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On the
Transfer of Real Resources to Developing Countries)



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**HARMONIZATION OF OPERATIONAL POLICIES, PROCEDURES AND
PRACTICES: FIRST PROGRESS REPORT**

Attached for the September 29, 2001 Development Committee Meeting is a progress report entitled "Harmonization of Operational Policies, Procedures and Practices" prepared by the staff of the World Bank. This subject will be considered under item II.B of the Revised Provisional Agenda. Ministers may wish to comment on this subject in their prepared statements.

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**HARMONIZATION OF
OPERATIONAL POLICIES, PROCEDURES, AND PRACTICES:
FIRST PROGRESS REPORT**

**PREPARED FOR THE 64TH SESSION
OF THE DEVELOPMENT COMMITTEE
(SEPTEMBER 29, 2001)**

SEPTEMBER 12, 2001

ACRONYMS

AfDB	African Development Bank
AsDB	Asian Development Bank
BSTDB	Black Sea Trade and Development Bank
CAF	Andean Development Corporation
CAS	Country Assistance Strategy
CDB	Caribbean Development Bank
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Review
DAC	Development Assistance Committee
DANIDA	Danish Agency for International Development
DFID	Department for International Development (U.K.)
EBRD	European Bank for Reconstruction and Development
EC	European Community
EIB	European Investment Bank
FY	Fiscal Year
GTZ	German Technical Cooperation Agency
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDB	Inter-American Development Bank
IFAC-PSC	International Federation of Accountants, Public Sector Committee
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
ISAB	International Accounting Standards Board
IsDB	Islamic Development Bank
LACI	Loan Administration Change Initiative
MDB	Multilateral Development Bank
MFI-EWG	Multilateral Financial Institutions Environment Working Group
NADB	North American Development Bank
NEFCO	Nordic Environment Finance Corporation
NIB	Nordic Investment Bank
NORAD	Norwegian Agency for Development Cooperation
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OPEC	Organization of Petroleum Exporting Countries
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SDC	Swiss Agency for Development Cooperation
SPA	Strategic Partnership with Africa
SWAp	Sectorwide Approach
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank

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Harmonization of operational policies, procedures, and practices: First Progress Report

EXECUTIVE SUMMARY

a. Over the last few years, developing countries and donors have increasingly called on development agencies to harmonize their multiple and often differing operating policies and procedures, which tax the administrative capacity of recipient countries, increase the transaction costs of development assistance, and impede overall development effectiveness. In September 2000, the Development Committee requested a report reviewing donors' experience in this area. The Committee considered that report in April 2001 and concluded that there was a need for more concrete progress. Furthermore, it endorsed the need to strengthen recipient capacity and systems around a framework of appropriate good practice principles or standards within which development agencies and recipients can work more effectively.¹ It requested that the World Bank and its partners, including other MDBs and the OECD-DAC Task Force on Donor Practices, work together to develop an overall framework (including time-bound action plans) to help guide and coordinate future work in this area. In addition, it asked the World Bank for an action plan of specific changes to its own procedures to facilitate harmonization. The World Bank further agreed to provide regular progress reports on the entire harmonization program. This is the first of the progress reports on this joint donor exercise.²

b. **Progress: First Stage.** The paper concludes that during the first stage of the effort, which is nearing completion, progress has been made. Donors have come to see reducing transaction costs, building recipient capacity, and improving overall development effectiveness as the appropriate goals of harmonization. Working groups have completed or will soon complete stocktakings, comparing requirements and identifying differences in need of resolution, and donors are beginning to collaborate on country diagnostic work.

c. **Work Under Way.** In the second stage, efforts are moving beyond dialogue and analysis to deliverables and action; and much of this action focuses on moving to develop good practice principles or standards at the institutional level. Reaching full consensus in this process will be technically complex and sensitive, and full engagement of developing countries will be essential. It is expected that by December 2002, significant work on good practice principles or standards will be completed in the areas of accounting, auditing, environmental assessments, and country assessments in procurement and financial management. In addition, bilateral agencies will have prepared common good practice reference documents in the areas of financial accountability, pre-implementation stages of the project cycle, and reporting and monitoring. At the same time, the Bank has begun reviewing its own procedures, focusing on financial management, safeguard

¹ See *Harmonization of Operational Policies, Procedures, and Practices: Experience to Date* (SecM2001-0158), March 8, 2001.

² This paper was prepared by the World Bank in consultation with the OECD-DAC Task Force on Donor Practices, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. The work program set out in Annex A was prepared jointly by the World Bank, the regional development banks, and the OECD-DAC Task Force on Donor Practices.

assessments, procurement, and analytic work, and encouraging staff to collaborate with partners and to explore opportunities for country-level piloting.

d. **Challenges.** Progress in harmonization is essential at both the institutional and country levels. As consensus develops on good practice principles or standards, the key challenge will then be implementation: institutions working toward voluntarily mainstreaming the agreed good practice principles or standards into their operations, and developing countries defining early opportunities to apply them in specific country contexts. A great deal of activity is under way, and it will be important to “harmonize” that as well—that is, to ensure that multilateral and bilateral groups keep one another informed, avoid duplication, and take advantage of synergies. Information technology will be instrumental in this coordination. It will also be important to develop country-level pilots early on to demonstrate the development benefits both donors and developing countries can reap through harmonization and to help sustain the commitment that will be required from development agencies and developing countries alike.

e. **Next Steps.** To continue with this agenda, donors will need to undertake the following actions in addition to work already programmed:

- Further harmonize the harmonization process: coordinate multilateral and bilateral work to avoid unnecessary duplication of effort, ensure the cross-fertilization of ideas and experiences, allow joint participation in tasks of mutual interest, and better facilitate pilot activities. This may include, for example, bilateral-multilateral collaboration on developing good practice principles or standards for financial accountability and management, joint country diagnostic work, and procurement capacity building in developing countries.
- Actively engage developing countries in the process of developing good practice principles or standards and also in defining capacity- and systems-building targets appropriate to country circumstances.
- Develop harmonized products that can be piloted in concrete country-level applications. For example, such products may include joint government/donor diagnostic and strategy work on poverty and fiduciary issues, agreed procurement and financial accountability frameworks for pooled funding among donors, and common reporting arrangements.
- Identify lessons of experience from piloting harmonization products and consider adopting the policy and procedural changes these lessons suggest.
- Sustain high-level political support for the current work on good practice principles or standards, and generate even greater support for voluntarily implementing them within each development institution, and in specific country contexts.

f. **World Bank Procedures.** The World Bank will need to sustain its program of reviewing its own procedures to facilitate harmonization, with priorities in the areas of financial management, procurement, safeguard assessments, and sectorwide approaches. It will also continue to encourage staff to collaborate with partners, particularly in joint diagnostic work, and

to explore opportunities for country-level piloting with developing countries and bilateral and multilateral partners.

