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**EXPANDING THE USE OF COUNTRY SYSTEMS
IN BANK-SUPPORTED OPERATIONS:
ISSUES AND PROPOSALS**

OPERATIONS POLICY AND COUNTRY SERVICES

MARCH 4, 2005

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
AfDB	African Development Bank
AsDB	Asian Development Bank
BP	Bank Procedure
CAS	Country Assistance Strategy
CEA	Country environmental analysis
CFAA	Country Financial Accountability Assessment
CODE	Committee on Development Effectiveness
CPAR	Country Procurement Assessment Report
CSA	Country social analysis
CSO	Civil society organization
DfID	Department for International Development
EA	Environmental assessment
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EMP	Environmental management plan
ESSD	Environmentally and Socially Sustainable Development Network
ESW	Economic and sector work
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FM	Financial management
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICB	International competitive bidding
IDA	International Development Association
IDF	Institutional Development Fund
IMF	International Monetary Fund
ISR	Implementation Status and Results Report
LACI	Loan Administration Change Initiative
LEG	Legal Department
MDB	Multilateral development bank
MOP	Memorandum of the President
NCB	National competitive bidding
OECD-DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OP	Operational Policy
OPCS	Operations Policy and Country Services
PAD	Project Appraisal Document
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PID	Project Information Document
PIU	Project implementation unit
PSIA	Poverty and Social Impact Analysis
QAG	Quality Assurance Group
SEA	Strategic environmental assessment
SECBO	Board Operations of the Corporate Secretariat
SWAp	Sectorwide approach
UN	United Nations
WHO	World Health Organization

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James W. Adams provided broad strategic oversight.

EXPANDING THE USE OF COUNTRY SYSTEMS IN BANK-SUPPORTED OPERATIONS: ISSUES AND PROPOSALS

EXECUTIVE SUMMARY

1. At a formal Board meeting on September 14, 2004, Management and Executive Directors discussed an Issues Paper on using country systems in Bank operations.¹ It noted that Bank policies permit the use of country systems in financial management and in national competitive bidding procurement, and that such use is increasing. In considering how to use country systems for environmental and social safeguards, international competitive bidding procurement, and international selection of consultants, and how to advance implementation already under way in other fiduciary areas, Management presented five sets of issues: the policy framework for using country systems more broadly, the methodology and tools for assessing country systems, considerations in implementing the approach, Bank and borrower accountability, and incremental costs, including the potential for medium- and long-term savings.
2. **Approach Endorsed.** At the September 2004 Board meeting, Executive Directors endorsed the approach laid out in the Issues Paper to help the Bank, borrowers, and development partners improve their overall understanding of these issues and the options for addressing them. On the environmental and social safeguard aspects, Management would consult a broad range of interested borrowers, development partners, civil society, and the private sector and would return to the Board for formal approval of the proposals in February 2005, following revisions to take account of the comments received. A companion document to this paper, *Feedback and Staff Responses*, provides details on the comments received.
3. **Recommendations.** In order to refine the Bank's understanding of relevant policy and implementation issues, Management proposes to conduct a two-year program of activities in which it would pilot the use of borrower environmental and social safeguard systems in operations funded by the Bank. Management also proposes that these operations would be governed by a new Operational Policy/Bank Procedure (OP/BP) 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*. The portfolio of safeguard pilot operations is expected to comprise about 14 investment lending cases (including sectorwide approaches) in a range of countries—for example, Bhutan, China, Croatia, Ghana, Jamaica, and Tunisia—and in sectors such as health, municipal services, transport, and rural water supply and sanitation.
4. **Key Elements of the Proposed Policy Framework.** Management proposes that the key elements of the policy framework governing the pilots be as follows:
 - **Equivalence and Acceptability.** The Bank would consider a borrower country's environmental and social safeguard system to be equivalent to the Bank's if the borrower's system is designed to achieve the objectives and adhere to the applicable

¹ When used in this paper "country systems" means a country's legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures.

operational principles set out in Table 1. Since equivalence would be determined on a policy-by-policy basis, the Bank may conclude that the borrower's system is equivalent to the Bank's in specific environmental or social safeguard areas in particular pilot projects, and not in other such areas. Before deciding on the use of borrower systems, the Bank would also assess the acceptability of the borrower's implementation practices, track record, and capacity.

- **Addressing Gaps.** If the borrower has to fill gaps in its system to meet the objectives and applicable principles in Table 1 and is committed to doing so, the Bank may, when determining equivalence, take account of measures to improve the borrower's system. Similarly, if the borrower has to fill gaps in implementation practices and capacity to achieve acceptability and is committed to doing so, the Bank may, when determining acceptability, take account of measures to strengthen borrower implementation practices and capacity. Such measures would need to be carried out before the borrower undertakes implementation of the relevant project activities.
- **Borrower Role and Obligations.** The borrower would be responsible for achieving and maintaining equivalence as well as acceptable implementation practices, track record, and capacity, in accordance with the Bank's assessment. For each project, the borrower would identify the provisions of the country system necessary to achieve equivalence, which could vary from project to project, depending on such factors as the structure of the country's system and the type of operation. In all cases, the specific provisions of the country system and any additional actions that the borrower would need to undertake to achieve and maintain equivalence and acceptable implementation would become part of the borrower's contractual obligations to the Bank, subject to the Bank's normal contractual remedies.
- **Bank Responsibility and Accountability.** The Bank would be responsible for determining the equivalence and acceptability of borrower systems, and for appraising and supervising pilot projects that use these systems. The Bank would carry out its responsibility, including supervision of country implementation practices, track record, and capacity, in a manner proportional to potential impacts and risks. The use of country systems would not alter the role of the Inspection Panel, Operations Evaluation Department, or Quality Assurance Group, or institutional obligations under the Bank's disclosure policy.
- **Changes in Borrower Systems and Bank Remedies.** If, during project implementation, there are changes in applicable legislation, regulations, rules, or procedures, staff would assess the effect of those changes and discuss them with the borrower. If the country system were changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank's contractual remedies would apply.
- **Disclosure.** The process of disclosure would begin at the PID stage, when information on the intent to use country systems in a proposed pilot operation would be made publicly available early in the project cycle and updated as project development proceeds. At a later stage, but prior to beginning appraisal, the Bank would make publicly available its analysis of equivalence and of the acceptability of

borrower implementation practices, track record, and capacity. In addition, the Bank would ensure that relevant project-related environmental and social safeguard documents (see Table 1) are also disclosed in a timely manner before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.

5. **Effectiveness.** If Executive Directors approve the proposed pilot program and policy framework laid out in this paper, Management will issue OP/BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*, as the governing policy and procedures for piloting the use of country safeguard systems. Interim guidance to staff on using country environmental and social safeguard systems, which is being prepared, will be issued to staff, and the pilot program for testing the use of country safeguard systems will be launched. OP/BP 4.00 will go into effect for all projects piloting the use of country environmental and social safeguard systems that are submitted for approval on or after March 21, 2005.

6. **Board Guidance.** Management is also seeking the Board's guidance on the possibility of collaborating, as requested, in parallel operations financed by other donors and in "shadow" programs under which the Bank would monitor and evaluate (against the criteria in Table 1) the use of country systems in operations not financed by the Bank. There may also be opportunities for the Bank to work with partners like the European Commission to develop approaches that will allow the provisions of the draft OP/BP 4.00 as well as those of the partners to be fulfilled at the policy and implementation level.

7. **Related Work.** Meanwhile, the use of country financial management systems in several operations, including sectorwide approaches, and the use of country systems for national competitive bidding, would continue as regular business when the agreed requirements are satisfied. A document with more detailed proposals for extending the use of country systems to international competitive bidding procurement and international selection of consultants was distributed to the Board in November 2004 for preliminary discussion.²

² See *Increasing the Use of Country Systems for Procurement* (R2004-0206), November 8, 2004. The informal Board discussion of the paper is scheduled for March 8, 2005.

EXPANDING THE USE OF COUNTRY SYSTEMS IN BANK-SUPPORTED OPERATIONS: ISSUES AND PROPOSALS

I. INTRODUCTION

1. The World Bank is required by its Articles of Agreement and operational policies to ensure the appropriate use of the resources it provides. To do so, like most other development institutions, it has often specified its own operational requirements, in effect isolating the projects it funds from government systems (a practice widely known as “ring-fencing”) and creating special project implementation units (PIUs) to support its requirements. In recent years, however, development practitioners and independent evaluators alike have concluded that this approach limits the positive impact of development assistance to the scale of individual projects.¹ In addition, the traditional approach has an unplanned negative effect: the aggregate of development institutions’ many separate requirements imposes high transaction costs on recipient countries and strains their administrative resources. For more advanced borrowers, the approach may simply add to the cost of doing business with development agencies and undermine implementation of borrowers’ own “good practice” requirements. The development community now understands that it can enhance country ownership and project sustainability if it works more directly with the institutions and mechanisms the borrower already has in place, including supporting efforts to strengthen them.²

2. ***Purpose of this Paper.*** The World Bank believes that the use of country systems—that is, the country’s legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures—has significant potential to improve development impact. This paper explores issues for the World Bank related to using country systems in three areas—environmental and social safeguards, procurement, and financial management—that are central to effective development spending and sustainable results. The key issues identified differ across these three areas but broadly involve (a) policy requirements; (b) methodology and tools for assessing country systems; (c) considerations in implementing the approach; (d) accountability (including implications for Bank supervision, self- and independent evaluation, the Inspection Panel, and disclosure policy); and (e) costs (including incremental costs associated with the necessary analytic work, capacity building, and enhanced supervision.) The paper also seeks approval of Management’s recommendations to take measured and pragmatic steps toward further use of country environmental and social safeguard systems in operations supported by the World Bank.

¹ For example, see the Development Committee Communiqué, September 2003, especially para. 4; *Harmonization Follow-Up: Global Architecture and World Bank Activities* (SecM2003-0387/1), August 27, 2003, especially para. 2; and *Vietnam: Country Assistance Evaluation*, OED Report No. 23288, November 21, 2001.

² See also *High-Level Forum on Harmonization (Rome Declaration on Harmonization)* (SecM2003-0088), February 28, 2003. More recently, the findings from the Shanghai Conference on Scaling Up Poverty Reduction—that successful projects enjoy a high degree of local ownership and use systems that are already in place—support this approach. The evidence comes from 103 case studies prepared for the Shanghai conference. See *Oral Report on Shanghai Conference: Scaling Up Poverty Reduction Global Learning Process and Conference* (SecM2004-0224), May 5, 2004, and *Concluding Statement of the Shanghai Conference: Scaling Up Poverty Reduction Global Learning Process and Conference* (SecM2004-0256), May 21, 2004.

3. **Organization of the Paper.** Following this introduction, Section II summarizes the rationale for using country systems and discusses experience with using country systems and related aspects on which the Bank can build as it considers the further evolution of this approach. Section III elaborates on the key issues involved, and Section IV describes a program of environmental and social pilots and structured learning opportunities in financial management that would help shed light on options for addressing these key issues. Section V considers the benefits and risks of the approach as well as the benefits and risks specific to the pilot program, and discusses measures to mitigate these risks. Section VI presents conclusions and recommendations for Board approval.

II. RATIONALE FOR USING COUNTRY SYSTEMS AND EVOLUTION OF THINKING AND PRACTICE

4. During the 1990s, work done independently by the United Nations Development Programme, the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), the World Bank, and many other development experts led each to conclude that development can be successful only if the country itself owns the process and the government leads development efforts. The move to align the fiduciary requirements and development objectives of the Bank through the use of country systems has its root in this fundamental principle and the experience on which it is based.

A. Rationale

5. The specific rationale for using country systems is as follows:

- **Scale up development impact.** The World Bank's efforts to enhance the efficiency, quality, and timeliness of project implementation have often resulted in the establishment of PIUs to manage Bank-supported operations. These units typically have taken on responsibilities in areas such as environmental and social safeguard policies, financial management, and procurement. However, capacity-building efforts within a PIU often do not strengthen the ministry where the PIU is located,³ and using PIUs often also reduces the sustainability of results.⁴ Reflecting this, the Bank has concluded that it could have broader impact, well beyond the activities it funds directly, if its work more systematically strengthened the country's systems and practices themselves, and resulted in the use of improved systems for all government expenditures.⁵

³ See *Toward Country-led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework, Synthesis Report*, Operations Evaluation Department, 2003, pp. 32-3.

⁴ See *World Development Report 2004: Making Services Work for Poor People*, World Bank, <http://econ.worldbank.org/wdr/wdr2004/text-30023/>, pp. 205-6.

⁵ Simply focusing on the quality of systems used in projects financed by development assistance has a fairly limited impact on country institutional development: at present, the Bank finances around 1 percent (and overall official development assistance less than 4 percent) of the annual cost of borrower development programs. These figures are based on Development Economics' estimate that aggregate annual expenditures on development programs in developing countries approximate US\$1.5 trillion. See *Eligibility of Expenditures in World Bank Lending: A New Policy Framework* (R2004-0026), February 20, 2004.

- ***Increase country ownership.*** Client ownership is higher when projects use the systems already in place in the country. Using country systems also aligns the incentives of borrowers and the Bank to strengthen these systems and close the gap between policy and actual practice, thus helping to ensure sustainable development impact. Closing this gap is of growing importance because although many countries have adopted good practice operational requirements, particularly in areas such as environmental assessment and financial management, they face challenges in implementing them.
- ***Build capacity.*** The use of country systems approach focuses attention on whether that system follows broadly accepted good practices and whether the country has the capacity to successfully implement and sustain implementation of such practices. As such, the approach brings capacity building to the forefront of the interactions among borrowers, the Bank and other development partners who support the use of country systems, and thereby has immediate benefits at the project level. It can also form the basis of larger scale programs to enhance the institutional capacity of borrowers over the longer term.
- ***Facilitate harmonization.*** Development agencies have come to realize that the separate and different system requirements for the projects they fund risk overwhelming the capacity of recipient countries, especially those that are highly aid-dependent, and detract from development impact. As part of recent efforts to address this challenge, multilateral and bilateral agencies and partner countries have identified those elements that all agree are good practices,⁶ and they are now making efforts to “harmonize” around strengthened country systems that incorporate these practices.⁷ Using country systems, including supporting capacity strengthening where needed, further expresses the Bank’s commitment to the Rome Declaration on Harmonization and support for its rapid and sustained implementation.

⁶ For example, good practice work covered by the OECD-DAC Task Force on Donor Practices (2001-2002) included a Framework for Donor Cooperation, Analytic Work/Project Preparation, Performance in Public Financial Management Reporting and Monitoring, Financial Reporting and Auditing, and Delegated Cooperation; see *Harmonizing Donor Practices for Effective Aid Delivery, A DAC Reference Document*, OECD-DAC, Paris, 2003. The work on financial management was coordinated with similar work by the technical work groups of the multilateral development banks (MDBs), which covered areas such as protocols for sharing financial management assessments, audit, and financial analysis. An MDB Heads of Procurement group has completed work on standard bidding documents and is pursuing procurement policy issues. Under the current OECD-DAC Working Party on Aid Effectiveness and Donor Practices, bilateral and multilateral agencies and 15 partner countries have developed good practices in harmonized work to support sector approaches, increasing predictability of aid flows, budget support, public financial management, and capacity development in public financial management; see www.oecd.org/dac/wpeff. Work is also under way on procurement capacity building, managing for results, and management and staff incentives. For detailed information on the progress of harmonization, see <http://www.aidharmonization.org>.

⁷ Another key priority of the exercise is aligning around the development priorities of developing countries. The overall motivation for alignment and harmonization is improving aid effectiveness and results. Political support for this change agenda remains high. The current focus is on mainstreaming the examples of successfully implementing good practices and overcoming difficulties in implementation. For detailed information on the progress of harmonization, see <http://www.aidharmonization.org/>. See also *Note on World Bank Activities in Harmonization and Alignment, and Harmonization, Alignment, Results: Report on Progress, Challenges, and Opportunities* (R2005-0025), February 4, 2005.

- ***Increase cost effectiveness.*** Using country systems will also contribute to the Bank’s simplification agenda, which seeks to streamline and speed up Bank procedures and processes and improve investment lending services to clients by reducing transaction costs.⁸ Application of a single country- or sector-level assessment to multiple projects, supplemented by additional project-specific analysis, increases efficiency in project preparation. For borrowers, there are substantial savings from using country systems instead of building and maintaining parallel structures to satisfy the requirements of the Bank (and other donor agencies.)

6. ***Additional Perspectives.*** The rationale for using country systems was validated by several external groups consulted,⁹ especially by borrowers and development partners who underlined their agreement that the approach would enhance ownership and align incentives for improving systems. Several borrowers stated that they see the approach as fostering a more mature partnership with the Bank in which there would be greater respect for country institutions and traditions, while they also acknowledged the need to embrace and implement international good practices that would allow them to become further integrated into the evolving global system. There was a broad consensus that the approach would help to reignite interest and create opportunities for focused capacity building, and eventually to spread good practice beyond the national level down to implementing agencies and beneficiary communities. Finally, it was felt that the successful use of country systems by the Bank could also have a catalytic effect on private capital flows to those countries, states or municipalities because they would be viewed as following international good practices in dealing with environmental and social safeguard issues.

B. Evolution of Bank Thinking and Practice

7. Bank thinking related to the use of country systems has evolved with experience in using such systems. Experience to date has been most extensive in financial management and more limited in environmental and social safeguards.

1. Environmental and Social Safeguards

8. Current Bank policy does not address the use of country systems for environmental and social safeguards.¹⁰ However, safeguard policies require specific attention to applicable country

⁸ Under the simplification initiative, as with the use of country systems, there is also more emphasis on building and using borrower capacity—and building a partnership between the borrower and the Bank—and less on Bank “policing” of individual transactions.

⁹ Between October 2004 and January 2005, Management held face-to-face discussions in 15 countries and discussions by videoconference in 3 additional countries. The process allowed interactions with officials from about 49 member countries, 23 development partner institutions, 58 civil society organizations, and more than a dozen private sector institutions and global umbrella professional organizations. Briefings were also held for country office staff in 13 in-country locations, with an overall attendance of about 100 individuals. Management also participated in more general discussions on the use of country systems in five regional preparatory workshops for the Second High-Level Forum on Harmonization, Alignment, and Results held in Paris, February 28-March 2, 2005, in which the use of country systems featured prominently, and in various fora of the OECD-DAC, including the Senior Level Meeting held in December 2004 and the Working Party on Aid Effectiveness and Donor Practices meetings in November 2004 and January 2005.

¹⁰ Borrowers are, of course, expected to comply with their own national laws.

rules, regulations, and capacity during project preparation.¹¹ In addition, almost all safeguard policies explicitly require an assessment of project implementation arrangements. The safeguard Operational Policies/Bank Procedures (OPs/BPs) also emphasize giving attention to environmentally and socially sound and sustainable development, not simply avoiding damage, and affirm the Bank's willingness to support country capacity building. Over the medium term, effective use of country systems will require investments to strengthen and develop country implementation capacity to manage a range of environmental and social safeguards at the field level.

