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Are central banks different? Lessons from the evaluation community for central bank evaluation functions

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Public trust matters. For central banks, it matters more than anything – without the trust of the public that they serve, central banks cannot hope to discharge effectively their core functions of preserving monetary and financial stability[1]. And over the past two decades, the Bank of England – in common with many central banks – has radically overhauled its approach to transparency, communication and accountability.

Yet despite the criticality of trust to central banks, evaluation and review activities are relatively nascent. At first glance, this may appear surprising, and stands in contrast to the long-standing emphasis on the importance of evaluation in other public policy fields. This paper explores why central banks have typically been late converts to the merits of evaluation. And it considers the benefits of evaluation and review – both in terms of strengthening trust, and in facilitating organisational learning – for the central banking community.

At the Bank of England, we recently established a permanent, in-house evaluation function spanning the full breadth of our activities, with the creation of our Independent Evaluation Office (IEO) in September 2014[2]. And while there is no obvious direct equivalent to our IEO in other central banks, the rich heritage of evaluation within other fields of public policy has proved hugely valuable as we have worked to refine our strategy, our framework and our methodological approach.

This paper first considers the 'why?' of independent evaluation within central banks, then the 'how?', drawing on lessons from the broader evaluation field. Finally, we look at how we have chosen to design and structure our evaluation activities within the Bank of England's IEO. A recurring theme is the degree to which central banks are different to other public policy institutions. Central banks operate in unique legislative and political contexts, and a core consideration is the need to preserve the independence of policy formulation. But the importance of policy independence does not negate the need for central banks to be open, accountable and transparent – indeed, policy independence increases the premium on robust accountability and effective transparency.

1. Independent evaluation and central banks: why?

The rationale for independent evaluation in the field of development assistance is well-established, and has two principle tenets – strengthening accountability, and supporting learning (see, for example, Development Assistance Committee (1991)). This dual aim has underpinned the well-established independent evaluation functions in institutions such as the World Bank and the International Monetary Fund (IMF). And independent evaluation plays an influential role in many other fields of public policy. In the United Kingdom, for example, government guidelines for policymakers underscore the importance of evaluation both for effective policymaking and for wider accountability (HM Treasury (2011)).

Despite these widely recognised benefits, it is only relatively recently that independent evaluation has begun to form part of the armoury of central banks. And the increased prevalence of evaluation and review can be

[1] Though the precise formulation of central banks' objectives vary both across jurisdictions and over time, almost all have at their core a requirement to maintain stability in prices or in the value of a country's currency, as well as to contribute to financial stability. The Bank of England defines its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability, and has a number of statutory responsibilities in this regard.

[2] The establishment of the Bank of England's IEO was among a number of initiatives announced by the Bank in 2014 as part of its three-year strategic plan; see Carney (2014). For more on the remit and the approach of the Bank's IEO, see Ashley and Paterson (2016).

largely attributed to two interconnected factors – first, the high and rising premium on accountability and transparency, and second, the increased drive to measure and evaluate performance as part of a wider professionalisation of management practices.

From 'purposeful obfuscation' to clear-speaking: transparency, trust and central banking

In part, the slow emergence of evaluation and review activities among central banks is symptomatic of a wider tendency – the relatively late conversion of central banks to the cause of transparency and accountability.

In the world of development assistance, the emphasis on accountability dates back to at least the 1970s, when evaluation functions were established at the World Bank and other International Financial Institutions (IFIs)[3]. But central banks were 20 years or more behind. The prevailing view among central bankers was that they were different, and that – for central banks – transparency was not necessarily the force for good that it might have been elsewhere.

"Central bankers long believed that there was a certain 'mystique' attached to their activities", states Ben Bernanke, the former Chairman of the US Federal Reserve and a strong proponent of improving clarity in central banking communications. "That making monetary policy was an arcane and esoteric art that should be left solely to the initiates; and that letting the public into the discussion would only usurp the prerogatives of insiders and degrade the effectiveness of policy" (Bernanke (2004)).

