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

Attached for the April 21, 2002 Development Committee meeting is a background note entitled "Harmonization of Operational Policies, Procedures and Practices: Second Progress Report" prepared by World Bank staff 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. Ministers may wish to comment on this subject (item II.B of the Provisional Agenda) in their prepared statements.

**This cover page replaces the original distributed on March 29,
which contained an error of omission.
The text of the document remains unchanged.**

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

**OPERATIONS POLICY AND COUNTRY SERVICES
MARCH 29, 2002**

This paper has been 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 set out in Annex A reflects the coordinated harmonization activities of these institutions.

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	IsDB	Islamic Development Bank
AsDB	Asian Development Bank	LACI	Loan Administration Change Initiative
AusAID	Australian Agency for International Development	MDB	Multilateral Development Bank
BSTDB	Black Sea Trade and Development Bank	MFI-EWG	Multilateral Financial Institutions Environment Working Group
CAF	Andean Development Corporation	MoU	Memorandum of Understanding
CAS	Country Assistance Strategy	NADB	North American Development Bank
CDB	Caribbean Development Bank	NEFCO	Nordic Environment Finance Corporation
CDF	Comprehensive Development Framework	NIB	Nordic Investment Bank
CFAA	Country Financial Accountability Assessment	NORAD	Norwegian Agency for Development Cooperation
CIDA	Canadian International Development Agency	OECD	Organization for Economic Co-operation and Development
CODE	Committee on Development Effectiveness	OECS	Organization of Eastern Caribbean States
CPAR	Country Procurement Assessment Review	PRSP	Poverty Reduction Strategy Paper
DAC	Development Assistance Committee	SPA	Strategic Partnership with Africa
DFID	Department for International Development (U.K.)	SWAp	Sectorwide Approach
EA	Environmental Assessment	UN	United Nations
EBRD	European Bank for Reconstruction and Development	UNDG	United Nations Development Group
EC	European Commission	UNDP	United Nations Development Programme
ECG	Evaluation Cooperation Group	UNEP	United Nations Environment Programme
EIB	European Investment Bank	UNFPA	United Nations Population Fund
FY	Fiscal Year	UNICEF	United Nations Children's Fund
GTZ	German Technical Cooperation Agency	UNOPS	United Nations Office for Project Services
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICB	International Competitive Bidding	WB	World Bank
IDB	Inter-American Development Bank	WHO	World Health Organization
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		

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

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

I. INTRODUCTION

1. In April 2001, the World Bank submitted a report to the Development Committee reviewing donors' experience in harmonizing operational policies, procedures, and practices. The Committee requested that the World Bank and its partners work together to develop an overall framework and a time-bound action plan for further progress, and it designated three priority areas as the focus of that work—financial management, procurement, and environmental assessment. Ministers also encouraged all development partners to rely increasingly on borrower governments' own planning and budgetary processes, while maintaining appropriate standards, and to help strengthen these systems and processes where needed. Furthermore, the Committee asked the World Bank for an action plan of changes to its own procedures to facilitate harmonization.

2. ***Progress Reports.*** In consultation with the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) Task Force on Donor Practices, the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB), the World Bank has prepared two progress reports on the harmonization effort. The first, submitted to the last Development Committee meeting in Ottawa, reported mostly on the first, or information-gathering and stocktaking, stage of the effort. It focused on the three suggested areas, presenting an action plan with associated timelines extending to end-2002. It also covered harmonization efforts in related areas such as analytic work at the country and sector levels and specific aspects of the project cycle such as monitoring and reporting. The Ministers welcomed the report and commended the action programs that were in it, urging that the World Bank and its partners continue to pursue these programs vigorously. This Second Progress Report concentrates on developments since early September 2001 in implementing the action plan, focusing largely on the second stage of the agenda, the development of good practice principles or standards. It also anticipates the serious challenges that remain to be met as the harmonization agenda progresses to the third stage, institution-level adoption of the principles or standards and country-level implementation.

3. ***Organization of the Report.*** Following this introduction, Section II assesses progress in the areas of financial management and accountability, procurement, and environmental assessment; in related analytic work and other tasks at the preimplementation stages of the project cycle; and in monitoring, reporting, and evaluation. Section III reports on the ongoing harmonization activities in countries, regions, and small states, while Section IV covers the World Bank's own efforts to facilitate and promote harmonization. Section V summarizes the findings and looks forward to the next steps in the harmonization effort.

II. ASSESSMENT OF PROGRESS: MULTILATERAL AND BILATERAL INITIATIVES

4. Execution of the time-bound action plan for the harmonization agenda is broadly on track. For the first stage of the action plan, a considerable amount of work has been completed

on stocktaking to identify, document, and assess differences in policies and procedures among institutions.¹ With the documentation of relevant policy and procedural differences basically completed, the working groups of the multilateral development banks (MDBs) and OECD-DAC have been focusing largely on developing good practice principles or standards. In addition, 15 developing countries are now engaged in providing advice on various aspects of the harmonization work and will contribute toward developing the good practice principles or standards within which development agencies and recipient countries can work more effectively. Progress in this effort has been steady, and this second stage is on track with the timelines provided in the First Progress Report.

A. Financial Management and Accountability

5. Implementation of the time-bound action plan described in Annex A is on schedule. Specifically, the MDB working group has reviewed and analyzed comparative studies in the areas of financial analysis, financial management assessments, and financial reporting and auditing of projects financed by participating institutions. It is now working to draft a harmonized approach in these areas, and will present the products to the individual institutions for approval. The OECD-DAC financial management subgroup received broad endorsement of the “Conceptual Framework for Harmonization” paper from the Task Force on Donor Practices last November. The framework identifies the four main elements (the financial accountability environment, rules governing the use of resources, reporting arrangements, and ex-post verification that the rules have been followed and the reports are reliable) for each main form of financial aid—project-based, sectoral, and general program or budget support. It aims to provide a reference point to help individual donors in considering possible changes to their policies and procedures. In addition, the OECD-DAC Task Force and the MDB working groups have formally requested that the Public Sector Committee of the International Federation of Accountants (PSC-IFAC) explore the preparation of an accounting standard for development assistance. The Committee has now agreed to develop a standard through a consultative process that will involve donors and recipient countries.

