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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/9

11:30 a.m., January 22, 1993

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	A. A. Al-Tuwaijri
G. K. Arora	L. E. N. Fernando
	Wei B.
T. C. Dawson	
	J. Prader
E. A. Evans	
	A. Törnqvist, Temporary
H. Fukui	
J. E. Ismael	K.-T. Hetrakul
D. Kaeser	
A. Kafka	
	A. Mozhin
G. Lanciotti	J. Papadakis
	P. Bonzom, Temporary
R. Marino	
	O. Kabbaj
L. J. Mwananshiku	B. S. Dlamini
D. Peretz	
G. A. Posthumus	
C. V. Santos	Y.-M. T. Koissy
S. Schoenberg	
	M. B. Chatah, Temporary
	K. D. Langdon, Temporary
A. G. Zoccali	

L. Van Houtven, Secretary and Counsellor
T. S. Walter, Assistant

Also Present

Administration Department: H. J. O. Struckmeyer, Deputy Director; A. D. Goltz, M. B. Hakeem. African Department: M. Touré, Counsellor and Director. European I Department: D. N. Lachman. European II Department: T. A. Wolfe. External Relations Department: H. P. Puentes. Legal Department: R. H. Munzberg. Policy Development and Review Department: J. T. Boorman, Director; L. Dicks-Mireaux. Research Department: L. D. Villanueva. Secretary's Department: A. Jbili, A. Leipold, A. Mountford. Southeast Asia and Pacific Department: A. M. Husain. Treasurer's Department: J. C. Corr, M. A. Wattleworth. Western Hemisphere Department: S. T. Beza, Counsellor and Director; L. H. Duran-Downing. Office of the Managing Director: R. Saunders, Personal Assistant to the Managing Director; P. R. Narvekar, Special Advisor to the Managing Director; A. Coune, J. Hicklin, J. Prust. Advisors to Executive Directors: J. M. Abbott, B. R. Fuleihan, G. Y. Glazkov, Hon C.-W., J. M. Jones, W. Laux, P. A. Merino, M. Nakagawa. Assistants to Executive Directors: S. Al-Huseini, J. H. Brits, J. R. G. Ferrillo, C. J. Jarvis, V. Kural, S. McDougall, S. del C. Olgiati, J. K. Orleans-Lindsay, R. K. W. Powell, P. L. Rubianes, V. Verjbitski, A. Viirg.

1. EXECUTIVE DIRECTOR

At Informal Session 93/1 (1/22/93), the Chairman welcomed Mr. Lanciotti as Executive Director for Albania, Greece, Italy, Malta, Portugal, and San Marino.

2. PERU - REPORT BY MANAGING DIRECTOR

The Managing Director made the following statement:

> You will recall that Peru successfully completed on December 11, 1992 the implementation of a rights accumulation program within the framework of the intensive collaborative approach to overdue financial obligations to the Fund. We have been in close contact with the Peruvian authorities, completing discussions on a follow-up program to advance the process of dealing with Peru's financial obligations to external creditors and restoring sustained economic growth throughout the economy.
>
> The authorities have now conveyed to us such a plan, as reflected in the Memorandum on Economic and Financial Policies of the Government of Peru for the Period January 1, 1993 to December 31, 1995. The authorities have indicated their intention to request support from the Fund for this program under an extended arrangement, once their arrears to the Fund have been cleared.
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> Under Fund policies, management will not submit to the Board any request for the use of Fund resources as long as the member concerned has overdue obligations to the Fund. However, to facilitate the process of mobilizing financing for the 1993 program, including for the clearance of arrears, and to give Executive Directors an early opportunity to study this program, I have instructed the staff to circulate to you the text of this policy memorandum, together with a draft of the staff report for the 1992 Article IV consultation with Peru, which contains an analysis of these policies.
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> It is my intention to circulate to you the Peruvian authorities' request for an extended arrangement and my recommendation regarding that request, as well as the text of the requested extended arrangement and a draft decision, as soon as Peru has become current in its financial obligations to the Fund and appropriate financing assurances for the 1993 program have been secured.
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> The Support Group for Peru is considering the financing for Peru's economic program, and bridge financing is being sought to help clear its arrears to the Fund and the World Bank. The Peruvian authorities and some of the participants in the bridge

have expressed a desire to limit the duration of the bridge loan, and, to assist in this matter, I propose to seek the Board's consideration of Peru's request for an extended arrangement within no more than two business days after the clearance of arrears to the Fund and circulation to the Board of my recommendation, along with the accompanying documentation.

Of course, this will occur only after an appropriate circulation period for the document that I mentioned earlier. On this basis, the first disbursement under the extended arrangement, including the accumulated rights under the decision on rights accumulation for Peru, could then be made within three business days following consideration and approval by the Executive Board.

In my view, this procedure would be consistent with the policy of not submitting requests by a member for use of Fund resources as long as it is in arrears to the Fund. Use of this procedure would be limited to situations in which there has been a strong recent record of cooperation by the member, as evidenced in the case of Peru by the successful completion of the rights accumulation program.

The procedure that he had just outlined was necessarily somewhat complex, partly in order to ensure that the Fund would not make any financing commitments until the arrears had been settled, the Chairman added. Another concern was to balance, on the one hand, the need to bring the matter to the Board for consideration only after sufficient time for a review of the staff documents and draft decisions had elapsed, and, on the other, the intention to respect the wishes of the participants with respect to the duration of the bridge loan.

Mr. Kafka said that the procedure that the Chairman had outlined sounded very sensible; accordingly, he fully supported it.

Mr. Zoccali stated that he wished to thank the management and staff for their active support and assure them that his authorities were appreciative of their efforts.

Mr. Dawson remarked that the procedure suggested by the Chairman was not only a very practical one, but also consistent with the Fund's principles. Although the duration of the bridge loan might turn out to be very short, Peru's track record had made it necessary for the Support Group to seek that kind of financing.