In the 1990s, things began to change. The advent of inflation targeting and the growing prevalence of independence among central banks began to raise awareness of the importance of transparency and accountability for credibility. The Bank of England was an early pioneer, with the launch of its *Inflation Report* in 1993[4] as its primary vehicle for communicating monetary policy.

The 2007-09 financial crisis provided further impetus – and urgency – to the case for strengthening transparency and accountability (see Warsh (2014) for further discussion). The unfamiliar, largely untested and at times controversial tools employed by central banks quite reasonably prompted demands from the wider public to know more. This provides important context for the Bank of England's far-reaching overhaul of its approach to transparency and accountability in late 2014 (Bank of England (2014)), as well as the establishment of the Bank's Independent Evaluation Office that same year.

Professionalising central banks and a culture of learning

The rising premium on transparency and accountability is not the only factor behind the increasing interest in evaluation among central bankers. Another important – albeit less widely discussed – influence has been the growing trend towards professionalisation of central bank practices and processes. One manifestation of that has been the recent move by numerous central banks, the Bank of England included, to appoint Chief Operating Officers, typically senior individuals with extensive private sector expertise who have wide-ranging responsibilities for operational functions.

[3] For a timeline of the history of evaluation functions in IFIs, see Peretz (2012).

[4] The *Inflation Report* is the Bank of England's flagship vehicle for monetary policy communication, and has spawned many imitations around the world. In 1996, the Bank launched its *Financial Stability Report* (initially named the *Financial Stability Review*), which remains its primary communication vehicle for financial policy.

The trend towards the adoption of private sector management practices among the central banking community has been associated with a renewed emphasis on measuring and improving performance. This is perhaps not surprising given that there is an established and mature management literature that focuses on the merits of evaluation as a tool for improving performance (see, for example, Love (1991)).

The increased emphasis among the central banking community on measuring, evaluating and improving performance is not limited to independent evaluation: self-evaluation has a valuable role to play too. Indeed, alongside the increasing prevalence of independent review and evaluation has come a growing emphasis on self-evaluation and performance measurement – for example, in areas such as staff engagement and research. There are clear parallels here with the wider evaluation world where the rationale for both independent and self-evaluation functions within, for example, International Financial Institutions is well-established (see, for example, Lamdany and Stedman (2015)).

In large part, the two forces underpinning the growing interest among central banks in evaluation – the rising premium on accountability, and the trend towards professionalisation – are interconnected. If central banks are seen to be run efficiently and effectively, this helps to build the public trust that is essential to their mission. At the Bank of England, our governing Board (often known by its traditional name of the Bank's 'Court') has put considerable emphasis on the links between professional management practices and the successful formulation and execution of policy. "Core to the Bank's mission is excellence not only in policy analysis and design, but also in policy execution and professional standards [..] The institution's senior management has emphasised the need for the Bank, as a business, to professionalise its management practices and learn from the best elsewhere." (Bank of England, 2015).

2. Independent evaluation and central banks: how?

The interconnected trends of strengthening accountability and improving performance have naturally led to a rising interest among central bankers in evaluation. And these trends align neatly with the dual aim that underpins evaluation in the wider public policy field – that is, strengthening accountability and facilitating learning. As central bankers, we are therefore in the fortunate position of being able to learn from the considerable advances in the theory and practice of evaluation that have taken place over the past three decades or so.

This section considers the applicability of some of the core insights from the wider evaluation field to the world of central banking, specifically: how to design evaluation activities in a way that delivers both learning and accountability; the pros and cons of internal versus external evaluators; and, the determinants of independence in evaluation functions.