B. Procurement

6. Among the MDBs, early harmonization work in the area of procurement aimed to develop an agreed set of standard bidding documents for borrowers to use in projects financed by MDBs. The MDB Heads of Procurement working group has made significant progress in developing standardized documents for the procurement of goods, civil works, and consultant services through international competitive bidding. Most MDBs are now using the harmonized standard master bidding document for procurement of goods, and the group is considering further refinements. Draft master documents for prequalification of civil works have been approved, and work on master bidding documents for procurement of civil works is on schedule for completion by December 2002. Work on master documents for consultant services is also progressing well, and is expected to be completed by end-2002. All these master documents cover elements that represent the broadest consensus among the participating institutions, but

¹ A good example of this type of work is the IFC report *Environmental and Social Requirements of International Financial Institutions*, issued in September 2001, which mapped the environmental and social policies and procedures of 43 international financial institutions, providing a basis for benchmarking individual institutions.

they do not cover the policy elements that are specific to each institution. This limitation is being addressed through the expanded work program described below.

7. ***Expanded Work Program.*** The harmonization agenda in procurement has now moved beyond working on common documents to embrace efforts to harmonize approaches to capacity assessments, capacity building, and sectorwide and other programmatic lending, and to harmonize policies and procedures. Building on the work on harmonization of documents, in October 2001, the Heads of Procurement group significantly broadened its agenda to include issues of procurement policy, sustainability, good governance, procurement and project management in cofinanced projects, e-procurement, and green procurement. The group is revising a paper on harmonization of procurement rules and guidelines, identifying best practice, and suggesting pragmatic ways to achieve greater convergence on policy issues. A draft guidance note on a framework for the design of common procurement arrangements in sector programs, prepared by the World Bank, is now being expanded to cover procurement arrangements for any cofinanced project. A relatively new topic being discussed in the group is joint anticorruption strategies. Work has begun on comparing the various MDB fraud and corruption investigation procedures, and consideration is being given to taking a common approach such as copycat blacklisting by other MDBs of firms found to have engaged in corrupt practices. Pilot work led by the World Bank has been initiated on e-procurement, and testing is taking place on issues such as certification, registration, confidentiality, and reliability. The IDB has shared its vision with the World Bank and other MDBs regarding the use of electronic means in government procurement to increase efficiency, equity, and competition, and to reduce public expenditures and corruption. A set of options for introducing environmental factors with short-, medium-, and long-term actions into bid/tender evaluations is under preparation. And, in addition to working with the MDBs, the World Bank is discussing a joint workshop with DAC to examine standards and benchmarks for procurement in the country context that can be used jointly in capacity-building efforts.

C. Environmental Assessment and Other Safeguard Policies

8. At the December 2001 Multilateral Financial Institutions Environment Working Group (MFI-EWG) meeting, a major focus was on measures that could be cooperatively taken to develop a common approach to environmental assessment (EA). The participants reviewed a discussion paper on MFI approaches to EA, including social impacts, and agreed to a joint work plan for developing a common framework on this issue. Following this meeting, the working group drafted a technical paper, "A Common Framework for Environmental Assessment—Converging Requirements of the Multilateral Financial Institutions." The cooperating institutions are now reviewing this draft and are preparing an annex that would allow users to "drill down" to electronically access the relevant environmental and social policies on a series of key topics. If adopted, the common framework would provide a mutually agreed approach for EA, and clear guidance on the process and content of EA reports. It would also improve the cost-effectiveness and timeliness of the EA process. The framework document will be a key element of the next meeting of the MFI-EWG, to be hosted by the European Investment Bank (EIB), and should be available by the end of calendar year 2002. In addition, a workshop hosted by the International Finance Corporation (IFC) and the Inter-American Investment Corporation in December 2001 reviewed progress toward harmonizing environmental review procedures for financial

intermediary operations. Ongoing work in this area will be discussed at the next MFI-EWG meeting.

9. ***Involuntary Resettlement.*** The World Bank has been collaborating with the AsDB on involuntary resettlement in eight Asian countries (Cambodia, Indonesia, Laos, Nepal, Pakistan, Philippines, Sri Lanka, and Vietnam). At the regional workshop that recently concluded Phase II of this effort, the Bank and the AsDB identified priority actions to expand this collaboration: demand-driven support to help formulate national legislation on resettlement issues, and capacity-building activities in countries that demonstrate commitment to formulating national resettlement legislation.

D. Country Analytic Work

10. There is a growing consensus in the development community that economic and sector work should be done in ways that strengthen country ownership and partnerships. Vietnam's poverty task force provides a good example of this approach. The task force comprises representatives of the government, donors (including the World Bank, AsDB, United Nations Development Programme), and nongovernmental organizations. It was set up to analyze the Vietnam living standards survey, and it produced the country poverty assessment that has served as the basis for Vietnam's comprehensive poverty reduction and growth strategy (its PRSP) and interim PRSP. The Tanzania Public Expenditure Review is another case in point. This annual exercise now engages Government, donors, and civil society in a comprehensive review of proposed government budgets. It is jointly funded by a range of donors in Tanzania.