9. ***Evolution of Bank Thinking.*** For many years, Management and Executive Directors have focused on enhancing the impact of the Bank's work on environment and social issues,¹² including strengthening the implementation of the Bank's safeguard policies. In 2002, recognizing the importance of country ownership and institutional capacity building, the Board's Committee on Development Effectiveness (CODE) agreed that the Bank's focus should increasingly be to integrate environmental and social safeguards into country systems, without compromising the objectives and operational principles of its safeguard policies. CODE further agreed that over the medium to long term, the Bank should develop "a safeguard system that is based on agreed principles, can be applied broadly in client countries [and] uses borrower systems that respect these principles," and should test the feasibility of this recommendation through a program of safeguard pilots.¹³

10. ***Bank Practice Today.*** The Bank's environmental and social safeguard policies continue to provide a mechanism for integrating environmental and social sustainability concerns into project decision making. Studies by the Quality Assurance Group (QAG) over the past five years confirm that compliance with environmental and social safeguard policies has generally improved. Recent evaluations by the Operations Evaluation Department (OED) concluded that Bank projects are usually well designed to avoid environmental damage, have good environmental management plans (EMPs),¹⁴ and have contributed to strengthening local capacity to carry out environmental assessments and implement EMPs. In fact, today, local institutions in many countries carry out environmental assessments and develop, implement, and monitor EMPs for Bank-supported activities. At the same time, OED noted that the supervision of projects under implementation needs to be strengthened.¹⁵ In FY05, as part of Management's ongoing efforts to strengthen portfolio performance, all Regions have allocated additional resources to higher-risk operations. In addition, Regions have revised their project preparation

¹¹ See OP 4.04, *Natural Habitats*, para. 7; OP 4.09, *Pest Management*, para. 2; OP 4.36, *Forests*, paras. 6 and 10; and BP 4.12, *Involuntary Resettlement*, para. 17.

¹² For comprehensive discussions of the Bank's environmental and social development work, see *Environment Strategy Paper—Making Sustainable Commitments* (R2001-0121), June 20, 2001; *Environment Strategy Implementation Progress Report—Putting Our Commitments to Work* (R2003-0046), April 1, 2003; and *Social Development in World Bank Operations: Results and Way Forward* (OM2003-0062), December 8, 2003.

¹³ In October 2002, the paper *Safeguard Policies: Framework for Improving Development Effectiveness* was posted for public comment on the Bank's external web at <http://lnweb18.worldbank.org/ESSD/sdvext.nsf/04ByDocName/SafeguardPolicyFramework>. Limited feedback was received, and no formal face-to-face consultations on the paper were conducted.

¹⁴ See *OED Review of the Bank's Performance on the Environment—Final Report*, March 2001.

¹⁵ See *Promoting Environmental Sustainability in Development – An Evaluation of World Bank Performance*, OED, 2002.

and supervision procedures to better integrate into task teams staff who have specialized knowledge of environmental and social safeguards.

11. **Diagnostic Products.** The Bank also has increasingly emphasized a program of analytic work at the country and sector level: country environmental analysis (CEA), which covers countrywide policies and institutions dealing with the environment, including forests and other natural resources;¹⁶ country social analysis (CSA), which covers countrywide policies and institutions dealing with social issues, including involuntary resettlement and Indigenous Peoples;¹⁷ and strategic environmental assessment (SEA), which concentrates on assessing potential environmental and social impacts of policies, plans, programs, and institutions, mainly at the sectoral level.¹⁸ In addition, the Bank now undertakes Poverty and Social Impact Analysis (PSIA),¹⁹ which examines the likely distributional effects of policies and programs, and the country's systems to deal with those effects. All these analytic tools are relatively new, and work is ongoing to further develop, refine, and integrate them. Meanwhile, an overwhelming portion of the Bank's operational work on environmental and social sustainability currently remains focused on project-level issues and does not exploit the economies of scale and scope from country or sectoral analyses and capacity building.

2. Procurement

12. The Bank's Procurement Guidelines, approved by the Board, apply to all procurement of goods, works, and services financed by investment loans. Strict adherence to detailed Bank rules is required for international competitive bidding (ICB) and international selection of consultants.²⁰ However, the Guidelines flexibly permit the use of national competitive bidding (NCB) procedures for public procurement in the borrower country, specifying that country procedures may be used in Bank-financed procurement if they ensure economy, efficiency, and transparency, and if they are broadly consistent with the requirements of the Bank's procurement rules.²¹

13. **Evolution of Bank Thinking.** In 1997, to increase the focus on the developmental role of the Bank's procurement function, boost borrower accountability, and enhance cost effectiveness, Management began implementing changes that emphasized up-front project work (including

¹⁶ CEA focuses on the major environment and natural resource issues in a country, reviews the policy and institutional framework, assesses institutional capacity to implement the framework, and makes recommendations for priority reforms. This analysis is done usually at the level of the country or, in large countries such as India, at the level of a state. CEA is a relatively new approach. Five full CEAs have been delivered to clients to date, and nine more are ongoing.

¹⁷ CSA work is under way in about 10 countries to assess how countries are addressing the social context and consequences of development. This includes three countries in which the CSA is being combined with poverty assessment work and two in which joint CSA-CEA work is being carried out.

¹⁸ The Bank is promoting increased use of SEA; to date over 25 such analyses have been conducted. SEA looks at the policy and institutional framework for dealing with environmental issues within the sector, and assesses institutional capacity. It may make recommendations for reforms of policies or institutions.

¹⁹ While this work was undertaken intermittently in the past, it has grown exponentially, with 37 PSIA activities undertaken in FY04 and 39 more committed for FY05.

²⁰ See *Guidelines: Procurement under IBRD Loans and IDA Credits*, www.worldbank.org.

²¹ The Guidelines do not limit participation under NCB to domestic firms. Supplemental measures to meet Bank requirements that go beyond or against local practices and policies are specified in the Loan Agreement or in a parallel letter or agreement that is incorporated by reference into the Loan Agreement.

better procurement planning and client capacity analysis) to ensure good procurement quality at entry. Among other steps, it proposed (a) raising thresholds for prior review and moving toward greater reliance on and increased quality of post review of contracts,²² and (b) focusing on developing countries' capacity to administer procurement at both the project and the national levels. These proposals can be seen as initial steps toward explicit and broader reliance on the country's own systems.

14. ***Bank Practice Today.*** At the project level, the Bank continues to improve procurement quality at entry by carrying out detailed preparatory work, helping to build implementing agency capacity, and relying more on systematic, independent ex post reviews and audits of small contracts by outside firms to ensure compliance. At the country level, the Country Procurement Assessment Report (CPAR), introduced in the 1980s, has evolved from a paper that documented country procurement practices and identified inconsistencies with Bank policies and procedures to a more strategic development tool that identifies major issues affecting public procurement in the country and the potential for improving results by drawing on lessons from international best practices.²³ In a number of countries CPARs have been used in country dialogue to reach consensus on reforms to the country's own procurement policies. Wherever feasible, CPARs are prepared jointly by development agencies and the partner country concerned, and are complemented by technical assistance to improve country capacity.²⁴ The Bank also conducts procurement assessments at the subnational and sector/agency levels when it expects significant lending at that level. These assessments indicate that the Bank's ability to use country systems varies greatly across countries. In many cases, country rules can be used for Bank-financed NCB procurement only when they are supplemented by additional actions such as public bid opening, prohibition of negotiations, minimum advertisement, and the use of standard bidding documents.²⁵ In some countries, however, efforts have gone further. In Mexico, for example, the Bank and the Secretaria de Función Publica are working jointly on three tasks that would be consistent with moving toward the use of country systems: (a) removing the remaining obstacles to international participation in Bank-financed procurement, (b) further modifying national

²² Post review is carried out by the borrower, with the Bank reserving the right to check at random and to have ex post audits conducted by independent professionals.

²³ CPARs formally became a Bank ESW product from July 1, 2001. Between FY00 and FY04, 89 CPARs were delivered to 83 countries. Together with Public Expenditure Reviews (PERs), which were introduced in the early 1980s, and CFAAs, they represent the fiduciary component of the core ESW that supports Bank lending. CPARs were first assessed by QAG in a pilot review in FY01, and 70 percent were rated satisfactory or better. In the FY02 ESW review, the proportion of CPARs rated satisfactory or better increased to 85 percent.

²⁴ For instance, under the harmonization program in Vietnam, five development partners have agreed on higher thresholds. In Bangladesh, the CPAR-based capacity-building efforts culminated in a new Government procurement system for NCB that became effective September 30, 2003. Immediately thereafter, several development agencies used the system for about 85 percent of the NCB under the PEDP-II project.

²⁵ Often further work is needed to improve policies and procedures. The more intractable issue, identified in almost all CPARs in Africa, for instance, is the lack of adequate capacity to implement and monitor procurement in operations even when the country has appropriate legal/regulatory and institutional frameworks for procurement.

bidding documents and procedures to permit their use for ICB procurement, and (c) completing the preparation of two national laws that meet international standards.²⁶

3. *Financial Management*

15. The Bank's financial management policies require that the entities receiving Bank loan proceeds have adequate financial management arrangements²⁷ in place throughout project implementation. While these policies encourage the use of the country's own financial management systems, they do not require the entity involved to use these systems. Thus, when a borrower's existing financial management capacity is weak and there are risks to implementation progress, the Bank has traditionally relied on special-purpose entities, such as PIUs, that are created outside normal borrower systems.

16. ***Evolution of Bank Thinking.*** In part, the retreat from using special-purpose entities for financial management resulted from borrower reaction to the Loan Administration Change Initiative (LACI) introduced by the Bank in 1998.²⁸ LACI's Bank-centric and prescriptive reporting requirements resulted in significant noncompliance as, among other things, the required reports were seen as being inadequately integrated into actual project management processes and the country's own financial management systems. Reflecting this experience, the Bank has moved toward using country systems since 2001, when it agreed that the "content, format, and frequency of financial reports will reflect the needs of borrower agencies managing the project" and that "the reports will normally be prepared in the borrower's preferred reporting currency, drawing as far as possible on the borrower's chart of accounts."²⁹ In 2002, this approach was broadened and enhanced in sectorwide approaches (SWAs), in which there was to be an emphasis on "using and strengthening government institutions, procedures, and staff, rather than establishing parallel systems."³⁰ In 2003, Management clarified that the Bank would seek "to place greater reliance on the normal financial reports and audit processes of borrower countries when they are considered to meet acceptable standards."³¹

²⁶ This work has been going on for several years as part of the policy dialogue, based on a CPAR in FY03, eight state-level Procurement Assessment Reports in FY04, an IDF grant to develop anticorruption measures, and two key ongoing nonlending technical assistance tasks (Country System Procurement and Financial Management Review, and State-Level Financial Management, Procurement and Public Finances Review, prepared in collaboration with fiduciary teams and PREM). Achievements include the use of the national e-Procurement system for NCB bids, and the elaboration of standard bidding documents for all categories of bids under NCB rules.

²⁷ Financial management includes planning and budgeting, internal controls, accounting, financial reporting, and auditing.

²⁸ LACI had three objectives: (a) to improve internal processes by shifting financial management work further upstream in the project cycle and by rationalizing disbursement mechanisms; (b) to strengthen internal governance for financial management; and (c) to augment client capacity. See *Loan Administration Change Initiative (LACI) – Implementation Strategy Paper* (R98-179), June 29, 1998.

²⁹ See *Loan Administration Change Initiative (LACI)—Changes in Implementation* (AC2001-0039), June 28, 2001.

³⁰ See *Fiduciary Arrangements for Sectorwide Approaches (SWAs)* (AC2002-0017), April 2, 2002.

³¹ See *Audit Policies and Practices for World Bank-Financed Activities* (R2003-0007), January 24, 2003.

17. **Bank Practice Today.** Country Financial Accountability Assessments³² (CFAAs), now in place for all but a handful of active borrowers, provide a country context for the project-specific diagnostic assessments the Bank undertakes as part of project preparation. Results from these assessments feed into the design of mechanisms to ensure compliance with the Bank’s financial management policies. Using the information obtained from these assessments the Bank works with the country and other donor partners to improve country public financial management capacity through technical assistance and such other measures as conditionality in development policy lending. The Bank and other donors have also committed to greater use of national audit institutions in auditing donor-supported operations.³³ In this regard, the Bank is engaging with the International Organization of Supreme Audit Institutions and with other development partners to increase the role and capacity of national audit institutions through a combination of technical assistance and conditionality in development policy lending. For example, in Guinea, the Bank is facilitating and financing a twinning arrangement between the national audit institution and a peer institution, while in Argentina, India, Indonesia, Nepal, and Senegal Institutional Development Fund (IDF) grants are being used to support activities that typically involve the participation of more developed national audit institutions. Given Management’s commitment to strengthening borrower institutions, the standard approach to financial management in Bank operations is that country systems are used if they are acceptable to the Bank, taking into account any risk-mitigating or capacity-strengthening measures that may be agreed—and they are being used in an increasing number of operations. Development policy loan proceeds are almost always passed through country systems. On the investment front, country systems are being used increasingly in SWAs.³⁴ In certain larger borrowers, investment projects are already implemented through the country’s budget, even if the Bank still requires separate processes and reports. Finally, for smaller operations, like Development Grant Facility grants or recipient-executed trust funds, the normal systems of the receiving entity are sometimes used without requiring separate reports and audits.

³² CFAAs became formal Bank ESW products on July 1, 2001. Since FY00, 98 CFAAs (in 90 countries) have been delivered (through June 2004). Of the 30 CFAAs QAG reviewed in FY01, 67 percent were rated satisfactory or better. In the FY02 ESW review, the proportion of CFAAs rated satisfactory or better increased to 85 percent. In countries where significant lending is taking place at the subnational level, subnational Financial Accountability Assessments are also being undertaken.

³³ Although in nearly all client countries the national audit institution has the legal responsibility to audit overall public finances, including those provided by donors, the Bank has traditionally relied on the work of private sector auditors because its projects were ring-fenced, with stand-alone accounting systems and, accordingly, separate audit arrangements. In some countries the Bank also perceived the national audit institution as lacking adequate independence and/or capacity. Under the Bank’s revised audit policy, which took effect on July 1, 2003, “working with partners, the Bank seeks to place greater reliance on the normal financial reports and audit processes of borrower countries when these are considered to meet acceptable standards. Where weaknesses are identified, the Bank supports programs to build capacity.” See *Audit Policies and Practices for World Bank-Financed Activities* (R2003-0007), January 24, 2003.

³⁴ In 2002, the Bank adopted special procedures for the application of its financial management, procurement, and disbursement policies to enable the pooling of Bank funds with those of the government and other development partners participating in SWAs. For example, see *Brazil: Family Health Extension Program - Adaptable Program Lending* (R2002-0022), February 25, 2002; *India: Elementary Education Project* (IDA/R2004-0062), April 1, 2004; *Ghana: Health Sector Program Support Project II* (IDA/R2003-0005), January 17, 2003; *Mexico: Decentralized Infrastructure Reform and Development Project* (R2004-0077), May 6, 2004; *Nepal: Education for All Project* (IDA/R2004-0169), June 18, 2004; *Bangladesh Primary Education Development Project II, Report No. 27630-BD*, January 14, 2004; and *Poland: Road Maintenance and Rehabilitation Project* (R2004-0040), March 11, 2004.

III. ISSUES IN USING COUNTRY SYSTEMS

18. In considering how to use country systems for environmental and social safeguards, ICB procurement, and international selection of consultants, and how to advance implementation already under way in other fiduciary areas, five sets of issues emerge: the policy framework for using country systems more broadly, the methodology and tools for assessing country systems, considerations in implementing the approach, Bank and borrower accountability, and incremental costs (and potential medium- and long-term savings). This section explores these issues.

A. Policy

19. As Section II explained, existing Bank policies permit the use of country systems in financial management and in NCB procurement. This section discusses the work that will be needed to provide an acceptable framework for using country systems for environmental and social safeguards, ICB procurement, and international selection of consultants.

1. Environmental and Social Safeguards

20. While current environmental and social safeguard policies do not specifically address the use of country systems, the 2002 CODE paper lays out a medium-term plan for introducing such use through pilots and eventually making any necessary changes to Bank policy on the basis of the experience gained through the pilots. The plan builds on the evidence that while development practitioners broadly support the objectives of the Bank's environmental and social safeguards, the specificity of these policies and procedures creates difficulties for borrowers attempting to mainstream these policies within their own legal and administrative frameworks and their own development programs. The challenge is to build on the consensus around the objectives of the Bank's policies and, consistent with them, help countries strengthen their own systems, recognizing shareholder and stakeholder concerns about borrower institutional capacity and implementation track record, and the importance of maintaining the objectives and operational principles of Bank policies.³⁵ As the Bank's environment and social safeguard policies are currently formulated, their objectives—that is, the goals that the policies seek to accomplish—are expressed as requirements to encourage environmentally and socially sustainable development and ensure that potential adverse impacts of projects are identified and avoided. If adverse impacts cannot be avoided, they should be minimized or mitigated to the extent possible. The operational principles help ensure consistency with the operational policies by setting broad but clear boundaries of flexibility within which to pursue the stated objectives.

21. ***Equivalence and Acceptability.*** Table 1 presents the objectives and key operational principles underlying the Bank's eight environmental and social safeguard policies,³⁶ extracted by Management from the original policy statements and revised to take account of public

³⁵ See *Safeguard Policies: Framework for Improving Development Effectiveness*, October 7, 2002.

³⁶ Of the Bank's 10 safeguard policies, 8 address environmental and social aspects. Two safeguard policies—OP/BP 7.50, *Projects on International Waterways*, and OP/BP 7.60, *Projects in Disputed Areas*—principally relate to international law and thus are not candidates for the use of country systems.

feedback.³⁷ The Bank would assess a country's relevant safeguard systems and would consider them equivalent to the Bank's if they are designed to achieve the objectives and adhere to the applicable operational principles laid out in Table 1. The Bank would also review the implementation practices of relevant country institutions and their track record, and capacity to apply these procedures at the field level. Gaps in relevant country laws, regulations, rules, and procedures could be filled through agreements reflected in the project documents and recorded in the legal agreement. In addition, if there are gaps in implementation practices and capacity and there is strong borrower commitment, formal agreement may be reached on improvements to be implemented. Once the Bank verifies that these formal agreements have been implemented, it could use the improved aspects of the system—for example, in later phases of an operation or in a later operation. These measures would create incentives to address gaps and to strengthen institutional capacity.

