes of independent evaluation at the Fund. First, independent evaluation is intended to steepen the Fund's "organizational learning curve" through the provision of candid assessments on what has or has not worked in the past and by reducing information asymmetries to facilitate greater oversight and accountability, primarily by the Fund's Board of Executive Directors, but also by internal management as well as external principals and watchdog organizations. The second role is to enhance external credibility or legitimacy at a time when the IMF faces persistent criticism.

This naturally raises the question of whether or not the ability of independent evaluation to directly inform policies and practices undergirding the Fund's performance through blunt analysis is hindered by pressures to justify and defend the Fund. This resonates even more strongly when we recognize that the audience for independent evaluation is as much external as internal. Whereas in the past, the results of evaluations were largely confined to internal discussions by the IO's staff, management and Board of Directors, the current imperative of using evaluation to build external legitimacy means that results are widely distributed and eagerly digested by the Fund's many critics (including not only NGOs, but also donor and borrower states upon whom the Fund relies extensively for resources).

The IEO does not appear to be steering away from politically contentious themes and recommendations as a result of these tensions. Yet, nearing its tenth birthday, the IEO may be at a critical juncture. Questioning the effectiveness of Fund policies and staff expertise may be ruffling some feathers, as evident in some of the more diplomatic management responses to the IEO reports and in interviews with Fund staff off the record about staff and management pushback against the IEO. Much will depend on the support the IEO enjoys from the staff, senior management and Board and the individual credibility and influence of the IEO's new director, Moises Schwartz (former IMF Executive Director from Mexico), who replaced Tom Bernes in February 2010. What is not clear is the extent to which shifting external norms

[21] Bernes (2008). One of the bigger points of frustration, of course, was the failure of the Fund to conduct a Financial Sector Assessment for the United States, which evaded the process because of a loophole in Fund policies which require states to "volunteer" for FSAPs. Bernes' main point of contention here is that the Fund's staff, management and Board had not responded to the IEO's recommendation in its evaluation of the FSAP to use "naming and shaming" as a way to get "systemically important countries" (read: the political and economic powerhouses, such as the United States) to be part of the FSAP process, thereby undermining the very purpose of FSAP (Bernes 2008: 8). He goes on to say that a key focus on future IEO reports should be to "examine the institution's ability to 'speak to power', and highlight the risks of not doing so, when the members that pose the greatest systemic risk are also the largest shareholders" (Bernes 2008: 9).

and material pressures that demand independent evaluation at the Fund are enough to mitigate this potential internal opposition.

On the broader question of IO performance, the 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.

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