3. EVALUATION OFFICE - ESTABLISHMENT

The Executive Directors considered a statement by the Managing Director on the establishment of an evaluation office in the Fund (BUFF/92/141, 12/8/92). They also had before them a paper providing background information (EBAP/92/166, 12/17/92).

The Chairman commented that the initiative reflected in the statement and the task force paper answered a request that many Board members had made on previous occasions.

To forestall any questions in that area, he wished to make clear that he had no one in mind at present for the position of Director of the evaluation office, the Chairman added. Before looking for someone to fill that position, he was eager to hear the Board's views on the qualities, background, and experience that the ideal candidate should have.

At the end of the discussion, he would respond to the views expressed by the Board on that--and all other--topics related to his statement and the background paper, the Chairman remarked.

Mr. Kafka made the following statement:

> We are in general agreement with the Managing Director's proposals on the establishment of an evaluation office. On the main points that have to be decided, we have a number of comments.
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> First, there should be a separate evaluation office.
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> Second, there are obviously at least two models that could be followed: an office that would report directly to the Board, or one that would report through the Managing Director. The governing principle must be the maintenance of the independence of the office in making its recommendations. This can be done in either model; in the second model, it can be achieved if the Managing Director sends the office's recommendations on to the Board without modification, although possibly with comments.
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> Third, the Director of the office should have the personal and professional characteristics that are set out in the Managing Director's statement. In our opinion, he or she should be appointed for a period of five years. A longer term strengthens the status of the Director; it is also important for practical reasons--particularly for the first appointment--because, at the beginning, the Director will have an enormous amount of organizational work to do before he or she can settle down to carry out the normal functions of the evaluation office. Also, the appointment of the Director should require the approval of the Executive Board. The Director should not be permitted to return to or be subsequently hired as staff; either occurrence would prejudice the perception of his or her independence. Nor should the Director be allowed to be reappointed. Candidates for the job could come from the staff--presumably, people who would be on the point of retirement--from retired members of the staff or the Executive Board, or from the outside.

Fourth, the office would formulate an annual work program that would be submitted to the Executive Board. I think that it would be helpful to establish from the outset an Executive Board committee to oversee the work of the evaluation office.

Fifth, the office should be free to investigate any substantive issues relating to Fund policies and activities. However, at least the initial emphasis should be on the evaluation of selected arrangements, technical assistance operations, and surveillance. Whether broader studies should be included among the attributions of the office will have to be decided as experience accumulates.

Sixth, I am in full agreement with the proposals made in paragraph 7 of the Managing Director's statement on the conduct of the office's work, as well as with the proposals made in paragraph 8 on the manner in which draft reports would be dealt with.

Seventh, I have some questions about the extent to which reports should be circulated to the staff. I would not favor a wide distribution of reports. Senior staff should see all reports, but a more selective rule might be applied to junior staff. I am not sure whether even an annual report that merely summarizes the office's activities should be published. We perhaps already publish too much. The office's findings and the Executive Board's comments on them should be taken into account in the Fund's future work.

Eighth, it is out of the question to staff the new office without hiring additional people, other things being equal. Our past penny-pinching attitude to staffing is causing us enough problems. I fully endorse the Managing Director's proposal in paragraph 11.

Finally, I agree to the date proposed for the establishment of the office.

Mr. Peretz made the following statement:

First, let me say how much I welcome the proposal. This chair has for many years advocated the idea of an evaluation office. I think that we should also express gratitude to the Task Force for the work that it has done.

Like the Chairman and Mr. Kafka, I agree with the basic conclusion of the Task Force, namely, that we would benefit from a systematic appraisal of our activities by well-qualified people who can take a step back from the day-to-day working of this institution. Therefore, I agree that the principle of establishing an evaluation office is a good one.

It is true that, in many ways, the operations of the Fund lend themselves less easily to evaluation than do those of project-based development institutions. By saying that, incidentally, I am not classifying the Fund as a development institution; however, there is an analogy. Nonetheless, we are constantly required to make judgments about the effectiveness of different approaches to adjustment; therefore, a more systematic ex post evaluation of our work is likely to lead to benefits in terms of improved program design and greater consistency of treatment across the membership, just as ex post evaluation has resulted in improved efficiency in other institutions, such as the World Bank. In this respect, it is worth remembering that the Bank carries out successful evaluations of adjustment loans, as well as of program loans.

Turning to organizational issues, I agree in general with Mr. Kafka's comments. Certainly, the evaluation office should be outside the normal management structure of the Fund. For reasons of both presentation and substance, I believe that it would be best for the Director of the office formally to report directly to the Board, rather than indirectly through the Managing Director. It should in any case be made absolutely clear that the reports of the evaluation office will be presented unedited to the Board for discussion--although the Managing Director must retain the right to comment or register dissent on particular issues.

We must ensure that, although outside the normal structure of the Fund, the staff of the evaluation office is not alienated from the rest of the institution, and that the office is not seen as a threat to the other staff members. Part of the solution to this problem, it would seem, is to ensure that the office's work matches in quality that of the rest of the Fund. However, we must also ensure that a period of work in the evaluation office is accepted as an important part of a career in the Fund. It is, of course, also crucial that the staff of the office should have full access to all Fund papers and documents.

In my view, the appointment of the Director of the office should be made by the Board on the recommendation of the Managing Director, perhaps after a period of close, informal consultation with members of the Board. Again, it seems to me this is as important for presentational as for substantial reasons. I agree with Mr. Kafka that the Director could either be an outsider or come from the Fund staff. I also agree that there is a good case for a long-term appointment--of, say, five years--with no reappointment.

A well-regarded outsider with substantial experience in ex post evaluation of adjustment lending might have some advantages, including, inter alia, clearly demonstrated independence, no risk of having been directly involved in the programs under evaluation, a freshness of vision, and a knowledge of alternative approaches gained, perhaps, in other international organizations.

However, we should not rule out the possibility that the Director could come from the present Fund staff. Indeed, I can also see advantages to that scenario. If, having come from the staff, the Director has a better understanding of Fund work procedures and culture, this could be an advantage, provided that an independent and critical approach is maintained. In either case, it should be made absolutely clear that this would be his or her final job at the Fund.