11. ***Harmonization Work.*** At the country analytic workshop convened by the World Bank in June 2001, participants² reviewed experience in joint economic and sector work and agreed to organize technical workshops to look in more detail in areas such as poverty, social, fiduciary, and environmental analyses, and to establish a joint website to facilitate overall collaboration. The workshop on poverty analysis and harmonization is tentatively scheduled for later in the year. The workshop on fiduciary analysis was held in conjunction with the joint meeting of the OECD-DAC/MDB financial management and analysis working group meeting on March 21-22, 2002. An Environmental Analysis Workshop will be held in May 2002. The country analytic work joint website has been set up to include the following information for each participating agency: (a) lists of recently completed, ongoing, and planned country analytic work, including the title, country, sector and/or theme, and disclosure status (e.g., released to client only, released to Board, released externally); (b) names and e-mail addresses of the main contact persons for country analytic work; (c) information on programming, implementation, and quality assurance procedures for country analytic work; (d) examples of good practices in country analytic work; and (e) toolkits/guidelines for the main types of country analytic work products. A second plenary workshop, scheduled for June 2002, will review overall progress in the coordination of, and collaboration on country analytic work.

12. ***Financial Management.*** Country-level assessments of financial accountability provide a baseline for donors to assess risks to their programs and undertake fiduciary risk mitigation measures. They also provide a reference point for developing capacity-building programs.

² The participating institutions were AfDB, AsDB, CIDA, DFID, EBRD, GTZ, IDB, IMF, NORAD, SwissAid, UNDG, UNDP, UNFPA, and USAID.

These assessments are increasingly done jointly, and the results are shared among donors. Ten Country Financial Accountability Assessments (CFAAs) involving the participation of other donors—four of which included the IDB—are under way or have been completed.³ An internal Bank review of the quality of the CFAAs in which external partners were invited to participate noted that CFAAs provide good opportunities for collaborating with partners. The MDBs have agreed on how they will collaborate in planning, conducting and sharing the results of country-level financial management diagnostic work. A similar agreement between MDBs and bilaterals is expected later this year. In addition, the World Bank, the European Commission and DFID are financing a Public Expenditure and Financial Accountability Program that seeks to better integrate public expenditure, procurement, and financial management diagnostics work. The work of the Public Expenditure and Financial Accountability Program is being closely coordinated with that of the MDB and OECD-DAC groups.

13. **Procurement.** The country procurement assessment, a diagnostic product that evaluates country procurement policies and practices and identifies measures to improve them, is another instrument that offers good possibilities for collaboration among donors. An internal World Bank review completed in February 2002 noted areas for improvement that are now being reflected in the staff guidelines for preparing Country Procurement Assessment Reports (CPARs). Other MDBs and the OECD-DAC will be consulted before these revised guidelines are finalized. At least eight CPARs are being conducted jointly with other donors and will be completed by the end of 2002.⁴ In addition, by December 2002, multilateral agencies will have completed their work on common approaches to country procurement assessments, including agreement on good practice principles or standards for assessing country systems.

14. **Environmental Analysis.** The World Bank and the development community regularly monitor key aspects of client countries' development, but diagnostic work on environmental issues, particularly on linkages between development policies and environment, has tended to be unsystematic, sporadic, and often outdated. This has constrained the ability of the Bank and other development institutions to effectively integrate environmental issues into country programming, policy dialogue, adjustment operations, and sectorwide programs. The World Bank's new Environment Strategy emphasizes the need to strengthen the analytic foundation of environmental work, with a particular focus on integrating environmental issues into policy analysis and planning and on the environmental management capacity of client countries.⁵ Valuable analytic work and capacity development are being undertaken by client countries, bilateral and multilateral development agencies, and civil society organizations. Closer collaboration among them could contribute to greater consistency and improved effectiveness in development assistance. The upcoming workshop on environmental analysis aims to provide a forum for exchanging experiences, discussing good practices and methodologies for country-level analysis and assistance, and working toward closer collaboration among clients and partners.

³ The countries are Argentina, Bangladesh, Burkina Faso, Malawi, Mozambique, Panama, Paraguay, Peru, Tanzania, and Uganda.

⁴ Guinea with AfDB; Philippines and Uzbekistan with AsDB; Costa Rica, El Salvador, and Paraguay with IDB; Yugoslavia with EBRD; and Azerbaijan with EU. The IDB has shared with the World Bank its CPARs for the Dominican Republic, Honduras, and Nicaragua.

⁵ See *Making Sustainable Commitments: An Environmental Strategy for the World Bank*, World Bank, 2001.

E. Sectoral Analysis, Reporting, and Evaluation

15. The mandates of two subgroups of the OECD-DAC Task Force on Donor Practices⁶ directly support donor harmonization of country-specific analytic, reporting and monitoring work, including activities at key phases of the project cycle. One subgroup focuses on the preimplementation stages, and the other is looking into the design and implementation of nonfinancial reporting and monitoring requirements. Recognizing the linkages between their areas of focus, the two subgroups are working closely together; and the work of the first subgroup has close linkages to the country analytic workshop mentioned above. In addition, three expert groups are working on evaluation issues, methodologies, and practices: the MDB Evaluation Cooperation Group (ECG), now joined by the IMF Independent Evaluation Office; the OECD-DAC Working Party on Aid-Evaluation; and the UN Inter-Agency Group on Evaluation. The United Nations Development Programme (UNDP) Evaluation Office and the secretariat of the DAC working party participate in the ECG as observers.

16. **Preimplementation.** The subgroup on the preimplementation stages is focusing on country/sector analytic work, risk analysis, logical and results frameworks, and value added in cofinancing. A good practice reference paper on harmonizing the analytic work undertaken by donors in the context of country-led poverty reduction strategies is expected to be ready by the fourth quarter of 2002. The terms of reference for a consultancy study to identify and analyze best practices in the risk analysis and management of multidonor development assistance are being finalized. The subgroup is considering the feasibility of preparing good practice guidance in the use of logical frameworks and, in particular, the use of results frameworks to enhance coordination. And AusAID is preparing a desk study to collate and review examples of delegated cooperation (bilateral-bilateral).

