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To: Members of the Executive Board

From: The Secretary

Subject: **Independent Evaluation in the Fund and in Other International Institutions**

The attached paper provides background material to the paper on the review of experience with evaluation in the Fund (EBAP/00/29, 3/23/00), which will be brought to the agenda for discussion on a date to be announced.

Mr. L. Alexander (ext. 37121) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Independent Evaluation in the Fund and in Other International Institutions

Prepared by the Office of Internal Audit and Inspection

Approved by Rafael Muñoz

March 14, 2000

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I. INTRODUCTION

1. This paper provides background material for the paper prepared by the Evaluation Group of Executive Directors on the Evaluation Function in the Fund.¹ The first section provides an account of the development of independent evaluation in the Fund. The second section discusses the main features of the evaluation function in several multilateral development banks.

II. HISTORY OF INDEPENDENT EVALUATION IN THE FUND

1. The 1992-93 proposal for an independent evaluation office

2. In December 1992, management proposed that independent evaluation be established in the Fund on the basis of a background paper prepared by a task force of senior staff members.² The proposal acknowledged that high quality self-evaluation work was already being carried out in the Fund by operational departments, but noted that evaluation always involved a significant element of judgement. Therefore, to be convincing, evaluations should be, and be seen to be, independent and disinterested. This concern could best be addressed by establishing a separate evaluation office (EVO) reporting to the Managing Director.³ Other aspects of the proposal were that the Director of the EVO would be nominated by the Managing Director for consideration and approval by the Executive Board; this appointment would be for three years; and the work program of the EVO would be formulated by the EVO in consultation with other departments and presented to the Executive Board for comment in the same way as applied to the regular work program. In the conduct of its work, the EVO would have unrestricted access to all necessary documents and other written information in the Fund, and could also interview staff, management, Executive Directors, and the national authorities. Draft EVO reports would be submitted for comment to relevant departments, the national authorities, and management. Their comments could be accepted or rejected, but significant differences of view would be clearly recorded in the reports. Final reports would be submitted to management for forwarding to the Executive Board without change, but if

¹ *Review of Experience with the Evaluation Function in the Fund*: (3/13/00).

² *Statement by the Managing Director on the Establishment of an Evaluation Office in the Fund*: BUFF/92/141 (12/8/92), and *Establishing an Evaluation Office in the Fund*: EBAP/92/166 (12/17/92).

³ The background paper pointed out that the EVO's reporting to the Managing Director would reduce the risk of confrontation between the EVO and the staff and facilitate staff mobility to and from the EVO. At the same time, the right of the EVO to present its findings to the Executive Board without amendment would promote its functional independence from management.

appropriate, with management's comments. An Annual Report summarizing the EVO's activities could be published, but it was suggested that publication of the evaluation reports should proceed gradually. Management and staff would be responsible for ensuring that the evaluation findings endorsed by the Executive Board would be incorporated into the operational work of the Fund.

3. With respect to the Executive Board overview of the EVO, the proposal noted that initially, the full Board would want to review the work program and findings, but in the longer run, the Board might establish a special committee, chaired by the Managing Director, for this purpose.

4. The size of the proposed EVO was 11 positions, all of which would be additional to the then-existing staff ceiling. Three positions, including the Director would be senior staff appointments, and two would be staff assistants. The expectation was that most positions would be filled by regular staff on a rotating basis; however, outside experts could fill some positions. Staffing could proceed gradually after the establishment of the EVO suggested for May 1, 1993. By contrast, the background paper had proposed a total EVO staff of 13 positions based on a hypothetical annual work program of evaluating about 15 completed country UFR programs, selected aspects of technical assistance, preparing a few thematic studies, and active participation in dissemination of the reports' recommendations endorsed by the Executive Board. The latter activity could include seminars between the EVO and operational staff, workshops, and individual contacts.

5. In their comments on the background paper, staff expressed some reservations about establishing an independent EVO. They noted that it would be difficult to transfer experienced staff to an EVO when they were needed primarily for operational work; therefore they suggested that the office should be built up gradually or a pilot project implemented. There was also a concern that, if the EVO focused too much on accountability, staff would become overcautious in program design. Staff also noted the intrinsic difficulty of evaluating Fund programs—which applied to both independent evaluation and self-evaluation—namely, determining what would have happened in the absence of the program or with a different program.

6. At the Executive Board discussion of management's proposal,⁴ many Directors suggested changes to the proposed organizational arrangements for an EVO. They noted that an EVO must not only act independently, but be perceived as acting independently. Therefore, these Directors considered that an EVO should report directly to the Board rather than through the Managing Director. To that end, a special Evaluation Committee of the Board,

⁴ EBM/93/9 and EBM/93/10, (1/22/93); and summary of the Board discussion in *Report on the Work of the Executive Board, January 22–February 3, 1993*; Periodic Report 93/2, 2/17/93.

chaired by an Executive Director, could be established to review the work of an EVO. Directors generally supported the publication of the Annual Report of an EVO, but there was no consensus on whether the reports themselves should be published. Directors agreed that the Board should formally approve a candidate nominated by the Managing Director for a single five year term as Director of an EVO, but it was emphasized that upon completion of this term, the EVO Director should not be allowed to take up a staff appointment.

7. Although most Directors supported the establishment of an EVO and its initial allocation of 11 staff positions, a number of Directors expressed either opposition to, or serious doubts about, the proposal. These Directors considered that self-evaluation of the Fund's activities was being carried out effectively, and that an EVO would only add another bureaucratic layer in the Fund. In support of this viewpoint, a few Directors commented that the proposal appeared to respond more to such factors as a desire to improve the Fund's credibility with the public at large, rather than a genuine need to improve the evaluation process.