Turning to work procedures, I agree that there is no reason to stop the evaluation office from investigating any substantive issues relating to past Fund policies and activities. I also agree that it would be efficient to set up a committee of Executive Directors to establish how to organize the work of the office, and to give guidance on priorities for the work program. Like Mr. Kafka, I think that this committee should be set up right away, as it could be especially important in the early--and potentially difficult--days of the office, when work priorities and practices are being established. We might want to consider whether the committee should be chaired by the Managing Director, as proposed, or by an Executive Director. The issue here is that the work of the office should be seen as being fully independent from the normal management structure. I have an open mind on this topic; it seems as if a case could be made for either option.

On budgetary and staffing implications, the recently approved supplementary budget provided for staffing the evaluation office with 11 posts. It is not obvious to me that all these extra posts will need to be filled immediately; it should also be made absolutely clear that any future expansion beyond these numbers ought to be found from savings made in staff numbers elsewhere in the institution. The Research Department might be a particularly good source of well-qualified and independent-minded staff who could make a good contribution.

Finally--and here I would differ from Mr. Kafka--I think that, once up and running, the evaluation office should attempt to make available to the public as much of its output as possible without compromising on quality or the frank assessment of its reports. Certainly, I would favor the publishing of more than just an annual report. Of course, this needs to be handled with great care and sensitivity; we would want to prevent reports from being watered down for fear of publicity. However, the World Bank has been able to publish abbreviated versions of its evaluation reports without breaching its confidentiality, and I would hope that we could do the same. If, as I assume, most evaluations will show the benefits that accrue from following Fund advice, a fair degree of openness in publishing the results would be helpful for two reasons. First--although less important--this will help improve the public image of the Fund itself; second, and more important, this demonstration of success in the past will encourage members to accept our advice in the future.

Mr. Posthumus made the following statement:

The Fund has in its system a substantial amount of built-in evaluation. First, the quality and the experience of the staff itself, when added to a career path for Fund employees that is not limited to one department, guarantees that policies are constantly scrutinized, tested, and debated. Second, there is a Policy Development and Review Department, which should be able to critically examine our activities--and which, in fact, does so. The regular reviews of policies that it submits to the Board are testimony of this. Third, we have an Executive Board that is or should be a "hands-on" Board, looking at proposals rather critically. A case could thus be made that the Fund is evaluating its activities regularly and institutionally, and that a separate evaluation office is therefore not necessary.

In addition, the Fund differs from the other multilateral and bilateral financial agencies--all of which have evaluation offices. All the other agencies finance specific activities, projects, or spending programs, including adjustment loans. The Fund lends on policy conditions. Furthermore, lending is only one of the Fund's activities. Multilateral and bilateral surveillance is hardly mentioned in the papers before us, and there is also technical assistance.

In my view, an evaluation office is therefore not really necessary. There may be political reasons to have such an office, including the argument that "others have it." However, this would also be an argument not to have one. In addition, it has been suggested that an evaluation office should be established because the U.S. Congress wants one, and because it would improve the Fund's credibility with the media and the public at large. However, I would hasten to add that this would be true only if the office's work were widely published.

If there is to be an evaluation office, we must take care to organize an evaluation process that is not only formally independent, but that can also function in an independent way. An evaluation office that gets its work program from management, reports to the Managing Director, and submits its report 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.

It is clear not only from what I just said, but also from the description of what the office must do before it submits its report to the Managing Director, that the procedure to be followed is a heavy one. It is understandable that the evaluation office has to show its reports in draft to the main interested parties; however, why is it asked on page 19 of the paper that "differences of opinion with...the Managing Director, senior staff, and the relevant national authorities be accurately recorded" in this report? In my view, the office should be charged only with giving its own opinions. Requiring it to accurately record the opinions of management, staff, and authorities puts the office in an awkward position, invites "negotiations" on its own opinion in order to "clean up" the report, and prevents it from clearly and straightforwardly expressing that opinion in writing. I would like to hear the staff's view on this issue, and I wonder whether my colleagues share my questions in this respect. I understand that the World Bank follows this procedure, but I note that the example of the World Bank has not been followed in other respects.

Surveillance is an important part of our work. We must not ourselves create the impression that the Fund is primarily a financing agency. In my view, the work program should include from the very beginning the evaluation of surveillance--for example, bilateral surveillance.

If an evaluation office is to be set up, it should at least be visible and really independent. First, it should report to the Board, not to the Managing Director. Second, if the Board sets up a special committee, an Executive Director should chair that committee, which should report to the Board.

Third, during the past week's budget discussions (EBM/93/7 and 93/8, 1/15/93), I suggested that a review of our technical assistance work be carried out before it was expanded further. Perhaps the evaluation office could do this review; arguably, however, the Policy Development and Review Department could take it up. Fourth, the evaluation office should have the right of initiative regarding its work program. Finally, financing programs and surveillance should be made part of the office's work program from its inception; this would prevent the evaluation of Fund activities from being carried out only with respect to developing countries.

If we cannot make the evaluation office into something that is clearly different from our own in-house activities, we are doing nothing else than expanding our bureaucracy. I cannot accept the setup and the reporting procedure of the office as it has been proposed in the Managing Director's statement, and I hope that other Directors share my concern about its independence. Setting up this office is not a light affair; after all, 11 staff members can also manage 2 program countries or 6 Article IV countries.

Mr. Schoenberg made the following statement:

At the outset, let me say that, for several reasons, I--like Mr. Posthumus--have serious doubts as to whether the Fund really needs an evaluation office. First, as was also mentioned by Mr. Posthumus, the staff, management, and the Board already do a tremendous amount of evaluation. The Board itself spends most of its time evaluating specific programs, as each program review--as well as each request for the use of Fund resources--provides the Board with an opportunity to comment on both past performance and the proposed design of the program.