17. **Reporting and Monitoring.** Work is now under way to assess the reporting and monitoring systems of donors, identify best practices, and prepare a good practice reference paper to foster harmonization of reporting and monitoring practices between donors and recipient countries, and among donors. A draft of this paper is expected to be ready by September 2002.

18. **Evaluation.** The ECG is working on comparing the standards of public and private operations and assessing each MDB with regard to the implementation of harmonized good practice evaluation standards. Convergence of evaluation methodologies and practices, particularly for sector and country program evaluations, is in the future work program.

F. Results

19. In a joint statement released at the recent UN Financing for Development Conference in Monterrey, the Heads of MDBs announced an agreement to work on a harmonized approach to better measure, monitor, and manage for development results in the context of the Millennium Development Goals.⁷ As a first step in the effort to review approaches, learn and share lessons,

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

⁷ See *Better Measuring, Monitoring, and Managing for Development Results*, statement by the heads of the five multilateral development banks. Monterrey, Mexico, March 19, 2002.

and adapt policies and practices as needed, an international roundtable will be held in early June 2002.

III. COUNTRY, REGIONAL, AND INTERINSTITUTIONAL ACTIVITIES

20. While harmonization work is concentrated at the institution level, it is recognized that progress in individual country programs scaled up to regional and even broader groupings provides opportunities for early gains, learning potential, and organizational change. Country-led strategies based on the CDF/PRSP approach are providing wider opportunities for coordinated donor assistance, and for further progress on harmonization.

A. Country-Level Activities

21. The OECD-DAC Task Force on Donor Activities has increased its efforts to ensure effective participation by developing countries and to pilot-test the harmonization effort in concrete country circumstances. Specifically, it has invited 15 partner countries at different stages of development to appoint representatives to take part in the work of the Task Force as members of its three subgroups. (Several donors—the World Bank, AusAID, DFID, and the Swiss Development Agency—are helping to finance these partners' participation in the financial accountability subgroup.) Furthermore, the Task Force has launched a survey of partner countries' priorities and their perspectives on harmonizing donor practices that they perceive to be most burdensome. The results are expected to provide guidance to the Task Force on the priority issues to be addressed. Separately, in October 2001, six bilateral donors and the Government of Vietnam completed a comparative study of official development assistance management procedures and the possibilities for harmonizing them. The results of the study—with recommendations covering procurement, accounting, auditing, disbursement, and monitoring and evaluation procedures—were presented in Vietnam to a wide audience of government representatives from key ministries as well as local representatives of bilateral and multilateral donors. Building on this, members of the OECD-DAC Task Force subgroup on reporting and monitoring will follow up with a field mission to Vietnam later in the year. There is also a growing number of silent partnerships under which one bilateral donor uses another to channel resources to a recipient country.⁸

B. Regional Actions

22. The Strategic Partnership with Africa (SPA), which has been working to develop common assessment tools in the area of public financial management, instituted pilots in Burkina Faso and Malawi in which bilateral donors joined with the World Bank on a CFAA mission. The lessons emerging from that work are being distilled. The SPA is also beginning to focus on coordinated and harmonized donor support for PRSPs, in consultation/cooperation with the DAC, the Economic Commission for Africa, the IMF, the World Bank, and the UN. This work will consider the scope (and make recommendations) for establishing common review procedures and will feed into the work of the OECD-DAC Task Force. In both of these areas, the SPA and the Economic Commission for Africa are jointly organizing new working groups comprising practitioners representing donors and African countries.

⁸ For example, DFID, the Netherlands, NORAD, and SIDA combine in various ways in such partnerships.

23. ***Development Institutions of Arab, Islamic, and Organization of Petroleum Exporting Countries.*** A coordinating group with a small secretariat has been working to improve operational efficiency through harmonized procedures based on the broadest technical consensus, voluntary adoption of common guidelines, and respect for differences in individual institutional orientations. The Islamic Development Bank (IsDB) has also joined the MDB discussions on financial management harmonization and has expressed strong interest in working with the World Bank and other MDBs in institutional as well as in country-level harmonization. Details of this collaboration are being worked out.

C. Small States

24. Donor coordination efforts in small states—especially in the Caribbean and Pacific regions—continue to progress. Over the past year, the Eastern Caribbean Central Bank, the Organization of Eastern Caribbean States (OECS) Secretariat, and the World Bank have worked closely to organize OECS Aid Coordination Meetings. As part of this effort, the World Bank prepared a report on external financing to the OECS and presented the main findings at the November 15, 2001, meeting in St. Kitts. In the Pacific, Australia and New Zealand continue to work on closer relationships subsequent to the report *Harmonising Donor Policies and Practices in the Pacific*.⁹ Pacific harmonization will be an element of scheduled policy development work, which will include the Pacific Regional Strategy Review, under the new New Zealand Agency for International Development to be launched on July 1, 2002. In addition, AusAID and the existing New Zealand Official Development Assistance agency are gathering and analyzing information on models of harmonized donor policy and practice, as the basis for developing their own framework by the end of 2002.

D. The Interinstitutional Activities

25. The World Bank now has Memoranda of Understanding (MoUs) with the AfDB, AsDB, and IDB, and country-specific ones with EBRD (EU pre-accession countries and newly independent states). As a central instrument for guiding and strengthening the relationship between MDBs at both the institutional and country operational levels, these MoUs are important to the harmonization effort. For example, the MoU with the AsDB encourages the harmonization of operational procedures and practices, so that borrowers will benefit from reduced transaction costs associated with assistance provided by both institutions. Meeting in February 2002, MDB Heads agreed that the issues of harmonization, among others, should be a part of updating the MoUs to maintain their currency, and they asked their operational vice presidents to take up the issue at their next coordination meeting.