2. Transition to independent external evaluation 1993-95

8. Due to the lack of sufficiently broad Board consensus on the need for an EVO no action followed the Board discussion, and over the next few years the issue of the evaluation function assumed a much lower profile in the Fund. No mention of independent evaluation was made in the Fund's work programs of May 1993, November 1993, or May 1994. This reflected (i) the continuing lack of a clear Executive Board consensus on the need for an EVO, as conveyed informally to the Managing Director; (ii) the rising demands of operational matters on the time and attention of the Executive Board, especially relating to transitional countries which culminated in the establishment of the Systemic Transformation Facility which was in effect from April 1993 to end-1994; (iii) budgetary constraints arising from the large addition to staff in the European II Department and elsewhere which meant that there had to be caution on further staff expansion; and (iv) staffing constraints, as a result of which, experienced staff were needed to lead operational work and could not have been transferred to an EVO.

9. The issue of the evaluation function was raised again in the Board's discussion in June 1994 of a staff paper reviewing developments in countries with stand-by and extended arrangements.⁵ In the Summing Up of the discussion,⁶ the Acting Chairman noted that several Directors had commented on the evaluation methodology used by the staff in this review and

⁵ *Overview of Developments in Countries with Stand-by and Extended Arrangements Approved During 1988-91*: EBS/94/104 (5/19/94); this paper was discussed at EBM/94/58 and EBM/94/59.

⁶ BUFF/94/69 (7/15/94).

had questioned whether other approaches would have been desirable. In this context, many Directors had reiterated their long standing desire to have an evaluation unit in the Fund, which they thought was agreed in principle at the earlier Board discussion of January 1993. However, other Directors had objected to, or saw no need for, an evaluation unit, while others had indicated the need to consider the specific structure of such a unit. It was understood that the Board would soon return to this issue on the basis of a specific proposal by management.

10. In response, the Managing Director made a statement summarizing his current thoughts on the issue at the conclusion of the Board discussion of its work program in November 1994.⁷ While noting that there was scope for better organizing the evaluation function in order to improve the effectiveness of the Fund's activities, he considered that three developments should be borne in mind in determining what this function should be. First, the Executive Board had commended the high quality of the 1994 internal evaluation of Fund conditionality by the Policy Development and Review Department (PDR) so that a significant role for self-evaluation should be retained; second, 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 its member countries; and third, the deepening of budgetary consolidation would make it difficult to assign additional resources to evaluation so that improvements must be made at the lowest possible cost. Management's views on how to proceed further with evaluation taking these factors into account would be conveyed to the Board during the coming months.

11. A special factor influencing management's views on evaluation was the external evaluation by Sir Alan Whittome of the effectiveness of Fund surveillance in 1994 with special reference to Mexico. This report—prepared over two months in early 1995—was discussed by the Executive Board in April 1995. In the summing-up of the discussion⁸ the high quality of the report was noted and the Managing Director also outlined his current view of the evaluation function in the Fund. He now preferred the use of outside experts as it would be a less costly, less bureaucratic, and a more refreshing approach than one involving a separate EVO. Executive Directors should consider the experience with ongoing external evaluations—a review of MAE technical assistance, and an assessment of program design in European transition countries—before turning to the more institutional approach. The Managing Director reiterated this position in his statement on the work program in June 1995⁹

⁷ *The Chairman's Remarks at the Conclusion of the Discussion on the Work Program, Executive Board Meeting 94/97, November 7, 1994; BUFF/94/105, 11/17/94.*

⁸ *Mexico—Report on Fund Surveillance, 1993-94; SUR/95/35, 4/7/95.*

⁹ *Statement by the Managing Director on the Work Program, Executive Board Meeting June 2, 1995; BUFF/95/43, 5/24/95.*

where he noted that additional external evaluations would be conducted in the future, and it would be appropriate to consider their usefulness before revisiting the broader issue of how to conduct the evaluation function.

12. In response to requests by some Executive Directors for further discussion of the evaluation function, a paper was prepared in July 1995 for the information of the Executive Board¹⁰ which listed and summarized evaluations by outside experts and internal reviews by the staff that had been completed recently or were currently under way. The paper concluded that the results and effectiveness of the ongoing evaluation exercises should be carefully assessed to determine how the evaluation function could best be undertaken in the Fund.

13. In his statement on the November 1995 work program,¹¹ the Managing Director noted that he would be preparing a BUFF statement on the evaluation function in the Fund for the consideration of the Executive Board, and that he hoped a final decision could be made before the end of January 1996. This BUFF statement¹² noted that the sustained increase in the workload of the Fund had severely stretched staff resources, and that the need for budgetary consolidation indicated that staff resources should be directed to the priority areas of surveillance and use of Fund resources rather than an EVO with permanent staff as had been proposed in 1993. It indicated that the experience with the Whittome report also showed that efficiency in evaluation could still be achieved by reviewing activities only in response to specific needs, and that an external evaluation by a highly qualified person could be more cost effective than establishing a permanent evaluations staff. Moreover, the existing processes for internal review and policy development should not be diminished by any extension of the evaluation function.

14. In view of these considerations, general guidelines for external evaluations were proposed:

- Annually, or as required by circumstances, management and the Executive Board would select activities to be evaluated externally, with the outside evaluator(s) selected by management in consultation with the Executive Board.

¹⁰ *Evaluation Activities in the Fund*, SM/95/188, 8/2/99.

¹¹ *Statement by the Managing Director on the Work Program – Executive Board Meeting November 3, 1995*; BUFF/95/113, 10/31/95.

¹² *Statement by the Managing Director on the Development of the Evaluation Functions in the Fund – Executive Board Meeting January 10, 1996*; BUFF/95/125, 11/28/95.

- Evaluation reports would be submitted to management and the Executive Board, together with any staff comments. The Executive Board would consider the reports and draw conclusions which would be communicated to management for implementation.

- Operational experience with these guidelines would be reviewed by the Executive Board after some 2-3 years.

15. In the Executive Board discussion of the proposal,¹³ these guidelines were endorsed for a two-year trial period, which was to be followed by a review. The high cost of an independent EVO was a major consideration underlying most Directors' support of the proposal. Some Directors, however, called for the establishment of a small independent evaluation unit, possibly headed by a part-time Director with a modest budget. Many Directors also supported a proposal by one Executive Director (Mr. Clark) for greater Board involvement in the oversight of the evaluation function—including the selection of outside experts and setting their terms of reference—through an Executive Director-chaired Board committee. In the event, it was agreed that another Board meeting would be needed to decide on the nature and extent of Board involvement.