HARMONIZATION OF OPERATIONAL POLICIES, PROCEDURES, AND PRACTICES: FIRST PROGRESS REPORT

I. INTRODUCTION

1. Over the last few years, developing countries and donors have increasingly called on development agencies to harmonize their multiple and often differing operating policies and procedures, which tax the administrative capacity of recipient countries, increase the transaction costs of development assistance, and impede overall development effectiveness. In September 2000, the Development Committee requested a report reviewing donors' experience in this area. The Committee considered that report in April 2001 and concluded that there was a need for more concrete progress. Furthermore, it endorsed the need to strengthen recipient capacity and systems around a framework of appropriate common good practice principles or standards within which donors and recipients can work more effectively.³ It requested that the World Bank and its partners, including other MDBs and the OECD-DAC Task Force on Donor Practices, work together to develop an overall framework (including time-bound action plans) to help guide and coordinate future work in this area. In addition, it asked the World Bank for an action plan of specific changes to its own procedures to facilitate harmonization. The World Bank further agreed to provide regular progress reports on the entire harmonization program. This is the first of the progress reports on this joint donor exercise.⁴
2. **Scope.** As almost all development agencies have detailed policies and procedures in the areas of procurement, financial management, and environmental assessment, the Development Committee suggested that harmonization activity should focus on these areas. This paper reviews the ongoing and planned harmonization work in these key areas, and also examines other harmonization efforts, such as the work of the Task Force on Donor Practices of the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC). The paper pays special attention to when and how these activities will be translated into specific actions at the country level. It also reports on the World Bank's efforts to introduce changes to its own procedures that will facilitate harmonization.
3. **Conclusions.** Overall, the paper concludes that progress has been made in the first stage of the harmonization process: working groups have completed or will soon complete stocktakings, comparing requirements and identifying differences in need of resolution.

³ See *Harmonization of Operational Policies, Procedures, and Practices: Experience to Date* (SecM2001-0158), March 8, 2001.

⁴ This paper was prepared by the World Bank in consultation with the OECD-DAC Task Force on Donor Practices, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. The work program set out in Annex A was prepared jointly by the World Bank, the regional development banks, and the OECD-DAC Task Force on Donor Practices.

Most efforts are shifting to the second stage of developing good practice principles or standards on which participating institutions can all agree. Reaching full consensus will be a technically complex and sensitive process, and it will be essential for developing countries to be actively involved in it. The key remaining challenge will be implementation, as institutions work toward voluntarily mainstreaming these principles into their operations and, at the same time, as developing countries define opportunities to apply them in specific country contexts.

II. ASSESSING PROGRESS: MULTILATERAL AND BILATERAL INITIATIVES

4. In the course of the first stage of the harmonization effort, donors have come to see reducing transaction costs, building recipient capacity, and improving overall development effectiveness as the appropriate goals of harmonization. Reaching agreement on these goals, and adopting good practice principles or standards to achieve them, is an important step in the harmonization process, as it establishes benchmarks that donors and developing countries can work together to achieve. It is also a difficult step, because common good practice principles or standards must reflect and accommodate differences in the operating and institutional environments of donors and developing countries. Thus donors have been allocating a significant portion of their time since April 2001 to developing work plans that would advance dialogue and facilitate consensus on good practice principles or standards during the next 10 to 16 months. This section reviews highlights of the work programs in financial management, procurement, environmental assessment, project work, and country analytic work, as well as other ongoing harmonization activities (see Annex A for details).

A. Financial Management

5. Financial management in aid programs, although generally based on broadly accepted principles, tends to reflect the administrative and legal requirements of individual donors and the need to attribute transactions to specific funding sources. The resulting multiplicity of eligibility, commitment, disbursement, reporting, and auditing requirements is costly to developing countries. It is particularly costly to the countries that are most dependent on development assistance, which also tend to have the weakest capacity for compliance. In the past year, the OECD-DAC Subgroup on Financial Management and Accountability, the Financial Analysis and Management Group of the multilateral development banks (MDBs), and the Strategic Partnership with Africa (SPA) have all launched initiatives to address financial management harmonization.
6. ***Financial Management Frameworks.*** As a first step, both the multilateral and OECD-DAC working groups have begun to take stock of donors' present financial management requirements. The MDB group has identified country-level and project financial management assessments, as well as financial reporting and auditing, as priority areas for developing harmonized approaches. Good practice guidelines in the conduct of country diagnostic work will shortly be agreed. Terms of reference have been prepared, and a consultant appointed, to work on the other areas. Meanwhile, the OECD-DAC group has agreed to develop a conceptual framework to guide financial management harmonization in the context of overall poverty reduction strategies. In addition, the group will examine

how donor collaboration can be improved in the conduct of country diagnostic work, review current requirements with respect to financial reporting and auditing with a view to identifying options for harmonization, and compare current donor procedures to applicable international standards. Clear areas of overlap have emerged in the work programs of each group, as well as with that of the SPA. To improve coordination, the OECD-DAC and MDB working groups have now shared and briefed each other on their individual work programs. The MDBs are preparing a proposed joint submission to the Public Sector Committee of the International Federation of Accountants (IFAC-PSC), an independent international standard-setting body, to establish accounting standards for development assistance, and will also consult with bilaterals via the OECD-DAC Task Force on Donor Practices. The World Bank, the IMF, and the Inter-American Development Bank (IDB) have recently approved additional financial resources to support IFAC-PSC's work on preparing a comprehensive package of international public sector accounting standards.