26. ***Collaboration with the IMF.*** The PRSP and the related HIPC processes have provided impetus to strengthening the collaboration and harmonization among the Fund, the World Bank, and other MDBs. The MDB/IMF Protocol on support for countries in the PRSP process is one instrument to facilitate this.¹⁰ The Fund and the World Bank have also prepared a joint paper presented to their two Boards on streamlining conditionality in the context of adjustment lending. They also have increasing collaboration in public financial management, and the two institutions

⁹ A Report of the joint Australia-New Zealand Project, March 2001.

¹⁰ The protocol was endorsed at the MDB/IMF Heads Meeting in Manila, February 2000.

are working closely on public expenditure reviews, HIPC expenditure tracking, CFAAs, and Reports on the Observance of Standards and Codes fiscal transparency assessments.

27. ***Collaboration with the United Nations.*** Recognizing that policy and operational harmonization issues are increasingly important in World Bank/UN business relationships, the World Bank is undertaking a study to identify institution-level harmonization issues. World Bank/UN agency relationships cover a broad range of sector/thematic areas involving policy coordination, grant/trusteeship, procurement agent/supplier, executing agency/project manager, and cofinancing. The study is expected to cover the agencies with which the Bank has the most extensive relationships, such as UNDP, United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF), United Nations Office for Project Services (UNOPS), and the World Health Organization (WHO). Initial contacts inviting the United Nations Development Group (UNDG) to collaborate in this study have been favorably received. It is anticipated that the UNDG will be engaged in the study through the UNDG Management Group, which is already working on harmonizing and simplifying operational policies and procedures among UN funds and programs. Discussions are continuing on how this proposed study can effectively benefit from the substantive participation of partner agencies in the UN system.

E. Harmonizing Harmonization

28. The various working groups of the OECD-DAC Task Force and the MDBs have taken steps to share information and to have cross-representation in groups working in the same area. For example, since September 2001, an OECD representative has been invited to participate in the MDB Heads of Procurement Working Group, and the OECD-DAC Task Force has agreed to invite the Director of UNDG to its next meeting in June 2002. In addition, the MDB and OECD-DAC financial management harmonization working groups have identified a number of common priorities: rationalize and share diagnostic work in financial analysis; agree on a common set of fiduciary good practices or standards that meet both donor and partner country requirements; benchmark existing procedures and processes against appropriate standards; and develop a range of options for institutions to adopt common financial reporting and auditing requirements that could be applied in recipient countries. The first joint meeting of both groups took place in March 2002 and was attended by six borrowing countries, the IMF, the UNDP, and the European Commission. The meeting agreed that the work program of both groups should be closely coordinated.

IV. WORLD BANK PROCEDURES

29. The World Bank has been reviewing its operational procedures, including those for lending instruments, to facilitate harmonization in the areas of financial management, procurement, and environmental and other safeguards. This work has included developing partnership approaches to analytic work, coordinating more closely with the IMF, and adapting fiduciary requirements to enable the World Bank to participate more fully with other partners in SWAs. At the country strategic level, the World Bank has begun to synchronize its CAS preparation with PRSPs and is actively engaged with its MDB/bilateral/UN partners to improve coordinated support to country-led strategies. (The World Bank's harmonization activities are summarized in Annex B.)

30. **Financial Management.** The World Bank has introduced considerably more flexibility into its requirements on financial reporting by borrowers.¹¹ These changes, while maintaining the key content of financial reports, place a greater emphasis on reports being produced through the country's own systems. The World Bank has also completed an internal review of the fiduciary issues associated with sectorwide approaches (SWAs). It will soon discuss with Executive Directors and donor partners options that would facilitate greater World Bank participation in harmonized arrangements, including procurement, disbursement, and reporting procedures supporting SWAs. The World Bank is also reviewing its policy on the auditing of projects it finances, with a view to identifying options to enhance donor assurance on the use of funds, reduce transaction costs, and better contribute to the development of sustainable audit capacity in borrower countries. An issues paper is scheduled to be presented for Board discussion in the second quarter of 2002, to be followed by consultations with bilateral and multilateral development partners. The World Bank has also started to explore MDBs' interest in working together on harmonization issues related to disbursement. Finally, staff have received guidance on, and encouragement in collaborating with other donors on the ground in country programs (see Box 1).

31. **Procurement.** Procedural changes in the procurement area are aimed at addressing the challenges posed by new lending instruments, growth in highly decentralized social sector projects, and increased focus on building clients' capacity. The proposed procurement arrangements for Bank participation in SWAs are a case in point. In addition, a growing recognition of the pivotal role procurement plays in implementing an effective anticorruption agenda has brought about a new emphasis on procurement as an element in the public sector management change agenda. Accordingly, to promote joint approaches to anticorruption in procurement, the World Bank now has a procedure in place to enable disclosure of information about firms found to have engaged in corrupt practices to other international or multilateral organizations (including the MDBs), or to a bilateral development agency of a World Bank member that has agreed to make similar information available. Responding to interest expressed by other MDB Heads of Procurement in gaining access to the results of previous CPARs and participating in new ones, the World Bank has offered to provide its current CPAR schedule to them and to make suitable adjustments in priorities and schedules to enable more joint assessments to be carried out. In addition, the World Bank has agreed to circulate its internal CPAR procedure to provide a basis for other MDBs to benchmark minimum requirements regarding the acceptability of local or national competitive bidding/tendering practices. If MDBs can build on this and agree up-front on a common template and guidelines for carrying out CPARs and for peer-reviewing other MDBs' reports, this would go far toward developing a harmonized approach on this subject.

