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THE WORLD BANK'S RISK FRAMEWORK FOR OPERATIONS

Update on the First Year of Implementation

Operations Policy and Country Services

April 20, 2016

ABBREVIATIONS AND ACRONYMS

ADM	Accountability and Decision-Making Framework
AFR	Africa Region
CMU	Country management unit
COO	Chief Operating Officer
CPF	Country Partnership Framework
CPIA	Country Policy and Institutional Assessment
CRO	Chief Risk Officer
CROVP	Chief Risk Officer Vice Presidency
DPF	Development Policy Financing
E&S	Environmental and social
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
ECR	External and Corporate Relations
EFI	Equitable Growth, Finance and Institutions
ERM	Enterprise Risk Management
FCS	Fragile and conflict-affected state
FY	Fiscal year
GEF	Global Environment Facility
GP	Global Practice
HD	Human Development
IAD	Internal Audit Department
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IPF	Investment Project Financing
INT	Integrity Vice-Presidency
IP/DO	Implementation Progress/Development Objectives
ISR	Implementation Status and Results Report
LCR	Latin America and Caribbean Region
LIC	Low-income country
MIC	Middle-income country
MNA	Middle East and Africa Region
MU	Moderately Unsatisfactory
OC	Operations Committee
OPCS	Operations Policy and Country Services
ORAF	Operations Risk Assessment Framework
PforR	Program-for-Results
PRAMS	Procurement Risk Assessment and Management System
PRIMA	Portfolio Risk Management
ROC	Regional Operations Committee
SAR	South Asia Region
SD	Sustainable Development
SORT	Systematic Risk-Rating Tool
TTL	Task team leader
TT	Task team

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EXECUTIVE SUMMARY

1. **This paper discusses the implementation of the Bank's Framework for the Management of Risk in Operations[1].** The new Framework was launched on October 1, 2014, in response to the 2012 findings of the Internal Audit Department (IAD)[2], the recommendations of the Risk and Accountability Working Group, and an IAD advisory review of the Bank's earlier approach under the Operational Risk Assessment Framework.

2. **This update presents emerging risk profiles and patterns captured by the new risk-rating tool, the Systematic Operations Risk-Rating Tool (SORT).** It discusses the organizational structure of SORT and accountabilities for the assessment and management of risk in operations. It lays out potential opportunities based on preliminary data collected under SORT in support of informed risk-taking. It does not cover the results of the Framework; rather, at this stage it aims to present advances achieved in the risk system and the institutional arrangements to monitor and manage the Framework.

3. **The Framework, part of the Bank's broader change initiative to enhance business alignment and process simplification, is intended to focus attention and resources on operational delivery, and particularly on the highest risks in operations.** It offers integrated tools to improve the way the Bank captures and uses risk information, potentially leading to more modern data-driven decision-making models. It (a) helps measure risk uniformly and consistently across Bank operations and throughout the life of a project or country engagement; (b) allows for tracking and sharing knowledge of risk levels across the Bank, enabling the comparison of risk profiles across Regions, Practice Groups, Global Practices, countries, and operations; and (c) provides real-time data for Management decision and corrective measures.

4. **The Framework is intended to promote a culture of informed risk-taking at all levels of the Bank.** It helps to (a) better manage the Bank portfolio by providing real-time information for proactive risk management, and (b) facilitate the achievement of innovative and transformational development outcomes for clients. The policies, systems, and organizational arrangements supporting the Framework are designed to incentivize risk-taking by creating stronger data-driven links between taking risks in operations and achieving transformational development outcomes on the ground[3]. Through SORT, task teams (TTs) may systematically reassess and adjust their risk ratings in keeping with changing circumstances on the ground. Risks are recorded on a four-point scale (High, Substantial, Moderate, and Low) and against eight dimensions of risk: (a) Environment and Social, (b) Fiduciary, (c) Institutional Capacity, (d) Macroeconomic, (e) Political and Governance, (f) Sector Strategies and Policies, (g) Stakeholders, and (h) Technical Design. An Overall Risk rating is also recorded in SORT. Other risk calibration mechanisms available under the framework include regular reviews of and adjustments to high-

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[1] "Operations" includes Investment Project Financing (IPF), Development Policy Financing (DPF), Program-for-Results (PforR), and Country Partnership Framework (CPF).
[2] Internal Audit Department Annual Report, September 18, 2012.
[3] It is understood that not all transformational projects carry High risk and not all High-risk projects are transformational.

risk operations by the Risk Advisory Group and the application of the Bank's Accountability and Decision-Making framework to risk identification and management.