B. Procurement

7. The MDB Heads of Procurement have continued their work on developing standardized documents for the procurement of goods, civil works, and consultant services used in international competitive bidding. Completion of this work is expected by December 2002. In addition, the group has commissioned a paper to identify policy differences among MDBs, and the World Bank will present a paper to the group on developing a framework for the design of common procurement arrangements in sector programs. In this way, the agenda of this group is beginning to broaden, though there remain additional areas that will require the group's full commitment to address. For example, work on capacity building in public procurement systems is expected to be added but so far has not been defined. The DAC has already selected a consultant to prepare a paper on procurement capacity building and is exploring ways in which the World Bank may contribute to this exercise.
8. *Standardized Documents.* Standard bidding documents are a key instrument of the procurement process. Each donor requires at least one standard document for each category (civil works, goods, and consultant services) it finances. Thus, standardizing these documents across MDBs can reduce costs to borrowers and enhance their understanding of, and compliance with, accepted procurement practices. The Procurement Group completed the design of a standardized (master) bidding document for procurement of goods in 1999. As of July 2001, this document was in use by the Inter-American Development Bank (IDB), the African Development Bank (AfDB), and the Asian Development Bank (AsDB), and the World Bank will begin introducing it in October 2001. Work on master documents for prequalification of civil works is scheduled for completion in December 2001, and work on master documents for requests for proposals for consultant services, and on master bidding documents for procurement of civil works is scheduled for completion by December 2002. The follow-up agenda will include promoting the adoption of these documents by the multilateral agencies, improving the standard bidding documents of recipient countries, and moving toward electronic public procurement, with these master documents as a central building block.

9. *Procurement Policies.* Standardizing documents involves harmonizing agencies' procedures. But differences in policies can also lead to additional transaction costs for developing countries. The AsDB is leading an effort among the MDBs to document, review, and assess differences in procurement policies, and it aims to report its findings during the first half of 2002. The group will consider the preliminary findings of this report at its next meeting in October 2001.

C. Environmental Assessment

10. In the areas of procurement and financial analysis and management, cooperation among donor agencies began in the late 1990s. In the area of environmental issues, however, cooperation among MDBs dates back to the late 1970s in the form of the Multilateral Financial Institutions Environment Working Group (MFI-EWG). Indeed, as the April 2001 report to the Development Committee pointed out, through the years environmental staff have moved between institutions, and there are already many similarities in environmental assessment policies and procedures. The most significant differences lie in the procedural requirements for public consultations and disclosure: when, whether, and where the assessment is disclosed, and when, how, and how often affected groups are consulted. In April 2001, the IFC, under the direction of a multiagency advisory environmental working group, completed a mapping of the environmental and social requirements of multilateral, bilateral, and export credit agencies for private sector projects that highlighted many of these differences.⁵ The MFI-EWG's work program is now focusing on preparing a joint review of common principles for environmental assessments, including both environmental and social aspects. The group expects to complete a draft report on these issues by December 2001. The draft will provide the basis for discussing measures the cooperating institutions may take jointly to implement common good practice principles for environmental assessment. Work is also under way on harmonizing review procedures for financial intermediary lending, but no timetable for results and implementation has yet been set out.

D. Project Cycle

11. Since receiving its two-year mandate in December 2000, the OECD-DAC Task Force on Donor Practices⁶ has now met twice, most recently in June 2001, when it agreed on the work programs of two of its three established subgroups, the Subgroup on Financial Management and Accountability and the Subgroup on Pre-Implementation Stages of the Project Cycle. The Task Force has recognized the importance of engaging recipients in

⁵ While the exercise found that almost all multilaterals, 11 of 14 bilaterals, and all reporting export credit agencies required environmental assessments for large projects, the results for public consultation and disclosure show substantial differences among the three groups. All multilateral agencies require public consultation, but only 43 percent of bilateral development agencies require consultation, and 75 percent of export credit agencies require public consultation. On disclosure of environmental and social information, results range from 69 percent for multilaterals to 23 percent for export credit agencies and 14 percent for bilateral development banks.

⁶ OECD-DAC Task Force on Donor Practices, Draft Terms of Reference (DCD/DAC[2000]28/Rev.), November 17, 2000.

its activities and, through the United Nations Development Programme (UNDP), it has already sent information on its work to all recipient countries. It plans to invite five experts from recipient countries to participate in each of the three subgroups. In addition, the Task Force intends to hire consultants to engage these countries in dialogue on priority areas for harmonization and on appropriate good practices.

12. ***Project Work.*** As mentioned above, a subgroup of the OECD-DAC Task Force on Donor Practices is leading work on the preimplementation stages of projects. By December 2002, it expects to have (a) identified opportunities for donor collaboration in sectoral analytic work (with a view to improving the coordination of project identification); and (b) developed a common framework for financial, environmental, political, and sustainability risk assessments. The outputs will be good practice reference documents in each of these areas. The group will tie its work to the Poverty Reduction Strategy Paper (PRSP) process, although it has not yet determined the detailed modalities for doing so. Another subgroup of the Task Force is now being formed. The Subgroup on Reporting and Monitoring, whose draft work program will be considered in November, is provisionally planning to (a) develop a common approach to building local capacity for reporting and monitoring; (b) identify a framework for donors to make core financial contributions; (c) propose minimum good practice principles or standards for reporting and monitoring during project implementation; and (d) establish a common reporting framework of donor country-level interventions.