³⁷ An earlier draft of Table 1 was disclosed for public comment and vetting in October 2004. Since then, Management has held face-to-face consultations that have included detailed discussion on the purpose and content of Table 1, and on its proposed strategy to pilot-test the use of country systems with a broad range of stakeholders; see the companion document, *Feedback and Staff Responses*.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
A. Environmental Assessment	
<p>To help ensure the environmental and social soundness and sustainability of investment projects.</p> <p>To support integration of environmental and social aspects of projects into the decision making process.</p>	<ol style="list-style-type: none"> 1. Use a screening process for each proposed project, as early as possible, to determine the appropriate extent and type of environmental assessment (EA) so that appropriate studies are undertaken proportional to potential risks and to direct, and, as relevant, indirect, cumulative, and associated impacts. Use sectoral or regional environmental assessment when appropriate. 2. Assess potential impacts of the proposed project to physical, biological, socio-economic and physical cultural resources, including transboundary and global concerns, and potential impacts on human health and safety. 3. Assess the adequacy of the applicable legal and institutional framework, including applicable international environmental agreements, and confirm that they provide that the cooperating government does not finance project activities that would contravene such international obligations. 4. Provide for assessment of feasible investment, technical, and siting alternatives, including the “no action” alternative, potential impacts, feasibility of mitigating these impacts, their capital and recurrent costs, their suitability under local conditions, and their institutional, training and monitoring requirements associated with them. 5. Where applicable to the type of project being supported, normally apply the Pollution Prevention and Abatement Handbook (PPAH). Justify deviations when alternatives to measures set forth in the PPAH are selected. 6. Prevent and, where not possible to prevent, at least minimize, or compensate for adverse project impacts and enhance positive impacts through environmental planning and management that includes the proposed mitigation measures, monitoring, institutional capacity development and training measures, an implementation schedule, and cost estimates. 7. Involve stakeholders, including project-affected groups and local nongovernmental organizations, as early as possible, in the preparation process and ensure that their views and concerns are made known to decision makers and taken into account. Continue consultations throughout project implementation as necessary to address EA-related issues that affect them. 8. Use independent expertise in the preparation of EA where appropriate. Use independent advisory panels during preparation and implementation of projects that are highly risky or contentious or that involve serious and multi-dimensional environmental and/or social concerns. 9. Provide measures to link the environmental assessment process and findings with studies of economic, financial, institutional, social and technical analyses of a proposed project. 10. Provide for application of the principles in this Table to subprojects under investment and financial intermediary activities. 11. Disclose draft EA in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
B. Natural Habitats	
To promote environmentally sustainable development by supporting the protection, conservation, maintenance, and rehabilitation of natural habitats and their functions.	<ol style="list-style-type: none"> 1. Use a precautionary approach to natural resources management to ensure opportunities for environmentally sustainable development. Determine if project benefits substantially outweigh potential environmental costs. 2. Avoid significant conversion or degradation of critical natural habitats, including those habitats that are (a) legally protected, (b) officially proposed for protection, (c) identified by authoritative sources for their high conservation value, or (d) recognized as protected by traditional local communities. 3. Where projects adversely affect non-critical natural habitats, proceed only if viable alternatives are not available, and if appropriate conservation and mitigation measures, including those required to maintain ecological services they provide, are in place. Include also mitigation measures that minimize habitat loss and establish and maintain an ecologically similar protected area. 4. Whenever feasible, give preference to siting projects on lands already converted. 5. Consult key stakeholders, including local nongovernmental organizations and local communities, and involve such people in design, implementation, monitoring, and evaluation of projects, including mitigation planning. 6. Provide for the use of appropriate expertise for the design and implementation of mitigation and monitoring plans. 7. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.
C. Pest Management [This text refers to Integrated Pest Management (IPM) as defined in OP 4.09].	
To minimize and manage the environmental and health risks associated with pesticide use and promote and support safe, effective, and environmentally sound pest management.	<ol style="list-style-type: none"> 1. Promote use of demand driven, ecologically based biological or environmental pest management practices (Integrated Pest Management [IPM] in agricultural projects and Integrated Vector Management [IVM] in public health projects) and reduce reliance on synthetic chemical pesticides. Include assessment of pest management issues, impacts and risks in the EA process. 2. Procure pesticides contingent on an assessment of the nature and degree of associated risks, taking into account the proposed use and intended users. Do not procure formulated products that are in WHO Classes IA and IB, or formulations of products in Class II unless there are restrictions that are likely to deny use or access to lay personnel and others without training or proper equipment Reference: WHO's "Recommended Classification of Pesticides by Hazard and Guidelines to Classification" (IOMC, 2000-2002). 3. Follow the recommendations and minimum standards as described in the United Nations Food and Agriculture Organization (FAO) International Code of Conduct on the Distribution and Use of Pesticides (Rome, 2003) and procure only pesticides that are manufactured, labeled, handled, stored, applied and disposed of according to acceptable standards as described in FAO Pesticide Guidelines on Storage, Labeling, and Disposal (Rome, 1985). 4. Support policy reform and institutional capacity development to (a) enhance implementation of IPM- and IVM-based pest management, and (b) regulate and monitor the distribution and use of pesticides. 5. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
D. Involuntary Resettlement	
<p>To avoid or minimize involuntary resettlement and, where this is not feasible, to assist displaced persons in improving or at least restoring their livelihoods and standards of living in real terms relative to pre-displacement levels or to levels prevailing prior to the beginning of project implementation, whichever is higher.</p>	<ol style="list-style-type: none"> 1. Assess all viable alternative project designs to avoid, where feasible, or minimize involuntary resettlement. 2. Through census and socio-economic surveys of the affected population, identify, assess, and address the potential economic and social impacts of the project that are caused by involuntary taking of land (e.g., relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location) or involuntary restriction of access to legally designated parks and protected areas. 3. Identify and address impacts also if they result from other activities that are (a) directly and significantly related to the proposed project, (b) necessary to achieve its objectives, and (c) carried out or planned to be carried out contemporaneously with the project. 4. Consult project-affected persons, host communities and local nongovernmental organizations, as appropriate. Provide them opportunities to participate in the planning, implementation, and monitoring of the resettlement program, especially in the process of developing and implementing the procedures for determining eligibility for compensation benefits and development assistance (as documented in a resettlement plan), and for establishing appropriate and accessible grievance mechanisms. Pay particular attention to the needs of vulnerable groups among those displaced, especially those below the poverty line, the landless, the elderly, women and children, Indigenous Peoples, ethnic minorities, or other displaced persons who may not be protected through national land compensation legislation. 5. Inform displaced persons of their rights, consult them on options, and provide them with technically and economically feasible resettlement alternatives and needed assistance, including (a) prompt compensation at full replacement cost for loss of assets attributable to the project; (b) if there is relocation, assistance during relocation, and residential housing, or housing sites, or agricultural sites of equivalent productive potential, as required; (c) transitional support and development assistance, such as land preparation, credit facilities, training or job opportunities as required, in addition to compensation measures; (d) cash compensation for land when the impact of land acquisition on livelihoods is minor; and (e) provision of civic infrastructure and community services as required. 6. Give preference to land-based resettlement strategies for displaced persons whose livelihoods are land-based. 7. For those without formal legal rights to lands or claims to such land that could be recognized under the laws of the country, provide resettlement assistance in lieu of compensation for land to help improve or at least restore their livelihoods. 8. Disclose draft resettlement plans, including documentation of the consultation process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders. 9. Apply the principles described in the involuntary resettlement section of this Table, as applicable and relevant, to subprojects requiring land acquisition.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
<ol style="list-style-type: none"> <li data-bbox="500 275 1422 453">10. Design, document, and disclose before appraisal of projects involving involuntary restriction of access to legally designated parks and protected areas, a participatory process for: (a) preparing and implementing project components; (b) establishing eligibility criteria; (c) agreeing on mitigation measures that help improve or restore livelihoods in a manner that maintains the sustainability of the park or protected area; (d) resolving conflicts; and (e) monitoring implementation. <li data-bbox="500 474 1422 590">11. Implement all relevant resettlement plans before project completion and provide resettlement entitlements before displacement or restriction of access. For projects involving restrictions of access, impose the restrictions in accordance with the timetable in the plan of actions. <li data-bbox="500 611 1422 695">12. Assess whether the objectives of the resettlement instrument have been achieved, upon completion of the project, taking account of the baseline conditions and the results of resettlement monitoring. 	

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
E. Indigenous Peoples	
(To be updated as necessary when the ongoing revision of the current policy is finalized)	
<p>To design and implement projects in such a way that Indigenous Peoples (a) receive culturally compatible social and economic benefits; and (b) do not suffer adverse effects during the development process; and that fosters full respect for their dignity, human rights, and cultural uniqueness.</p>	<ol style="list-style-type: none"> 1. Screen early for the presence of Indigenous Peoples in the project area, who are identified through criteria that reflect their social and cultural distinctiveness (self-identification and identification by others as Indigenous Peoples, collective attachment to land, presence of customary institutions, indigenous language, and primarily subsistence-oriented production). 2. Undertake meaningful consultation with affected Indigenous Peoples to solicit informed participation in designing, implementing, and monitoring measures to (a) avoid adverse impacts, or when avoidance is not feasible, minimize, mitigate, or compensate for such effects; and (b) tailor benefits in a culturally appropriate way. 3. Undertake social assessment or use similar methods to assess potential impacts and risks when a project may have adverse impacts. These studies may be used, along with other types of studies. 4. Identify measures to avoid, minimize and/or mitigate adverse impacts. 5. Provide social and economic benefits to Indigenous Peoples in ways that are culturally appropriate, and gender and generationally inclusive. Full consideration should be given to options preferred by the affected Indigenous Peoples for provision of benefits and mitigation measures. 6. Make provisions in plans, where appropriate, to support activities to establish legal recognition of customary or traditional land tenure systems used by project affected Indigenous Peoples. 7. Prepare an Indigenous Peoples development plan using qualified professionals, based on on-site studies and meetings, and drawing on indigenous knowledge. The plan normally would cover the legal framework, baseline data, and land tenure, including customary land tenure provisions for local participation, mitigation activities, and institutional capacity. It should include key actions to be taken accompanied by a monitoring and evaluation plan, implementation schedule, and estimated budget. 8. Disclose the draft Indigenous Peoples development plan, including documentation of the consultation process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders. 9. Monitor by experienced social scientists the implementation of the Indigenous Peoples development plan.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
F. Forests	
<p>To realize the potential of forests to reduce poverty in a sustainable manner, integrate forests effectively into sustainable economic development, and protect the vital local and global environmental services and values of forests.</p>	<ol style="list-style-type: none"> 1. Screen as early as possible for potential impacts on forest health and quality and on the rights and welfare of the people who depend on them. As appropriate, evaluate the prospects for new markets and marketing arrangements. 2. Do not finance projects that would involve significant conversion or degradation of critical forest areas or related critical natural habitats, or that would contravene applicable international environmental agreements. 3. Do not finance natural forest harvesting or plantation development that would involve any conversion or degradation of critical forest areas or related critical natural habitats. 4. Support projects that adversely impact noncritical natural forests or related natural habitats only if viable alternatives to the project are not available and only if appropriate conservation and mitigation measures are in place. 5. Support commercial, industrial-scale forest harvesting only when the operation is certified, under an independent forest certification system, as meeting, or having a time-bound action plan to meet, internationally recognized standards of responsible forest management and use. 6. Ensure that forest restoration projects maintain or enhance biodiversity and ecosystem functionality and that all plantation projects are environmentally appropriate, socially beneficial and economically viable. 7. Give preference to small-scale community-level management approaches where they best reduce poverty in a sustainable manner. 8. Support commercial harvesting by small-scale landholders, local communities or entities under joint forest management where monitoring with the meaningful participation of local communities demonstrates that these operations achieve a standard of forest management consistent with internationally recognized standards of responsible forest use or that they are adhering to an approved time-bound plan to meet these standards. 9. Use forest certification systems that require: (a) compliance with relevant laws; (b) recognition of, and respect for, legal or customary land tenure and use rights as well as the rights of Indigenous Peoples and workers; (c) measures to enhance sound community relations; (d) conservation of biological diversity and ecological functions; (e) measures to maintain or enhance environmentally sound multiple benefits from the forest; (f) prevention or minimization of environmental impacts; (g) effective forest management planning; (h) active monitoring and assessment of relevant forest management areas; and (i) independent, cost effective, third-party assessment of forest management performance against measurable performance standards defined at the national level and compatible with internationally accepted principles and criteria of sustainable forest management through decision making procedures that are fair, transparent, independent, designed to avoid conflict of interest and involve the meaningful participation of key stakeholders, including the private sector, Indigenous Peoples, and local communities. 10. Disclose any time-bound action plans in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Table 1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
G. Cultural Property	
(To be updated as necessary when the ongoing conversion of the current policy is completed).	
To assist in preserving physical cultural resources (PCR) and avoiding their destruction or damage. PCR includes archaeological, paleontological, historical, and sacred sites including graveyards, burial sites, and unique natural values.	<ol style="list-style-type: none"> 1. Analyze feasible project alternatives to prevent or minimize or compensate for adverse impacts and enhance positive impacts on PCR, through site selection and design. 2. If possible, avoid financing projects that significantly damage PCR. As appropriate, conduct field based surveys using qualified specialists to evaluate PCR. 3. Consult local people in documenting the presence and significance of PCR, assessing the nature and extent of potential impacts on these resources, and designing and implementing mitigation plans. 4. Provide for the use of “chance find” procedures that include a pre-approved management and conservation approach for materials that may be discovered during project implementation. 5. Define and undertake measures for strengthening institutional capacity to implement mitigation plans and to deal with impacts on PCR identified prior to and/or discovered during project implementation. 6. Disclose draft mitigation plans, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.
H. Safety of Dams	
To assure quality and safety in the design and construction of new dams and the rehabilitation of existing dams, and in carrying out activities that may be affected by an existing dam.	<ol style="list-style-type: none"> 1. Identify existing dams and dams under construction that can influence the performance of the project and implement necessary safety measures/remedial works. 2. Use experienced and competent professionals to design and supervise the construction, operation, and maintenance of dams and associated works. 3. Develop detailed plans, including for construction supervision, instrumentation, operation and maintenance and emergency preparedness. 4. Use independent advice on the verification of design, construction, and operational procedures and appoint independent panels of experts for large or high hazard dams. 5. Use contractors that are qualified and experienced to undertake planned construction activities. 6. Carry out periodic safety inspections of new/rehabilitated dams after completion of construction/rehabilitation, review/monitor implementation of detailed plans and take appropriate action as needed.

2. Procurement

22. As noted earlier, while World Bank policy has long allowed the use of country systems for NCB, this is not true of ICB or the international selection of consultants. In deciding how to consider the use of country systems in this area, Management followed an approach similar to that for environmental and social safeguards described above: it reviewed procurement policy and guidelines approved by the Bank's Board³⁸ and identified key objectives and operational principles (see Table 2). Like NCB, ICB is based on the universal procurement principles of economy, efficiency, transparency, and fair treatment of all bidders. However, the review indicates that satisfying the objectives and operational principles of NCB alone would not suffice for meeting the requirements for ICB; it would also be necessary to ensure that the country does not discriminate against foreign bidders and that there is broad eligibility to bid (except in some specific circumstances).³⁹ In the ICB context, the Bank ensures that there is no discrimination against foreign bidders by requiring equal treatment in areas such as advertisement, qualification requirements, language, technical standards, currency (of price and of payment), time for preparation of bids, ways bid prices are compared (no import duties used), and complaint and dispute resolution. Similarly, the Bank supports the hiring of consultants through a shortlisting process intended to trigger the interest of the best national and foreign consulting firms. As with environmental and social safeguards, the Bank and development partners⁴⁰ are already working to develop indicators—to be refined on the basis of experience—that will facilitate baseline measurement and comparison of system features, to decide whether a country's system has an acceptable track record of economy, efficiency, transparency, and fair treatment of all bidders in implementing procurement.⁴¹

³⁸ The objectives and operational principles that NCB and ICB share are broadly accepted across the development community. With increasing use of NCB, many regional development banks and aid institutions have adapted and adopted the associated World Bank guidelines and bidding documents. In turn, the Bank has taken steps to ensure that its procurement policies and guidelines reflect good practices. For example, in November 2003, the Board of Executive Directors approved modifications to the Procurement and Consultants Guidelines aimed at (a) harmonizing with other development agencies by including the MDB Heads of Procurement recommendations allowing pooling of funds in joint financing with other development agencies that adhere to good practice principles; (b) modernizing the Bank's procurement policies by allowing the use of information technology (including e-procurement) to improve the efficiency of the procurement process and increase its transparency, and (c) simplifying processes. See *Requirements for Local Procurement in Borrowing Countries*, Heads of Procurement of multilateral development banks note, [//www1.worldbank.org/harmonization/romehlf/Background/Local%20Procurement%20-%20Harmonized.pdf](http://www1.worldbank.org/harmonization/romehlf/Background/Local%20Procurement%20-%20Harmonized.pdf).

³⁹ Such as cases of UN sanctions on account of terrorism, conflict of interest, government-owned enterprises (and public employees as consultants), and firms debarred in cases of fraud and corruption.

⁴⁰ Development partners include the OECD-DAC, 12 client countries, and other MDBs and UN organizations.

⁴¹ There are three levels of measurement: (a) benchmarking systems against baseline indicators; (b) measuring performance by collecting, monitoring, and statistically analyzing key transaction-level performance data; and (c) examining the performance of implementing agencies. To date, the work on benchmarking has progressed furthest. Initial guidance to staff on fiduciary arrangements for SWApS and fiduciary management in community-driven development projects—both of which rely on country systems—has been issued, and guidance on environmental and social safeguards in SWApS is under preparation.

Table 2. Objectives and Operational Principles Underlying the Bank's Procurement Policy

<i>Procurement method</i>	<i>Objectives</i>	<i>Operational principles</i>
National competitive bidding	To ensure efficient, cost-effective, and transparent procurement.	<ol style="list-style-type: none"> 1. Ensure equal opportunity for all eligible bidders. 2. Apply transparent processes. 3. Deal expeditiously with fraud and corruption. 4. Make the procurement process consistent with the principles of economy, efficiency, transparency, and equal opportunity.
International competitive bidding—goods, civil works	To ensure efficient, cost-effective, and transparent procurement.	<p>Same as the principles for NCB, plus:</p> <ol style="list-style-type: none"> 1. Ensure broad eligibility to bid (except in some exceptional circumstances, such as UN sanctions on account of terrorism, conflict of interest situations, government-owned enterprises, public employees as consultants, and firms debarred in cases of fraud and corruption). 2. Treat foreign bidders fairly and without discrimination.
Consultants	To ensure efficiency, cost effectiveness, and transparency.	Use selection processes that give importance to the quality of advice as well as to the cost of the assignment.

3. Financial Management

23. As this paper has pointed out, following several Management recommendations and Board decisions over the last four years, the policy framework for the use of country systems in financial management is already in place. In this area an assessment methodology already exists—the Financial Management Sector Board has issued detailed guidelines for assessing entities implementing Bank-financed projects.⁴²

B. Methodology and Tools for Assessing Country Systems

24. As noted above, in addition to assessing the acceptability of country systems,⁴³ before deciding to proceed with using country systems in specific operations, the Bank would examine the implementation practices, track record, and capacity of relevant country institutions, and the risk environment. It would also consider the likelihood that the country would maintain acceptable systems (and system performance). Key to this process is the availability of sound diagnostic work and information on the features, implementation practices, and performance of relevant country systems.