3. Independent internal evaluation by OIA

16. In light of the Board's general acceptance of the guidelines, the Managing Director suggested a number of topics for external evaluation in his statement on the May 1996 work program.¹⁴ He also noted the intention to build on self-evaluations by staff and the evaluation work undertaken by the Board as part of its regular activities. In addition, the Board was informed that the activities of the Office of Internal Audit and Inspection (OIA) would be expanded to conduct more reviews of the Fund's organizational structure and work practices, and to assist the Executive Board and management in developing and facilitating the agreed evaluation projects. As one of its first tasks, OIA would conduct an independent evaluation of the resident representative program.

17. In their discussion of the work program,¹⁵ Executive Directors endorsed the expansion of the functions of OIA to include evaluation, and with respect to evaluation topics, expressed broad support for a review of the effectiveness of ESAF-supported programs, evaluating the issue of "ownership" of programs, and for evaluating the effectiveness of performance criteria

¹³ *Concluding Remarks by the Chairman, Development of the Evaluation Functions in the Fund – Executive Board Meeting 96/16, February 26, 1996; BUFF/96/22, 3/1/96.*

¹⁴ *Statement by the Managing Director on the Work Program of the Executive Board – Executive Board Meeting May 22, 1996; BUFF/96/61, 5/16/96.*

¹⁵ *Concluding remarks by the Secretary and Chairman on the Work Program – Executive Board Meeting 96/49, May 22, 1996; BUFF/96/67, 5/29/96.*

for the success of Fund-supported programs. However, there were diverging views on the role of outside experts and on the kinds of issues for which outside expertise would be useful. Further reflection was thought necessary and it was agreed that a separate Board discussion on the evaluation function should be held in June 1996.

4. Evaluation structure 1996-99

18. The Managing Director's BUFF Statement for the June 1996 Board meeting¹⁶ invited Directors to endorse the earlier suggestion that a small group of Executive Directors be designated to monitor the evaluation function during the two-year trial period. This group would work on implementation issues of external evaluations and their budgets, with logistical assistance from OIA. Directors were also invited to comment further on the evaluation topics proposed at the May 1996 Board discussion of the Work Program.

19. In their discussion,¹⁷ most Directors endorsed the need to build on the existing policies and practices for self-evaluation by having occasional external evaluations (not more than two or three per year) that would respond to an identified need for a review. Experience with this trial arrangement would be reviewed after two years. On procedural issues, it was agreed that management should make proposals to the Executive Board on possible evaluation topics including the method of carrying them out—self-evaluations, evaluations by OIA, or external evaluations. A small group of Executive Directors would be responsible for drawing up proposals to the Executive Board concerning the scope of reviews, the choice of outside experts, and their terms of reference. These proposals would be presented to management which would bring them to the full Executive Board for consideration. The issue of publication of reviews (and implicitly, associated documents – Summings Up of Board discussions and staff responses) would be addressed by the Board on a case-by-case basis. It was noted that OIA, in its review of the resident representatives program and other activities, would report to management in accordance with the organizational rules of the Fund but that the Executive Board would also have the opportunity to discharge its responsibilities in respect of OIA evaluation reports.¹⁸

20. In July 1996, the Managing Director proposed the membership of a group of four Executive Directors, chaired by Mr. Clark, to oversee the implementation of evaluations as

¹⁶ *Statement by the Managing Director on the Evaluation Function in the Fund—Further Consideration – Executive Board Meeting 96/54, June 5, 1996; BUFF/96/68, 6/3/96.*

¹⁷ *Concluding Remarks by the Chairman, Evaluation Function in the Fund—Further Considerations – Executive Board Meeting 96/55, June 7, 1996; BUFF/96/69, 6/10/96.*

¹⁸ In the event, management forwarded OIA's evaluation reports unchanged to the Executive Board for discussion.

agreed to by the Executive Board.¹⁹ The first meeting of the Evaluation Group (EG) was convened on August 1, 1996. It was agreed that membership of the EG would be rotated over time so as to involve a number of Directors in the evaluation function. Furthermore, it was agreed that the Group would operate with full transparency with participation in its meetings open to all Executive Directors. The Group also decided to propose formal terms of reference, and determined that an evaluation of the ESAF would be the first external evaluation topic.

21. The terms of reference of the EG, which were adopted by the Executive Board on September 13, 1996,²⁰ closely reflect the views of Executive Directors expressed at EBM/96/55 as noted above in paragraph 19. They state that the EG will consider proposals for evaluation topics suggested by the Executive Board, including those that could be undertaken within the institution (by the Executive Board or by the staff), those that could be undertaken jointly by the staff and outside experts, and those that could be undertaken entirely by outside experts. In the case of topics involving outside experts, the EG would consider the choice of evaluation projects, their possible scope, the appropriate methodology and other aspects of the studies (including budget and time frame). After consultation with management, the EG would make recommendations on all these aspects to the Executive Board for approval. Once a study is approved, the EG would monitor its progress. In the case of projects that would be carried out by staff, the staff would consult with the EG on the coverage and design of the project to ensure that it would meet the concerns of the Executive Board. The terms of reference also noted that normally there would be no more than two or three external evaluations per year, and provided that the experience with this method of conducting and monitoring the evaluation function would be reviewed in early 1998. The other features of the terms of reference relating to the membership of the EG and the possibility for Executive Directors to participate in the Group's work are noted in Appendix I. In December 1996, the membership of the EG was expanded from four to six Executive Directors.

22. In September 1996, the EG discussed the main elements of the external evaluation of the ESAF. These included the key subjects upon which the evaluation should focus, the selection of the evaluators and their terms of reference (including the budget, time frame, methodology, and requirements for in-progress reporting). The recommendations also included the procedure by which Fund staff, management, and country authorities could comment on the evaluation reports, and issues relating to publication of the reports and the

¹⁹ EBD/96/102, 7/26/96.