According to the most recent information, Executive Directors devoted 128 hours--almost one third of the total Board time--over the 12 months ending November 1992 to discussions on country items in connection with the use of Fund resources. This comes on top of various discussions on the general design of programs using the Fund's instruments, and on the Fund's approach to specific groups of countries. On the staff level, the task force paper lists a huge amount of internal evaluation performed in the Fund, such as the ex post reviews of programs done by the area departments.

Second, the devotion of even more time and resources to the evaluation function will not necessarily improve the result; in fact, it risks making the whole process only more complicated. Frankly speaking, and as already expressed at the past week's budget discussions, 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 recipients of the work of the evaluation office, as they will be flooded with an additional series of documents to digest.

Third, I fail to see in which respect "the thorough and critical ex post examination of the principal activities of the organization" undertaken by the evaluation office--as described in the Managing Director's statement--would really be so "clearly distinct" from the monitoring and review of activities already undertaken by the staff, management, and Board. I would like to draw attention to the fact that the description of the functions and responsibilities of the Policy Development and Review Department reads in many respects like the job description of the proposed evaluation office. In fact, as far as I can see, the Policy Development and Review Department is supposed to carry out the internal control function in the Fund. I cannot see why we should expect that a new unit--which is proposed to be integrated into the staff like a department, and which, like any other department, is reporting to the Managing Director--would arrive at conclusions fundamentally different from those of the existing unit responsible for evaluation. Or does management believe that an evaluation office staff that basically will be recruited from existing Fund staff will hold different opinions because of a change in organizational assignment?

Fourth, the need for an evaluation office is implicitly justified by an assumed lack of self-criticism on the part of staff. I do not see any clear evidence for this assumption. Even if a case could be made for establishing an element of external judgment of the Fund's activities, I think that this is one of the essential tasks to be performed by the Board. Delegating this task to an evaluation office would in some way signal the Board's defeat in carrying out its supervisory function.

In any event, the implicit argument that, because it must be "independent" or "detached," the evaluation function should not be left to the Board does not convince me. To the extent that the Board were not to act in an independent or disinterested manner, it would merely be reflecting the political realities of this institution, and there would be little justification in trying to suppress those influences.

From the way in which the case for an evaluation office has been presented, one could, however, get the impression that it is the Board that needs supervision. According to the Managing Director's statement, the evaluation office is supposed to examine, inter alia, the contribution of the Board to the work of the institution and then report its findings to management. I would have thought that the responsibilities were distributed the other way around.

Lastly, the desirability of establishing an evaluation office is being substantiated by using the World Bank and other development institutions as reference organizations. Like Mr. Posthumus, I wonder whether this is a proper comparison. For one thing, the World Bank has at any given time thousands of projects under way, many of them stretching over periods of ten years or more. As it would clearly be impossible for the Directors of the World Bank to monitor all these projects, the situation of that institution is clearly distinct from that of the Fund.

Another distinctive feature of the World Bank is, for instance, its consideration that a project is successful if it generates an overall economic return of at least 10 percent. Are there similar straightforward criteria at hand for evaluating the Fund's activities? I think that it is worth mentioning that, despite the existence of an Operations Evaluation Department at the World Bank for many years, the proportion of projects not considered to have been successful has increased substantially in recent years, reaching--according to the "Wapenhans report"--37 percent in 1991.

Having said all this, however, I realize that a number of Directors have already expressed--and other Directors probably will express--different views on the desirability of an evaluation office. I refer in this context to what Mr. Posthumus said about political necessities, which I am unable to judge. In order to bring about a consensus on the matter, I am prepared to join a majority in favor of an evaluation office, provided that certain conditions are met.

First and foremost, the criteria on which evaluation is to be based should be expressed explicitly in the mandate of the evaluation office. It should be made clear that the criteria for judgment used by the evaluation office reflect the purposes of the Fund as laid down in the Articles of Agreement and nothing else. I did not find much on this subject in the Managing Director's opening statement, probably because it was seen as a foregone conclusion. However, it might be helpful to make this implicit understanding explicit, if only to avoid the danger that, as mentioned on page 5 of the task force paper, the existence of an evaluation office might "encourage outside groups...to pressure the Fund to conduct evaluations focusing on their particular interests, which may lie outside the core mandate of the Fund."

Second, on organizational issues, I strongly support Mr. Peretz's view that the evaluation office should report to the Board and not to management. This would help to reinforce the notion of independence, the importance of which is stressed strongly in the Managing Director's statement. It would also reflect the realization that the operations of the evaluation office would be somewhat different from the ordinary business of the Fund. I do not think that, as indicated in the task force paper, such an arrangement would isolate the office from the rest of the Fund or hamper the dissemination of its findings throughout the rest of the Fund. Of course, this arrangement should not inhibit management from supplying the Board with comments on the reports of the evaluation office. However, in light of the need to guarantee the independence of the office, it would not seem appropriate to me to submit draft reports of this office to management or national authorities before they have been presented to the Board.

Third, as outlined in both the task force paper and the Managing Director's statement, the personality of the Director of the evaluation office will be of great importance in determining whether it will be able to fulfill the expectations that have been raised. I agree with the description in the Managing Director's statement of the qualifications required of the Director. However, like Mr. Kafka, I consider that the appointment should be made for a period of five years, as, incidentally, was recommended in the task force paper. A five-year period would also have the advantage of strengthening the notion of the office's independence, as it would delink the period of appointment of the Director of the evaluation office from the period of appointment of the Managing Director.

Furthermore--and, again, like Mr. Kafka--I consider it important that the Director of the evaluation office should not take a regular staff position after leaving the office. It would be perfectly acceptable if the Director and/or other senior staff were to come to the office from the staff, but they should not return to the staff afterward.

Fourth, I see no convincing merit in letting the office conduct discussions with national authorities. I do not think that it would enhance the credibility of the Fund if, shortly after a regular mission discussed policy issues with, and gave recommendations to, a member country, another Fund delegation--this time, from the evaluation office--were to conduct an investigation with the explicit aim of finding out what was wrong with the Fund's advice. Such a procedure would not only be confusing, but would also undermine the stance of regular Fund missions and the credibility of Fund advice in general.