25. **Diagnostic Tools.** Over the years, the Bank has developed many diagnostic tools to assess operational systems at the sector and country levels, building, in some cases, on the experience with assessments at the project level—for example, CFAAs, CPARs, CEAs, CSAs, and SEAs. At the same time, under the global harmonization initiative, development partners have participated in and made use of these diagnostic tools, and the information they generate is

⁴² Recently issued guidelines cover CFAA (2003) and Assessment of Financial Management Arrangements in World Bank-Financed Projects (2003).

⁴³ For example, for each safeguards pilot, the Bank would assess whether relevant country laws, regulations, rules, and procedures for that operation meet the objectives and satisfy the operational principles set out in Table 1.

increasingly used as the basis for operational support and joint capacity-building efforts.⁴⁴ The findings are often shared under formal protocols, and increasingly assessments are being made publicly available.⁴⁵ Thus these diagnoses are a logical place to begin the search for information to assess country systems. However, if these products are to improve our understanding of the prospects and requirements for achieving and maintaining equivalence and acceptability, their coverage of the following areas would need to improve: institutions and applicable laws, regulations, rules, and procedures at the national and (as appropriate) subnational levels, and the track record of implementation at the country/agency level. It would also be necessary to ascertain the government's commitment to this approach—a critical factor for successful implementation. In conducting this work, the Bank would be flexible about how best to work with other partners and use information they generate in the interest of efficiency, ownership, and consensus building. Finally, to meet the test of transparency and accountability, it would also be important for the Bank to document and disclose the findings on which it based its determination of equivalence and acceptability.

26. ***Environmental and Social Safeguard Diagnostic Tools.*** The Bank uses analytic tools—CEAs, CSAs, and SEAs—that contain specific information on country environmental and social safeguard systems, and it is working to update and upgrade these tools. It is also developing and testing safeguard diagnostic reviews in a number of countries at the national, subnational, sector, or project level in the context of proposed environmental and social safeguard pilots. For the foreseeable future, it is likely that the required analysis of country safeguard systems would also build on other upstream tools such as environmental and socially oriented country and sector work and specialized instruments such as PSAs.⁴⁶ Clearly, the development of suitable consolidated analytic tools would be a key part of the work program to support operationalizing

⁴⁴ Ongoing global work of relevance to this effort includes work by the Multilateral Financial Institutions—Working Group on Environment; the Bank/OECD-DAC/partner country work on public financial management systems and the proposed international standard for development assistance; and the work of the Heads of Procurement Group of the MDBs and the Bank/OECD-DAC/partner country work on procurement capacity building.

⁴⁵ A global website serves as a repository for these and other diagnostic products prepared by over 25 development agencies: <http://www.countryanalyticwork.net/>. The website provides a Document Library with access to project documents from partner agencies; Contact Points for the agency people with whom to communicate; Main Product Toolkits for the main diagnostic products; Procedures for conducting analytic work; and Examples of Best Practices.

⁴⁶ This was the approach followed in the preparation of the *Decentralized Infrastructure Reform and Development Project for Mexico* (R2004-0077/1), approved by the Board in June 2004. The loan amount was \$108 million, to be intermediated and disbursed through Banobras to the State of Guanajuato for subprojects in roads, urban housing, and water supply and sanitation sectors. The Bank and the state government agreed that the project was an opportunity to take advantage of the state's strong safeguard framework and practices and, while aligning state safeguard procedures with the objectives and principles of the relevant Bank safeguard operational policies and procedures, to further strengthen institutional capacity through piloting the use of country systems. The pilot covers six safeguard policies—*Environmental Assessment* (OP 4.01), *Cultural Property* (OPN 4.11), *Natural Habitats* (OP 4.04), *Involuntary Resettlement* (OP 4.12), *Safety of Dams* (OP 4.37), and *Indigenous Peoples* (OD 4.20). The basic steps to develop the pilot involved an upstream analysis of Mexican legal and institutional capacity, detailed reviews of the relevant state agencies, and reviews of laws, regulations, and practices that pertain to each of the safeguard policy subject areas. Information also came from SEA, EA reports from other related Bank projects, interviews, workshops, and site visits. As the project is implemented, Mexican agencies will monitor and report periodically on environmental and social management performance. Meanwhile, the Bank will supervise intensively through ex ante review of sensitive/high-risk subprojects and ex post review and supervision of all subproject types. It will also maintain detailed documentation on the findings and conclusions of the evaluation.

the use of country systems. While all development agencies do not have environmental and social safeguard diagnostic tools, as part of the harmonization process joint studies have been initiated in several countries. Identifying and pursuing expanded opportunities for working more collaboratively and efficiently through joint diagnostic work should be a part of the vision going forward.⁴⁷

27. ***Procurement Diagnostic Tools.*** While CPARs have changed over the past decade, if they are to adequately assess the equivalence of country systems against Bank requirements and the acceptability of borrower implementation practices, track record, and capacity, they would have to evolve further and be complemented by systemic benchmarking and performance assessment. Work is under way to develop tools and approaches for consistent benchmarking of the quality of country procurement systems against a baseline (baseline indicators) and for measuring the country's performance in implementing its own procurement system (performance indicators).⁴⁸ A decision to use country systems will be based on a combination of these indicators. By complementing the CPAR, these tools will help procurement staff increase their focus on improving clients' capacity to manage procurement at both the project and country levels. Implementation will require balancing the need to increase borrower accountability for sound procurement as a capacity-building objective against the desire to limit the risk of poor procurement in Bank-financed projects through strong Bank oversight. The Bank is also working on new ways of carrying out oversight and procurement post review so as to (a) better focus on systemic problems, including the fiduciary control environment for procurement; (b) ensure that the findings of post reviews feed back into improving client capacity; and (c) use borrower institutions, where capacity exists, to carry out post reviews.

28. ***Financial Management Diagnostic Tools.*** The Bank's existing diagnostic approaches for financial management, adapted to country and program conditions (including situations in which private or commercial institutions are central to implementation) and supplemented by information available from country institutions and other development agencies, largely suffice to provide the knowledge needed to assess the acceptability of country systems and the Bank's policy objectives and operational principles.⁴⁹ Indeed, reviews of financial management systems in a number of countries have reached clear conclusions about the adequacy of specific systems. Country financial management strategies—which are just starting to be prepared—identify priorities and trade-offs at the country level. Over time, these strategies are expected to provide the context for (a) more flexibility to adapt analytic work to country conditions and to the scope and nature of the Bank's program; (b) stronger impetus for collaboration and integration within the Bank, as well as with the IMF and other agencies; (c) a framework for measuring institutional performance; and (d) better integration of project- and country-level analytic work.

⁴⁷ At present, joint programming and execution of PSIA work involves partnership with other development agencies, including the creation of a bilateral development agency network for PSIA and multiple collaborative activities and outputs.

⁴⁸ In some countries, one of the implementation challenges will be to obtain reliable data on procurement for baseline indicators and performance indicators.

⁴⁹ Management is encouraging greater integration of work on CFAAs, CPARs, and PERs, since the requirement for coverage of all active borrowers and the rigidities in planning and implementing separate but linked products has placed an unnecessary burden on country programs. In several countries these diagnostic exercises have been combined into a single, integrated review. In the East Asia and Pacific Region, a consolidated review has been carried out for most countries. Integrated Public Expenditure Management and Financial Accountability Reviews have recently been carried out in the Africa and the Europe and Central Asia Regions.

All this is expected to position the Bank to use country systems in a strategically sound, flexible, timely, and efficient way. Moving forward, the Bank is working to develop and refine its tools to ensure the consistency and quality of the diagnostic work performed. Further work is also needed to exploit the synergies in diagnosis and systems building with fiduciary efforts in areas such as procurement and public financial management. Through the Public Expenditure and Financial Accountability (PEFA) initiative, the Bank is working with other development agencies and the IMF to develop a set of indicators for monitoring public financial management performance.

C. Implementation

29. Expanding the use of country systems represents an appropriate evolution of ongoing efforts to increase development effectiveness and impact. The fiduciary areas, particularly financial management, stand out because of the strides already made in redirecting Bank efforts, in partnership with bilateral and multilateral agencies and professional bodies, toward fostering country ownership and strengthening recipient capacity on the basis of widely accepted good practices. Even as these advances point the general way forward, however, they indicate that beyond assessing equivalence and the acceptability of borrower implementation practices, track record, and capacity, the Bank, borrowers, and development partners would have to ‘learn by doing’ and remain open and flexible about how best to implement the use of specific systems in a particular country/province or sector. In many cases, capacity building—which usually takes considerable time—will be a critical component of the Bank’s support for using country systems. Therefore, the Bank, borrowers, and development partners will have to learn to (a) define success in using country systems, and (b) make improving country systems central to project development objectives. This section reviews other selected aspects of implementation that will require continued openness, flexibility, and learning. Additional implementation issues raised during the public consultations and considered by staff are presented in the companion document, *Feedback and Staff Responses*.

30. ***Client Orientation.*** To realize the full potential of using country systems it will be critical to carefully tailor the approach—including the choice of lending instrument and the delivery timetable for using country systems—to the needs and capacity of the client. Bank teams will have to focus on good practices and results, and not only on Bank policies as ends in themselves or merely as part of Bank accountability (see Section D on Accountability below.) Such considerations would also have to extend to other partners, including cofinancing agencies and private sector entities with which the Bank works in a particular operation. It is likely to be helpful to rely on existing upstream and downstream processes—country dialogue, economic and sector work (ESW), Country Assistance Strategy (CAS) processes (including progress reviews), portfolio reviews, and so on—to place the approach in an appropriate strategic and operational context, and to ensure that there is awareness of and support for its use.

31. ***Sequencing, Phasing, and the Unit of Analysis.*** Many country teams are likely to find in practice that decisions about the use of country systems are not binary “yes/no” decisions. Instead, teams may often need to identify promising opportunities or priority areas, and decide on appropriate sequencing of efforts, including where to start, or how best to intensify ongoing efforts. Even after deciding on priority sectors and thematic areas, they will need to make critical decisions about how to link diagnostic work to particular operations, and about

transitioning from policy dialogue on the use of country systems to actual use in a Bank-supported operation. Although it is likely that the bulk of upstream diagnostic work would be done at the country level, in some operations the analysis of equivalence and of the acceptability of borrower implementation practices, track record, and capacity may require further work at the subnational, sectoral, or agency level. The scope of upstream assessment could be limited to sectors and institutions viewed as likely candidates for immediate implementation, or could be broader to exploit economies of scale and permit findings to be used in country dialogue to promote wider use of country systems. Finally, actual experience with specific cases will be essential to answer such questions as what lending instrument is best suited to support the use of country systems in a particular sector; how the Bank can best monitor the equivalence and continued acceptability of systems during implementation; whether monitoring should be limited to the project in question or built into the ESW work program; and whether monitoring should be part of the annual overall portfolio review. It would be unwise to attempt to prescribe answers to such implementation issues before there is experience on the ground.

32. **Capacity Building.** It is anticipated that the use of country systems would support an increased focus of the Bank, development partners, and borrowers on the development of capacity within line agencies and significantly reduce the number of special project implementation and management units. While continuing to support government at multiple levels, these efforts would also involve a wider range of parties including local governments, universities and applied research institutes, private sector organizations including consulting firms, community organizations, and local nongovernmental organizations. Greater emphasis would be given to the use of regional and national expertise in undertaking capacity building activities in many countries. The approach will be pragmatic, in view of how difficult and time consuming it is to successfully build capacity, the importance of staff and borrower behavior and incentives, and the need for monitorable indicators of progress. The Bank's efforts will build on ongoing initiatives in-country of the government or development partners. Several development partners have indicated an interest in funding capacity building while Bank funding options include loans, credits, and IDF grants.

33. **Third-Party Role in Implementation.** The expanded use of country systems provides an opportunity to promote the involvement of third parties, including development partners, the private sector, and civil society organizations (CSOs), in both upstream analytic work and downstream implementation. As noted above, for some operations the Bank already relies on diagnostic work by other development partners if it considers such work acceptable. In addition, there may be opportunities for third-party verification of the capacity of different levels of government and of implementing agencies. This practice is increasingly gaining currency in financial intermediary projects and in fiduciary areas: in such cases, the central government or lead agency may take on the responsibility for appraisal of subprojects within a framework agreed with the Bank, with the Bank conducting post review of a sample of such projects.⁵⁰ While the Bank would retain responsibility for due diligence for the funding it provides, there may be scope for expanding the role of third parties in specific aspects of implementation, including capacity building and performance monitoring. In some countries local CSOs are

⁵⁰ In some projects the appraisal of a set of initial subprojects is carried out jointly by the Bank and the central agency. If successful, the Bank then delegates the responsibility for appraisal. Thus transfer of technical skills and capacity is built into the project. For example, see *India: Elementary Education Project* (IDA/R2004-0062), April 1, 2004.

playing an expanded role in providing independent monitoring of implementation performance, especially at the community level. This approach could be considered for use in some pilots. Other models of third-party implementation could also be explored, such as “delegated cooperation”—an arrangement that is being developed under the global harmonization and aid effectiveness agenda. In one recent example, the Bank joined a consortium in which the Asian Development Bank served as the lead agency for preparation and implementation.⁵¹

34. ***Operational Information Systems.*** As background to the preparation of this paper, Management reviewed the information that is currently required to complete the standard Implementation Status and Results (ISR) report (formerly the Project Status Report). Its preliminary conclusion is that while additional data would be needed to monitor and evaluate the impact of using country systems, it should be possible to capture this data without major modifications to the Bank’s existing Operations Portal (the integrated web-based work space for project management that summarizes key project data, including performance and supervision ratings).⁵²

D. Accountability

35. Some stakeholders have raised questions about the implications of the use of country systems for Bank accountability for compliance with its operational policy framework. Under that framework, borrowers are responsible for selecting, preparing, and implementing projects that are supported by the Bank and for complying with the requirements set out in the legal agreement. Bank staff are responsible for complying with the requirements of the Bank’s policy framework: they appraise the project, advise and support borrowers in carrying out their responsibilities, and supervise implementation.

36. ***Appraisal and Supervision.*** As for any Bank-financed operation, the Bank would retain responsibility for project appraisal and supervision even when country systems are being used. The project results framework would provide the basis for project supervision, and Bank staff would document their findings in aide-mémoire and ISR reports.⁵³ Overall, the types and modalities of scrutiny would be determined on the basis of client capacity and track record. However, it is anticipated that the use of country systems initially would require enhanced supervision by the Bank to ensure that implementation is consistent with the analyses and assumptions on which Bank financing is based, coupled with increased attention to whether the agreed actions are contributing to accomplishing the project’s objectives.⁵⁴

⁵¹ See *Bangladesh Primary Education Development Project II* (Report No. 27630-BD), January 14, 2004, approved on February 24, 2004.

⁵² See Annex C.

⁵³ OP/BP 13.05, *Project Supervision*, would continue to apply when country systems are used.

⁵⁴ If there are changes in applicable legislation or regulations, staff would assess the effect of those changes and discuss them with the borrower. If the country’s systems were changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank’s contractual remedies would apply. If, in the judgment of the Bank, the changes reflect a further improvement of the country systems, and if appropriate in the context of the particular project and if the borrower so requests, the Bank could agree to revise the legal framework applicable to the operation to reflect these improvements, and to amend the legal agreement as necessary. Management would document, explain, and justify any material changes to the framework applicable to the project, and submit them for Board approval (normally on an absence-of-objection basis).

37. **Evaluation.** The Bank's accountability framework includes mechanisms for evaluation and independent assessment: QAG reviews application of key Bank operational policies and procedures in its quality-at-entry and quality-of-supervision reports; and OED, an independent group within the World Bank, evaluates the Bank's work, the borrower's performance in implementing projects, and the Bank's contribution to the country's long-term development. The use of country systems would not alter the role of QAG or OED.

38. **Disclosure.** The use of country systems would not change the Bank's commitment to transparency in its work and in its business relationship with borrowers. The Bank would ensure that relevant project-related environmental and social safeguard documents (see Table 1), including the procedures prepared for projects involving subprojects, are disclosed in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders. To the same extent, before project appraisal formally begins, the Bank will make publicly available its assessment of (a) the equivalence of borrower systems and Bank requirements, and (b) the acceptability of borrower implementation practices, track record, and capacity. The assessment will include a description of the applicable country systems and of actions that achieve and sustain equivalence and acceptability.

39. **Inspection Panel.** The Inspection Panel provides a mechanism for independent review of the Bank's compliance with the provisions of its own policies when a request is made. The use of country systems "would not change the role of the Inspection Panel as set forth in the 1993 Resolutions establishing the Panel. The Inspection Panel will continue to investigate whether Management is in compliance with its policies and procedures in the design, appraisal, and implementation of projects and programs."⁵⁵ In the event of a claim, the Panel "could examine Management's assessment of the equivalence of the relevant Bank policies and procedures with the country system (and any additional measures agreed upon to achieve equivalence) in materially achieving the objectives of Bank policies and procedures, as well as Management's supervision of the project. The operational framework for the specific project or program agreed upon with the borrower would be the frame of reference for the borrower's performance and the Bank's supervision."⁵⁶

E. Costs

40. While there are incremental costs and benefits to using country systems, estimating their absolute and relative sizes is difficult at present because experience in this area is limited. It is clear though that, on balance, there will be higher costs for diagnostic work, supervision, and central technical and legal support when transitioning to the use of country systems.

41. **Findings of Additional Work on Incremental Costs.** The Issues Paper identified two main sources of possible incremental costs—diagnostic work necessary for the assessment of equivalence and acceptability, and enhanced supervision. Further examination since September 2004 indicated the following:

⁵⁵ See Joint Statement on the Use of Country Systems, *Mexico-Decentralized Infrastructure Reform and Development Project* (R2004-0077, 0077/3), Chairperson of The Inspection Panel and Senior Vice President and General Counsel, June 8, 2004, wbln0018.worldbank.org/ipn/ipnweb.nsf.

⁵⁶ Ibid.

- Not surprisingly, the incremental costs of such work would be negligible or low when the relevant knowledge base is sufficiently comprehensive (as in Tunisia, for example) or when the focus of ESW in the pipeline can be adjusted easily to satisfy the needs of the pilot initiative.
- In cases where the system is undergoing significant changes and the Bank's stock of current knowledge has to be deepened significantly, the upfront incremental costs would be those associated with commissioning new ESW.
- In some cases—in Morocco's FM work, for example—the approach to the use of country systems can be gradual and budget-neutral. In Morocco the diagnostic pieces are a part of the Bank's regular FM assessment work and are focused on the broader system, not only the institution involved in implementing the particular operation. This broader work will inform the Bank's operational approach to FM.