32. **Consolidated Fiduciary Assessments.** As the World Bank sharpens the country focus of its programming support, it has started to integrate the content and timing of fiduciary diagnostic tools such as CFAAs, CPARs, and public expenditure reports. Already, joint fiduciary country analytic work covering these three diagnostic tools has been undertaken in Laos, Mongolia, and the Philippines, and more is planned.

¹¹ See *Loan Administration Change Initiative (LACI): Changes in Implementation* (AC2001-39), July 6, 2001.

Box 1. Simple Ways to Promote Financial Management Harmonization

The goal of harmonization is not reached only through institution-level discussions and participation by government officials. There are many ways individual staff members can—and do—contribute to harmonization where it counts most, on the ground in the countries they work in. As an example, the World Bank’s Financial Management Sector Board has prepared a list of ways individual Bank staff members can contribute to further financial management harmonization. These and similar suggestions will be included in future guidelines to staff on implementing the harmonization agenda.

- *Be familiar with other donors* active in the country or countries in which you work, especially those that are active in the same sectors or that may cofinance with the World Bank.
- *Share information, knowledge, and ideas* with financial management colleagues in other donor institutions; a common understanding of situations and issues is key to finding common approaches.
- *When working on new projects under preparation, identify the other donors that may be involved as cofinanciers*, start a dialogue, and encourage their involvement early in the project cycle. Explore whether the financial management assessment of implementing entities can be conducted jointly, and its results shared.
- In the design of new projects, work (where practicable and within the bounds of Bank policy) to reach agreement with cofinanciers on *common financial reporting and auditing arrangements*.
- *Explore opportunities for collaboration with partners on the supervision of projects under implementation*, including scheduling of joint missions and discussions with borrowers, sharing of information, and agreeing on common approaches to implementation problems.
- In the area of *country- or sector-level diagnostic work*, be aware of what other donors are doing and ensure that it is factored into the planning and conduct of the Bank’s work in this area. Share with other donors the Bank’s plans and information on work previously done.
- *While respecting current Bank policies and procedures, seek to apply their requirements in a way that will advance the objectives of harmonization*. When in doubt as to whether a particular course of action is consistent with Bank policy, consult the Manager, Financial Management, for your Region or the Financial Management Anchor.
- *Always respect the practices and traditions of other donors*, even when they are inconsistent with Bank practice. Differences will remain as the harmonization agenda advances, although it is to be hoped that they will decline.
- *Share experiences*. When you have a particularly successful experience in agreeing on common practices with other donors, share it with colleagues and the Financial Management Anchor so that it can be disseminated across the Network. Similarly, share your experience of situations where the application of the World Bank’s policies may prove an obstacle to good financial management by borrowers or to effective partnerships with other donors.

33. ***Environmental Assessment and Other Safeguards.*** A number of efforts are under way to improve the effectiveness and implementation of the World Bank’s environmental and other safeguard policies.¹² Over the past year, the World Bank has taken several measures to identify and clarify accountability arrangements and has created a one-stop shop for authoritative policy interpretations. There is also an ongoing effort to initiate safeguard assessments earlier in the project cycle to integrate them more effectively into the project identification and preparation process. These changes will reduce costs and delays, and will make the Bank a better development partner. Complementing these efforts, ongoing work on a paper entitled *Safeguard Policies—Improving Development Effectiveness* is looking into ways in which the World Bank

¹² See *Environmental and Social Safeguard Policies: Implementation Action Plan—Status Report* (SecM2002-0104), February 22, 2002.

can better support the safeguard systems of borrower member countries. It is anticipated that this paper will be submitted to the Committee on Development Effectiveness before the end of FY02.

34. **Country Pilots.** In Bangladesh, the Ministry of Finance and the World Bank sponsored a meeting in February 2002 with leading donors (including AsDB, DFID, the Netherlands, and USAID) to discuss harmonization of financial management policies, procedures, and practices, and to coordinate assistance for capacity building in financial management. Following the meeting, a task force chaired by the Minister of Finance with donor representation was set up to work on the financial management reform issue. In Vietnam, building on in-country donor discussions on harmonization, the World Bank is planning to assist the government to develop a comprehensive harmonization pilot program for the country, in collaboration with other donors and in consultation with the OECD-DAC Task Force. World Bank operational policy experts in financial management, procurement, environmental and social safeguards, and disbursements will contribute to this exercise, working collaboratively with their counterparts in other donor agencies. Afghanistan is also a place where harmonized donor approaches can be very beneficial in the early stages of developing a comprehensive development assistance program. To this end, the World Bank is exploring the scope for adopting a harmonized operational policy and procedural framework for assistance to the country.

V. CONCLUSIONS

35. Progress in the first two stages of the harmonization work program has been substantial and substantive. By the end of 2002, a critical mass of good practice principles or standards will be ready. With 15 developing countries participating in the development of these good practice principles or standards, and a growing number of pilot activities at the country level, there is a good chance that they will be appropriate and realistic.

36. **Going Forward.** The next phase of work to be launched will involve actions by individual donor agencies to adopt these good practice principles or standards and implement them in their country programs. It will also involve well-coordinated and well-focused capacity building in recipient countries that is guided by these principles or standards. All of this will not be easy. It will require sustained high-level political support and collaboration across the development community. In preparation for the third phase and the challenges associated with it, the World Bank will explore with partner agencies their interest in convening and participating in a high-level forum early in 2003 to consolidate the work completed on the harmonization action plan, build momentum for the adoption of existing and emerging best practice principles or standards, and facilitate the preparation of implementation plans in donor agencies and partner countries, closely aligned and coordinated with CDF/PRSP processes.