Finally, in view of the serious doubts that I have raised about the necessity of creating an evaluation office, I would propose--if a majority were in favor of its establishment--that the office be established on an experimental basis, and that the Board should reconsider its usefulness and justification after a period of four to five years against the background of the experience gained in the interim. Because of the uncertainty surrounding many of the issues that we must confront in our discussion today, it is very difficult to foresee how individual features of the office will work over time. Therefore, I would also strongly suggest that we at least reserve the right to adjust certain features of the office if they should not prove to be reasonable.

The Chairman said that he felt strongly that the office should not hold discussions with national authorities--or with other staff members, for that matter--with a view to assigning blame for past policy failures. Any discussions with those groups should be conducted in a constructive spirit of evaluation, aimed at improving the Fund's policy recommendations. In that respect, moreover, he agreed with Mr. Peretz that the staff should not feel threatened by the establishment of such an office.

Mr. Schoenberg replied that he had not intended to suggest that the staff would feel threatened by discussions that the evaluation office might hold with national authorities. However, it should be acknowledged that the office would necessarily concentrate on bad policy recommendations and outcomes, as one could ultimately learn only from mistakes.

Mr. Peretz commented that it would be a mistake to assume that, because the World Bank's activities were project based, the success of its Operations Evaluation Department was irrelevant to a consideration of the need for an evaluation office in the Fund. The adjustment loans that the Operations Evaluation Department analyzed were based on policy conditionality and, in that sense, were quite similar to the purchases made by countries under arrangements with the Fund.

Mr. Al-Tuwaijri made the following statement:

> During the 1991 conditionality review (EBM/91/95, 91/96, 91/97, and 91/98, 7/19/91 and 7/22/91), this chair emphasized the need for assessing the advisability of creating an independent evaluation unit, as it is too onerous a task for the staff to review its own work. Hence, I welcome the well-written task force paper on the establishment of an evaluation office, which provides a candid approach to this issue. At the outset, I would like to endorse fully the Chairman's view that an evaluation office should not be concerned with assigning blame for past shortcomings, and I would add that it should in no way be involved in evaluating the performance of particular staff members.
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> Also, I agree completely that, as noted by the Managing Director, a considerable amount of high-quality, evaluation-type work is already undertaken in the Fund, with regard to which there is absolutely no allegation of impropriety or deliberate suppression of unfavorable findings. However, as the task force paper indicates, these appraisal activities may have paid insufficient attention to the work of the staff and the Fund as a whole, be it in terms of program design or the role of the staff, management, and the Board in supporting weak or overly ambitious programs.
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> Consequently, there appears to be a good case for creating a separate body responsible for evaluating the work of the institution. Here, I note that the potential benefits of such a body are mentioned in the task force paper, which I broadly endorse. However, there are significant drawbacks that could result from the creation of an evaluation office. In this regard, I would like to emphasize the potential emergence of an overly cautious attitude among the regular staff, which could also--consciously or subconsciously--reduce its cooperation with such a unit. Moreover, as suggested on page 5 of the task force paper, the creation of such an office could encourage outside groups to attempt to pressure the Fund to conduct evaluations of issues that lie

outside its core mandate. This pressure must be steadfastly resisted.

Most significantly, the establishment of an evaluation unit runs the risk of creating an unnecessary, additional bureaucratic layer that would only aggravate and complicate the work of the regular staff without providing any significant benefit to the institution as a whole. The risks of such a development would increase dramatically if the unit produced overly sanitized reports that lacked the necessary candor and directness, and if the office became a preretirement pasture for staff members.

On balance, I believe that the potential benefits of an evaluation unit outweigh its costs. However, this view is predicated on the crucial assumption that the office will be truly independent in reaching and presenting its findings.

This leads me to the organizational status of the proposed evaluation office. In my view, for it to be truly independent, the office should report to the Executive Board along the lines of the World Bank's Operations Evaluation Department. Indeed, the World Bank provides a far more appropriate comparator than the Asian Development Bank, especially given the recent expansion in the size of the Fund. Naturally, the Managing Director, in his capacity as Chairman of the Executive Board, will be closely involved in the operations of the evaluation office. Furthermore, I am not convinced of the benefits of establishing a special committee of Executive Directors to review the office's work program and findings; the full Board would need to review these, given the office's importance and the highly judgmental nature of its work.

Turning to the selection of the Director of the office, I support the proposal that the Managing Director should nominate a candidate, who will then be appointed by the Executive Board. However, once the Director's term expires, the individual should not be allowed to rejoin the staff or take up a consultancy position in the Fund. In this regard, the Director must be viewed with respect as a person who possesses indisputable objective judgement and recognized competence.

With regard to the evaluation office's work procedures, given the judgmental nature of its work, the Fund would benefit more if the Board were privy to the reactions of the various departments and management to the office's reports. Hence, draft reports should be submitted to the Board when they are submitted for comment to management and the relevant departments and national authorities. In the jargon of the previous U.S. Administration, the Executive Board has to be "in the loop."

Finally, on staffing requirements, I agree with the task force report that evaluation cannot be had "on the cheap." However, the objective of evaluating half of all Fund-supported programs that ended in the preceding year seems overly ambitious. Consequently, it would be more prudent to establish the evaluation office with an initial complement of, say, eight staff years, of which only two would be at the B level. Naturally, as we gain more experience, we could revisit the office's staffing needs, as well as its overall rationale.

Mr. Fukui made the following statement:

I agree with most of the findings of the Task Force on evaluation activities in the Fund. The strengthening of the Fund's evaluation of its operations will, on balance, enhance the effectiveness of its future operations. Evaluation and effective feedback are indispensable to the Fund's institutional memory. In this sense, I broadly welcome the Managing Director's statement proposing the systematic strengthening of the Fund's process for obtaining feedback on its operations.

However, as this chair stressed when this subject was discussed in the context of the medium-term outlook on the administrative and capital budgets (EBM/91/33 and 91/34, 3/8/91), we believe that deliberate consideration is needed to determine the scope of the evaluation, as well as the modalities of the evaluation office. While agreeing basically with the statement of the Managing Director, I would like to make a few comments on the scope of evaluation, the method of evaluation, and the structure of the evaluation office.