The work on country systems included a review of the few available studies that contain information on the cost of preparing operations that, like the use of country systems approach, involve preparing upstream diagnostics or analytic underpinnings that are then used for multiple investments. One relevant experience is with adaptable program loans (APLs) for which significant up-front preparation costs seem to constitute an investment that can reduce follow-on costs substantially: the preparation costs of APLs averaged US\$509,000 in FY98-99 and US\$420,000 in FY00-02; the average cost of the first six second-phase APLs approved fell to US\$203,000.⁵⁷

42. ***Incremental Costs Synthesized.*** On balance, because Bank diagnostic products to date have not covered country systems in sufficient detail, it is very likely that the additional analytic work required would mean higher project preparation costs for the first few operations to use a country's systems. There will also be additional costs associated with technical support for project teams. At the same time, preparation costs may be expected to fall gradually for subsequent operations because (a) it becomes less expensive and less time-consuming to prepare subsequent operations that use equivalent country systems, and (b) there is no longer a need for borrowers to create and maintain, and for the Bank and other development agencies to supervise, parallel systems. But these reductions are not likely to occur during the relatively short pilot period of two years. In the case of financial management in Morocco, it is estimated that the increased use of government financial management system in Bank-financed projects would reduce direct costs to the government by about US\$1 million annually, mostly for salary expenditures and project information requirements related directly to handling parallel Bank reporting and disbursement requirements that have no added value to the projects and/or government.⁵⁸ But work will continue to better gauge and quantify the incremental costs and the benefits associated with using country systems.

⁵⁷ See PREM Instruments and Quality Compass at http://www-wbweb.worldbank.org/prem/premcompass/inst_quality/lending-investment/apl.html. Introduced in FY98, APLs are a programmatic approach to investment lending. Supervision costs for APLs are about the same as for other investment instruments.

⁵⁸ Separately, a study estimates that in the Africa Region, where public procurement totals about \$50 billion per year, an improvement in public procurement could generate savings of some 15 percent of GDP. This sum would equal or exceed the overseas development assistance-funded budget support to the entire Region. See *Improving Aid Effectiveness*, Draft OECD-DAC Overview Note, July 2004.

IV. ENGAGING FURTHER IN FINANCIAL MANAGEMENT AND PILOTING IN ENVIRONMENTAL AND SOCIAL SAFEGUARDS

43. The previous section raised issues of policy, methodology for assessing country systems, implementation, accountability, and costs that the Bank would need to address when expanding the use of country systems. This section describes a program to explore these issues further over two years, with the possibility of proposing to the Board that the duration of the program be extended as needed to derive robust lessons from the experience.⁵⁹

44. *Objectives and Scope.* The most important objective of the program is to improve overall understanding of implementation issues—for example, opportunities, constraints, risks, and resource requirements for both borrowers and the Bank—related to greater use of country systems. The emphasis is different across the three policy areas, consistent with the present state of knowledge and experience.

A. Financial Management Structured Learning

45. As noted earlier, the Bank has in place an enabling policy framework for the use of country systems in financial management. In several operations, including SWAps, the use of country systems is increasingly a part of regular business, and as such it will continue to expand over the near future.⁶⁰ The program for financial management will aim to deepen understanding of implementation issues relatively quickly, and to intensify cross-Regional learning. It will consist of more structured work on approximately five countries to better understand how to (a) scale up beyond PIUs to systems as a whole; (b) refine diagnostic methodologies and tools for this purpose; (c) exploit synergies in diagnosis and systems building with fiduciary efforts in areas such as procurement and public financial management; and (d) update guidance to staff. Countries such as the following could be involved in this program:

- *Morocco.* The lending program for the next three years has been used as the starting point to identify the implementing institutions expected to be involved in the program. An effort will then be made to identify those on which the Bank has adequate information and can make a determination on adequacy of systems vis-à-vis those for which further diagnostic work is required in order to make such a determination, as well as to identify any strengthening needed.

⁵⁹ The work on procurement, including details on the design and application of the baseline and performance indicators described in para. 27, is explored in a paper that Management has prepared for discussion by Executive Directors. That paper discusses further use of country systems for NCB, expansion of the approach to ICB and international selection of consultants, and the implementation issues involved. Building on Table 2, it also proposes a framework for pilots on assessing equivalence in ICB and international selection of consultants on the basis of objectives and operational principles.

⁶⁰ For example, as part of such ongoing business, the talks about the possibility of SWAps for particular EU8 countries, relying on assessments of the financial management and procurement systems for the institutions concerned, see *Framework for World Bank Support to the European Union (EU) New Member Countries of Central and Eastern Europe* (SecM2004-0283), May 28, 2004, especially Section IV, p. 13-16.

- **Brazil.** The Bank's entire current portfolio is under review to determine which operations should be using country systems (in areas that prior Bank diagnostic work has confirmed as adequate).
- **Mexico.** A stocktaking of performance information from completed diagnostic work is under way to determine how this should affect both the current portfolio and future operations and to identify any gaps in information and capacity strengthening. Performance indicators would then be designed to measure progress in weak areas.
- **Jamaica.** The World Bank and the Inter-American Development Bank, in collaboration with other donor partners, are jointly conducting a Country Fiduciary Assessment. This diagnostic work is intended to help define a roadmap for further harmonization and alignment of donor procedures around a strengthened public financial management system, but it will also be targeted at areas and sectors in which the use of country systems is more likely to be feasible in the near term.

B. Piloting the Use of Country Safeguard Systems

46. For environmental and social safeguards, the issues to be piloted touch on policy, methodology, implementation, accountability, and costs. The pilot program for safeguards would focus on systems at the national, subnational, sectoral, or project level, appropriate to the investment being considered.⁶¹ Once the Bank assesses the borrower's relevant environmental and social safeguard systems and finds them equivalent to Table 1, and assesses the borrower's implementation practices, track record, and capacity and finds them acceptable, the processing of individual projects for the country or sector could proceed.

47. **Policy.** Since the Bank's existing policy framework does not address the use of country environmental and social safeguard systems, and staff need clear and specific guidance, Management has prepared a new policy statement to govern the use of borrower environmental and social safeguard policies, procedures, and practices in Bank-supported pilot activities. (A revised draft of OP/BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*, is provided for information as Annexes A and B of this paper.)⁶² The Bank's existing safeguard policies would continue to apply to all projects that are not part of the pilot program. Country systems (supplemented where necessary by formally specified measures) that, in the judgment of Bank Management, meet the objectives and satisfy the operational principles in Table 1 would apply to the specific sector or individual operation. These systems and any measures to address gaps would be described in project documentation and reflected in the legal agreement. To ensure transparency, the Bank would disclose the assessment underlying the decision to use country systems before project appraisal.

⁶¹ Because safeguard policies vary in their technical and process requirements and in value-driven elements, and because a country's capacity typically varies in individual safeguard areas, the most pragmatic approach in practice might be to move selectively and gradually in identifying and closing gaps on a policy-by-policy basis.

⁶² If IFC cofinances a pilot project, it will require the application of the laws and regulations that are part of the country systems to the project. It will also continue to apply its set of environmental and social safeguard policies. These IFC policies have largely similar policy objectives and key processing steps to those of the Bank's environmental and social safeguards policies. The few areas of difference reflect the separate business models and client base of the two institutions. These differences are being identified and made transparent as IFC and Bank staff work together on the proposed Performance Standards.

48. **Bank Assessment.** When considering the use of country environmental and social safeguard systems, the Bank would undertake a safeguard diagnostic review as an element of CEA/CSA, a freestanding study, or project preparatory work. The exercise would involve structured reviews of the relevant country laws, regulations, rules, and procedures by Bank staff with appropriate policy, environmental, social, and legal expertise in order to assess whether the country system is designed to achieve the objectives and adhere to the operational principles set out in Table 1. To assess the acceptability of country systems, the Bank would go beyond the statements of the applicable country laws, regulations, rules, and procedures to examine also—and give considerable weight to—the implementation practices, track record, and capacity of relevant country institutions, and the risk environment. Because the assessment of equivalence would be undertaken on a policy-by-policy basis, the finding could be that the country systems are suitable for use in only a few safeguard areas under a specific pilot project. To fully operationalize this approach, over the course of the pilot program the Bank would develop indicators to help staff determine when the objectives and operational principles set out in Table 1 have been satisfied, and when implementation performance is acceptable. These indicators would be refined to reflect experience and would be discussed with the Board as part of reporting on the pilot program.

49. **Bank Responsibilities for Assessment.** Under current practice, diagnostic work by the Bank increasingly involves partnerships with a variety of development agencies, institutions, and government counterparts. For example, preliminary data indicate that about 20 percent of FY04 ESW deliveries at the World Bank were done jointly with other development agencies.⁶³ In all these cases, however, the Bank's use of these products is based on its own judgment about the quality of the analysis and the conclusions reached. During the consultation on the use of country systems approach, several multilateral and bilateral agencies expressed a strong interest in collaborating in the diagnostic work associated with piloting the use of country safeguard systems in specific cases, and Bank staff strongly welcomed such partnerships. The Bank also clarified during the consultation that diagnostic work would be done in cooperation with governments and clients. However, the Bank would remain responsible for the judgments it makes and for the basis for those judgments. In addition, as for any Bank-financed operation, when country systems are used the Bank would retain responsibility for due diligence, including project appraisal, supervision, and safeguard clearances. Likewise, the use of country systems would not alter the role of the Inspection Panel, Operations Evaluation Department, or Quality Assurance Group, or institutional obligations under the Bank's Disclosure Policy.

50. **Borrower Role and Obligations.** The borrower would identify the elements of the country system and would discuss with the Bank any additional actions, identified during the Bank's assessment, that would be necessary to meet the requirements of Table 1. These actions could vary from project to project, depending on such factors as the structure of the country's system and the type of operation. In all cases these actions would become part of the borrower's contractual obligations to the Bank, recorded in the legal agreement and subject to the Bank's normal contractual remedies (e.g., suspension of disbursements). When the borrower is obliged to carry out the project in accordance with specific laws, regulations, rules, or procedures, the

⁶³ These results are derived from a statistically representative sample survey of FY04 ESW deliveries at the World Bank. See *Note on World Bank Activities in Harmonization and Alignment, and Harmonization, Alignment, Results: Report on Progress, Challenges, and Opportunities* (R2005-0025), February 4, 2005.

legal agreement would specify that the Bank’s contractual remedies would apply if the laws, regulations, rules or procedures were changed in a manner inconsistent with the agreed legal framework. Thus, while the new OP/BP would govern staff and Management, borrowers (as in all Bank projects) would be bound by the terms of the legal agreements they enter into with the Bank. For each pilot operation, the Bank’s legal agreements would incorporate those elements of the country system necessary to satisfy the applicable safeguard objectives and operational principles set out in Table 1.

51. ***Changes in Borrower Systems and Bank Remedies.*** If during project implementation the borrower amends applicable national laws but they continue to satisfy the policy framework for the pilots, the Bank and the borrower could agree to amend the legal agreements to reflect these changes. As noted in para. 50 above, if the country system were changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank’s contractual remedies would apply. If the Bank determined that, notwithstanding equivalence of borrower systems and continued acceptability of borrower implementation practices, track record, and capacity and full borrower compliance with the provisions of the legal agreement, the agreed borrower systems or their implementation were not achieving the objectives set forth in Table 1, it would discuss with the borrower, as part of Bank-country dialogue, the implementation of additional measures (beyond the pilot project) to meet those objectives.

52. ***Inspection Panel Review.*** If Executive Directors approve the policy framework for the safeguard pilot program, the environmental and social safeguard pilot operations would be subject to the relevant provisions of the new OP and BP rather than the provisions of the original safeguard OPs/BPs from which the objectives and operational principles in Table 1 were extracted. In the event of a request for an Inspection Panel investigation in respect of an environmental and social safeguard pilot operation, the Bank’s compliance with its operational policies and procedures would be subject to Inspection Panel review to determine:

- whether, with respect to the design and appraisal of the operation, the Bank correctly assessed that the borrower’s laws, regulations, rules, and procedures (as supplemented where necessary by specified measures) comply with the new OP/BP applicable to the pilot;
- whether the Bank had supervised the operation to ensure that it is being implemented in accordance with the new OP/BP; and
- whether the Bank had failed to comply with other applicable Bank operational policies or procedures that are not affected by the new OP/BP.

C. Selection, Management, and Board Information on Safeguard Pilots

53. A provisional list of environmental and social safeguard pilots has been proposed by the Regions and agreed with OPCS in conjunction with the relevant central/sectoral units—the Quality Assurance and Compliance Unit (QACU) in the Environmentally and Socially Sustainable Development (ESSD), and the ESSD and International Law Practice Group. These units would also provide broad corporate oversight of the development, implementation, supervision, and evaluation of the pilot operations and help coordinate central technical support.

54. ***Selection Criteria.*** In choosing pilots, Management is guided by the key considerations presented below. In addition, the selection of pilots will be influenced by opportunities to work with other development partners, including multilateral and bilateral development agencies.

- ***Country interest and ownership.*** Given the intensity of engagement expected of the borrower, government commitment is critical to an operation that will use country systems.
- ***System quality, performance, and level of risk.*** It would be prudent to gain experience in countries and sectors where the Bank, borrower, or implementing agency concerned has relevant experience in successfully managing the risks involved. Country capacity, quality of systems, and implementation track record in the areas of interest are therefore critical considerations. It is assumed that few cases would involve projects that the Bank would consider to be in environmental assessment Category A or with significant social risks; Management would inform the Board, through the annual progress report, of any potential demand from eligible borrowers that warranted changing this assumption.
- ***Knowledge base and learning opportunities.*** Assessing the equivalence of country systems and acceptability of borrower implementation practices, track record, and capacity would require detailed knowledge of the country's policies and processes as well as familiarity with its implementation track record. Therefore, the availability of preparatory diagnosis addressing such issues, and the Bank's understanding of the functioning of the institutions involved, are important considerations. However, so too are the opportunity to learn and the willingness of other stakeholders, including development partners, to collaborate in such learning. Hence, an effort will be made to identify pilots that cover as many individual safeguard policies as is prudent, while being mindful that some safeguards (such as Environmental Assessment) are likely to have been more widely internalized by borrowers than other policies (such as Involuntary Resettlement and Indigenous Peoples) and that opportunities to pilot safeguards will be client driven.

55. ***Indicative Lending Portfolio.*** It is expected that the portfolio of proposed pilot activities will be focused on countries, institutions, and activities where there are likely to be economies of scale from undertaking a single set of analyses that could be applied in many instances—for example, in countries that follow the same or very similar policies (such as the new European Union member states), or in a country where there is a strong sectoral pipeline of projects. Because many countries have established policy frameworks and institutional capacities in environmental assessment, there is expected to be more opportunity to use country systems for this process than for social safeguards, for which systems and relevant capacities are much less likely to be consistent with the operating principles of the Bank's social safeguard policies. In order to be able to derive robust lessons for policy, assessment methodology, implementation, accountability, and costs, Management is seeking to ensure that the pilots encompass a range of country and sectoral conditions and experiences. Discussions to date indicate that the portfolio of

environmental and social safeguard pilots is likely to comprise about 14 cases over the next two years.⁶⁴

56. ***Linkage with Policies and Operations of IFC.*** IFC requires its projects to comply with national laws. A strong regulatory framework and consistent enforcement can level the playing field for business. Thus, IFC will expect projects to comply with the laws and regulations that are part of the country systems for projects it finances in countries participating in the pilot program. In addition, IFC will continue to apply its set of environmental and social safeguard policies. As a result, the private sector will benefit from strengthened overall country systems. Further, IFC believes that the country systems will complement IFC's proposed Policy and Performance Standards on Environmental and Social Sustainability. The proposed Policy and the Performance Standards affirm the obligation of private sector projects to comply with national law, or country systems, and, depending on the issues and risks, the need to exceed national law in areas that may pose risks to the environment or to people, resulting in risks to the project.⁶⁵

57. ***Board Information.*** For each planned pilot, Executive Directors would receive the CAS and/or Project Information Document (PID) in which the proposed use of country systems is signaled. The Project Appraisal Document (PAD) would discuss the basis for the decision to use country systems and would clearly state the country systems (including supplementary measures) that the Bank expects to apply to the operation. As is standard practice, the PAD would be accompanied by a Memorandum of the President (MOP) seeking Board approval of the operation.

D. Other Related Activities

58. Several sources, including governments, development partners, CSOs, and the private sector made the following suggestions for enriching learning about country safeguard systems while effectively managing risks.

- ***Diagnostic work and capacity building.*** Some development partners have expressed an interest in working with the Bank on diagnostic elements. The exercise would

⁶⁴ All pilot projects in the new EU member states (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia) and countries under consideration for EU membership would count as one pilot because these countries have ensured or are working to ensure that their fiduciary and safeguard systems are acceptable to the EU, and hence they need to satisfy common requirements. (Cyprus and Malta, which also became EU members on May 1, 2004, do not borrow from the World Bank.) See *Framework for World Bank Support to the European Union (EU) New Member Countries of Central and Eastern Europe* (SecM2004-0283), May 28, 2004, especially Section IV, p. 13-16.

⁶⁵ Concerns have been raised that the use of country systems approach and IFC's approach to environmental and social sustainability of the private sector may cause confusion in projects jointly financed by the World Bank and IFC. The overall policy objectives and key processing steps are and will remain largely the same between the two institutions. The few areas of difference are based on the separate business models and client base of the two institutions, and these differences are being identified and made transparent as IFC and Bank staff work together on the proposed Performance Standards. Staff agree that good communication of the World Bank Group's overall approach as well as close teamwork during appraisal and implementation of the joint projects are key to the success of joint projects.

provide opportunities for joint learning in areas such as diagnostic methodology for capacity assessment, indicators, and benchmarking.

- ***Parallel donor operations.*** Several development agencies are interested in the possibility of preparing and implementing pilot operations in parallel with the Bank-supported pilots that test the use of country systems. Issues to be decided include the criteria the agency would use in accessing the country’s systems and the methodology for comparing implementation experience across the two sets of pilots.
- ***“Shadow” programs.*** To help identify gaps and strengthen implementation performance, some borrowers have asked the Bank to monitor and evaluate their use of their own systems in a few operations that the Bank is not financing, which the Bank would consider to be in environmental assessment Category A. These borrowers see such a “shadow” program as an opportunity to subject their safeguard practices and impacts to a rigorous assessment based on the objectives and principles in Table 1 and, if appropriate, to benefit from heightened attention by the Bank and other development partners to operational learning and capacity building.
- ***Small island country initiative.*** As part of a proposal for supporting small island countries through an “umbrella” approach involving one sector in several small countries or several sectors within one small country, the Bank would assess the central arrangements and applicable safeguard systems, and then monitor these operations through normal project supervision procedures. For the sake of simplicity, the umbrella approach would include only projects that the Bank would consider to be in environmental assessment Categories B and C, and not Category A. A negative list of potentially environmentally damaging projects would also be included.
- ***Complementary regional initiatives.*** The Bank would explore potential opportunities to work with partners such as the European Commission to develop approaches that will allow the provisions of the draft OP/BP 4.00 as well as those of the partners to be fulfilled at both the policy and implementation level.