²⁰ EBD/96/102, Supplement 1, 9/9/96.

protection of confidentiality. These proposals were compiled in a report, which was discussed and approved by the Executive Board in October 1996.²¹

23. In June 1997, the EG began consideration of a number of possible topics for the next external evaluation. The proposed topics were: surveillance, exit strategies from managed exchange rate regimes, financial sector reforms, status of the reform process in transition economies, institutional aspects of the reform process, the use of statistics, and research activities. In October 1997, the EG determined that it would recommend to the Executive Board that the second external evaluation should be of the effectiveness of Fund surveillance, and that it be followed by a relatively small and low-budget examination of the Fund's research activities. The terms of reference for the surveillance review were formulated in subsequent months, covering the focus of the evaluation, the independence of the evaluators, the selection of countries for case studies, and other issues relating to protection of confidentiality, comments on the report by affected parties, publication, resources, and timing. The views of staff were considered in this process. The selection of the external evaluators was also determined during this period, and the proposal was brought to the Executive Board for approval on a lapse of time basis in June 1998.²² A similar process to define the terms of reference and select the outside experts for the evaluation of the Fund's research activities was initiated in April 1998. The proposal was circulated to the Executive Board for approval on a lapse of time basis in December 1998.²³

24. With respect to independent evaluations by OIA, the review of the Fund's resident representatives program was completed in mid-1997. The report was issued to the Executive Board in July, and a supporting paper containing background and statistical material was issued in September 1997.²⁴ These documents were discussed by the Board in January 1998. With the imminent completion of the resident representatives review, management, in consultation with the EG, determined in June 1997 that the next review by OIA should be of the Fund's technical assistance activities. After completing the design of the study with input from country authorities and all affected departments in the Fund, the interview process was initiated in late 1997. The study was completed early in 1999, and the report and a supporting background paper were issued in May 1999, together with a statement by the staff outlining

²¹ *External Evaluation of the ESAF*: EBAP/96/103 (10/16/96); and EBM/98/98 (10/30/96).

²² *External Evaluation of Fund Surveillance*: EBAP/98/64 (6/24/99).

²³ *External Evaluation of the Fund's Research Activities*; EBAP/98/139 (12/4/98).

²⁴ *Review of the Resident Representative Program*: EBS/97/137 (7/25/97), and EBM/98/7 (3/2/98).

areas of agreement and disagreement with the findings of the report.²⁵ The Board discussed these papers in June 1999. During 1997-99, OIA also carried out a General Services Review, in three phases, of thirteen distinct functional activities of the Fund. A summary of this paper was circulated for the information of the Board in April 1999.²⁶ At various meetings between August 1996 and the present, the EG, in line with its mandate to monitor the progress of all evaluation studies, heard reports from OIA on the progress in the design and implementation of these three evaluations.

25. The Managing Director's statement on the work program of the Executive Board of June 1998²⁷ noted that the review of the current evaluation structure in the Fund was originally envisaged to be conducted in early 1998 after some experience had been gained with external evaluations. At that time only one external evaluation (of the ESAF) had been completed²⁸ and it was suggested that Executive Directors might wish to reconsider the timing of the review. In the event, most Directors supported the postponement of the review until after Board consideration of the reports on the external evaluations of Fund surveillance²⁹ and of research activity³⁰ in the Fund. These reports were discussed by the Board in August and September 1999, respectively.

III. INDEPENDENT EVALUATION IN OTHER INTERNATIONAL INSTITUTIONS

26. This section examines the evaluation function in four multilateral development banks – the World Bank, the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB). The scope of operations

²⁵ *Review of Fund Technical Assistance*: EBAP/99/59 and Supplement 1 (5/17/99); staff response – *Statement on the Review of Fund Technical Assistance and Suggested Issues for Discussion*: EBAP/99/60 (5/17/99); and EBM/99/61 (6/8/99).

²⁶ *General Services Review*: EBD/99/52, (4/9/99)

²⁷ *Statement by the Managing Director on the Work Program of the Executive Board – Executive Board Meeting, June 3, 1998*: BUFF/98/49 (5/21/98).

²⁸ *External Evaluation of the Enhanced Structural Adjustment Facility*: EBAP/98/8 (1/22/98), and EBM/98/25 (3/11/98).

²⁹ *External Evaluation of Fund Surveillance*: EBAP/99/86 (7/15/99), and EBM/99/94 (8/27/99).

³⁰ *External Evaluation of the Fund's Economic Research Activities*: EBAP/99/85 (7/15/99), and EBM/99/99, (9/7/99)

of these institutions are more akin to those of the Fund than those of the UNDP and the bilateral aid agencies whose operations focus mainly on technical assistance. Each of the development banks has sizable self-evaluation activities, and an internal evaluation office that, except for the ADB, is organizationally independent of staff and management. However, the ADB's management affords a high degree of independence to its evaluation office in practice.

27. The operations of these evaluation offices are of two distinct types concerning the review of project loans or investments on the one hand and the evaluation of programs and systems on the other. With regard to review of project loans, the evaluation offices conduct:

- *reviews of project supervision and completion reports* prepared by operational staff in order to extract lessons which can be applied to new projects.

With regard to the evaluation of programs and systems, the evaluation offices conduct:

- *sector impact evaluations* of project and program lending and non-lending advisory services for individual sectors across countries;
- *country assistance reviews* of project and program lending for individual countries over an extended time period; and
- *special evaluation studies* which provide intensive analysis of particular issues across sectors or countries.

All evaluation offices produce an *annual report* on their activities, and an *annual summary of evaluation results* which sets out the main evaluation findings and lessons learned, and assesses the overall effectiveness of the institution in achieving its development goals during the previous year. Also, the offices assist management to monitor and report to their respective Board of Directors the implementation of recommendations from past evaluation studies into the operational work of their institutions.

A. World Bank³¹

1. Institutional arrangements

28. The World Bank has had an operations evaluation unit or department since 1970, but the evaluation function took on its present independent character in 1975 when the position of Director-General, Operations Evaluation (DGO) was established. The Bank also has extensive self-evaluation by operational staff. These instruments comprise, for individual lending

³¹ The Bank's evaluation function is described in detail in the publication by its Operations Evaluation Department: *Assessing Development Effectiveness – Evaluation in the World Bank and the International Finance Corporation*, September 1998.

operations, supervision reports on a regular basis and *Implementation Completion Reports* soon after the closing of a loan; and for country lending portfolios, *Country Portfolio Performance Reviews* on a regular basis, and *Progress Reviews* of country assistance programs which are included in country assistance strategy reports. For non-lending services, including economic and sector work, policy work, development training, research, and technical assistance, staff prepare policy papers identifying best practices and lessons from experience.