First, on the scope of evaluation, I certainly agree that the initial priorities should include the evaluation of selected Fund-supported arrangements and technical assistance operations. The inclusion of technical assistance operations is particularly important, as the share of this category of Fund operations is expected to increase substantially in the near future.

Nevertheless, I am rather skeptical about the Managing Director's intention to expand the scope of evaluation in the future to include the Fund's surveillance activities. Evaluation needs to be based on a specific set of criteria, whether subjective or objective in nature, and we have to consider the practicality of formulating such criteria. In light of this consideration, I believe that the scope of evaluation will inevitably be limited by the practicality or meaningfulness of the set of criteria created as a base for the evaluation.

In other words, arrangements supported by the use of Fund resources or Fund technical assistance activities could be evaluated by using a method similar to so-called cost-benefit analysis. However, in the case of Fund surveillance over member countries, it would be very difficult to formulate criteria on which to base the evaluation; therefore, I believe that, in practice, a posteriori evaluation is not appropriate for Fund surveillance.

In addition, the main purpose of evaluation is to draw lessons from past experience that will be useful in the future, whereas the most important part of Fund surveillance is the policy dialogue between the staff and the national authorities, especially the feedback imparted to national authorities via the consultation discussions at the Board. Through this very dynamic process, the Fund can exercise peer pressure on member countries. This is the most important part of the Fund's surveillance activities. Therefore, we should refrain at this stage from making the scope of the evaluation office too ambitious.

Second, on the methods of evaluation, I basically agree with those described on pages 23-25 of the task force paper. However, I would like to add to this list a more fundamental viewpoint that could be taken in evaluating Fund-supported programs, namely, to question whether the basic strategy chosen by the Fund in formulating an adjustment program was appropriate. I believe that evaluation from this viewpoint is particularly important in the case of countries in transition.

Lastly, I would like to comment on the proposed structure of the evaluation office. I strongly agree with the observation made on pages 30-31 of the task force report:

> The effectiveness and credibility of the evaluation office would hinge on many factors, including most notably: a) the firm support of the Board and management for the evaluation function...; b) the independence of the office from day-to-day activities...; c) the ability of the office to issue its findings in a candid, transparent manner, without pressure or censorship; and d) the appointment as Director of a person of recognized status...supported by adequate personnel of the highest quality.

I believe that these should be the most important principles to which we should refer in resolving any issues relating to the structure and operation of the evaluation office.

Among these factors, probably the most important is the independence of the office from the rest of the staff and management. In light of this, I am concerned that the Managing Director has proposed in his statement that draft reports of the evaluation office should be submitted for comment to the relevant departments and national authorities, and to management. This will substantially undermine the independence of the office and the quality, or rather the candidness, of its reports. The reports should be completed within the office, without comments from outside. Should other departments and management have any comments on the finished reports, they could attach their views separately to the finished report. I am doubtful whether we should seek comments from the relevant national authorities. My understanding is that, as the reports will focus on the way in which the Fund conducts its activities, they should be completed within the Fund.

Taking these considerations into account, I wonder whether the office should not report directly to the Executive Board, rather than to management. I understand the argument that, by having the evaluation office report to the Managing Director, its efficiency would be promoted and it could avoid the risk of being separated from the rest of the staff; however, I still believe that the most important value of the evaluation office will lie in its independence from management. Probably this is why the evaluation unit in the World Bank reports directly to the Executive Board.

On the appointment period of the Director of the office, a five-year period would promote the independence of the office better than would a three-year period.

As for the idea of establishing a subcommittee to discuss the reports of the evaluation office, I would prefer that, at least at the initial stage, the full Board be involved in such discussions.

On the other organizational matters of the evaluation office, I can support the Managing Director's proposals.

Mr. Lanciotti made the following statement:

As to whether the Fund needs an evaluation office, our chair would agree that the answer is positive. As the task force paper notes, the fact that the Fund is virtually the only multilateral financial institution that has never had a distinct entity responsible for evaluating its activity is not in itself "sufficient justification" to create an evaluation office; however, it is certainly a strong motivation for considering it. A systematic, extensive, and independent evaluation process would enhance further the Fund's operational effectiveness by promoting accountability, facilitating feedback, and contributing toward improved future operations.

It is true that, in private corporations, profits, sales, and other similar indicators provide shareholders with evidence of success or failure; however, even in the presence of market indices, corporations need and possess devices for evaluating the effectiveness of their organizations. Drawing from the experience of commercial banks, one finds an internal inspection or examination function--which is specifically a technical one--reporting to the top management, and a general internal audit function, covering also the activity of the inspectorate and reporting to the shareholders. It seems to me that our evaluation office would be a mixture of the two functions that I have just outlined; this peculiarity poses a problem of reporting, on which I would like to expand in a minute.

It is not fully clear to us from the proposal what the organizational status of the evaluation office would be, in particular as far as reporting is concerned. The starting point of the task force paper in this respect is the World Bank model, in which its office reports directly to its Executive Directors. As I see it, this is a model that is closer to the audit function. This model is then criticized in the task force paper on the grounds that, in such a scheme, the Fund's evaluation office could be isolated from the rest of the institution, with the attendant risk of confrontation between the staff at large and the evaluation office. A variant is consequently considered, according to which, as noted on page 21 of the paper, "[t]he evaluation office would submit its findings to the Managing Director, who would transmit them to the Board." Here, we have a compromise solution between the auditing and the examination functions, with what I see as the right balance struck between the two. However, the same scheme is described in somewhat different words in the "Conclusions and Recommendations" section of the task force paper, in which it is said that the office would report to the Managing Director while enjoying a clearly recognized right to present its findings to the Board without amendments. On page 2 of the Managing Director's statement, the point is presented in a slightly different way, as it is noted that the evaluation office would report to the Managing Director, and that the proposals "provide for the Executive Board to play a substantive role in guiding the activities of the office." Moreover, the Managing Director remarks on page 3 of the statement that "[c]ompleted reports would be submitted to management for forwarding to the Executive Board." In light of the reporting possibilities, I believe that it would be worth setting out explicitly--as early as possible, in our consideration--the procedures by which the evaluation office should report to the Executive Board.