E. Support, Feedback, and Adaptation

59. Giving high priority to the structured learning program for country financial management systems and the pilot program for country environmental and social safeguard systems, OPCS will collaborate with the relevant Sector Board and the Legal Vice Presidency to provide technical support to country teams and reduce the cost of this work to them and to clients. Such involvement could also help to alleviate any apparent conflict of interest in assessing and recommending the use of country systems during the pilot program. For the environmental and social safeguard pilot, in particular, the following paragraphs describe additional features that would support the work envisaged.

60. ***Funding Incremental Costs.*** During the consultation process, various commentators, including staff and representatives of CSOs, sought reassurance that the Bank would fund the incremental costs of piloting the use of country safeguard systems, since such costs could become a constraint to preparing and supervising the planned pilots. As para. 10 pointed out, the

Bank is responding to the findings of QAG and OED with efforts to improve the overall supervision of Bank projects and to allocate additional resources to higher-risk operations. For purposes of supervision funding, the pilot projects will be treated as if they are higher-risk operations, and their allocations will be increased to cover estimated incremental supervision costs, on the basis of inputs from and discussions with the Regions. Management will also provide additional funds for diagnostic work after discussions with the Regions and agreement on specific proposed pilots.

61. ***Interactive Processes.*** The process of developing the use of country safeguard systems approach over the last 10 months has been highly interactive, involving intensive discussions among Management and the Board; staff from OPCS, ESSD, LEG, and the Regions (including country offices); and colleagues from borrower institutions, development agencies, the private sector, and CSOs that focus on advocacy and implementation. These interactions have been useful in generating ideas, clarifying issues, communicating concerns, identifying risks, and exploring options. Several participants have asked the Bank to facilitate continued interaction during the pilot period, particularly with a view to promoting learning from experience and adapting interventions accordingly. Clearly, there is merit in this idea: it would offer opportunities to focus on specific pilot operations and to foster cross-fertilization among sectors and countries. In addition, OPCS will work with SECBO to arrange meetings approximately every six months (or as warranted) between Executive Directors' offices and OPCS, ESSD, and LEG to discuss the overall progress of the pilot work.

62. ***Learning.*** A logical extension of the role of OPCS, ESSD, and LEG would be to facilitate staff and client learning through such means as peer exchanges, joint learning exercises, and advanced operational learning opportunities.⁶⁶ The Bank will use the country systems website as a forum for information exchange, peer learning, reporting on progress, and communicating with external stakeholders on the pilot program as it is implemented. The Bank would also encourage borrowing institutions to obtain the input of key stakeholders as they develop pilot activities, using methods and arrangements that each borrower finds appropriate.

F. Monitoring and Evaluation of the Pilot Program

63. The monitoring and evaluation of the pilots, individually and as a group, would focus on whether the country and the Bank successfully achieve the objectives of using country systems (consistent with the considerations in Section II) and would be integrated into relevant portfolio supervision cycles.

64. ***Evaluation of Individual Pilots.*** As part of supervision,⁶⁷ the task team would examine whether progress toward achieving development objectives was satisfactory; whether

⁶⁶ In 2004 the Fiduciary Forum included participants from several development agencies. Among the Bank's advanced operational learning opportunities are the Seminar on Frontiers in Bank Operations, where discussions have already taken place (during the June 2004 offering) on the recent SWAps in Bangladesh, India, and Poland, and on the Decentralized Infrastructure Reform project in Mexico. Bank core operational training will also progressively introduce modules on the use of country systems, and over time this will become an integral part of the progressive learning plan for Bank staff laid out in the Operational Learning Roadmap.

⁶⁷ Management has examined the existing ISR report and determined that, with some modifications, it should be able to capture information relevant to evaluating the use of country systems elements of individual projects and the overall pilot program.

implementation consistently complied with the objectives and operational principles laid out in the agreed policy framework; whether implementation performance was significantly different from that of comparable Bank-supported activities that did not rely on country systems; and whether monitoring and supervision protocols were appropriate. The basis for evaluating performance would be the objectives and operational principles used to determine equivalence of country systems and Bank requirements, and the Bank's assessment of the acceptability of the borrower's implementation practices, track record, and institutional capacity. The evaluation would be aided by the performance indicators associated with these objectives and principles, which are being developed as part of the ongoing work program.

65. ***Review and Evaluation of the Overall Pilot Program.*** OPCS would report to the Board on experience, client feedback, and early lessons after the first year of implementation. At that point implementation experience would be limited, so the focus of that review is likely to be the lessons on diagnostic methodology and modalities. Another review of the whole program would be conducted after two years of implementation.⁶⁸ This review would examine the aggregate performance of all the pilot projects vis-à-vis their development objectives, implementation quality, compliance with applicable operational framework, and achievement of the objectives of using country systems. Going beyond the level of the individual project, the aim would be to answer such questions as the following:

- Can the use of country systems help to achieve the objectives of Bank policy? In which areas?
- What gap filling is needed?
- What are the key factors to monitor during supervision?
- How can the use of country systems best be facilitated and mainstreamed?
- How can spillover effects (such as the use of enhanced country systems or policy frameworks to govern other government expenditures) be best ensured?
- What are the resource implications for the Bank and the borrower?

Further details on Management's preliminary ideas for monitoring and evaluating the pilot program are provided in Annex C. The report after the first year would also provide an opportunity for Management to discuss any changes to the pilot program that might be warranted on the basis of experience (including feedback from borrowers.)

66. ***Independent Perspectives.*** Drawing on a broad range of experiences in using independent reviewers, Management proposes to invite a team of three or four external international expert practitioners to advise and assist OPCS, ESSD, and LEG in designing and conducting the first- and second-year reviews. The team will be constituted early during the

⁶⁸ While acknowledging that two years may be too short a period to observe the development impact or results on the ground, Management expects, at a minimum, to be able to monitor gap filling as well as progress toward achievement of the intermediate outcome indicators listed in the ISR report. As noted earlier, Management would propose to the Board that the program be extended if warranted.

pilot period so that its advice can guide the determination of baselines and refinement of evaluation questions and methodology. Its perspectives will be shared with the Executive Directors.

67. ***Implications for Bank Operational Policy.*** The 2002 CODE safeguards paper laid out Management’s plans to pilot the use of country systems as a potential input in determining whether the use of country systems would warrant a change in Bank environmental and social safeguard policy. It is expected that the lessons derived from the pilot program, including the application of the new OP/BP for the safeguard pilots, would feed into the evolution of Bank policy, including work to achieve consistency across the suite of environmental and social safeguard policies (which would continue to apply to investment operations that are not included in the pilot program.)⁶⁹

68. ***Operational Implications.*** The experience from the pilots would enable Management to better understand the implications of the use of country systems for costs, skills, and the way the Bank does business.⁷⁰ The program is expected to provide data on the incremental resource implications (in terms of time and human and financial resource requirements) and enable an understanding of exactly what is involved at each stage of the process (e.g., diagnostic work, project design, appraisal, supervision, and monitoring and self-evaluation). In addition, the pilots would provide information on the demands on and transaction costs to borrowers—what the incremental financial and human resource costs of project preparation are, and whether borrowers feel that the benefits of using country systems outweigh the costs. With this information Management would be better able to budget and plan for mainstreaming the approach should the Board consider it appropriate to do so.

V. BENEFITS, RISKS, AND RISK MANAGEMENT

69. There is broad agreement—among member governments, development partners, civil society organizations, and the private sector—that the use of country systems approach has the potential to generate significant development benefits. There is also broad agreement that the associated risks can and must be managed proactively and well.

70. ***Anticipated Benefits.*** The use of country systems is anticipated to result in substantial benefits to not only the country, but also to the Bank and other development partners. These benefits are permanent in nature whereas the costs of using country systems are in the nature of start-up investments. These benefits include: (a) economies of scale resulting from the ability to rely upon completed analyses of equivalence and acceptability in future projects carried out in the country and/or sector; (b) reduced transaction costs from donor support being harmonized around country systems; (c) greater and more sustainable developmental impact through

⁶⁹ See *Safeguard Policies: Framework for Improving Development Effectiveness*, October 7, 2002, especially Section III, A.

⁷⁰ It is conceivable that a successful pilot program would have staffing implications: the Bank might need to acquire staff with skills in integrating diagnostic work, providing development support, conducting fiduciary oversight, supporting capacity building, and focusing on results.

increased ownership, strengthened country institutions, and, thus, enhanced accountability of all parties; and (d) encouragement of private sector development.

71. **Potential Risks.** Using country systems poses potential reputational and other risks for the World Bank: (a) perceived weakening of safeguard or fiduciary policies with a deviation from agreed Bank policies; (b) the possibility that objectives will not be realized and that impact will be less than if regular Bank policies had been used; and (c) initial high costs unmatched by assured long-term benefits. For borrowers, there are also risks associated with higher up-front costs, heightened public scrutiny, and unexpected delays. Overall, these risks are particularly acute in the environmental and social safeguard areas, where Bank policies have been developed over many years of global dialogue, public consultation, and delicate consensus building. Collectively, these risks could discourage both staff and borrowers from initiating country systems pilot projects.

72. **Overall Approach.** Management's overall approach to manage the risks associated with the use of country systems in the most sensitive areas (safeguards and, to a lesser extent, procurement) is to build on experience and proceed pragmatically and cautiously through pilots. At the project level, Management intends to use the following key risk mitigation measures as needed: (a) clear communication to staff on objectives and strategy; (b) proactive external outreach (including public disclosure) and communication with key stakeholders; (c) strong central and Regional technical and managerial support to project teams during preparation and implementation; (d) enhanced supervision on the basis of country need and risks; (e) close central monitoring of the entire pilot program; and (f) recourse to the Bank's contractual remedies in case of borrower non-compliance with the legal framework agreed with the Bank.

73. **Perceived Weakening of Bank Safeguards Policies.** The pilot program is designed to ensure that Bank policy objectives and operational principles are maintained while the use of country systems approach is being tested. The program will do this by maintaining the Bank's responsibility for upstream analysis of country systems and ensuring the use of objective and transparent criteria in assessing the equivalence of country systems and the acceptability of borrower implementation practices, track record, and capacity. Management has implemented a proactive communications strategy to inform and solicit input from external stakeholders about the proposed policy framework for governing the pilot program to help ensure its consistency with the objectives and operational principles of the existing Bank safeguard policies. On October 8, 2004, a draft version of this paper was posted on the Bank's external website for public comment. In addition, between November 2004 and January 2005 a series of face-to-face discussions and videoconferences were held with borrowers, development partners, CSOs, technical bodies, and the private sector to actively consult and solicit feedback on the approach.⁷¹ The pilot program will involve documentation and timely disclosure of the results of the upstream analysis for each pilot project, enhanced supervision, and arrangements for gathering and reflecting the lessons of implementation experience. Other features of the pilot program will also serve to minimize this risk: pilots will be considered in countries that have, or are in the process of developing, an appropriate legal framework, institutional capacity, and implementation track record, and where, in the Bank's judgment, the risks associated with such an approach are manageable. In addition, project supervision will monitor the achievement of

⁷¹ See www.worldbank.org/countrysystems for details.

intermediate output-based performance targets (linked to the objectives and operational principles of the applicable Bank policies) agreed with the borrower.

74. ***Unrealized Impact.*** This risk can be relevant to individual country pilots as well as to the pilot program as a whole. Management will ensure that task teams are able to draw on technical support from the Regions and the center to assist them in designing, preparing, and supervising the pilots, including arrangements for monitoring and evaluating performance. Progress will be tracked and adjustments made as necessary during supervision. It is also possible that the objectives of the pilot program may not be realized because of the limited duration of the program: adequate progress toward achieving the development objectives of individual projects and the broader objectives of using country systems may not occur in two years. Management will attempt to choose from among the pilots proposed by Regions those that are likely to address the key issues that using country systems raises for clients and the Bank. If progress is limited, Management could consider proposing an extension of the pilot period to gain the experience intended.

75. ***Lower Outcomes.*** There is a risk that the use of country systems (including the application of the new OP/BP as the governing policy and procedures for the safeguard pilots) will lead to poorer outcomes in the pilots than would have resulted if country systems were not used in these operations. Since development outcomes are the result of a complex interaction of numerous factors, many of which are outside the control of the borrower and/or Bank, the Bank routinely faces the risk of not achieving foreseen outcomes from its operations. To the extent that this risk is heightened because of the use of “equivalent” country systems with “acceptable” implementation practices, it will be mitigated by monitoring the achievement of agreed intermediate output-based performance targets, which will provide an early indication of whether the desired development impact might not be achieved. This will allow the Bank to consult the borrower and make appropriate adjustments to the operation, including applying contractual remedies if necessary. Since the pilot program is also a ‘learning by doing’ exercise, a measure of success will be the ability to draw robust lessons—both positive and negative—from the program.

76. ***High Costs.*** Experience indicates that using country systems will require additional analytic and diagnostic work to determine whether applicable country rules and regulations can satisfy the objectives of Bank policy and whether they are likely to be applied effectively during project implementation. This work will bring incremental costs (including costs associated with accessing legislation and regulations in national or local languages) and intensified engagement with borrowers (and possibly other development agencies). Senior Management will ensure that appropriate resources are available for such upstream pilot work and for downstream supervision. Over time, though, it should be possible to prepare repeater or successor projects in the sector/country more quickly and efficiently, since a large part of the necessary analytic work would have been completed, and any improvements that result from the pilot can be quickly scaled up to affect an entire sector or country. Additional preparatory costs to the Bank should also be offset, at least in part, by the reduction in the costs to the government of establishing and maintaining parallel systems for ring-fenced projects.

77. ***Risk Aversion.*** Managers and staff could be averse to participating in the pilots because (a) their activities are likely to attract intense public scrutiny (especially when piloting

safeguards); (b) the technical guidance available from Sector Boards is likely to include aspects that are tentative because learning is still taking place; and (c) there are time and administrative costs associated with dealing with additional reviews, consultations with external stakeholders, and so on. This could be a significant risk for safeguard pilots. However, by explicitly focusing on countries that demonstrate commitment to exploring the approach and offer scope for leveraging preparatory analysis, and by agreeing on realistic delivery schedules, Management expects to be able to encourage staff to rise to the challenge of piloting; and it will support and reward such highly committed teams. By working with development partners who are strongly interested in piloting country systems within their respective programs the Bank may also be able to mitigate risk aversion by its own staff. To avoid a proliferation of intervention points, Management intends to work through existing processes—such as Regional Operations Committee and Operations Committee reviews of CASs and projects, and quality-at-entry and quality enhancement reviews—rather than create new ones. It is anticipated that borrowers will be interested in using their own systems because of the potential benefits of doing so.

VI. CONCLUSIONS AND RECOMMENDATIONS

78. Experience strongly suggests that the use of country systems offers an opportunity for clients, the Bank, and the development community more broadly to reignite interest in and efforts to improve countries' institutions, and thus to increase the impact of development spending. The approach can help scale up development results and scale back financial and nonfinancial costs for clients and development agencies (including the Bank). In responding to the request of Executive Directors for more information on the use of country systems approach, this paper has identified issues pertaining to policy, assessment methodology and tools, implementation, accountability, and cost. It has explained how a carefully managed and transparent pilot program would help to better understand the ways in which these issues might manifest themselves in practice, and the ways they might be addressed. It notes that an enabling policy framework for the use of country systems is in place for financial management and NCB procurement, but that further work is needed in other areas. At the same time, there are practical implementation aspects that the Bank will be able to address only as it gains further experience in using country systems and about which it will remain open and flexible.

79. **Recommendations.** In order to refine the Bank's understanding of policy and implementation issues relevant to the use of country environmental and social safeguard systems, Management proposes to conduct a two-year program of activities in which it would pilot the use of borrower environmental and social safeguard systems in operations funded by the Bank. Management also proposes that these operations be governed by the new OP/BP 4.00. The portfolio of safeguard pilot operations would include about 14 investment lending cases (including SWAs) in a range of countries—for example, Bhutan, China, Croatia, Ghana, Jamaica, and Tunisia—and sectors such as health, municipal services, transport, and rural water and sanitation. The key elements of the proposed policy framework are as follows:

- **Equivalence and Acceptability.** The Bank would consider a borrower country's environmental and social safeguard system to be equivalent to the Bank's if the borrower's system is designed to achieve the objectives and adhere to the applicable

operational principles set out in Table 1. Since equivalence would be determined on a policy-by-policy basis, the Bank may conclude that the borrower's system is equivalent to the Bank's in specific environmental or social safeguard areas in particular pilot projects, and not in other such areas. Before deciding on the use of borrower systems, the Bank would also assess the acceptability of the borrower's implementation practices, track record, and capacity.

- **Addressing Gaps.** If the borrower has to fill gaps in its system to meet the objectives and applicable principles in Table 1 and is committed to doing so, the Bank may, when determining equivalence, take account of measures to improve the borrower's system. Similarly, if the borrower has to fill gaps in implementation practices and capacity to achieve acceptability and is committed to doing so, the Bank may, when determining acceptability, take account of measures to strengthen borrower implementation practices and capacity. Such measures would need to be carried out before the borrower undertakes implementation of the relevant project activities.
- **Borrower Role and Obligations.** The borrower would be responsible for achieving and maintaining equivalence as well as acceptable implementation practices, track record, and capacity, in accordance with the Bank's assessment. For each project, the borrower would identify the provisions of the country system necessary to achieve equivalence, which could vary from project to project, depending on such factors as the structure of the country's system and the type of operation. In all cases, the specific provisions of the country system and any additional actions that the borrower would need to undertake to achieve and maintain equivalence and acceptable implementation would become part of the borrower's contractual obligations to the Bank, subject to the Bank's normal contractual remedies.
- **Bank Responsibility and Accountability.** The Bank would be responsible for determining the equivalence and acceptability of borrower systems, and for appraising and supervising pilot projects that use these systems. The Bank would carry out its responsibility, including supervision of country implementation practices, track record, and capacity, in a manner proportional to potential impacts and risks. The use of country systems would not alter the role of the Inspection Panel, Operations Evaluation Department, or Quality Assurance Group, or institutional obligations under the Bank's disclosure policy.
- **Changes in Borrower Systems and Bank Remedies.** If, during project implementation, there are changes in applicable legislation, regulations, rules, or procedures, staff would assess the effect of those changes and discuss them with the borrower. If the country system were changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank's contractual remedies would apply.
- **Disclosure.** The process of disclosure would begin at the PID stage, when information on the intent to use country systems in a proposed pilot operation would be made publicly available early in the project cycle and updated as project development proceeds. At a later stage, but prior to beginning appraisal, the Bank would make publicly available its analysis of equivalence and of the acceptability of

borrower implementation practices, track record, and capacity. In addition, the Bank would ensure that relevant project-related environmental and social safeguard documents (see Table 1) are disclosed in a timely manner to key stakeholders in an accessible place and understandable form and language before project appraisal formally begins.