Lessons from the evaluation field #1: how to deliver both learning and accountability

A long-running debate in the evaluation field concerns the compatibility, or otherwise, of the dual learning and accountability objectives (see, for example, Gray et al (2014)). And while a full consideration of this debate is outside the scope of this paper, a core insight is that evaluation functions are more likely to achieve their dual mandate if they are structured in a way that is appropriate to the culture, incentives and learning environment of the institution in question (the 'host' institution).

Gray et al (2014), for example, observe that evaluation functions whose remit is tilted towards that of accountability can thrive in organisations characterised by "strong effective internal governance mechanisms that will be able to use independent evaluations to promote accountability from management". In terms of organisational learning, Picciotto (2013) is among those who stress the importance of evaluation units not operating in isolation from the management and organisational culture of the institution that they are evaluating. In a similar vein, Heider (2016) roots the debate about the compatibility of learning and accountability in the question of how individuals are motivated to learn and to change, suggesting that this can be a powerful way of designing and delivering evaluations that deliver on their dual mandate:

"Instead of simply separating learning and accountability, I suggest we look at deeper issues that stand in the way of learning and achievement of results. Corporate culture or attitudes towards and of evaluation play an important part in shaping how evaluation can be effective in influencing change with a balance of learning and accountability".

The link between delivering on the dual objectives of learning and accountability and the corporate behaviour of the host organisation begs some deeper questions about the culture and organisational structures that typify central banks.

A defining – if not the defining – cultural and organisational characteristic of central banks is the high premium placed on the independence of policy formulation. This stems from an established body of macroeconomic theory and practice that has demonstrated the potential welfare gains from formulating policy in a manner that is independent of the electoral cycle.

Central to this is the concept of 'time inconsistency' set out in the seminal macroeconomic paper by Kydland and Prescott (1977) – in other words, that policymakers have incentives to renege in the future on promises made today, with the implication that they may be more likely to achieve their goals if they have discretion taken away from them. These insights contributed not only to Kydland and Prescott's Nobel prize[5], but also provided the intellectual underpinnings for the structure of the modern central bank – where objectives are set by democratically elected representatives, but the policies to achieve those objectives are formulated by central banks, and in a manner that is free from political influence.

For evaluation and review functions to be effective in a central bank setting, they therefore need to be designed and structured in a way that does not inadvertently compromise the independence of 'live' policy formulation. And one way – albeit not the only way – of achieving this is by embedding evaluation functions within central banks, rather than relying primarily on external parties.

Lessons from the evaluation field #2: internal versus external evaluators

This leads naturally to the second area where the broader evaluation field can offer lessons to the world of central banking: the pros and cons of internal versus external evaluators.

Conley-Tyler (2005), for example, sets out a series of considerations that would tend to favour internal evaluation over external evaluation, and *vice versa*. And she surmises that circumstances where evaluation theory would tend to (weakly) favour internal evaluators include the following:

[5] Citation available at http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2004/

- where the host organisation's cultural or political characteristics are unusual;
- where the programmes and operations under consideration are particularly complex; and
- where the purpose of the evaluation is focussed on organisational improvement.

All three of these factors are likely to apply to evaluation activities within central banks. It is relevant here that most central banks operate in unique legislative and political settings, and that many core central banking functions are complex, with few equivalents in the private or public sectors (for example, Lender of Last Resort functions, implementation of monetary policy or the provision of liquidity insurance). Also relevant is the increasing emphasis on organisational improvement within the central banking world.

What types of circumstances would tend to favour external evaluators? One potential advantage of external evaluators in some fields is, as set out by Conley-Tyler, their ability to collect information that would otherwise be difficult to obtain. This consideration is unlikely to apply to central banks; quite the converse – central banks routinely handle highly market sensitive or legally restricted information, raising potentially complex issues about disclosure to third parties.