With respect to the principle of independence, we would see the evaluation office operating as a separate office, with its activities appropriately guided by the Executive Board, to which all Fund activities are ultimately accountable. This, in our opinion, concerns most notably the evaluation office's staffing and its work program. In this context, it would perhaps not be incompatible to have the evaluation office integrated into the regular management structure, namely, reporting directly to the Managing Director, if such structure was deemed to enhance the office's efficiency and effectiveness. What would be essential, however, under any organizational structure, is the maintenance of the evaluation office's de facto independence with respect to its judgements, opinions, findings, and proposals. These should be submitted to the Board unaltered, along with any substantially diverging views of management and, whenever relevant, the "producers" and "consumers" of evaluation findings. Establishment of a special committee composed of a small number of Board members to review the evaluation office's activity could be considered, if and when it is believed that such a committee would facilitate the Board's oversight of evaluation procedures.

Concerning transparency, we believe that it is important that, from the very beginning, the rules and conditions of the evaluation office's modus operandi be well defined and clear to everyone concerned. While assured of full and unrestricted access to all relevant documents and information under the existing rules of confidentiality, the evaluation office should maintain regular informal contacts with the staff during the various stages of report preparation; it should also make draft reports available to staff, management, and national authorities for comment. Transparency rules should be reviewed by the Board at regular intervals to take account of further experiences and views. A cordial and candid, as well as serious and productive, cooperation between the evaluation office and the relevant parties would help contain the level of natural resistance to evaluation. This is a major key to developing successful evaluation procedures; another one, of course, is an unequivocal commitment to incorporating evaluation findings into operational work.

With respect to coverage, we believe that all topics relevant to the Fund's operations should be subject to systematic evaluation. However, it is inescapable that, at least in the beginning, priorities would have to be set. We broadly agree with the Managing Director's conception of what the initial priorities are, as explained in his statement. At the same time, we would expect that, in the longer term, the evaluation office would gradually be able to cover all topics of major relevance to the Fund's operations.

On the issue of complementarity, it is important that existing internal methods and practices of self-appraisal employed by the departments themselves be maintained and, if needed, further enhanced through feedback from the evaluation office's findings.

The evaluation office should not substitute for existing practices; rather, it should concentrate on assessing overall performance on a broader base. It could employ the self-evaluation practices of the operational departments as a point of departure. Existing methods should be reviewed critically if significant problems were to be encountered in using them and a change of approach were desired, or if operational departments themselves were to suggest a suitable candidate method for evaluation.

The establishment of an evaluation office would entail significant costs. The 11 positions envisaged by management could perhaps be phased in gradually. I wonder whether the three positions, including that of the Director, proposed for the B level could initially be contained to two, and whether the total number of positions could similarly be contained to eight, with some temporary redeployment of staff, if needed. For the medium term, the proposed number of 11 positions seems reasonable, compared with the experience of other international institutions. If established, the evaluation office should in any event be expected to operate effectively, and to cover gradually more Fund-supported arrangements, specific operations, and topics. The idea of also assigning some outside experts to the evaluation office seems to us to have merit, and we concur with the Managing Director's views on the appointment of a Director.

Mr. Ismael made the following statement:

I agree that, as the Managing Director noted in his statement, "a considerable amount of high-quality, evaluation-type work is already done in the Fund," and that it is now time to go one step further by setting up an independent evaluation office. In this connection, the Task Force's report has rightly pointed out that such an office could not only improve the credibility of the Fund with the media and the public at large, but could also solidify the trust of both the developed and developing member countries.

I can also agree with the Task Force's recommendation that the evaluation office should report to the Managing Director, rather than to the Executive Board. Incorporating this small office into the mainstream organization of the Fund would have the advantage of tapping the Fund's human resources for its staff, as well as of enhancing the staff's cooperation with the evaluation office and minimizing its resistance to it. I am also satisfied with the proposed larger than normal role for the Executive Board in running the office, as well as in the appointment of its Director. Furthermore, the provision that the findings of the evaluation office be presented without change to the Executive Board through the Managing Director assures me that the Board will be playing a substantial role in this endeavor.

I also agree with the observation made in the task force paper that the macroeconomic issues with which the Fund has to deal are highly complex and multifaceted, and invariably strongly political in content. This distinctive characteristic of the Fund's work makes it much more difficult to perform appraisal activities in this institution than in other multilateral agencies, which deal largely with quantifiable, project-related work.

The Task Force's report has also correctly pointed out that, in undertaking the work of the evaluation office, no single, specific methodology can be recommended. The work of the office will be mostly judgmental, which, consequently, will help to define the qualities that we should be looking for in the Director of the office. Not only should he or she be an impartial person of high integrity, well versed in both the political and economic backgrounds of member countries, but also someone who can command the respect of both developed and developing countries.

For the work program of the office, the Managing Director has assigned high priority in his statement to the evaluation of Fund-supported programs and technical assistance operations. However, I believe that the evaluation of surveillance should receive the same high priority as the other two operations. It is indisputable that the coordination of macroeconomic policies among the industrial countries has been slackening, and the difficult external environment that most developing countries are facing can be attributed largely to this misaligned process.

Finally, 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. We should therefore be vigilant to ensure that this undesirable development does not occur. Hence, it is imperative that the work program of this office be thoroughly discussed and approved by the Executive Board. In this regard, I can agree with the Managing Director's recommendation that the entire Board initially oversee the work of the office while the establishment of an Executive Board committee on the matter is being considered.