E. Country Analytic Work

13. In June 2001, the World Bank invited representatives from 14 multilateral and bilateral agencies⁷ to a workshop to discuss opportunities for coordinating and rationalizing their approaches to country analytic work. Participants agreed to organize technical workshops to look in more detail at economic and sector work, poverty and social analyses, and fiduciary and environmental analyses, and to establish a joint website to facilitate overall collaboration. As a follow-up to the workshop, a Fiduciary Forum will be held in October 2001; and a second plenary workshop is scheduled for mid-2002 to review overall progress.
14. ***Financial Management and Procurement.*** As was indicated in previous sections, work on harmonizing analytic work has already begun in the areas of financial management and procurement. Country-level assessments of local capacity and systems in financial management provide the baseline for donors to assess risks for operations and for recipients to set capacity- and systems-building targets. The multilateral group is preparing good practice guidelines for donor collaboration in country financial management assessments and has agreed to initiate at least four such assessments jointly by Q4 2001. Participation in such joint assessments would be open to interested bilateral and other multilateral donors. Country procurement assessments are diagnostic products that evaluate country procurement policies and practices, and identify measures to improve them. Thus, they are important diagnostic instruments for harmonization work

⁷ The participating institutions were AfDB, AsDB, EBRD, IDB, IMF, UNDP, UNFPA, UNDG, USAID, DFID, GTZ, CIDA, NORAD, and SwissAid.

at the country level. By December 2002, multilateral agencies will have completed their work on common approaches to country procurement assessments, including good practice principles or standards for assessing such systems, and will have conducted at least four of these assessments jointly.

F. Regional and Country Actions

15. Having already concluded Memoranda of Understanding with the African Development Bank and the Inter-American Development Bank, the World Bank expects to finalize an agreement with the Asian Development Bank during Fall 2001. The agreement will cover such areas as collaboration in economic and sector work, including financial management and procurement assessments, and continued work on the harmonization of operational policies, strategies, and practices. In specified countries, the two development banks will continue or initiate a variety of activities: joint support to governments preparing PRSPs, portfolio reviews, public expenditure reviews, a governance and anticorruption assessment, and consultation on country strategies. Meanwhile, work continues in Africa through the Strategic Partnership with Africa (SPA). In January 2001, the SPA Task Team on Public Financial Management and Accountability (chaired by Norway) met with World Bank and IMF staff to discuss, inter alia, how to work toward more shared, standardized assessments and coordinated support in these areas. The results of pilot efforts will be presented at SPA technical meetings in November 2001 and at the plenary meeting in January 2002. In the Middle East, the work of the Coordinating Group for the Arab, Islamic, and OPEC countries continued. Having successfully developed voluntary common guidelines in areas ranging from project appraisal to post-evaluation, the group is now looking to improve implementation of these common guidelines at the country level as well as to develop new common guidelines for loan administration.

16. **Country-Level Activities.** The Utstein Group (comprising the Development Ministers of Norway, the United Kingdom, Germany, and the Netherlands) has continued to work in Tanzania's health sector focusing on harmonization of requirements in audit and procurement and on cooperation in evaluating projects, programs, and policies. The dual agency arrangement in Malawi between the Swedish Agency for International Development and the Norwegian Agency for Development Cooperation has continued. Meanwhile, in April 2001, the Government of the Philippines agreed with the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation that in lieu of the traditional donor-driven annual country portfolio performance reviews, there will be one joint quarterly review, with the Government leading the process. This new recipient-led approach to donor coordination would also include joint programming discussions with the AsDB and the World Bank. In Bolivia, 9 bilateral donors⁸ have agreed to provide 'basket funding' to support the Office of the Ombudsman, or 'Defensoria', and its five-year plan. These donors have also agreed to accept periodic joint progress and financial reports as well as joint evaluation missions of the five-year

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Assistance has come from the Belgian, Canadian, Swiss, German, Danish, Dutch, Swedish, and UK governments as well as the UNDP.

plan's implementation. Again in Bolivia, 7 donors⁹ have agreed to support the establishment of a Bolivian system for the transfer of agricultural technology, known as 'SIBTA'. This support is based on joint design, appraisal and financing as well as harmonized procedures for financial reporting and accountability, monitoring and evaluation among the participating donors. Meanwhile in November 2000, another 9 donors¹⁰ agreed to provide budgetary support to the Government of Mozambique using joint financing mechanisms and common financial accountability procedures based on Mozambique's own national systems.

17. ***Small States Activities.*** Within the Caribbean, the subregion of the Organization of Eastern Caribbean States (OECS) has continued working on simplifying financial management requirements and aligning them with country systems, with St. Lucia and St. Vincent and the Grenadines serving as pilots. The June 2001 Country Assistance Strategy (CAS) for the OECS, which covers the period FY02-06, commits to continuing this work and reducing duplication of effort through a clearer division of labor in lending and nonlending services.¹¹ Cooperation between Australia and New Zealand in the Pacific Islands took another step forward with the recent issuance of the report *Harmonising Donor Policies and Practices in the Pacific*.¹² The study devised a menu of policy, institutional, programming, and operational options for harmonization between Australia and New Zealand. The two countries now plan to engage selected Pacific Island governments in identifying options that may improve donors' development effectiveness in their countries. No timetable has been set for this work.

⁹ Assistance has been provided by USAID, GTZ, DfID, SDC, the IDB, and the Netherlands and Japanese Governments.

¹⁰ The Belgian, Irish, Dutch, EC, Swiss, UK, Norwegian, Danish, and Swedish governments have jointly participated.

¹¹ See *Eastern Caribbean Sub-Region: Country Assistance Strategy* (R2001-0105; Report No. 22205-LAC), June 4, 2001.

¹² *Harmonising Donor Policies and Practices in the Pacific*, Report of the joint Australia-New Zealand Project, March 2001.

G. Private Sector-Oriented Activities

18. The importance of involving the private sector in the harmonization process has also been recognized. In 1999 the IFC and 34 other private sector-oriented international financial institutions (IFIs) and bilateral agencies, including export credit agencies, formed four subgroups to look at project-level cooperation, the enabling environment for private sector development, small and medium-sized enterprises, and environmental issues. One of the key products has been the work of the environment group, which mapped the environmental and social requirements of the participating IFIs and made recommendations for common minimum environmental elements for environmentally sustainable private sector development. More recently a new working group on Poverty and the Private Sector has been established to investigate the overall importance of private sector activities in poverty alleviation and to examine ways IFIs can increase the poverty impact of private sector interventions.