A more relevant circumstance that would tend to favour external evaluators, however, is the difficulties that internally-based evaluators can face in terms of perceived objectivity. As the evaluation literature makes clear, it is <u>perceived</u> objectivity, rather than <u>actual</u> objectivity, that is potentially the issue here: external evaluation and evaluation independence are far from synonymous (see, for example, Conley-Tyler (2005) and Picciotto (2013)). However, perceptions matter, and there may be a strong case for using external evaluators for hotly contested or politically sensitive topics. As Conley-Tyler puts it:

"Many people believe that external evaluators come to an evaluation unbiased and with an open mind, in contrast with internal evaluators who are part of an organisation with its own history and modes of behaviour. However, this is not supported by most current evaluation theory. [..] By contrast, perceived objectivity can be an important factor in choosing between an internal and external evaluator. […] Many users of evaluations are looking for an *appearance* of objectivity".

This potentially suggests a case for a 'hybrid' approach that combines the benefits of internally-embedded evaluation units with the advantages of perceived objectivity that typically accompanies externally-based evaluators – particularly for sensitive or contested topics.

Lessons from the evaluation field #3: what determines independence in evaluation functions?

Whether located internally or externally, safeguarding the independence of evaluation functions is of primary importance. This is another area where the broader evaluation literature has much to offer. Particularly valuable is the work that has been undertaken by the Evaluation Co-operation Group (2012), and summarised by Picciotto (2013), who notes: "Evaluation independence defined in functional terms [..] is an essential ingredient of evaluation excellence. It helps to enhance the quality and credibility of evaluation products and it contributes to organisational transparency and accountability".

The ECG guidelines, based on both literature review and the experience of international practitioners, identify four dimensions of independence in evaluation functions:

- *organisational independence*: the degree to which evaluations are controlled by the people who have responsibility for the activities being evaluated and have full access to the information needed to fulfil their mandate. Indicators of organisational independence include whether there is a direct reporting relationship between the evaluation unit and the host institution's oversight body .
- *behavioural independence*: the extent to which the evaluation unit is able and willing to set its work programme, produce high-quality and uncompromising reports and disclose its findings to the institution's Board without management-imposed restrictions. Indicators of behavioural independence include the extent to which evaluation units have issued high-quality reports that invite public scrutiny of the host institution's activities.
- *protection from external influence:* the extent to which an evaluation function is free to set its priorities, design its products and processes, hire its staff and administer its budget without interference from management.
- *avoidance of conflict of interest*: the existence of safeguards that guarantee that current, immediate future or prior professional and personal considerations are not allowed to influence evaluators' judgements or call their objectivity into question.

As Picciotto concludes: "Internal independent evaluation units backed up by an adequate mandate and staffed with evaluators familiar to the organisational terrain enjoy relative proximity with the programs being evaluated. Thus evaluations carried out by internal independent units reporting to boards of directors are far more likely to overcome 'information asymmetries' while protecting the objectivity of the evaluative process."

3. Independent evaluation and central banks: the Bank of England's approach

How have we applied these insights to the work of the Bank of England's Independent Evaluation Office?

The Bank's IEO has been designed to deliver both accountability and learning within a central bank setting. And a key question has been how to deliver effectively on this dual evaluation mandate without compromising either the independence of policy formulation or the efficacy of the Bank's governing Board (known as 'Court').

To achieve this, we have chosen to establish the IEO as an embedded evaluation unit within the Bank of England, with a clear and well-defined remit that links to that of the Bank's Board, and with a series of safeguards designed to buttress the actual and perceived independence of our work.   Those safeguards include the capability to call on externally-based evaluators as appropriate, giving us the ability to deliver a 'hybrid' approach that may be particularly valuable where topics may be sensitive or contested.

The Bank of England's IEO: remit and structure

It is important to view the IEO within the context of the wide-ranging overhaul to the Bank of England's corporate governance mechanisms that took place in the aftermath of the financial crisis[6]. These included a slimming down of the Bank's governing Board (or 'Court')[7] and a clarification and strengthening of its

[6] In part triggered by an influential review into the Bank's accountability by the UK Treasury Committee, the parliamentary committee that has principal responsibility for Bank of England oversight (House of Commons Treasury Committee (2011)).