29. Independent evaluation is carried out by the Operations Evaluation Department (OED) whose mandate covers all aspects of Bank activities. Its independence is ensured in that it reports to the DGO who is appointed by, and reports to, the Executive Board for renewable five-year terms. At the expiration of the appointment, the DGO may not join (or re-join) the Bank staff. However, independence is not isolation. The DGO has the rank of a Vice President and participates in senior management meetings involving Vice Presidents.

30. The DGO appoints OED staff (headed by a Director), mostly from other departments in the Bank. They may return to other departments at the end of their OED appointment, but do not participate in the review of operations for which they were responsible before joining OED. In FY 1999, there were 85 staff positions in OED, of which, six were at the managerial level, 44 were professional staff, 8 were research analysts, and 27 were staff or administrative assistants. There were also up to 52 short-term consultants and other temporary staff whose number varied according to the work requirements. The OED's budget is included in the Bank's administrative budget but is approved separately by the Executive Board and is outside the control of Bank management; for FY 2000 the OED budget amounts to \$19 million, or about 1½ percent of the total Bank administrative budget.

31. The OED's responsibilities are to:

- help the DGO assess the adequacy and effectiveness of the Bank's overall evaluation system (including self-evaluations performed outside OED);
- determine whether the Bank's operations are producing the expected results, by conducting performance audits of Bank operations, reviewing project completion reports by operational staff, and conducting evaluation studies;
- maintain the Bank's institutional memory regarding operational performance and to identify lessons learned;
- disseminate evaluation findings both within and outside the Bank; and
- assist member countries, other international development institutions, and other departments within the Bank to develop their own evaluation systems through the *Evaluation Capacity Development Program*.

32. The Executive Board oversees OED's activities through an eight-member Committee on Development Effectiveness (CODE). Under its terms of reference it is required:

- to review the work program and the reports produced by OED and management responses thereon, to identify policy issues for consideration by the Executive Board;
- to satisfy itself that the Bank Groups' operations evaluation and self-evaluation activities are adequate and efficient; and
- to prepare for Board review of and decisions on selected operations evaluation and ... development effectiveness issues ... and to monitor the implementation of such decisions ... with a view to ensuring that the overall purpose of poverty reduction is being served.

The CODE is assisted by an informal Subcommittee of 12 Alternate Executive Directors which, assisted by the staff of their offices and with the cooperation of OED, assesses the adequacy of the Bank Group's evaluation methods by in-depth review of a sample of evaluation products and their utilization.

33. To ensure that independent evaluation responds to the Bank's needs for information, OED's annual work program and budget is prepared in consultation with individual Executive Directors (who may suggest topics for evaluation), management, and operational staff. The CODE reviews the work program and budget, and recommends their endorsement by the full Executive Board. It also reviews the terms of reference for major OED studies, and discusses all major OED reports.

2. Scope of OED's operations

34. The evaluation functions carried out by OED may be viewed as a two-stage procedure:

- *desk reviews* of all self-evaluation reports produced by operational staff upon completion of a project or program, and the *independent audit* of a sample of these lending operations; and
- conducting *impact evaluations* and *other studies* using the first stage reports as basic building blocks.

(a) Review and audit

35. At the completion of a project or program, the responsible operational unit prepares an *Implementation Completion Report* (ICR) which appraises the product in terms of its original objectives, implementation, compliance, efficiency, social and economic impact, institution-building impact, and other considerations. OED reviews each ICR to assess its quality, collect evaluation data for aggregate analysis, identify recommendations useful for new operations,

and determine whether a performance audit is warranted. These findings are reported in an *Evaluation Summary*.

36. Performance audits are undertaken by OED for a sample of adjustment- and policy-based programs and the projects so identified during the ICR review (about 25 percent of all projects). In selecting programs for audit, preference is given to those which are innovative, large, or complex; those for which an Executive Director requests an audit; and those which are likely to generate important lessons. The audit procedure involves examination of documents, interviews with operational staff, and in most cases, discussions in the borrowing country. The authorities' comments are incorporated into the *Performance Audit Report*, which is distributed to the Executive Board, Bank staff, and to relevant member countries.

(b) Studies and reports

37. *Country Sector Impact Studies* (CSIS) assess the Bank's effectiveness in promoting development in a specific sector and country (or region) by examining past and ongoing projects and related advisory and analytical services. The projects are assessed against the goals that were stated at the time of appraisal and also against a set of criteria that relate to the Bank's special areas of emphasis: poverty reduction, the development of private enterprise, the environment, and conditions for women. The methodology includes formal surveys of the opinions of all stakeholders, supplemented by interviews, direct observation, informal surveys, and reviews of existing information. The CSIS have now replaced individual *Project Impact Evaluations* in the menu of OED's work products because the latter were too narrowly focused.

38. *Sector studies* address issues such as the effectiveness of dialogue between borrowers and the Bank on sector policies and on project selection and design, implementation, and sustainability of benefits. They may be cross-country studies or in-depth reviews of particular sectors in individual countries.

39. A substantial amount of OED's resources are utilized in preparing *Country Assistance Evaluations* (CAEs). These are country-wide impact evaluations that focus on the development effectiveness of all Bank assistance to one country over a one- to three-decade period. They are issues-oriented and geared to improving the management of current operations by providing lessons for portfolio performance reviews and country assistance strategies. For each country, they:

- evaluate the effectiveness of the country assistance strategy taking into account the country's policies, the impact of external factors, and the role of other agencies; and
- assess the effectiveness of the various instruments of Bank assistance: project lending, adjustment lending, technical assistance, economic and sector work, policy dialogue, and aid mobilization and coordination.