80. ***Effectiveness.*** If the Executive Directors approve the proposed pilot program and policy framework laid out in this paper, Management will issue OP/BP 4.00, *Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects*, as the governing policy and procedures for piloting the use of country safeguard systems. Interim guidance to staff on using country environmental and social safeguard systems, which is being prepared, will be issued to staff, and the pilot program for testing the use of country safeguard systems will be launched. OP/BP 4.00 will go into effect for all projects piloting the use of country environmental and social safeguard systems that are submitted for approval on or after March 21, 2005.

81. ***External Scrutiny and Communications.*** Management intends to use the Bank's external website (www.worldbank.org/countrysystems) that was set up for public comment from October 8, 2004, to January 21, 2005, as a forum for information exchange, peer learning, reporting on progress, and communicating with external stakeholders on the pilot program as it is implemented.

82. ***Future Reporting to the Board.*** Management will formally report to the Board on experience, client feedback, and early lessons after the first year of implementation of the pilots and will review and evaluate the overall program after two years of implementation. It will also schedule informal briefings on the progress in implementation of the pilot program for Executive Directors' Advisors approximately every six months or as warranted. Drawing on a broad range of experiences in using independent reviewers, Management proposes to invite a team of three to four external international expert practitioners to advise and assist OPCS, ESSD, and LEG in designing and conducting the first- and second-year reviews. Their perspectives will be shared with the Executive Directors. On the basis of the evaluation findings, management will recommend that the Board approve mainstreaming the use of country systems, offer another policy approach for Board consideration, or suggest other steps.



THE WORLD BANK OPERATIONAL MANUAL
Operational Policies

Draft
 OP 4.00
 March 21, 2005

These policies were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects

Note: OP and BP 4.00 apply to Bank-supported projects that pilot the use of borrower systems to address environmental and social safeguard issues and that are approved by the Board as part of the pilot program on or after March 21, 2005.

1. The Bank's¹ environmental and social (“safeguard”) policies² are designed to avoid, mitigate, or minimize adverse environmental and social impacts of projects supported by the Bank. The Bank encourages its borrowing member countries to adopt and implement systems³ that meet these objectives while ensuring that development resources are used transparently and efficiently to achieve desired outcomes. To encourage the development and effective application of such systems and thereby focus on building borrower capacity beyond individual project settings, the Bank is piloting the use of borrower systems in Bank-supported projects. The key objective of the pilot program is to improve overall understanding of implementation issues related to greater use of country systems.

2. ***Equivalence and Acceptability.*** The Bank considers a borrower's environmental and social safeguard system to be equivalent to the Bank's if the borrower's system is designed to achieve the objectives and adhere to the applicable operational principles set out in Table A1. Since equivalence is determined on a policy-by-policy basis, the Bank may conclude that the borrower's system is equivalent to the Bank's in specific environmental or social safeguard areas in particular pilot projects, and not in other such areas. Before deciding on the use of borrower systems, the Bank also assesses the acceptability of the borrower's implementation practices, track record, and capacity.⁴

¹ “Bank” includes IDA; “loan” includes credit and grant; and “borrower” includes grant recipient.

² The Bank's environmental and social safeguards policies and procedures are: OP/BP 4.01, *Environmental Assessment*; OP/BP 4.04, *Natural Habitats*; OP 4.09, *Pest Management*; OP/BP 4.12, *Involuntary Resettlement*; OD 4.20, *Indigenous Peoples*; OP 4.36, *Forests*; OPN 11.03, *Cultural Property*; and OP/BP 4.37, *Safety of Dams*.

³ When used in this policy statement “country systems” means a country's legal and institutional framework, consisting of its national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules, and procedures.

⁴ As the applicable statement for the pilots, this OP and BP will apply only to those areas where the Bank has determined equivalence. The Bank's environmental and social safeguard policies will apply to the areas which the Bank has determined not to be equivalent to its applicable policy framework and will continue to apply to all projects that are not part of the pilot program. Pilot projects will be subject to all other applicable policies and procedures.

3. **Addressing Gaps.** If the borrower has to fill gaps in its system to meet the objectives and applicable principles in Table A1 and is committed to doing so, the Bank may, when determining equivalence take account of measures to improve the borrower's system. Similarly if the borrower has to fill gaps in implementation practices and capacity to achieve acceptability and is committed to doing so, the Bank may, when determining acceptability, take account of measures to strengthen borrower implementation practices and capacity. Such measures are to be carried out before the borrower undertakes implementation of the relevant project activities, and may include Bank-supported efforts to strengthen relevant capacity, incentives and methods for implementation.

4. **Borrower Role and Obligations.** The borrower is responsible for achieving and maintaining equivalence as well as acceptable implementation practices, track record, and capacity, in accordance with the Bank's assessment. For each project, the borrower identifies those provisions of the country system that are necessary to ensure that the requirements of Table A1 are met. These provisions may vary from project to project, depending on such factors as the structure of the country's system and the type of operation. In all cases, the specific provisions of the country system and any additional actions that the borrower needs to undertake to achieve and maintain equivalence and acceptable implementation become part of the borrower's contractual obligations to the Bank, subject to the Bank's normal contractual remedies (e.g., suspension of disbursements).

5. **Bank Responsibility.** The Bank is responsible for determining the equivalence and acceptability of borrower systems, and for appraising and supervising pilot projects that use these systems. The Bank carries out its responsibility, including supervision⁵ of borrower implementation practices, track record, and capacity, in a manner proportional to potential impacts and risks. The Bank may explore with the borrower (and, as appropriate, third-parties) the feasibility of arrangements to strengthen ownership and country capacity to implement specific operational principles in Table A1. Without limitation to its responsibility under this paragraph, the Bank may also explore with the borrower (and, as appropriate, third-parties) the feasibility of establishing alternative monitoring arrangements for overseeing the implementation of the project.

6. **Changes in Borrower Systems and Bank Remedies.** If, during project implementation, there are changes in applicable legislation, regulations, rules or procedures, the Bank assesses the effect of those changes and discusses them with the borrower. If, in the judgment of the Bank, the changes reflect a further improvement in the country systems, and if the borrower so requests, the Bank may agree to revise the legal framework applicable to the operation to reflect these improvements, and to amend the legal agreement as necessary. Management documents, explains, and justifies any changes to such framework, and submits them for Board approval (normally on an absence of objection basis). If the country system is changed in a manner inconsistent with the legal framework agreed with the Bank, the Bank's contractual remedies apply.

7. **Disclosure.** To promote transparency and facilitate accountability, the Bank makes public through the PID early in the project cycle its intent to use country systems in a proposed pilot operation. It updates this information as project development proceeds. At a later stage,

⁵ OP/BP 13.05, *Project Supervision*, applies to pilot projects.

but prior to beginning appraisal, the Bank makes publicly available its analysis of equivalence of borrower systems and Bank requirements and its assessment of the acceptability of borrower implementation practices, track record, and capacity (including a description of the applicable borrower systems and of actions that would achieve and sustain equivalence and acceptability). In addition, the Bank ensures that relevant project-related environmental and social safeguard documents (see Table A1), including the procedures prepared for projects involving subprojects, are disclosed in a timely manner before project appraisal formally begins, in an accessible place and understandable form and language to key stakeholders.

Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
A. Environmental Assessment	
<p>To help ensure the environmental and social soundness and sustainability of investment projects.</p> <p>To support integration of environmental and social aspects of projects into the decision making process.</p>	<ol style="list-style-type: none"> 1. Use a screening process for each proposed project, as early as possible, to determine the appropriate extent and type of environmental assessment (EA) so that appropriate studies are undertaken proportional to potential risks and to direct, and, as relevant, indirect, cumulative, and associated impacts. Use sectoral or regional environmental assessment when appropriate. 2. Assess potential impacts of the proposed project on physical, biological, socio-economic and physical cultural resources, including transboundary and global concerns, and potential impacts on human health and safety. 3. Assess the adequacy of the applicable legal and institutional framework, including applicable international environmental agreements, and confirm that they provide that the cooperating government does not finance project activities that would contravene such international obligations. 4. Provide for assessment of feasible investment, technical, and siting alternatives, including the “no action” alternative, potential impacts, feasibility of mitigating these impacts, their capital and recurrent costs, their suitability under local conditions, and their institutional, training and monitoring requirements associated with them. 5. Where applicable to the type of project being supported, normally apply the Pollution Prevention and Abatement Handbook (PPAH). Justify deviations when alternatives to measures set forth in the PPAH are selected. 6. Prevent and, where not possible to prevent, at least minimize, or compensate for adverse project impacts and enhance positive impacts through environmental management and planning that includes the proposed mitigation measures, monitoring, institutional capacity development and training measures, an implementation schedule, and cost estimates. 7. Involve stakeholders, including project-affected groups and local nongovernmental organizations, as early as possible, in the preparation process and ensure that their views and concerns are made known to decision makers and taken into account. Continue consultations throughout project implementation as necessary to address EA-related issues that affect them. 8. Use independent expertise in the preparation of EA where appropriate. Use independent advisory panels during preparation and implementation of projects that are highly risky or contentious or that involve serious and multi-dimensional environmental and/or social concerns. 9. Provide measures to link the environmental assessment process and findings with studies of economic, financial, institutional, social and technical analyses of a proposed project. 10. Provide for application of the principles in this Table to subprojects under investment and financial intermediary activities. 11. Disclose draft EA in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.

Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
B. Natural Habitats	
<p>To promote environmentally sustainable development by supporting the protection, conservation, maintenance, and rehabilitation of natural habitats and their functions.</p>	<ol style="list-style-type: none"> 1. Use a precautionary approach to natural resources management to ensure opportunities for environmentally sustainable development. Determine if project benefits substantially outweigh potential environmental costs. 2. Avoid significant conversion or degradation of critical natural habitats, including those habitats that are (a) legally protected, (b) officially proposed for protection, (c) identified by authoritative sources for their high conservation value, or (d) recognized as protected by traditional local communities. 3. Where projects adversely affect non-critical natural habitats, proceed only if viable alternatives are not available, and if appropriate conservation and mitigation measures, including those required to maintain ecological services they provide, are in place. Include also mitigation measures that minimize habitat loss and establish and maintain an ecologically similar protected area. 4. Whenever feasible, give preference to siting projects on lands already converted. 5. Consult key stakeholders, including local nongovernmental organizations and local communities, and involve such people in design, implementation, monitoring, and evaluation of projects, including mitigation planning. 6. Provide for the use of appropriate expertise for the design and implementation of mitigation and monitoring plans. 7. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language understandable to key stakeholders.
C. Pest Management [This text refers to Integrated Pest Management (IPM) as defined in OP 4.09].	
<p>To minimize and manage the environmental and health risks associated with pesticide use and promote and support safe, effective, and environmentally sound pest management.</p>	<ol style="list-style-type: none"> 1. Promote use of demand driven, ecologically based biological or environmental pest management practices (Integrated Pest Management [IPM] in agricultural projects and Integrated Vector Management [IVM] in public health projects) and reduce reliance on synthetic chemical pesticides. Include assessment of pest management issues, impacts and risks in the EA process. 2. Procure pesticides contingent on an assessment of the nature and degree of associated risks, taking into account the proposed use and intended users. Do not procure formulated products that are in WHO Classes IA and IB, or formulations of products in Class II unless there are restrictions that are likely to deny use or access to lay personnel and others without training or proper equipment Reference: WHO's "Recommended Classification of Pesticides by Hazard and Guidelines to Classification" (IOMC, 2000-2002). 3. Follow the recommendations and minimum standards as described in the United Nations Food and Agriculture Organization (FAO) International Code of Conduct on the Distribution and Use of Pesticides (Rome, 2003) and procure only pesticides that are manufactured, labeled, handled, stored, applied and disposed of according to acceptable standards as described in FAO Pesticide Guidelines on Storage, Labeling, and Disposal (Rome, 1985). 4. Support policy reform and institutional capacity development to (a) enhance implementation of IPM- and IVM-based pest management, and (b) regulate and monitor the distribution and use of pesticides. 5. Disclose draft mitigation plan in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
D. Involuntary Resettlement	
<p>To avoid or minimize involuntary resettlement and, where this is not feasible, to assist displaced persons in improving or at least restoring their livelihoods and standards of living in real terms relative to pre-displacement levels or to levels prevailing prior to the beginning of project implementation, whichever is higher.</p>	<ol style="list-style-type: none"> 1. Assess all viable alternative project designs to avoid, where feasible, or minimize involuntary resettlement. 2. Through census and socio-economic surveys of the affected population, identify, assess, and address the potential economic and social impacts of the project that are caused by involuntary taking of land (e.g., relocation or loss of shelter, loss of assets or access to assets, loss of income sources or means of livelihood, whether or not the affected person must move to another location) or involuntary restriction of access to legally designated parks and protected areas. 3. Identify and address impacts also if they result from other activities that are (a) directly and significantly related to the proposed project, (b) necessary to achieve its objectives, and (c) carried out or planned to be carried out contemporaneously with the project. 4. Consult project-affected persons, host communities and local nongovernmental organizations, as appropriate. Provide them opportunities to participate in the planning, implementation, and monitoring of the resettlement program, especially in the process of developing and implementing the procedures for determining eligibility for compensation benefits and development assistance (as documented in a resettlement plan), and for establishing appropriate and accessible grievance mechanisms. Pay particular attention to the needs of vulnerable groups among those displaced, especially those below the poverty line, the landless, the elderly, women and children, Indigenous Peoples, ethnic minorities, or other displaced persons who may not be protected through national land compensation legislation. 5. Inform displaced persons of their rights, consult them on options, and provide them with technically and economically feasible resettlement alternatives and needed assistance, including (a) prompt compensation at full replacement cost for loss of assets attributable to the project; (b) if there is relocation, assistance during relocation, and residential housing, or housing sites, or agricultural sites of equivalent productive potential, as required; (c) transitional support and development assistance, such as land preparation, credit facilities, training or job opportunities as required, in addition to compensation measures; (d) cash compensation for land when the impact of land acquisition on livelihoods is minor; and (e) provision of civic infrastructure and community services as required. 6. Give preference to land-based resettlement strategies for displaced persons whose livelihoods are land-based. 7. For those without formal legal rights to lands or claims to such land that could be recognized under the laws of the country, provide resettlement assistance in lieu of compensation for land to help improve or at least restore their livelihoods. 8. Disclose draft resettlement plans, including documentation of the consultation process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders. 9. Apply the principles described in the involuntary resettlement section of this Table, as applicable and relevant, to subprojects requiring land acquisition.

Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
	<p>10. Design, document, and disclose before appraisal of projects involving involuntary restriction of access to legally designated parks and protected areas, a participatory process for: (a) preparing and implementing project components; (b) establishing eligibility criteria; (c) agreeing on mitigation measures that help improve or restore livelihoods in a manner that maintains the sustainability of the park or protected area; (d) resolving conflicts; and (e) monitoring implementation.</p> <p>11. Implement all relevant resettlement plans before project completion and provide resettlement entitlements before displacement or restriction of access. For projects involving restrictions of access, impose the restrictions in accordance with the timetable in the plan of actions.</p> <p>12. Assess whether the objectives of the resettlement instrument have been achieved, upon completion of the project, taking account of the baseline conditions and the results of resettlement monitoring.</p>

E. Indigenous Peoples**(To be updated as necessary when the ongoing revision of the current policy is finalized)**

<p>To design and implement projects in such a way that Indigenous Peoples (a) receive culturally compatible social and economic benefits; and (b) do not suffer adverse effects during the development process; and that fosters full respect for their dignity, human rights, and cultural uniqueness.</p>	<ol style="list-style-type: none"> 1. Screen early for the presence of Indigenous Peoples in the project area, who are identified through criteria that reflect their social and cultural distinctiveness (self-identification and identification by others as Indigenous Peoples, collective attachment to land, presence of customary institutions, indigenous language, and primarily subsistence-oriented production). 2. Undertake meaningful consultation with affected Indigenous Peoples to solicit informed participation in designing, implementing, and monitoring measures to (a) avoid adverse impacts, or when avoidance is not feasible, minimize, mitigate, or compensate for such effects; and (b) tailor benefits in a culturally appropriate way. 3. Undertake social assessment or use similar methods to assess potential impacts and risks when a project may have adverse impacts. These studies may be used, along with other types of studies. 4. Identify measures to avoid, minimize and/or mitigate adverse impacts. 5. Provide social and economic benefits to Indigenous Peoples in ways that are culturally appropriate, and gender and generationally inclusive. Full consideration should be given to options preferred by the affected Indigenous Peoples for provision of benefits and mitigation measures. 6. Make provisions in plans, where appropriate, to support activities to establish legal recognition of customary or traditional land tenure systems used by project affected Indigenous Peoples. 7. Prepare an Indigenous Peoples development plan using qualified professionals, based on on-site studies and meetings, and drawing on indigenous knowledge. The plan normally would cover the legal framework, baseline data, and land tenure, including customary land tenure provisions for local participation, mitigation activities, and institutional capacity. It should include key actions to be taken accompanied by a monitoring and evaluation plan, implementation schedule, and estimated budget. 8. Disclose the draft Indigenous Peoples development plan, including documentation of the consultation process, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders. 9. Monitor by experienced social scientists the implementation of the Indigenous Peoples development plan.
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Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
F. Forests	
<p>To realize the potential of forests to reduce poverty in a sustainable manner, integrate forests effectively into sustainable economic development, and protect the vital local and global environmental services and values of forests.</p>	<ol style="list-style-type: none"> 1. Screen as early as possible for potential impacts on forest health and quality and on the rights and welfare of the people who depend on them. As appropriate, evaluate the prospects for new markets and marketing arrangements. 2. Do not finance projects that would involve significant conversion or degradation of critical forest areas or related critical natural habitats, or that would contravene applicable international environmental agreements. 3. Do not finance natural forest harvesting or plantation development that would involve any conversion or degradation of critical forest areas or related critical natural habitats. 4. Support projects that adversely impact non-critical natural forests or related natural habitats only if viable alternatives to the project are not available and only if appropriate conservation and mitigation measures are in place. 5. Support commercial, industrial-scale forest harvesting only when the operation is certified, under an independent forest certification system, as meeting, or having a time-bound action plan to meet, internationally recognized standards of responsible forest management and use. 6. Ensure that forest restoration projects maintain or enhance biodiversity and ecosystem functionality and that all plantation projects are environmentally appropriate, socially beneficial and economically viable. 7. Give preference to small-scale community-level management approaches where they best reduce poverty in a sustainable manner. 8. Support commercial harvesting by small-scale landholders, local communities or entities under joint forest management where monitoring with the meaningful participation of local communities demonstrates that these operations achieve a standard of forest management consistent with internationally recognized standards of responsible forest use or that they are adhering to an approved time-bound plan to meet these standards. 9. Use forest certification systems that require: (a) compliance with relevant laws; (b) recognition of, and respect for, legal or customary land tenure and use rights as well as the rights of Indigenous Peoples and workers; (c) measures to enhance sound community relations; (d) conservation of biological diversity and ecological functions; (e) measures to maintain or enhance environmentally sound multiple benefits from the forest; (f) prevention or minimization of environmental impacts; (g) effective forest management planning; (h) active monitoring and assessment of relevant forest management areas; and (i) independent, cost effective, third-party assessment of forest management performance against measurable performance standards defined at the national level and compatible with internationally accepted principles and criteria of sustainable forest management through decision making procedures that are fair, transparent, independent, designed to avoid conflict of interest and involve the meaningful participation of key stakeholders, including the private sector, Indigenous Peoples, and local communities. 10. Disclose any time-bound action plans in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.