5. **The Framework was introduced seamlessly and adopted by TTs with minimal disruption to their operations.** Staff training, a help desk, operational clinics, updates to the Bank's core operational training modules, and updated guidance notes facilitated adoption and use of the new tool by teams and Management. SORT's simple design and user interface contributed to the quick rate of adoption. A series of dynamic dashboards and reports were made available at the time of system deployment.

6. **A year after the introduction of the Framework, all active operations[4] have a baseline of risk-related information available in the Operations Portal.** SORT has enabled the Bank to begin documenting risks to the achievement of results in its operations and country strategies in a dynamic database. However, interpretation of the initial data should be tempered by the fact that the checks and balances and the contestability mechanisms in the Framework are relatively new. Initial perceptions of risk in operations as captured in SORT may vary across Regions, Practice Groups, Global Practices, countries, and operations. Subjectivity is also an inherent facet of SORT evaluations, and TTs are still learning how to interpret and assign risks across the different risk factors captured in SORT.

7. **Over time, lessons will emerge from the calibration of risks that will enable standardized comparisons across Regions, types of operations, and levels of complexity.** SORT will be increasingly integrated with other risk data sources, such as (a) External and Corporate Relations; (b) the Department of Institutional Integrity; and (c) fiduciary systems such as the Procurement Risk Assessment and Management System and Financial Management's Portfolio Risk Management tool. The aggregation of these data sources by Regions, Practice Groups, Global Practices, countries, and operations, and filtered using such attributes as project phase and SORT ratings, will potentially allow detailed and standardized data analysis and trend visualizations over time.

8. **Some early observations from SORT:**

- 49 percent of the Bank's current commitments of $197.5 billion have an Overall Risk rating of either High (15%) or Substantial (34%).
- The dimensions of risk most often rated as High or Substantial are Institutional Capacity (53% of Bank commitments) and Political and Governance (46% of commitments).
- There appears to be a link between the number of projects rated Moderately Unsatisfactory or lower for implementation progress/development objectives and the share of projects with higher Overall Risk.
- IDA projects generally tend to be rated with higher risk than IBRD projects—61 percent of IDA projects are rated High or Substantial risk, in contrast to 42 percent of IBRD projects.
- The fragile and conflict-affected states portfolio contains operations facing vastly higher operational risks than any other cut of risk data collected from SORT, which implies that operational risk may be linked to political instability and weak institutional capacity.

[4] Information on Program-for-Results (PforR) was not available in time for this report because TTs did not begin rating PforR operations in SORT until December 2015.

- A preliminary analysis of Country Performance Ratings (CPRs) in the Country and Institutional Assessment suggests potential correlations between higher risk levels in SORT and lower overall CPR ratings.

9. **TTs are updating the SORT ratings in their projects regularly.** For over 35 percent of projects for which an Overall Risk rating has been recorded more than once, the rating of at least one of the risk factors in SORT has been changed. This indicates that teams are beginning to use their risk assessments proactively. More informed discussions by Management about project riskiness appear to be encouraging TTLs to proactively report risk and seek support when needed.

10. **Training and other outreach efforts will continue in FY16-17 to sustain risk-informed portfolio management.** The Bank has also been discussing the Framework for the assessment and management of risks in operations with other development partners and has spearheaded the creation of a community of Development Risk Practitioners, launched in February 2016.