ACTION PLAN FOR IMPLEMENTING THE HARMONIZATION AGENDA

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Current Status</i>
Multilateral Activities			
MDB Financial Management and Analysis^a			
1. Country Diagnostic Work. Initiate four joint diagnostic country financial management assessment. Adopt good practice guidelines for the joint conduct and dissemination of assessment	Q4 2001	Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.	Completed.
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.	Q2 2002		Work proceeding on schedule.
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.	Q2 2002		Work proceeding on schedule.
4. Accounting Standards. Submit joint MDB proposal to the IFAC-PSC for the development of accounting standard for development assistance.	Q4 2001	International accounting standards provide common benchmarks for donors and recipients.	Joint MDB/OECD-DAC proposal submitted in November 2001. Initial favorable response received. Issues paper prepared by IFAC-PSC planned for March 2002.
MDB Heads of Procurement Group^b			
1. Standardized Master Documents for ICB. Supply of goods	Completed	Standardized documentation eases administrative burden on recipients.	In use in AfDB, AsDB, IDB, and WB.
Civil works contracts	Q4 2002		Early draft prepared by Working Group.
Request for proposals for consultants	Q4 2002		Draft prepared by Working Group under review.
Prequalification for civil works	Q4 2002		Final draft under review by HoPs.
2. Country Diagnostic Work. Conduct eight joint country procurement reviews.	Q4 2002	Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.	CPARs being conducted jointly: Guinea with AfDB; Philippines and Uzbekistan with AsDB; Costa Rica, El Salvador, and Paraguay with IDB; Yugoslavia with EBRD; Azerbaijan with EU.
3. Procurement Policies and Procedures. Achieve greater policy convergence Adopt common procurement, implementation, monitoring approach for co-financed sector programs and projects.	Q4 2002 (first step) Q2 2002	Policy differences hamper harmonization efforts. Co-financing of programs and projects will be facilitated for Borrowers and transaction costs for donors will be reduced. Capacity building will be jointly supported by donors.	Draft stocktaking paper prepared by WB and EBRD. Draft proposal discussed in March 2002.

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Current Status</i>
MFI Environment Working Group^c			
1. Environmental Assessments. Prepare proposed common principles for environmental assessments, including environmental and social aspects.	Q4 2002	Meeting hosted by IDB and IBRD to review discussion paper in December 2001.	Preliminary draft of proposed common principles being reviewed by cooperating MFIs. Next meeting of MFI-WG to be hosted by EIB.
2. Financial Intermediaries. Harmonize environmental review procedures for financial intermediary operations.	Ongoing	Workshop hosted by IFC and IIC in December 2001 to review progress and identify next steps.	Meeting of financial intermediaries to be held in conjunction with next MFI-WG meeting.
Bilateral Activities			
OECD-DAC Task Force on Donor Practices (all 23 OECD-DAC members)^d			
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.	Q4 2002	Good practice reference papers provide benchmark principles for donors to rely on and recipients to pursue.	Work in progress.
2. Recipient Engagement. Consult recipients on harmonization priorities and engage recipient experts in technical dialogue in each thematic area.	Q4 2001		Actively engaged.
OECD-DAC Task Force Subgroup on Financial Management and Accountability^e			
1. Conceptual Paper. Develop an overall conceptual framework for financial management harmonization, based on financial accountability, rules to govern use of resources, reporting arrangements, ex-post verification.	Q4 2001	Provides a vision and guiding framework for the overall harmonization effort.	Endorsed by Task Force in November. Framework available on donor practices Internet site, http://www.oecd.org/dac/donorpractices .
2. Fiduciary Standards. Prepare an inventory of the relevant international standards and limitations in standards. Identify minimum standards in the management of public finance. Identify models for developing country capacity.	Q4 2002	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.	Work in progress. First draft of working paper available.
3. Donor Accountability. Report of bilateral donor accountability requirements in seven DAC member countries.	Q2 2001		Completed. Reports available
4. Financial Reporting and Auditing. Good reference paper on donor reporting arrangements; assess cost of donor reporting requirements on partner countries; identify scope for single reporting frameworks and single audit frameworks.	Q4 2002	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.	Work in progress. Terms of reference available.
5. Diagnostic Tools. Good Reference Paper. Establish an inventory of diagnostic tools; map each tool to determine coverage of the principal dimensions of financial accountability; propose ways in which the findings of diagnostic work could be implemented.	Q4 2002	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.	Work in progress. First draft available on Internet site.