40. *Thematic Evaluation Studies* assess the effectiveness of Bank policies, processes, and practices from an operational perspective. Studies are on broad development issues and are chosen so as to feed into the Bank's reviews of its operational policies. Recent examples are the evaluation of the Bank's role in post-conflict reconstruction, and reviews of aid coordination and public sector management.

41. *Corporate and Process Evaluations* examine the efficiency and effectiveness of the Bank's business processes in reaching their intended development goals. Examples of processes that have been reviewed are project identification, loan supervision, and the monitoring and evaluation components of projects; a corporate activity that has been evaluated is economic analysis. These evaluations are published in the form of special reports, or are included in the two Annual Reviews noted below.

42. The *Annual Review of Development Effectiveness* (ARDE) summarizes the results of OED's work. It presents the evaluation results for operations that exited the Bank's portfolio during the past financial year; makes an assessment of the Bank's overall development effectiveness by drawing on audit reports and studies; and comments on selected topics (such as experience with adjustment lending or the impact of Bank operations on the environment). The ARDE is discussed by the CODE and by the full Executive Board.

43. The *Annual Report on Operations Evaluation* is the Director General's report to the Executive Board and Management on the major activities of OED and the IFC's Operations Evaluations Group during the past financial year.

3. Dissemination of findings

44. In view of its mandate to "endeavor at all times to maintain close and continuing contact with Bank staff so that staff views are adequately considered in OED reports and the analyses and findings of these reports are understood", OED has an *active dissemination program*. Well before the reports are completed, evaluation findings are discussed with operational staff through person-to person contacts and seminars. All operational units responsible for the work being evaluated have the opportunity to comment on OED's draft reports, and unresolved differences of opinion are recorded in the final evaluation reports.

45. All Executive Directors and Bank senior management receive copies of OED's final reports, and they are available to all staff upon request. However, in recognition of the limited staff time available for absorption of lengthy reports, all OED reports include evaluation summaries. Moreover, summaries of many reports are published separately in *Lessons and Practices*, and *OED Précis*. These, and the *Annual Review of Development Effectiveness* are made available to Bank staff and the general community through the Internet.

46. The Bank's general policy is to publish OED final reports unless this would affect the Bank's relationship with its member countries, release information provided in confidence, result in legal risks stemming from public disclosure of the performance of companies or

individuals, or impinge on the integrity of the evaluation function. In most cases OED reports are published in a form unaltered from that provided to Executive Directors.

47. To further disseminate its work, OED holds seminars and workshops for major performance audits and studies. Audiences include representatives of borrowing countries and development agencies, as well as Bank staff.

4. Feedback to Bank operations

48. An important enhancement to the evaluation function in the Bank was the establishment in 1996 of the Quality Assurance Group (QAG) as a result of OED's identification of the need for "real-time" evaluations which permit activities to be improved as they are being implemented. The QAG consists of customized panels of senior operations staff (not involved with the activity being evaluated) and experts from aid agencies and non-governmental organizations which assesses the quality of selected new and ongoing operations, particularly of "high risk" projects and programs. Almost half of new Bank projects are examined at entry, and supervision performance for about 15 percent of the entire portfolio is assessed. The QAG also produces periodic reports on portfolio issues, and the *Annual Report on Portfolio Performance*, which informs the Executive Board and management of the condition of the overall Bank loan portfolio and the quality of its management.

49. Bank management has instituted a number of procedures for ensuring that OED's evaluation findings become an integral part of operational work. Formal directives have been issued which instruct managers and staff to seek out the findings of evaluation reports, disseminate them to others concerned, and ensure they are taken into account in future activities. These directives also require the Bank's country strategy papers to identify any key factors that have constrained the effectiveness of Bank assistance, by incorporating OED findings as reported in the *Country Assistance Evaluations*.

50. OED also assists in monitoring the feedback of evaluation findings and recommendations into operational work. Unless decided otherwise by the Executive Board, Bank management responds formally to every major OED study by indicating a proposed plan of action. To monitor progress in implementing these plans, OED and management jointly prepare an annual progress report, and OED compiles a *Ledger of Evaluation Recommendations, Management Responses, and Actions* which is updated regularly and made available to all staff and Executive Directors on the Bank's internal web site. Annually, OED also prepares a report, for example, *Learning from Evaluation Policy Ledger: FY98 Progress Report* which evaluates the extent to which OED recommendations, as reflected in the policy ledger, have been adopted by Bank management.

B. International Finance Corporation

51. The institutional arrangements for evaluation in the IFC are basically the same as in the World Bank. IFC's Operations Evaluations Group (OEG) reports to the IFC's Board of Directors through the DGO, and its functions and staff are organizationally independent from management and operational staff. The OEG staffing level in FY 1999 was nine professional positions (of which, two were at the division chief level or above) and four staff/administrative assistants.

52. Because of the market-based character of IFC operations whereby there is clear feedback on the financial results of its investments, there are fewer self-evaluation initiatives compared with the World Bank. Normal supervision of each investment by operational staff is supplemented by an *Investment Assessment Report* (IAR) on each project that has reached operational maturity (about 5 years after completion). Reports are prepared for about 30 percent of completed investments, using random selection and taking into account regional and sectoral balance. OEG reviews each IAR, comments on its quality, identifies issues for discussion by the IFC's Portfolio Committee, and highlights lessons learned and actions to be taken. OEG also participates in the Portfolio Committee's discussion of each report. In 1998, a simplified IAR format was adopted, and a new self-evaluation tool – the *Expanded Annual Supervision Report* (XASR), essentially a mini-IAR was introduced to expand the coverage of IARs. It is intended that the combined coverage by IARs or XASRs reach 100 percent of maturing investment projects in CY 2000.

53. OEG also carries out separate evaluation studies of business sectors, regions, instruments, or processes. They are based on reviews of groups of investment operations to identify broadly applicable lessons, using documentation and interviews of IFC partners and clients in the field. OEG disseminates these lessons within the World Bank Group through an internal internet site, by publishing abridged versions of its reports, holding seminars for staff, preparing training cases, and providing periodic summaries of findings. Operational staff are also required to indicate how evaluation findings have been taken into account in the presentation of new investment proposals to the Board of Directors. The dissemination of findings to the general public is limited because of the confidentiality of the relationship between IFC and its partners and clients.