11. **SORT provides opportunities to begin developing empirical and evidence-based approaches to risk forecasting, strengthening the links between risk and project design, implementation plan, and resource allocation[5].** Possible future areas of focus include the following:

- Using the Bank's understanding of operations risks and its risk response to help define a more robust portfolio and lending strategy for the Bank, and to help determine risk appetites and tolerance.
- Exploring risk-based algorithms to forecast project performance and outcomes and develop better key indicators for risk.
- Building and evaluating data models to identify risk response strategies across instruments and types of risks to improve project design and strengthen resource allocation for riskier operations.
- Further integrating systems that capture and generate information on operations risk to streamline processes where possible.
- Developing an alert system in the Operations Portal to flag Volcker Trigger projects and other integrity concerns identified by the Integrity Vice-Presidency to help TTs proactively identify, assess, and mitigate corruption risks in Bank-financed operations.

[5] *Resource allocation* refers to the distribution of resources such as budget, management input, time, and human resources (e.g., additional staff or appropriate technical expertise).

The World Bank's Risk Framework for Operations: Update on the First Year of Implementation

I. Background

1. **This paper provides an update to Management and the Board on the first year of implementation of the World Bank's new Framework for the Management of Risk in Operations and describes the institutional arrangements and systems introduced to monitor and manage the Framework.** The Framework was developed in response to the 2012 findings of the Internal Audit Department (IAD)[1], the recommendations of the Risk and Accountability Working Group, and an IAD advisory review of the Bank's earlier approach under the Operational Risk Assessment Framework (ORAF).

2. **This update builds on previous briefings on operations risk to the Executive Directors.** It follows the presentation to the Committee on Development Effectiveness/Audit Committee of the New Framework for Management of Risk in Operations on September 8, 2014; the External and Corporate Relations (ECR) Vice-Presidency's briefing on Managing Reputation Risk in November 2014; and the technical briefing by the Chief Risk Officer (CRO) on Enterprise Risk Management (ERM) on November 12, 2015.

3. **The new Risk Framework is part of the Bank's broader change initiative to enhance business alignment and process simplification.** It is intended to focus attention on operations risks and the appropriate management of those risks. It helps measure risk uniformly and consistently across all Bank instruments[2] and product lines[3] and throughout the life of a project or country engagement. It allows for the quantification of risk levels, enabling the comparison of risk profiles across Regions, Practice Groups, Global Practices, countries, and projects while providing real-time data for Management decision. The policies, systems, and organizational arrangements supporting the Framework are designed to nurture a culture of informed risk-taking. The Framework builds stronger data-driven links between taking risks in operations and achieving transformational development outcomes on the ground.

4. **Under this Framework, risk is defined as it relates to development results.** It refers to (a) the risk to achieving intended development outcomes, and (b) the risk of unintended impacts of an operation or country engagement. For the first time in the Bank, a consistent definition of risk applies to all operations and programs across all instruments—Investment Project Financing (IPF), Development Policy Financing (DPF), Program-for-Results financing (PforR), and the Country Partnership Framework (CPF).

5. **The Framework, which was designed after a broad consultative process[4], includes a new risk rating tool and an organizational structure with clearer accountabilities and incentives for proactive risk management.** Under the new Risk Framework, the ORAF (see Box 1) was replaced with a simpler, more user-friendly tool: the Systematic Operations Risk-Rating Tool (SORT). With SORT, Management

[1] Internal Audit Department Annual Report, September 18, 2012.
[2] Includes Program-for-Results from December 2015 onward.
[3] Includes Global Environment Facility, recipient-executed trust funds, Montreal Protocol, and special financing.
[4] See *Framework for Management of Risk in Operations–Proactive Risk Management for Better Results*, August 21, 2014.

is better positioned to appropriately allocate resources for the preparation and supervision of projects on the basis of risk levels. Since SORT applies both to individual operations and to broader country engagement strategies, it allows the Bank to better link risk management at the overall country program level with that at the individual project level, and to mainstream risk management in country engagement. The Framework provides clear accountabilities and different levels of oversight. It is envisioned to eventually facilitate design of a more robust portfolio of interventions based on considerations of risk.

Box 1. IAD Advisory Review of ORAF

In May 2014 IAD conducted an advisory review of ORAF implementation and noted the need for a more proactive approach to risk (see IAD Advisory Review of ORAF: Engagement Results, May 2014). Below is a summary of the main findings of this review.