III. World Bank Procedures

19. Besides contributing to the harmonization effort through its membership on the various MDB working groups and as an observer on the OECD-DAC Task Force, the World Bank is reviewing its own procedures to facilitate harmonization—particularly its procedures for financial management, procurement, safeguard assessments, and sectorwide approaches (SWAs). Specifically, the World Bank is focusing on changes that will help build developing countries' capacity, one of the major thrusts of the harmonization effort. Planned work includes changes to guidelines for strategy documents. Responding to the request of the Development Committee, this section describes highlights of this work, while Annex B provides details of actions and timings.
20. ***Financial Management and Procurement.*** In 1998 the World Bank launched the Loan Administration Change Initiative (LACI) to improve its financial management and disbursement procedures. LACI succeeded in making financial management assessments routine at the country and project levels, and thus significantly improved financial management in individual transactions. But LACI has also been criticized for requiring borrowers to develop systems that they may not have found useful for development expenditures not financed by the Bank.¹³ After a systematic review, Management has therefore introduced greater flexibility into the requirements, which will allow borrowers to use either their own reporting format (provided it contains the required information) or the World Bank system.¹⁴ This change will require greater attention to the countries' own public financial management systems, helping them to build systems that all donors can rely on. Other World Bank efforts that will facilitate harmonization in the financial management and procurement areas include the following:

¹³ See the report on the Audit Committee discussions (March 10, 2000) on the *Loan Administration Change Initiative: Review of the First Year's Experience* (AC2000-28), February 4, 2000.

¹⁴ See *Loan Administration Change Initiative (LACI): Changes in Implementation* (AC2001-39), July 6, 2001.

- Encouraging staff to increase collaboration with other donors involved in the same projects, within the parameters of current Bank policies and procedures.
- Collaborating with other donors in carrying out country financial accountability assessments (CFAAs) in nine countries in FY01¹⁵ and seeking their participation in quality reviews of CFAAs.
- Reviewing the audit policy for Bank-financed projects to find more cost-effective ways to obtain assurance about the use of Bank resources while contributing to borrowers' development of audit capacity.
- Promoting greater reliance on and capacity building for borrower systems in procurement by developing staff guidelines to move the emphasis from prior to ex post review. Use of the standardized master bidding document will begin in October 2001. Also planned for later this year are the proposal of a framework for the design of procurement arrangements in multidonor sector programs and the development of guidance on electronic government procurement.
- Working with United Nations agencies to agree on specific procurement and financial management arrangements when collaborating on individual projects—for example, procurement arrangements with UNDP¹⁶ and financial reporting arrangements with the United Nation Children's Fund (UNICEF).

21. ***Sectorwide Approaches.*** SWApS are mechanisms under which development agencies collaborate to support sector reforms that are based on the country's long-term vision for development. SWApS can also provide an opportunity for sector-specific harmonization in a country—for example, agreement on a common procurement plan, similar thresholds for various procurement methods, the same review procedures (including agreement on the methodology of ex post reviews and independent procurement reviews), and common procedures for reporting to the government and to donors. The World Bank is examining the fiduciary components of eight SWApS in which it has been involved¹⁷ to ascertain the effect of its fiduciary policies and procedures on project design and implementation and the implications of the lessons learned for future operational approaches. Once a draft report is completed, staff will consult with borrowers, donors, and shareholders as a basis for Board discussion later in FY02. The aim is to agree on an approach that builds

¹⁵ The nine CFAAs that were or are being carried out in the following countries are: Tanzania and Uganda (in collaboration with DFID); Burkina Faso and Malawi (in collaboration with DFID, the Dutch Government, AfDB, and EU, through SPA); Argentina, Panama, and Peru (in collaboration with IDB); Bangladesh (in collaboration with UNDP), and Vietnam (in collaboration with AsDB).

¹⁶ The World Bank has agreed on a Standard Annex on Procurement used in the Cost Sharing Agreements signed between UNDP and client governments to facilitate project implementation.

¹⁷ SWApS reviewed include Zambia Agriculture (1995), Ghana Health (1997), Bangladesh Health (1998), Ethiopia Education (1998), Pakistan Social Action Program (1998), Bolivia Health (1999), Mozambique Agriculture (1999), and Tanzania Health (2000). The year in parentheses indicates when the loan or credit was approved by the Board of Executive Directors of the World Bank.

country capacity and is compatible with the approach used by other SWAp partners, and provides the necessary assurances required by the World Bank.

22. **Safeguard Assessments.** The World Bank's safeguard policies include the project-based environmental and social statements in its Operational Manual.¹⁸ These statements, in turn, are the basis for conducting safeguard assessments. The ESSD Network has been clarifying these policies to make clearer what the Bank expects of borrowers and its own staff. This effort also will enable the World Bank to participate more effectively in the harmonization work in this area. Management will present a paper on safeguard policy issues to the World Bank's Committee on Development Effectiveness in Q4 2001.¹⁹ In addition, this paper will address the critical issue of helping to build developing country capacity, a central component of a successful country-owned and harmonized approach.
23. **Country Implementation.** Development agencies and developing countries alike recognize that piloting and implementation at the country level are critical elements of the success of the work program. The World Bank is facilitating this in several ways:
- Guidelines are being prepared or revised to encourage staff to find opportunities to harmonize activities and approaches and to respond to borrowers that want development agencies to make harmonization a priority—for example guidelines on CAS preparation, and work related to PRSPs, the associated Joint Staff Assessments, and financial management and procurement assessments.
 - Bank and Fund staff are collaborating on developing more streamlined program conditionality.²⁰
 - The relevant Sector Boards are following up with countries that have indicated an interest in participating in pilots for country-level harmonization.
 - A harmonization coordinator is being designated to provide advice and support to staff as experimentation proceeds, and to help resolve issues that may arise, including issues on the handling of operational policies related to investment lending.

IV. Remaining Challenges

24. The work programs of the various thematic groups involve activity at both the institutional and country levels. The first stage has taken place at the institutional level, as donor agencies have taken stock and identified key differences in need of harmonization. Most efforts are now moving beyond this initial dialogue and analysis to the second stage of focusing on deliverables and action. Much of this action involves

¹⁸ The ten safeguard policies are Environmental Assessment, Natural Habitats, Forestry, Pest Management, Cultural Property, Indigenous Peoples, Involuntary Resettlement, Safety of Dams, Projects on International Waterways, and Projects in Disputed Areas.