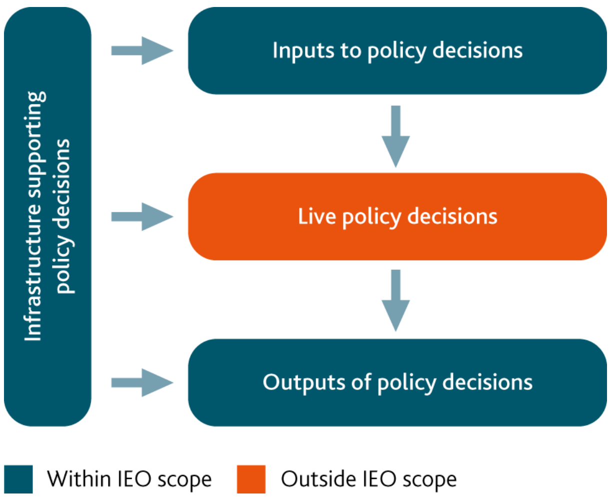
[7] Court has five executive members from the Bank and up to nine non-executive members, including a non-executive Chairman.

responsibilities. These responsibilities now include a statutory duty to keep the performance of the Bank, including of the Bank's policy areas, under review, and the power to commission *ex post* reviews of policy in support of this[8] (see Footman and Lees (2014) and Bank of England (2014)).

The Bank's Independent Evaluation Office has been structured so that it reinforces the ability of the Bank's Board to carry out these duties. The IEO's remit is aligned with the Board's in that it spans the full breadth of activities of the central bank, including monetary policy, financial policy and the work of the Prudential Regulation Authority (PRA), the Bank of England's supervisory wing[9].   And the work programme of the IEO is designed to support the Board to discharge effectively its statutory duties to keep the performance of the institution under review, with a particular focus on the work of the Bank's policy and regulatory functions.

The remit of the IEO has also been structured so that – like the institution's governing Board – it does not compromise the independence of policy formulation. Most substantively, live policy decisions are out of scope of the IEO's remit. However, key facets of policy formulation – including the inputs into policy decisions, the infrastructure supporting policy decisions, and the outputs of policy decisions[10] – are firmly in scope for the IEO (Figure 1). The IEO also may conduct retrospective reviews of policy decisions, at the request of Court.

Figure 1: Scope of the Bank of England's Independent Evaluation Office (IEO)



Source: Ashley and Paterson (2016)

How has this design translated into practice? To date, the mainstay of the work in the Bank's IEO has been planned, in-depth, IEO-led evaluations, of which we are currently aiming to conduct around two each year. These have been selected according to a series of criteria that support the statutory duties of the Board to keep the performance of the institution under review.

To date, the IEO has led the Bank's support for the wide-ranging review of monetary policy transparency by Governor Kevin Warsh, formerly of the Board of Governors of the US Federal Reserve System (Warsh

[8] S3A of the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016.
[9] The PRA is responsible for the microprudential regulation of deposit-takers, insurers and major investment firms.
[10] Examples might include: the Bank's forecasts or its research (inputs); the Sterling Monetary Framework (infrastructure); or published communications from policy committees (outputs).