Table A1. Environmental and Social Safeguard Policies—Policy Objectives and Operational Principles

<i>Objectives</i>	<i>Operational Principles</i>
G. Cultural Property	
(To be updated as necessary when the ongoing conversion of the current policy is completed).	
To assist in preserving physical cultural resources (PCR) and avoiding their destruction or damage. PCR includes archaeological, paleontological, historical, and sacred sites including graveyards, burial sites, and unique natural values.	<ol style="list-style-type: none"> 1. Analyze feasible project alternatives to prevent or minimize or compensate for adverse impacts and enhance positive impacts on PCR, through site selection and design. 2. If possible, avoid financing projects that significantly damage PCR. As appropriate, conduct field based surveys using qualified specialists to evaluate PCR. 3. Consult local people in documenting the presence and significance of PCR, assessing the nature and extent of potential impacts on these resources, and designing and implementing mitigation plans. 4. Provide for the use of “chance find” procedures that include a pre-approved management and conservation approach for materials that may be discovered during project implementation. 5. Define and undertake measures for strengthening institutional capacity to implement mitigation plans and to deal with impacts on PCR identified prior to and/or discovered during project implementation. 6. Disclose draft mitigation plans, in a timely manner, before appraisal formally begins, in an accessible place and in a form and language that are understandable to key stakeholders.
H. Safety of Dams	
To assure quality and safety in the design and construction of new dams and the rehabilitation of existing dams, and in carrying out activities that may be affected by an existing dam.	<ol style="list-style-type: none"> 1. Identify existing dams and dams under construction that can influence the performance of the project and implement necessary safety measures/remedial works. 2. Use experienced and competent professionals to design and supervise the construction, operation, and maintenance of dams and associated works. 3. Develop detailed plans, including for construction supervision, instrumentation, operation and maintenance and emergency preparedness. 4. Use independent advice on the verification of design, construction, and operational procedures and appoint independent panels of experts for large or high hazard dams. 5. Use contractors that are qualified and experienced to undertake planned construction activities. 6. Carry out periodic safety inspections of new/rehabilitated dams after completion of construction/rehabilitation, review/monitor implementation of detailed plans and take appropriate action as needed.



These procedures were prepared for use by World Bank staff and are not necessarily a complete treatment of the subject.

Piloting the Use of Borrower Systems to Address Environmental and Social Safeguard Issues in Bank-Supported Projects

Note: OP and BP 4.00 apply to Bank-supported projects that pilot the use of borrower systems to address environmental and social safeguard issues and that are approved by the Board as part of the pilot program on or after March 21, 2005.

1. ***Roles and Responsibilities.*** The country director, supported by the technical teams, consults with the borrower and proposes piloting the use of country safeguard systems. The country director reaches agreement on the proposal with the Operations Policy and Country Services Vice Presidency which collaborates with the relevant Sector Board, the Quality Assurance and Compliance Unit (QACU) in the Environmentally and Socially Sustainable Development (ESSD), and the ESSD and International Law Practice Group (LEGEN). OPCS, QACU, and LEGEN provide broad corporate oversight of the development, implementation, supervision, and evaluation of the pilot operations.

2. ***Assessing Equivalence and Acceptability.*** A proposal to use country safeguard systems is based on (a) upstream analysis carried out by the Bank, in cooperation with the borrower and possibly development partners,¹ as part of the ongoing country work program or as part of preparing for the Country Assistance Strategy (CAS) or for the operation itself, and (b) borrower agreement on the safeguard procedures proposed for the operation. The scope of such analysis is as follows:

- Review of the requirements—and, specifically, of their intent and application—of the national or subnational legislation, regulations, rules, and procedures the borrower has identified as relevant to the operation;²
- Assessment (e.g., through discussion with experts, field visits, or interviews, as appropriate) of borrower implementation practices, track record, and institutional capacity;
- Identification of aspects of the proposed country systems that would need to be strengthened for them to satisfy the objectives and applicable operational principles

¹ All such analysis carried out by third parties must be of appropriate quality in the Bank's judgment.

² The applicable laws and regulations are explicitly cited in the project documentation.

set out in Table A1 and of aspects of implementation that need to be improved for acceptability, and the time needed to put them in place successfully; and

- Specification of any actions the borrower is required to take to (a) achieve and maintain equivalence and (b) achieve and maintain acceptable implementation practices, track record, and capacity. Specification of whether those actions are to be taken before the implementation of relevant project activities.

The Bank's decision on the use of borrower safeguard systems is based on this analysis. The process involves Bank staff with appropriate policy, environmental, social, and legal expertise.

3. **Early Notification and Disclosure.** To the extent possible, the proposal to pilot the use of borrower environmental and social safeguard systems, together with its justification, is presented in the CAS or CAS Progress Report. If the subject is not discussed in the country's current CAS, the country director notifies Executive Directors of the proposal to use country systems by circulating to them the Project Information Document (PID)—the initial version and all substantive updates—for the first project in a sector in which such use is being considered. The PID is also made publicly available in accordance with the disclosure policy.

4. **Further Documentation and Disclosure.** Staff discuss the proposal to use country systems in the PID, Project Appraisal Document (PAD), and legal agreement.

- **PID.** Because the PID is prepared and disclosed early in the project cycle (after concept review), details on the proposal to use country systems may not be available at first. However, the PID signals and justifies the Bank's intention to use such an approach. As staff update the PID during project preparation, they elaborate on the proposal to use country systems.
- **Analysis.** The analysis of equivalence and acceptability may be undertaken as a safeguard diagnostic review, an element of CEA/CSA, a freestanding study, or project preparatory work. This analysis would include (a) the process followed in determining equivalence and acceptability, (b) the findings on equivalence and acceptability, (c) a description of the main elements of the legal framework that has been or will be applied in the project as well as any supplemental actions that the borrower needs to take to achieve and maintain equivalence and acceptability, (d) the criteria against which compliance will be judged, and (e) risks and risk mitigation measures. The analysis is disclosed in a timely manner before appraisal formally begins.
- **Environmental and Social Safeguard Documents.** As part of due diligence, the Bank confirms that these documents are acceptable to it and disclosed before appraisal formally begins.
- **PAD.** The main text of the PAD specifies which policies apply to the project. It also contains the principal findings of the upstream analysis, justifies the proposal for using country systems in the operation, clarifies any differences between Bank policy and the proposed legal framework, and indicates any actions the borrower or the Bank

must take to achieve and maintain equivalence and acceptability. An annex to the PAD provides the analysis of equivalence of the relevant borrower systems and assessment of the acceptability of borrower implementation practices, track record, and capacity as well as additional details, including (a) project supervision modalities, and (b) the arrangements for monitoring and evaluation.

- **Legal Agreement.** The legal agreement³ reflects, as appropriate, the key features of the country systems and any additional measures, as described in the PAD, that the borrower would be required to undertake during project implementation. The legal agreement sets out the remedies available to the Bank if the provisions of the agreement are not followed. Because one of the objectives of the use of country systems is to assist borrowers in improving their legal frameworks, the borrower also undertakes to inform the Bank of any developments in relevant legislation, regulations, rules, or procedures.

5. **Changes in Borrower Systems.** When the borrower is obliged to carry out the project in accordance with specific laws, regulations, rules, or procedures, the legal agreement specifies that the Bank's contractual remedies apply if the laws, regulations, rules or procedures are changed in a manner inconsistent with the agreed legal framework. If during project implementation the borrower amends applicable national laws, but the implementation of the policy framework is not adversely affected, the Bank and the borrower could agree to amend the legal agreements to reflect these changes, or refrain from any action if it is determined by the Bank that the changes are not significant enough to warrant an amendment. If, however, the Bank determines that the agreed borrower systems or their implementation are not achieving the agreed objectives, it discusses with the borrower, as part of Bank-country dialogue, the implementation of additional measures (beyond the pilot project) to meet those objectives.

6. **Supervision.** As for any Bank-financed operation, the project results framework provides the basis for monitoring implementation and for project supervision, and Bank staff document their findings in aide-mémoire and Implementation Status and Results reports.⁴

³ The Loan/Credit Agreement sets forth the amount of the loan/credit and the terms and conditions on which it is being made. It includes undertakings of the borrower to carry out the project and to take other actions necessary to ensure project implementation in accordance with requirements under Bank policies, including procurement and safeguards actions, as appropriate.

⁴ OP/BP 13.05, *Project Supervision*, applies to pilot projects.

MONITORING AND EVALUATION OF THE PILOT PROGRAM

1. This Annex lays out Management’s preliminary ideas with respect to monitoring and evaluation of the pilot program to test the use of borrower environmental and social safeguard systems in Bank-supported operations. Management will develop and further refine these ideas when the portfolio of pilot activities is finalized.

A. Objectives and Criteria for Success

2. Monitoring and evaluation will seek to assess performance against the objectives of using country systems and derive lessons for increasing the effectiveness of the approach.

3. **Key Objectives.** The primary objectives of monitoring and evaluation of the pilot program are: (a) to ascertain whether it is possible to achieve similar development objectives and environmental and social safeguard outcomes by using borrower systems that are considered equivalent (to the Bank’s policy framework) and acceptable (based on an assessment of borrower implementation practices, track record, and capacity); (b) to learn more about the circumstances under which the objectives, in (a) above, can be met and to the extent feasible, incorporate this learning into the ongoing pilot operations and any subsequent operations that use country systems; and (c) to improve overall understanding of implementation issues—for example, opportunities, constraints, risks, and resource requirements for both borrowers and the Bank—related to greater use of country systems.

4. **Criteria for Measuring Success.** The following is a preliminary list of the key criteria that will be used to assess the success of each pilot project. This will also provide the basis for assessment of the program of pilots as a whole.

- Compliance by the borrower with provisions of the legal agreement for achieving and maintaining equivalence and achieving and maintaining the acceptability of implementation practices and capacity.¹
- Generation of the same or better (a) overall development outcomes and (b) environmental and social safeguard outcomes, by the systems deemed equivalent and acceptable by the Bank as would be achieved if the Bank were to use its own safeguard policies.
- Validation, through qualitative and/or quantitative data, of one or more of the reasons for using country systems articulated in para. 5 of the main text, namely, (a) scale up

¹ The broad indicators of equivalence are the policy objectives and operational principles laid out in Table 1. In other words, the project team would examine – on a policy-by-policy basis for each policy triggered by the project – whether the characteristics in the Table are satisfied for the country systems proposed to be used. As more experience is gained with these assessments, micro-level indicators would be devised to help staff more easily match actual country systems to the requirements of the Table.

development impact; (b) increase country ownership; (c) build capacity; (d) facilitate harmonization; and (e) increase cost effectiveness.

B. Learning

5. In addition to providing information on the performance of the pilot program, monitoring and evaluation will help the Bank, borrowers and development partners to find answers to several practical questions associated with the use of country systems, such as:

- How can the Bank assess the equivalence of country systems and the acceptability of implementation practices, track record, and capacity in a methodologically sound and cost effective way? What are some of the key indicators that should be used in this process? What are some of the ways of measuring and monitoring progress? How might they differ across countries and sectors?
- What were the trends seen in the diagnostic work across projects and countries? Which policy areas were most frequently found to be equivalent and why? Which policy areas presented the greatest challenges in terms of achieving equivalence and why? What were the differences in equivalence issues at the national and subnational levels? What types of gaps were identified and what types of actions were required to fill these gaps? On average did the country systems perform as expected? Were “gap-fillers” effective in enabling country systems to maintain equivalence?
- In terms of the acceptability of implementation practices, track record, and capacity, in which areas did borrowers have the greatest strengths, and where was there a need for strengthening practices and capacity? What were the differences in capacity at the national and subnational levels? What types of capacity building actions were needed and why?
- What are the benefits and risks of using this approach from the viewpoint of the borrower? What additional costs were incurred by the borrower? What types of capacity building activities did the borrower find useful?
- What are the preconditions for reaping the benefits of using country systems, that is, scaling up, greater ownership, capacity building and institutional strengthening, harmonization, increased cost effectiveness, etc.?
- What are the incremental resource requirements for actually using country systems in Bank-supported operations? What was the cost of the incremental diagnostic work necessary to assess equivalence and acceptability? What were the incremental costs of the supervision and capacity building activities needed in order to use specific country systems?² What issues were raised in cases where pilot projects involved the participation of IFC or MIGA in an IBRD- or IDA-led operation?

² In attempting to better understand the incremental cost implications of using country systems, Management would also look at Regional norms or data for a set of comparable projects.

- What support (including guidelines) do staff and borrowers need to implement the approach creatively and responsibly? In addition, what changes in behavior and incentives would be required for staff to adopt this approach? What types of training would be needed for Bank staff, partners, and borrowers so that they could use this approach more effectively?
- What role(s) did development partners play in these pilots? How did their participation influence their work with the Bank and borrowers? What lessons did development partners draw from their participation in this process? What was their role in supporting capacity building? How did the use of country systems approach influence their approach to cofinancing projects?
- What were the views of stakeholders concerning the use of country systems at the pilot project level? How effective were the measures for public consultation and disclosure of information? What types of communication and outreach on the use of country systems proved to be the most useful at the level of the pilot projects? How could these be improved to make them more effective? What were the issues raised from the disclosure of diagnostic reviews on the equivalence of borrower systems and acceptability of borrower practices?

C. Approach, Instruments, and Information Sources

6. Monitoring and evaluation of the pilot program will be managed centrally to exploit synergies and to avoid overburdening individual operations or task teams. It will depend on qualitative and quantitative information from several sources, including field-based interactions with borrowers and site visits where appropriate. At the project level, information for monitoring and evaluation will be built into existing documentation and processes.

7. ***Approach at the Project Level.*** To determine whether using country systems in lieu of applying the relevant Bank policies leads to different outcomes at the project level, the following questions would be asked:

(a) Are the project development objectives (PDOs) and intermediate outcomes listed in the Project Appraisal Document (PAD) being achieved?

8. As is the current practice, PDOs are stated in the PAD and related intermediate outcomes are derived from the Results Framework in the PAD. Key indicators to measure progress in achieving both are selected by the task team and baseline levels as well as targets for the project are indicated in the Implementation Status and Results (ISR) report. Thus, for each pilot, the team would clearly identify the development objectives of the project and intermediate outcomes that would measure progress toward these objectives. They would identify indicators to measure each, set target levels for the project, and also indicate baseline levels. This would provide the framework for Bank supervision of the project. The ISR guidelines for project supervision would be followed.

(b) Are the environmental and social safeguard outcomes associated with the safeguard areas covered in OP 4.00 being achieved?

9. As is the practice in project supervision, staff would monitor whether the project is in compliance with relevant safeguards policies—in this case OP/BP 4.00. Current practice requires teams to identify the Bank policies triggered by the project and state this in the PAD. Thereafter, teams report periodically on compliance with these policies, usually through achievement of specific conditions, some of which may be included as loan covenants. This approach would be followed in the individual pilot operations as well. This would be complemented by field visits and feedback from project affected people to ‘ground-truth’ the achievement of the specific outcomes from the use of borrower safeguard systems specified in the PAD.

(c) Is project implementation proceeding satisfactorily?

10. In addressing this aspect, staff would rely on the standard measures of implementation progress included in the ISR, such as (a) the specific implementation ratings on project management (institutional arrangements, personnel, etc.), financial management, counterpart funding, procurement, and monitoring and evaluation; (b) actual rate of disbursement compared with estimates; (c) compliance with audits; (d) compliance with critical legal covenants; and (e) the progress of individual components (the extent to which any factors jeopardize the timely or efficient achievement of the major outputs of that component).

11. ***Approach at the Program Level.*** At the level of the pilot program as a whole, staff would validate the equivalence determination based on an assessment of whether aggregate implementation and compliance performance in the set of pilots were significantly different from those of a sample of comparable Bank-supported activities that did not rely on country systems. This would also permit an assessment of whether monitoring and supervision protocols were appropriate or need to be adjusted.

12. ***Other Project and Program Level Indicators.*** Management will also develop indicators to measure progress toward the desired objectives of using country systems as well as indicators of leading intermediate outcomes/outputs (as appropriate). These include indicators of (a) ownership; (b) spillovers from the project to government policies and processes beyond it (perhaps, whether or not the agency implementing the pilot project uses “improved” processes in its other work, the extent to which other agencies of the government use the same “improved” processes, etc.); (c) capacity building; and (d) degree of harmonization (already under development). The assessment of “success” in achieving the objectives of using country systems—at the level of individual pilot projects and at the level of the pilot program—would rely upon these indicators.

13. ***Instrument.*** Management is preparing a reference template/questionnaire that it will test as an instrument for helping staff think through carefully and document systematically the rationale and elements of the country systems approach for their particular operation, including the specific intermediate criteria against which they will assess progress toward achieving their objectives. The template assumes that PADs and ISR reports will be an important source of information for monitoring and evaluation, and that the information will be extracted from the

Bank's Operations Portal. Management's preliminary conclusion is that while additional data would be needed to monitor and evaluate the impact of using country systems, it should be possible to capture this data without major modifications to the Bank's existing Portal.

D. Independent Perspectives

14. The Bank proposes to engage a small team of external international expert practitioners to advise and assist in developing a monitoring and evaluation framework for the pilot program. OED will collaborate with this team of external practitioners and with staff in OPCS, ESSD, and LEG who are overseeing the pilot program. Consistent with its mandate and practice, OED will review and assess Management's self evaluation of the pilot program. In addition, OED's draft work program proposes to revisit safeguard policy, controls, and compliance in FY08.

E. Timing and Disclosure

15. OPCS would report to the Board on experience, client feedback, and early lessons after the first year of implementation. At that point implementation experience would be limited, so the focus of that review is likely to be the lessons on diagnostic methodology and modalities. Another review of the whole program would be conducted after two years of implementation.³ This review would examine the aggregate performance of all the pilot projects vis-à-vis their development objectives, implementation quality, compliance with applicable operational framework, and achievement of the objectives of using country systems. Management will propose the disclosure of the first- and second-year progress reports.

F. Beyond the Proposed Progress Reports

16. At the end of the two-year pilot implementation period, Management will take stock and consider whether the lessons of experience to date (a) indicate a need to extend the duration of the pilot program and to similarly extend progress reporting in the manner proposed in this document; (b) support proposals to the Board to mainstream the use of country systems or revise existing policies related to the use of country systems; or (c) suggest that other options be considered such as launching a second phase of the pilot program.

³ While acknowledging that two years may be too short a period to observe the development impact or results on the ground, Management expects, at a minimum, to be able to monitor gap filling as well as progress toward achievement of the intermediate outcome indicators listed in the ISR report. As noted earlier, Management would propose to the Board that the program be extended if warranted.