¹⁹ See *Safeguards: Institutional and Strategic Issues*, Operations Policy and Country Services, forthcoming.

²⁰ See *World Bank-IMF Collaboration on Conditionality: Draft Note* (SecM2001-0461), July 11, 2001.

working toward developing common good practice principles or standards in identified priority areas that can be applied in specific country contexts. This is a critical and difficult challenge, and it will take time for consensus on technically complex and sensitive issues to emerge among donors and recipients. Meanwhile, at the country level, donors and developing countries are beginning to assess recipient capacity and systems with a view to strengthening them. To this end, much action has focused on mainstreaming donor collaboration in country diagnostic work on financial management and procurement. Still, the principal remaining challenge will be to implement these work programs at the institutional and country levels.

A. Institutional-Level Implementation

25. As donor agencies complete their stocktakings and reach consensus on good practice principles or standards, a key implementation challenge will be to voluntarily mainstream these good practice principles or standards into their operations, and apply them in specific country contexts. This process will take time and will occur at different speeds within different institutions. Some institutions may choose to formally adopt these principles and standards through their internal governance structures, and others may choose to apply them gradually on a case-by-case basis to their country operations. An example of the gradual approach can be seen in procurement: the standardized master bidding documents for goods have been agreed on, and as previously mentioned, the IDB, AfDB and AsDB have begun to use them in their operations, with the World Bank scheduled to adopt them in October 2001. Implementation will take sustained commitment at the highest levels if the benefits of harmonization are to be realized.

B. Country-Level Implementation

26. Implementation at the country level is equally important and represents the largest potential for further action. Upstream opportunities for piloting harmonization at the country level will need to be identified. A paper on the Comprehensive Development Framework (CDF), which was discussed by the Bank's Committee of the Whole on September 12, 2001, presents an analysis of 46 CDF pilot and PRSP/Interim PRSP countries. On the basis of this analysis, the paper suggests that harmonization of operational policies and procedures at the country level is a priority area that continues to need attention.²¹ Consistent with the CDF principle of country ownership, it will be essential to ensure the broad participation of developing countries in harmonization efforts. Once country-level diagnostic work is under way, developing countries will need to define priorities, appropriate to their country circumstances, for developing regulatory frameworks, strengthening national systems and processes, and building public sector capacity. To date 44 PRSPs and Interim PRSPs have been completed, of which about one-third addressed issues of building national financial management or procurement capacity. This suggests the usefulness of PRSPs as a platform from which developing countries may define harmonization priorities relevant to their individual circumstances. At the same time, PRSPs are only one process that will permit recipients to engage in the

²¹ See *CDF: Meeting the Promise? Early Experience and Emerging Issues*, CDF Secretariat (SecM2001-0529), August 29, 2001.

harmonization process. It will also be important to take advantage of other existing coordination mechanisms that would allow recipients to specify capacity- and systems-building requirements and to communicate harmonization priorities to donor agencies. For the World Bank, CASs offer another avenue through which country capacity-building needs can be articulated. This entire process will also take time. In the interim, an important challenge will be to identify willing countries and launch pilots to demonstrate the development benefits both donors and developing countries can reap through harmonization. Over time, as recipients strengthen their national capacity and standards, donors will be able to increasingly rely, for example, on national procurement or national financial management systems instead of their own parallel systems for the donor-financed activities.

C. **Improved Synergies and Cross-Fertilization**

27. Just as donors need to harmonize their policies and procedures, they also need to ensure that they work together on their harmonization initiatives. In particular, multilateral and bilateral groups should keep one another thoroughly informed about their work and take advantage of opportunities for coordination and collaboration. One such opportunity is in the work of the multilateral financial management group and the subgroup of the OECD-DAC Task Force on financial accountability, which could take advantage of cross-representation in their memberships. Work by the bilateral subgroup in inventorying relevant international fiduciary good practice principles or standards and establishing minimum standards could feed into the multilateral process for determining acceptable good practice principles or standards.
28. *Harmonizing the Harmonization Process.* It will be important to identify and exploit additional synergies, and even to rationalize some activities. For example, there may be scope for combining some of the multilateral and bilateral work on accounting and audit standards. There may also be merit in linking the work initiated at the World Bank-sponsored workshop on economic and sector work to the bilateral work on the preimplementation stages of the project cycle, which plans to identify opportunities for donor collaboration in sectoral analytical work. Further collaboration among the wider community of development agencies will be needed—for example, engaging the United Nations system as a whole as well as individual United Nations agencies and the European Union. Instrumental to this process of coordination and engagement will be the deployment of the aid harmonization website which will act as a focal information point for all those involved and interested in the harmonization process. Presently being developed, this site will give users access to tools such as an electronic calendar to plan events, an electronic database to facilitate group communication, electronic discussion groups and surveys to engage participants, and a file database for sharing information publicly and securely.

V. **Conclusions and Next Steps**

29. Overall, there has been progress in the first stage of the harmonization process. At the institutional level, working groups have completed or will soon complete stocktakings, comparing requirements and identifying differences in need of resolution. At the country

level, donors are beginning to collaborate on country diagnostic work to assess recipient capacity and systems in financial management and procurement. Most working groups have now begun the second stage, moving to develop good practice principles or standards in their individual areas that they can all agree on. As this work proceeds, it will be important to “harmonize” that as well—that is, to ensure that multilateral and bilateral groups keep one another informed and take advantage of synergies. The key remaining challenge will come in the third stage, the implementation stage, as institutions work to voluntarily mainstream these principles into their operations and collaborate with developing countries to define opportunities for their application in specific country contexts. There is significant potential for further action in country-level implementation relying on the PRSP and other processes to engage developing countries in defining their own harmonization priorities and working in partnership with donors.