Mr. Prader made the following statement:

We appreciate the work of the Task Force on the establishment of an evaluation office, even though, like Mr. Schoenberg and Mr. Posthumus, we have not come to the same conclusions. In our view, the establishment of such an office, which would require an initial staffing of some 11 staff positions in fiscal year 1993/94, would be justified only if it met certain criteria. In particular, would it add to--or substitute for--the independent appraisal of Fund policies carried out thus far by the Executive

Board? Can the necessary degree of independence of an evaluation office that is part of the Fund staff and reports to the Managing Director be achieved? I think that this chair is on record as taking a realistic and pragmatic approach; therefore, our position is not in any way determined by dogmatic views about the Fund's objectives.

In my statement, I will focus on three questions: Do we need an evaluation office? Can the necessary degree of independence be achieved? Which level of staffing would be appropriate?

On the first question--the need for an evaluation office--I indicated a week ago during the budget discussion that our chair was thus far unconvinced of the need for, and usefulness of, such an institution. In fact, if we take literally the conclusion of the Task Force--as described in the Managing Director's statement--"that the Fund would, on balance, benefit from a systematic appraisal of its activities by well-qualified people who can stand back from the day-to-day working of the institution," it seems to me that we already have such an entity. The job description fits exactly the Executive Board.

The evaluation work to be carried out by this new working body is already being done in existing Fund departments, especially in the Policy Development and Review Department, and in the Board. If it is felt that more should be done, the situation could be dealt with by adding resources to these bodies. I cannot understand why the perception has suddenly developed that the Fund is properly reviewing only the performance of individual countries, and not its own policies and recommendations; in contrast to other international organizations, we already have in place an elaborate system for regularly and systematically scrutinizing our own policies. Moreover, I can accept that the World Bank needs a separate evaluation unit, as its work is very different from ours, and many issues never come to its Directors for consideration; however, the Fund's review process is well established and quite sophisticated. It is also fair to say that the opinions expressed in the Board are at least as diverse as the work produced by the critics of the Fund. The differences of interest among the Fund members, including, inter alia, the well-known conflicts between creditors and debtors, and between Group of Seven industrial countries and non-Group of Seven countries, are bound to continue to be reflected in the Board discussions, thereby guaranteeing the airing of a wide range of views on the Fund's work.

It is also doubtful whether this well-meaning effort to establish an evaluation office will produce new insights into the causes of the successes and failures of Fund-supported programs and Fund surveillance. The difficulties encountered in implementing Fund-supported programs are all too well known, as they have been debated in numerous program and conditionality reviews and academic papers, as well as in the media. It is not a lack of information or an absence of evaluation that is behind the difficulties encountered by some Fund-supported programs, but the well-known economic and political constraints on the implementation of the agreed policies. As the creation of an evaluation office would hardly eliminate these obstacles, the gain derived from such an office--even if it were to meet the criterion of a well-qualified staff to a greater degree than the present Board does--would at best be marginal and insignificant.

With regard to the possibility of setting up a unit with enough independence to function satisfactorily as an evaluation office--the second question--I cannot see how someone recruited from the regular Fund staff, with career prospects and expectations in the Fund, could ever live up to the criterion of being independent and disinterested. It is even difficult for Board members, who are without prospects of employment and career in the Fund, to achieve the necessary degree of detachment from the Fund's work and objectives.

Furthermore, would such a unit be able to transcend one specific constraint on the Fund's independence, namely, what Jeffrey Sachs described as an "exceedingly cautious bureaucracy, unwilling to take initiatives unless strongly prodded by the leading Western countries"? Would an independent evaluation office be able to look disinterestedly into certain matters that we are all too well aware of?

It is true that the criterion of being able to stand back from the day-to-day work of the Fund could probably be met only by an ideal nineteenth century Executive Board, the members of which would possess independent means of income and wealth and would not be bound by instructions from their authorities; nevertheless, it is even more clear that the envisaged staffing of the evaluation unit with regular staff members and one or two outsiders would be far less independent than the present supervision of the Fund's activities by the Executive Board.

More precisely, in order to avoid the negative effect of the creation of a dual staff structure in the World Bank--which has resulted in one staff working for the World Bank and possessing full career opportunities, and a second staff working for the World Bank evaluation unit, with only limited chances of returning to the regular staff--the Fund's Task Force seems to have opted for assigning the evaluation unit to the Managing Director. Regardless of who the Managing Director of the Fund might be, this is a decision that goes against the independence of the evaluation unit. At the same time, I recognize that the alternative option of having the office report to the Executive Board would have 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.

In other words, in the absence of any satisfactory solution to the problem of independence, I feel that the establishment of this office would not achieve greater independence of judgment in the evaluation of Fund policies, but would merely add another layer to the Fund's organizational structure. The German sociologist Max Weber called this approach "legitimization by procedure." Also, I am not sure whether the establishment of such an office would really change the views of the Fund's critics or, for that matter, improve the image of the Fund.

I think that this analysis also answers the question of how many staff positions the new office should have.

If, however, there is a political need for such an office, as was hinted at by some Directors, we should not give more staff resources to this new office than to another symbolic effort of the Fund, the environmental unit. To give some degree of independence to the evaluation office, the term of the Director should be as long as that of a Bundesbank director, namely, eight years. I am against setting up a special committee of Executive Directors to oversee the work of the office because I am worried about the recent tendencies of subcommittees of the Executive Board to proliferate, as evidenced by the proposal to establish a budget subcommittee. My friends from the Eastern European countries in our constituency, who have just come out of committee-dominated societies, tell me that the only committee that we need is a committee to abolish committees.

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/93/8 (1/15/93) and EBM/93/9 (1/22/93).

4. SOUTH PACIFIC ISLAND COUNTRIES AND TERRITORIES - TECHNICAL ASSISTANCE

The Executive Board approves the proposal set forth in EBD/93/6 (1/13/93) pertaining to the provision of technical assistance as agreed with the United Nations Development Program.

Adopted January 19, 1993

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 92/51 are approved.

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/93/14 (1/14/93) and EBAM/93/16 (1/19/93) and by an Advisor to Executive Director as set forth in EBAM/93/16 (1/19/93) is approved.

APPROVED: October 25, 1993

LEO VAN HOUTVEN
Secretary