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Current Status</i>
OECD-DAC Task Force Subgroup on Pre-implementation Phase of Project Cycle^f			
1. Analytic Work at Sectoral Level: Good Reference Paper to identify potential for harmonizing analytical work undertaken by donors to support country strategy plans	Q4 2002	Joint sectoral analytic work would improve coordination of project identification.	Work in progress; consultancy study commissioned.
2. Risk Analysis: identify and analyze best practices in risk analyses and management of multi donor development assistance	To be determined	Common risk analyses reduce transaction costs and increase development effectiveness.	Opportunity to carry out work in this field still under consideration.
3. Logical Framework and Results Assessment: Review good practice in the use of results frameworks, and develop a common integrated approach to logical framework assessment and results-based assessment, working closely with DAC Working Party on Aid Evaluation.	To be determined		To be determined; opportunity to carry out work in this field still under consideration.
4. Cofinancing: Identify best practice principles and review practices where one donor agrees to be represented by another in some or all respects of the project cycle	To be determined	Improving cofinancing will leverage development impact.	Work in progress. Desk study to collate and review examples of delegated (bilateral-bilateral) cooperation being prepared by AusAid.
OECD-DAC Task Force Subgroup on Reporting and Monitoring^g			
1. Scoping Reporting and Monitoring Systems. Identify different systems and requirements (at donor and country level) and burden placed on recipient partners; use case studies to identify reasons for stagnation in system improvement.	Q3 2002		Work in progress. Consultancy study commissioned.
2. Best Practices. Identify success factors for common reporting and monitoring arrangements, explore mechanisms for cooperation procedures	Q3 2002		Work in progress. Consultancy study commissioned.
3. Good Practice Reference Paper. Foster harmonization of reporting and monitoring practices.	Q3 2002		Work in progress. Consultancy study commissioned.
4. Consultation Process. Examine political will to change existing reporting and monitoring procedures and scope for acceptance of recommendations by donors, countries, and NGOs.			To be determined.
<p>a. AfDB, AsDB, EBRD, IDB, WB</p> <p>b. AfDB, AsDB, BSTDB, CDB, EBRD, EC, EIB, IDB, NADB, NDF, UNDP, WB</p> <p>c. AsDB, AfDB, BSDB, CADB, CAF, CDB, DBSA, EBRD, EIB, IBRD, IDB, IFAD, IFC, IIC, IsDB, NEFCO, NIB, OECD (observer), UNDP (observer), UNEP (observer)</p> <p>d. 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</p> <p>e. CIDA, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, UK, UNDP, United States, World Bank</p> <p>f. Australia, EC, Finland, France, Germany, Italy, Japan, Netherlands, Norway, United Kingdom, UNDP, United States</p> <p>g. Australia, CIDA, Denmark, EC, Finland, France, Germany, Italy, Switzerland, United Kingdom, United States</p>			

WORLD BANK HARMONIZATION ACTIONS

<i>Area of change</i>	<i>Timeline</i>	<i>Comments</i>	<i>Current Status</i>
Financial Management			
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.	Q3 2001	The planned changes to LACI discussed by the Audit Committee of the Board in October 2001.	Changes implemented in December 2001.
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.	Q2 2002		Work proceeding on schedule.
3. SWAps. Review under way to develop, with the Procurement Sector Board, acceptable fiduciary arrangements to facilitate the Bank's participation in these operations.	Q1 2002		Internal review completed. Technical briefing for Board on March 8, 2002. Paper expected to be discussed by Audit Committee in April 2002.
4. Country Diagnostic Work. Bank has already conducted 10 CFAAs collaboratively with other donors and is presently formalizing its guidance on future collaboration of this nature.	Q4 2001	Joint diagnostic work reduces costs for donors and provides basis for building recipient capacity and recipient systems.	Internal review of quality involving external partners concluded in Q4, 2001. CFAA guidelines are being updated in consultation with MDBs and bilaterals. Approved changes expected in Q2, 2002.
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.	Approved	Standards set by international bodies provide benchmarks for donors and recipients to pursue.	Support for standard-setting bodies continuing.
Procurement			
1. SWAps. Develop (jointly with FM) framework for design and implementation of procurement (and FM) arrangements for SWAps.	Q4 2002	Approach is consistent with greater reliance on country systems and building the capacity of these systems.	Internal review completed. Technical briefing for Board on March 8, 2002. Paper expected to be discussed by Audit Committee in April 2002.
2. Country Analytic Work. Develop coordinated approaches to CPARs. In addition, more resources committed to increasing number of CPARs.	Q4 2002	Has potential to reduce costs for countries and enhance common focus on capacity building.	Consultations ongoing with MDBs on new draft guidelines for preparation of CPARs. A number of CPARs under preparation.
3. E-procurement. Issue guidance on development of electronic government procurement; and	Q4 2001	Use of information technology improves transparency and efficiency of procurement process.	Preparation of guidance note is under way.
Revisit specific procurement practices to allow use of e-procurement.	Q4 2002		

<i>Area of change</i>	<i>Timeline</i>	<i>Comments</i>	<i>Current Status</i>
<i>Environmental and Social Safeguards</i>			
1. Conversion of Policies. Continue conversion of safeguard policies on involuntary resettlement, indigenous peoples, physical cultural resources and forestry to improve clarity.	Ongoing	External consultations completed for indigenous peoples and physical cultural property policies. Revision to forestry policy under internal review.	Board approved conversion of involuntary resettlement policy in October 2001.
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.	Ongoing	<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 (CODE) in Q2 2002.	Progress Report has been distributed to CODE.
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.	Ongoing	All regions have established review systems to evaluate potential application of safeguard policies at the beginning of the project cycle on use of integrated safeguard data sheet.	Review is being conducted by QACU on initial implementation phase of the integrated safeguard data sheet.
<i>Country-Level Activities</i>			
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.	Q1 2002	PRSP Review Conference earlier this year emphasized importance of harmonization to successful implementation of PRSPs.	Harmonization will be addressed in the next update of JSA guidelines.
2. CASs. Amend CAS guidelines in due course to include importance of addressing harmonization priorities in individual countries.	Q1 2002	To align CASs in substance and timing with PRSPs, the Bank has begun to synchronize their preparation with PRSPs. For countries that have not completed their PRSP, the Bank's assistance will typically be updated in a CAS Progress Report focusing on the Bank's support to the preparation of the PRSP. A full CAS will be prepared soon after the PRSP is complete or at the end of the current CAS period.	CAS guidelines have been strengthened to encourage staff to discuss specific enabling measures with their country counterparts to improve country-level harmonization of donor procedures, especially in financial management, procurement, and environmental assessment, and the implications for the Bank program, including Bank support for capacity building.
3. Harmonization Coordinator. Designate focal point to advise and assist staff on policy and procedural issues arising in the context of investment lending.	Q2 2002		Appointed.