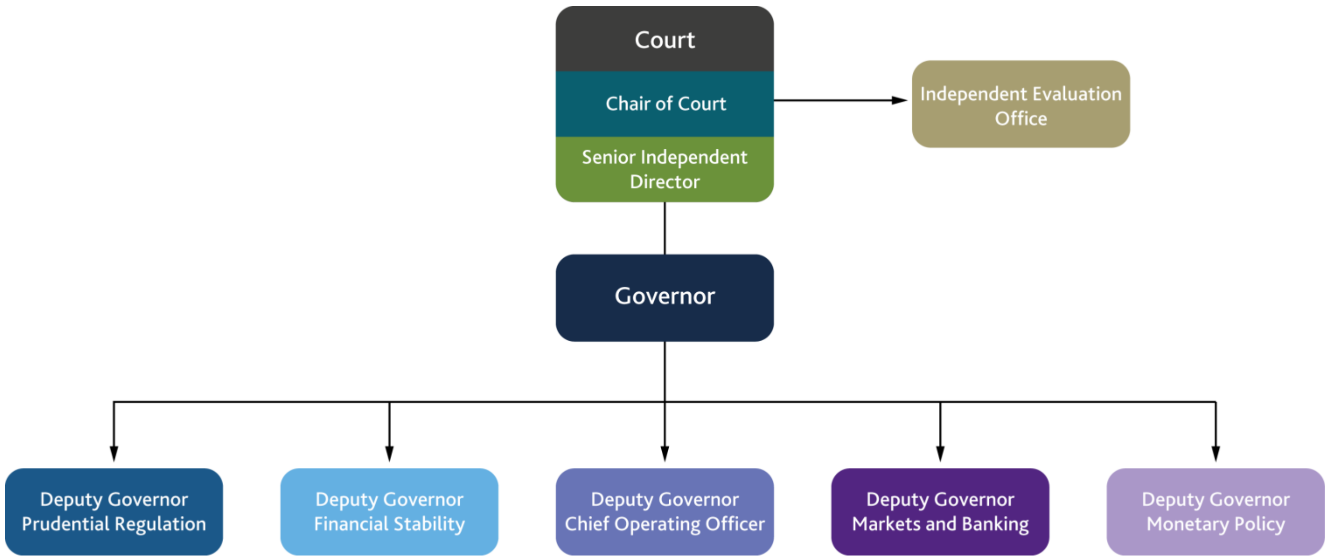
(2014)). It has published in-depth evaluations of the Bank of England's forecast performance and of the Prudential Regulation Authority's (PRA's) approach to its secondary competition objective[11] (IEO (2015) and (2016)). And the IEO is currently evaluating the Bank's approach to the supervision of Financial Market Infrastructures (FMIs) as well as the PRA's approach to its insurance policyholder protection objective[12].

The Bank of England's IEO and independence

In establishing our IEO at the Bank of England, we have embedded a series of safeguards to protect the independence of our work – not least given the known challenges that internal evaluation units can face in terms of perceived (albeit not actual) objectivity. In particular, we have taken a series of steps that speak to the four principles of independent evaluation set out by the ECG (2012): organisational independence; behavioural independence; protection from external influence; and avoidance of conflicts of interest.

On *organisational independence*, the IEO lies outside of normal management reporting lines, and reports directly to the independent Chair of the Bank's Board (Court); Figure 2. This is in line with ECG guidelines that stress the importance of evaluation units reporting directly to an organisation's oversight body.

Figure 2: The IEO within the Bank of England's organisational structure



Source: Ashley and Paterson (2016)

ECG guidelines also stress the importance of unrestricted access, for evaluation purposes, to all relevant information and information sources. At the Bank, the IEO has the unrestricted access to all Bank information that it considers necessary to carry out its work[13]. Indeed, given the nature of central banking – where the information needed for evaluations can be highly market sensitive, and there can be legal bars to

[11] The PRA has a secondary competition objective, set out in statute, that requires the PRA – when making policy in pursuit of its primary objectives – to do so, so far as is reasonably possible, in a way that facilitates effective competition.
[12] The PRA has a statutory primary objective, specific to insurance firms, to contribute to securing an appropriate degree of protection for policyholders.
[13] As set out in the IEO's published terms of reference, available at: http://www.bankofengland.co.uk/about/Pages/ieo/default.aspx

the disclosure of supervisory data to external parties[14] – achieving this aspect of organisational independence is more straightforward for an independent internal unit than for an externally based evaluator.