C. Inter-American Development Bank

1. Recent developments

54. In January 1998, the IDB's Executive Board created a "Working Group on Oversight and Evaluation of the Board of Executive Directors" to make recommendations for the improvement of the Bank's Evaluation System in the light of concerns that the system was not performing the role which had been envisaged. Shortcomings in the existing system were identified as, inter alia, limitations placed by management on the evaluation office (EVO) which was required to dedicate a pre-determined share of its budget resources to assessing

accountability for projects, to the detriment of its ability to assess the effectiveness and efficiency of operations at the policy, program, and system levels. The EVO was also limited in its ability to provide independent evaluation in that it was required to submit draft reports to three different committees of senior Bank staff for review before submitting the final report to the Executive Board. Moreover, a centralized, top-down view of evaluation developed, which created antagonism toward the EVO and reduced the acceptance of evaluation results by management and operational staff. In addition, the incorporation of lessons learned in new projects and programs was impeded by the exclusion of the Director of the EVO from senior management committees.

55. In June 1999, the Working Group proposed a new evaluation structure to the Executive Board and management,³² which was approved by the Board on June 30, 1999. Progress in implementing the new structure will be reported to the Board on a quarterly basis.

1. Institutional arrangements

56. Under the new structure, evaluation in the IDB is a shared responsibility of operational staff, the new Office of Evaluation Oversight (OEO), and borrowing countries. The OEO is independent of management and staff as the Director of OEO is appointed by the Executive Board after consultation with management, and reports to the Executive Board through its Policy and Evaluation Committee (PEC). The PEC determines the OEO's work program and budget, and reviews its reports, together with management's responses, and raises for consideration to the Executive Board the policy issues so identified. The Director is appointed for an initial term of five years, renewable for an additional five years. At the expiration of the appointment, the Director may not join or rejoin the IDB staff. The staff of OEO are appointed by the Director, and may rotate to and from the IDB staff; experience in the OEO is regarded as a positive career development. The authorized staffing level of the OEO is 28 positions, of which, two are managers, 18 are professional staff, and 10 are research or staff assistants. Staff resources may be supplemented by short-term consultants with appropriate technical expertise. The OEO's budget is \$3.8 million or about 1 percent of the total Bank administrative budget.

57. The Director of OEO is responsible for:

- assessing whether the IDB's programs and activities are producing the expected results;
- incorporating these assessments and findings into recommendations which will help improve the efficiency and effectiveness of the IDB's programs and activities;

³² Working Group of the Board of Executive Directors on Oversight and Evaluation: *Final Report – Strengthening Oversight and Rebuilding Evaluation in the Bank*, (6/17/99).

- providing oversight of the Bank Evaluation System and reporting on the adequacy of all evaluation activities for use within the IDB and by member governments. This includes self-evaluations by management and staff, as well as those conducted by OEO;
- encouraging and assisting member countries to develop their own evaluation and performance management systems;
- disseminating evaluation findings within the institution and the development community;
- reporting periodically on the actions taken by management and staff in response to the evaluation finding, audits, and studies; and
- reporting periodically to the Executive Board on the effectiveness of the Bank's dissemination and feedback systems for evaluation findings, best practices, and lessons learned.

58. Developing an effective linkage between the OEO and the Bank was accorded high priority in the Executive Board's decision on the new evaluation structure. Management was charged with developing an effective liaison and coordination mechanism that would: allow access by the OEO to documentation and staff when carrying out its evaluation work; obtain management views on study findings and recommendations prior to OEO issuing final reports to the Board; facilitate agreement between management and OEO on the responsibilities and procedures for carrying out joint studies; and develop inputs for the OEO's annual work program.

2. Scope of OEO's operations

59. Under the new evaluation structure, OEO is responsible for preparing:

- *Reports on feedback from self-evaluations.* Operational staff and borrowing countries produce *project completion reports, sector performance reviews, portfolio performance reports, and annual portfolio reviews*. OEO includes the lessons learned from these reports in its *Annual Report*, and verifies the incorporation of these lessons into new operations in periodic reports to the Executive Board.
- *Development impact evaluations.* A sample of project completion reports (15-25 percent) are reviewed by OEO some 2-3 years after completion. The findings are incorporated in the IDB's policies and strategies.
- *Country program evaluations.* With the support of country offices and country divisions, OEO extracts lessons learned which are incorporated in new country programs.
- *Policy and strategy implementation reviews.* OEO reviews a small number of policies or strategies each year so that lessons learned can be incorporated in new policies.

- *Annual review of OEO activities.* OEO, in consultation with operational staff, provides a syntheses of lessons learned, main findings, and recommendations from all evaluation activities in the IDB.

D. Asian Development Bank

1. Institutional arrangements

60. The Operations Evaluation Office (OEO) of the ADB was established in 1978. By contrast with the other institutions discussed in this appendix, the Director of OEO reports to management—the President of the ADB—rather than the Board of Directors; its budget is determined within the Bank’s overall administrative budget; and the President approves OEO’s work program which comprises project review (see below) and studies based mainly on suggestions by operational departments. The Board of Directors is kept informed of evaluation activities through its Audit Committee. This committee reviews OEO’s work program and may make suggestions for future studies, and also discusses selected evaluation reports in the presence of OEO and operational staff. The full Board discusses the OEO’s Annual Review of Evaluation Reports and a review of project performance semi-annually, and receives copies of most evaluation reports through the President.

61. The OEO staff and most members of the Board of Directors believe that the Office has a sufficient degree of independence to achieve effective evaluation. The factors that support OEO’s independence and the smooth functioning of the evaluation system are:

- Although the President formally approves the work program and budget, in practice he approves the proposals drawn up by the Director of OEO.
- The President forwards all final OEO reports to the Audit Committee and the full Board without modification.
- Although operational staff may have difficulty accepting some OEO conclusions and recommendations, agreement on the facts is normally reached before the final report is issued, and operational staff utilize their right to record any major disagreements in footnotes within the final evaluation reports.
- Although the Audit Committee has no formal oversight role, it meets often with OEO staff to discuss OEO activities, and from time to time the Committee has raised and pursued specific issues with management in support of OEO’s independence.