30. ***Next Steps.*** To continue with this agenda, donors will need to undertake the following actions in addition to work already programmed:

- Further coordinate multilateral and bilateral work to avoid unnecessary duplication of effort, ensure the cross-fertilization of ideas and experiences, allow joint participation in tasks of mutual interest, and better facilitate pilot activities. This may include, for example, bilateral-multilateral collaboration on developing good practice principles or standards for financial accountability and management, joint country diagnostic work, and procurement capacity building in developing countries.
- Actively engage developing countries in the process of developing good practice principles or standards and also in defining capacity- and systems-building targets appropriate to country circumstances.
- Develop harmonized products that can be piloted in concrete country-level applications. Such products may include joint government/donor diagnostic and strategy work on poverty and fiduciary issues, agreed procurement and financial accountability frameworks for pooled funding among donors, and common reporting arrangements.
- Identify lessons of experience from piloting harmonization products and consider adopting the policy and procedural changes these lessons suggest.
- Sustain high-level political support for the current work on good practice principles or standards, and generate even greater support for voluntarily implementing them within each development institution, and in specific country contexts.

31. ***World Bank Procedures.*** The World Bank will need to sustain its program of reviewing its own procedures to facilitate harmonization, with priorities in the areas of financial management, procurement, safeguard assessments, and sectorwide approaches. It will also continue to encourage staff to collaborate with partners, particularly in joint diagnostic work, and to explore opportunities for country-level piloting with developing countries and bilateral and multilateral partners.

ACTION PLAN FOR IMPLEMENTING THE HARMONIZATION AGENDA

<i>Initiative</i>	<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>
Multilateral Activities			
MDB Financial Analysis and Management Group: AfDB, AsDB, EBRD, IDB, WB	<p>1. Country Diagnostic Work: Initiate four joint diagnostic country financial management assessments. Adopt good practice guidelines for the joint conduct and dissemination of assessments.</p> <p>2. Financial Management: Develop options for consideration by the senior management of each participating MDB for harmonized approaches to financial reporting and auditing of projects financed by participating MDBs.</p> <p>3. Financial Analysis: Develop options for consideration by senior management of each participating MDB; harmonize financial analysis approaches to (a) tariffs, subsidies, and affordability; and (b) ratios and loan covenants.</p> <p>4. Accounting Standards: Submit joint MDB proposal to the IFAC-PSC for the development of accounting standard for development assistance.</p>	<p>1. Q4 2001</p> <p>2. Q2 2002</p> <p>3. Q2 2002</p> <p>4. Q4 2001</p>	<p>1. Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.</p> <p>4. International accounting standards provide common benchmarks for donors and recipients.</p>
MDB Heads of Procurement Group: AfDB, AsDB, BSTDB, CDB, EBRD, EC, EIB, IDB, NADB, UNDP, WB	<p>1. Standardized Master documents for ICB:</p> <p>(a) Supply of goods (b) Civil works contracts (c) Request for proposals for consultants (d) Prequalification for civil works</p> <p>2. Country Diagnostic Work: Conduct four joint country procurement reviews.</p> <p>3. Procurement Policies: Group to consider paper highlighting differences in procurement <i>policies</i>.</p>	<p>1.(a) Completed (b) Q4 2002 (c) Q4 2002 (d) Q4 2001</p> <p>2. Q4 2002</p> <p>3. Q4 2001</p>	<p>1. Standardized documentation eases administrative burden on recipients.</p> <p>2. Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.</p>
MFI Environment Working Group: ADB, AfDB, CAF, CDB, EBRD, EIB, IBRD, IDB, IFAD, IFC, IIC, IsDB, NEFCO, NIB, UNDP (observer), UNEP (observer), OECD (observer).	<p>1. Environmental Assessments: Prepare a joint review on common principles for environmental assessments, including environmental and social aspects.</p> <p>2. Financial Intermediaries: Harmonize review procedures for financial intermediary operations.</p>	<p>1. Q4 2001</p> <p>2. Ongoing</p>	<p>1. Identifying common principles for environmental assessment provides benchmark for donors and recipients.</p>

<i>Initiative</i>	<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>
	3. Donor Environmental and Social Inventory: Map environmental and social requirements of multilaterals, bilaterals, and export credit agencies for private sector projects.	3. Completed	This mapping exercise was led by the IFC under direction of multi-agency advisory panel.
Bilateral Activities			
OECD-DAC Task Force on Donor Practices: all 23 OECD-DAC members*	<p>1. Good Practices: Develop good practice reference papers on: (a) financial accountability; (b) pre-implementation stages of the project cycle; and (c) reporting and monitoring requirements.</p> <p>2. Recipient Engagement: Consult recipients on harmonization priorities and engage recipient experts in technical dialogue in each thematic area.</p>	<p>1. Q4 2002</p> <p>2. Q4 2001</p>	Good practice reference papers provide benchmark principles for donors to rely on and recipients to pursue.
<p>OECD-DAC Task Force Subgroup on Financial Management and Accountability:</p> <p>CIDA, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, UK, UNDP, US, World Bank.</p>	<p>1. Conceptual Framework: Develop an overall conceptual framework for financial management harmonization.</p> <p>2. Standards: Inventory relevant international fiduciary standards and establish minimum benchmarkable standards. Identify consistency with donor practices and develop options whereby donors can subscribe to relevant international standards.</p> <p>3. Donor Accountability: Complete donor accountability study being undertaken by seven bilateral donors.</p> <p>4. Financial Reporting and Auditing: Inventory donors' existing reporting and auditing requirements and develop a common financial reporting and auditing framework. Develop options whereby individual donors could accept a common financial reporting and auditing framework.</p>	<p>1. Q4 2001</p> <p>2. Q1 2002</p> <p>3. Q3 2001</p> <p>4. Q1 2002</p>	<p>1. Provides a vision and guiding framework for the overall harmonization effort.</p> <p>2. The extensive and growing body of current international standards in financial accountability provides a solid foundation for the development of a common standards framework on which donors can rely.</p> <p>4. The multiple financial reporting and auditing requirements of individual donors has been identified as one of the main contributors to high transaction costs for aid recipients.</p>