On *behavioural independence*, the Bank of England has committed to transparency about the work of its Independent Evaluation Office, including the full publication of evaluations (alongside, where appropriate, a management response), unless there are public interest reasons for withholding. And the independent Chairman of the Bank's Board – not the executive management of the Bank – has the final say over publication of IEO reports, as set out in the IEO's terms of reference.

Guidelines on behavioural independence also cite the need for protection of the budget of the evaluation function, and the role that evaluation functions should play in setting their own work programme. The IEO's budget is determined by Court as the Bank's governing Board, and the IEO has put in place a prioritisation framework to help identify potential topics for in-depth evaluation[15]. The independent Chairman of Court is responsible for the final selection of evaluation topics, which would typically be done in consultation with other Court Directors.

The ECG has set out a series of guidelines that speak to *protection from external influence*, including the degree to which evaluation units are able to determine the design, scope and conduct of evaluations without management interference.

In-depth evaluations conducted by the Bank of England's IEO would typically have a high-level scoping paper, authored by the IEO and approved by Court, setting out the purpose and remit of the evaluation. Once the scoping paper has been agreed, the IEO then proceeds with the evaluation as it sees fit. The Bank's IEO also has discretion over how to staff each evaluation, which has typically drawn on a team of internal secondees with appropriate experience, supplemented as necessary by external expertise.

All of the in-depth evaluations conducted by the IEO to date have drawn on external support in some form, although the precise form that this has taken has varied according to the nature of the work[16]. This speaks to the IEO's aim of delivering a 'hybrid' approach, tailored according to the needs of individual evaluations, that can combine elements of external evaluation with the advantages that come with an internally embedded unit.

Finally on *avoidance of conflicts of interest*, all staff at the Bank of England's IEO have to comply with the institution's wide-ranging code of conduct[17], which contains numerous provisions related to perceived or actual conflict of interest, including personal relationships, employment outside the Bank and financial

[14] For example, under s.348 of the Financial Services and Markets Act 2000, there are statutory restrictions covering the disclosure of data provided to the PRA in respect of regulated institutions.

[15] IEO evaluations will typically be concerned with at least one of the following (see Ashley and Paterson (2016)): new or recently amended statutory responsibilities; cross-cutting functions that involve more than one area of the Bank; areas of the Bank's work that pose reputational or balance sheet risk.

[16] These have included the use of external peer reviewers and senior advisors, as well as externally-appointed members of the Bank of England's policy committees.

[17] *Our Code,* the Bank of England's code of conduct, is available at www.bankofengland.co.uk/about/Documents/humanresources/ourcode.pdf

transactions. The need to avoid actual or perceived conflicts of interest is also a factor in the selection of IEO staff for individual IEO evaluations[18].

The Bank of England's IEO and the institution's wider assurance framework

A long-running debate in the broader evaluation field concerns the similarities and differences between evaluation units and other elements of an institution's assurance framework, notably Internal Audit (see, for example, Chelimsky (1985), Pollitt and Summa (1997)). Here at the Bank of England, we have aimed to ensure that the remit and working practices of the IEO complements – rather than detracts from – other elements of the institution's assurance framework (see also Ashley and Paterson (2016)).

By design, the Bank's IEO focuses on evaluation of performance (rather than, say, of risk management or internal controls), has a remit that spans the full breadth of the Bank's activities and reports into the Chairman of Court. These characteristics help to distinguish the IEO's approach from other parts of the Bank's assurance framework. For example:

- the IEO's focus on *performance* distinguishes it from the work of Internal Audit, which works to protect the Bank's assets and reputation by evaluating the effectiveness of governance, internal controls and risk management processes;
- the IEO's *Bank-wide* responsibilities distinguishes it from the work of the independent assurance function embedded within the supervisory wing of the Bank (the PRA's Supervisory Oversight Function), which is concerned with the quality assurance of microprudential supervision;
- the IEO's *reporting lines* – directly to the Chairman of Court – distinguish it from the range of self-evaluation activities embedded in local business areas of the Bank.