62. At present OEO has 37 permanent staff comprising four senior staff (Director, Deputy Director, and two managers), 17 professional staff, seven research analysts, and 9 staff/administrative assistants. However, as OEO’s activities have diversified over the years, the capacity of permanent staff resources has been stretched, leading to the increased use of consultants. Over the past three years, OEO’s budget has varied between \$4.0 and \$4.7 million per year, or a little over 2 percent of the total Bank administrative budget. In

addition, the Board of Directors has allocated about \$1.0 million per year to finance consultants to supplement staff resources for evaluation studies, and up to \$1.5 million per year for technical assistance in evaluation capacity building in member countries. In 1999, the total OEO budget was \$6.9 million or 3.3 percent of the total Bank administrative budget.

2. Scope of OEO's operations

63. The ADB has a two-stage evaluation structure – self-evaluation and independent review by OEO. Self-evaluation by operational departments of ongoing projects consists of periodic supervision reports, mid-term reviews, country portfolio performance reviews. In addition, a project performance report attempts to capture not only the physical and financial progress of a project, but also its development impact and effects. Self-evaluation of completed projects consists of the preparation of a project completion report. OEO's evaluation activities comprise the review of self-evaluations of project work and separate studies as indicated below.

64. *Project/program audit reports (PPAR)* audit the project completion report for adequacy and integrity, and evaluate the effectiveness of projects or programs in achieving their objectives and derive issues and lessons of operational significance. PPARs are prepared for about 30 percent of completed projects (20-25 PPARs per year) that have been operational for three years. To the extent possible, the projects are randomly selected and stratified by country, sector, and geographical area.

65. Separate studies comprise:

- *Reevaluation studies* which provide an analysis of project impact about five years after the PPAR stage; about four studies are prepared each year;

- *Technical assistance performance audit reports* which assess the need for, adequacy, and effectiveness of the TA project including its technical, operational, institutional, and socioeconomic aspects. About four reports are prepared each year which typically cover some 15-20 individual projects;

- *Impact evaluation studies* which provide insight into the impact and sustainability of benefits in a particular sector/subsector. About three studies are prepared each year;

- *Special evaluation studies* which provide intensive analysis of a particular issue across sectors or countries. Up to five such studies are prepared each year;

- *Country assistance program evaluations* which examine all aspects of ADB activity—country strategy studies, country assistance plans, loans, technical assistance, and economic and sector work—over a number of years in a particular country. One such evaluation is prepared each year;

- *Country/sector syntheses of evaluation findings* which provide a summary analysis of the Bank's evaluation experience in a particular country or sector, based primarily on evaluation reports. One report is prepared each year;

- The *Annual Review of Evaluation Reports* which summarizes findings from evaluation reports prepared during the previous year. It highlights major shortcomings and best practices, assesses current policies and practices in key areas, and discusses new initiatives to strengthen the feedback system and ensure follow-up on recommendations; and

- The *Annual Operations Evaluation Program* which presents a comprehensive review of all operations evaluations programs and activities in the ADB, both self-evaluations and by OEO.

3. Dissemination and feedback

66. For internal dissemination of evaluation results within the ADB, OEO maintains an online Operations Evaluation Information System which has the ability to search for information by keywords and to print evaluation results and lessons by project, country, and sector. OEO has also developed a manual of evaluation guidelines and findings which is available in the Intranet and on CD-ROM. Other activities include organizing training in evaluation procedures for operational staff and providing a help desk facility. For external dissemination, all final evaluation reports are distributed to the Board of Directors, operational departments, executing agencies, and relevant government agencies. OEO also has its own internet site for dissemination of findings to the general public.

67. The ADB has a formal feedback system to promote the incorporation of evaluation results into new operations. Management has issued instructions requiring evaluation findings to be taken into account in the formation of country operational strategies and programs and in the design of new projects. Key staff papers, including country assistance plans must include a section on lessons learned. OEO reviews and comments on draft proposals for new Bank activities; participates in key managerial meetings during project processing and implementation; and organizes the Committee on Operations Evaluation Findings, which is a senior interdepartmental meeting chaired by the President that discusses the main issues arising in the *Annual Review* and *Annual Operations Evaluation Program*. However, there is no formal monitoring mechanism as in the World Bank to verify that agreed recommendations have been implemented.

Terms of Reference of the Evaluation Group³³

A small group of Executive Directors shall be designated by the Executive Board, to follow closely the evaluation function in the Fund, and advise the Executive Board.

The composition of the group will be proposed by the Chairman of the Executive Board, in consultation with the Dean, and approved by the Executive Board. It should normally be composed of four Executive Directors, representing a balance of interests. Periodic rotation of membership should occur, on a staggered basis, to enable different members of the Board to have an opportunity to be members, while ensuring a sufficient degree of continuity of involvement with each evaluation project. All members of the Board may, however, attend any meeting of the group and participate in its deliberations.

The group will consider proposals for evaluation topics emanating from the Board. Topics may include those that could be undertaken entirely within the institution (by the Executive Board or by the staff) and those that could be undertaken jointly by staff and outside experts, or those that could be undertaken entirely by outside experts. In the case of topics that would involve outside experts, the group would consider the choice of evaluation projects, their possible scope, the appropriate methodology, the choice of outside experts, whether the findings should be published, and other elements of proposed evaluation studies (including, for example, their budget and overall time frame). Based on the group's discussions, and after consultation with the Management, the chair would make recommendations on all these aspects to the Executive Board for its approval. Once an evaluation project is approved by the Board, the group would monitor its progress on a continuing basis. In the case of projects that would be carried out by the staff, the staff would consult with the group on the coverage and design of the project to ensure that it would address the concerns of the Executive Board.

It is envisaged that normally there will be no more than two or three external evaluations per year.

The experience with this method of conducting and monitoring the evaluation function in the Fund will be reviewed in early 1998.

³³ EBD/96/102, Supplement 1 (9/9/96).