<i>Initiative</i>	<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>
	<p>5. Diagnostic Tools: Identify current diagnostic tools, evaluate recent experience with their use, and make specific proposals on their rationalization, improved processes (including recipient involvement), cooperation in carrying out reviews and disseminating results, and improved linkages to donor support for follow-up.</p>	5. Q4 2001	5. Greater collaboration in diagnostic work has been identified as a quick-win high-impact area in which there are few policy or procedural obstacles to greater donor collaboration.
<p>OECD-DAC Task Force Subgroup on Pre-implementation Stages of Project Cycle:</p> <p>Australia, EC, Finland, France, Germany, Italy, Japan, Netherlands, Norway, UK, UNDP, US.</p>	<p>1. Identify opportunities for donor collaboration in sectoral analytic work.</p> <p>2. Develop a common framework for donors' various financial, political, institutional, and environmental risk analyses.</p> <p>3. Develop a common integrated approach to logical framework assessment and results-based assessment.</p> <p>4. Recommend ways to enhance value of cofinancing.</p>	All activities to be completed by Q4 2002	<p>1. Joint sectoral analytical work would improve coordination of project identification.</p> <p>2. Common risk analyses reduce transaction costs and increase development effectiveness.</p> <p>4. Improving cofinancing will leverage development impact.</p>
<p>OECD-DAC Task Force Subgroup on Reporting and Monitoring:</p> <p>Australia, CIDA, Denmark, EC, Finland, France, Germany, Italy, Switzerland, UK, US.</p>	<p>1. Review initiatives for local capacity building in monitoring and reporting and identify common criteria for local systems.</p> <p>2. Develop common framework for donor core contributions.</p> <p>3. Establish minimum standards for reporting and monitoring.</p> <p>4. Develop common reporting framework for donors at country level.</p>	All activities to be completed by Q4 2002	Establishing core contributions framework for donors will reduce reporting and monitoring burden for recipients as financing need not then be specifically earmarked.

*The OECD-DAC regroups the bilateral development arms of the European Commission and the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

WORLD BANK HARMONIZATION ACTIONS

<i>Area of change</i>	<i>Description</i>	<i>Timeline</i>	<i>Comments</i>
Financial Management	<p>1. Financial Reporting and Assessments: Bank will amend LACI to: (a) adapt content, frequency, and format of <i>project management reports</i> to borrower needs; and (b) provide improved guidance to staff on <i>project financial assessments</i>, including guidance on improving collaboration with other donors.</p> <p>2. Audit Policy: Review of project audit policy under way to balance need to improve recipient audit capacity with need to ensure appropriate use of Bank resources.</p> <p>3. SWAps: Review under way to develop, with the Procurement Sector Board, acceptable fiduciary arrangements to facilitate the Bank's participation in these operations.</p> <p>4. Country Diagnostic Work: Bank has already conducted nine CFAAs collaboratively with other donors and is presently formalizing its guidance on future collaboration of this nature.</p> <p>5. Support for Standard-setting: Bank has earmarked \$350,000 annually in grants for three years to support setting standards in accounting and auditing by IFAC and the IASB. A further \$300,000 p.a. has been approved for the INTOSAI Development Initiative.</p>	<p>1. Q3 2001</p> <p>2. Q2 2002</p> <p>3. Q1 2002</p> <p>4. Q4 2001</p> <p>5. Approved</p>	<p>1. The planned changes to LACI have been submitted to the Audit Committee of the Board for consideration on September 12, 2001.</p> <p>4. Joint diagnostic work reduces costs for donors and provides basis for building recipient capacity and recipient systems.</p> <p>5. Standards set by international bodies provide benchmarks for donors and recipients to pursue.</p>
Procurement	<p>1. Ex Post Reviews: Develop staff guidelines to move emphasis from <i>prior</i> to <i>ex post</i> reviews of procurement activities.</p> <p>2. Sector Programs: Develop framework for design of procurement arrangements in multidonor sector programs.</p> <p>3. Country Analytic Work: Develop coordinated and modularized approach CFAAs, CPARs, and public expenditure reviews. In addition, more resources committed to increasing number of CPARs and CFAAs.</p> <p>4. E-procurement: (a) Issue guidance on development of electronic government procurement; and (b) revisit specific procurement practices to allow use of e-procurement.</p>	<p>1. Completed</p> <p>2. Q4 2001</p> <p>3. To be determined</p> <p>4. a) Q4 2001 b) Q4 2002</p>	<p>2. Approach is consistent with greater reliance on country systems and building the capacity of these systems.</p> <p>3. Has potential to reduce costs and enhance common focus on capacity building.</p> <p>4. Use of information technology improves transparency and efficiency of procurement process.</p>

<i>Area of change</i>	<i>Description</i>	<i>Timeline</i>	<i>Comments</i>
Environmental and Social Safeguards	<p>1. Conversion of Policies: Continue conversion of safeguard policies on resettlement, indigenous peoples, and physical cultural resources to improve clarity.</p> <p>2. Harmonization of Internal Process: Bank review under way to clarify accountability for high-risk operations, provide one-stop shop for authoritative policy interpretations, and integrate all safeguard policy applications under umbrella of environmental assessments. Integrated Safeguard Data Sheet being implemented and used as a mandatory element of PID, PCD and PAD review processes.</p> <p>3. Upstream assessments: Initiate safeguard assessments earlier in project cycle to integrate them more effectively into the project identification and preparation process which will reduce costs and delays.</p>	<p>1. Under way</p> <p>2. Ongoing</p> <p>3. Ongoing</p>	<p>2. <i>Progress Report on Environmental and Social Safeguard Policies: Status Report on the Implementation Agenda</i> will be considered by the Committee on Development Effectiveness in Q2 2002.</p>
Country-Level Activities	<p>1. PRSPs: Encourage developing countries to use PRSPs to identify harmonization priorities in individual countries; and update Joint Staff Assessment guidelines to include coverage of harmonization issues.</p> <p>2. CASs: Instruct staff immediately and amend CAS guidelines in due course to include importance of addressing harmonization priorities in individual countries.</p> <p>3. Harmonization Coordinator: Designate focal point to advise and assist staff on policy and procedural issues arising in the context of investment lending.</p>	<p>Q1 2002</p> <p>Q1 2002</p> <p>Q2 2002</p>	