The IEO's terms of reference also note the importance of effective working practices – the Bank's IEO is expected to co-ordinate with other internal oversight functions to eliminate unnecessary duplication and undue burden on the work of local business areas.

The Bank's IEO is also mindful of the work of the National Audit Office (NAO), the UK state auditor that, from 2016, has new responsibilities in relation to the Bank[19]. The NAO takes account of current and proposed workplans, reviews and reports of the IEO, with a view to avoiding unnecessary duplication [20]. And under its terms of reference, the Bank's IEO is required to ensure that its current and proposed future work plans, reviews and reports are made available to the NAO in a timely manner, thereby aiding the auditor with the planning of its work programme.

[18] It should be noted that some independent evaluation units, such as the IMF's IEO, have gone further in this regard – for example, the Director of the IMF's IEO is appointed for a single six-year term (typically non-renewable), and cannot join the staff of the IMF at the end of his/her term of service.

[19] Under the provisions of the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, the NAO can examine the economy, efficiency and effectiveness with which the Bank has used its resources in discharging its functions, albeit with a range of provisions to safeguard the independence of policy formulation and the effectiveness of the Bank's Court.

[20] Under the Memorandum of Understanding drawn up between the NAO and the Bank, as required by the Bank of England Act 1998, as amended by the 2016 Act.

4. Concluding remarks

Are central banks different?

As this paper discusses, central banks are undoubtedly different in some ways – for example, in terms of their statutory settings, their emphasis on the independence of policy formulation and the uniqueness of some of their core functions. But these differences do not constrain or curtail the benefits to central banks of evaluation and review. Indeed, the wide-ranging powers typically exercised by central banks, and the criticality of public trust to their effective functioning, means that evaluation and review activities have a potentially important role to play in central banks' wider transparency and accountability mechanisms.

While the high premium on transparency and accountability has been a driving factor behind the increasing prevalence of evaluation activities in central banks, it is not the only force at work. Also important has been the drive towards increased professionalism of management practices, and the associated emphasis on performance measurement and improvement – with self-evaluation and independent evaluation both having a role to play.

These two forces at work in the central banking world – the need for greater transparency and accountability, and the professionalisation of management practices – align with the long-standing dual aims of strengthening accountability and facilitating learning that define evaluation activities in other spheres of public policy. And there are a number of insights from the broader evaluation field that are particularly relevant to central banks. These include the importance of designing evaluation functions in a way that is sensitive to the organisational and cultural characteristics of the institution in question, an observation that has helped shape our approach at the Bank of England.

Here at the BoE, we have chosen to establish our Independent Evaluation Office as an embedded unit within the central bank, with a well-defined remit that links to that of our governing Board, and a series of safeguards to preserve our actual, and perceived, independence. These safeguards include: independence of reporting lines; transparency about our work; and the ability to draw on external expertise as needed. All IEO evaluations to date have benefited from external support in some form, reflecting our aim to deliver a 'hybrid' approach, tailored to the needs of individual projects, combining elements of external evaluation with the benefits of an internally-embedded unit.

Finally, although there is not yet an obvious direct equivalent to the BoE's IEO in other central banks, central banks globally are increasingly involved in evaluation and review activity (see also Ashley and Paterson (2016)). Numerous central banks have conducted or commissioned wide-ranging reviews of core functions such as research and forecasting, for example. And in many cases these reviews have been structured in line with core principles from the broader field of independent evaluation – such as reporting directly to an institution's governing board and drawing on external expertise.

Despite the advances in recent years, independent evaluation and review functions in central banks remain in their infancy. We in the central banking community are, however, fortunate to have the rich and varied experience of evaluation practitioners in the broader field upon which to draw – including the work of many members of the European Evaluation Society – as we develop and deepen our work in this important area.

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