- The intent and conceptual underpinnings of ORAF were sound: (i) it was designed to promote a structured and disciplined approach to risk; (ii) it was intended to provide helpful discipline to task teams (TT) by requiring them to think about risks in a comprehensive and holistic manner; (iii) it emphasized the need to draw on specialized knowledge and expertise from various teams; (iv) it linked the key risk areas to the achievement of Project Development Objectives; and (v) it advocated a qualitative approach to risk identification and mitigation, emphasizing the importance of professional judgment and experience of the TT.
- Notwithstanding its original intent, ORAF could not be successfully operationalized: (i) it was largely disconnected from Management prioritization, and was not effective in supporting risk-informed decision making; (ii) it did not lead to adequate differentiation in project processing as originally intended, due to lack of incentive mechanisms; (iii) the Implementation Support Plan (ISP) was not meaningfully linked to ORAF risk ratings and did not drive resource allocation; (iv) risk rating and reporting templates were seen as cumbersome, without commensurate benefits; and (v) it had limited use in risk mitigation at the project level and in identification of broader risk trends at portfolio level.
- To prevent similar issues from undermining implementation of the new risk framework, Management attention is specifically warranted to address the following: (i) ensuring clear responsibility for "oversight of risks in Bank operations"; (ii) changing institutional risk culture to incentivize risk-informed decision-making, with knowledge of organizational acceptance of certain risks (and not others), and differentiated risk appetites and tolerances; (iii) ensuring that key enabling elements (IT systems, tools, and guidance) will be in place prior to implementation; and (iv) clearly defined milestones and indicators to measure progress.

6. **SORT is envisioned to mainstream and elevate risk management through standardized tools that allow for continuous collection, aggregation, analysis, and reporting of data across the Bank's portfolio.** Operations risk ratings are updated regularly during preparation and implementation. As SORT presently covers nearly 100 percent[5] of IBRD/IDA operations, the links between risk and results may now be tracked over time to provide guidance on good project design, acceptable levels of risk, and ways to mitigate risks and optimize outcomes. The Bank is now able to map broad patterns of risk levels and risk mitigation over time, disaggregated by Regions, Practice Groups, Global Practices, countries, and projects. SORT allows a live and increasingly dynamic process of risk calibration that is overseen by Senior Management. Task teams (TTs) agree on and record risk mitigation measures for High or Substantial risks at every decision point of the operation: at Concept Review, in the Project Appraisal Document during preparation, at review meetings, and during supervision in every Implementation Status and Results Report (ISR).

[5] Actual coverage is 99.3 percent: 3 recipient-executed trust funds and 3 development policy operations were not rated in SORT at the time the data used in this report were collected.

II. THE BANK'S RISK FRAMEWORK

7. **The Bank's Risk Framework has three pillars:** (a) a simpler risk-rating tool (SORT), (b) clearer organizational accountability for the identification, assessment, and mitigation of risk in Bank operations, and (c) support for a culture of informed risk-taking. The Framework is part of the Bank's broader risk management architecture, which includes the Regional Operations Committee (ROC); Operations Committee (OC); supervision tools such as the ISR; pipeline and portfolio reviews; Global Practice Leadership Team meetings; and Actions on Bunching, Commitments, Disbursements, and Quality meetings.

A. SORT

8. **SORT provides a uniform template for both pipeline deliverables under preparation and for approved operations.** It applies to all three of the Bank's financing instruments—IPF, DPF, and PforR financing—as well as to CPFs.

9. **Under SORT, a simple and integrated risk-rating tool, each operation is rated on eight dimensions of risk:** (a) Environment and Social, (b) Fiduciary, (c) Institutional Capacity, (d) Macroeconomic, (e) Political and Governance, (f) Sector Strategies and Policies, (g) Stakeholders, and (h) Technical Design. A risk that does not fall in any of these categories is considered under the "Other" category. Each dimension is rated on a four-point scale—High, Substantial, Moderate, or Low—depending on the likelihood that the risk will materialize and the expected severity of its impact if it does materialize. An Overall Risk rating is not a weighted average and is not system-generated; rather, the team leader (TTL) applies informed judgment in recommending the rating as a result of the collective input from the TT.

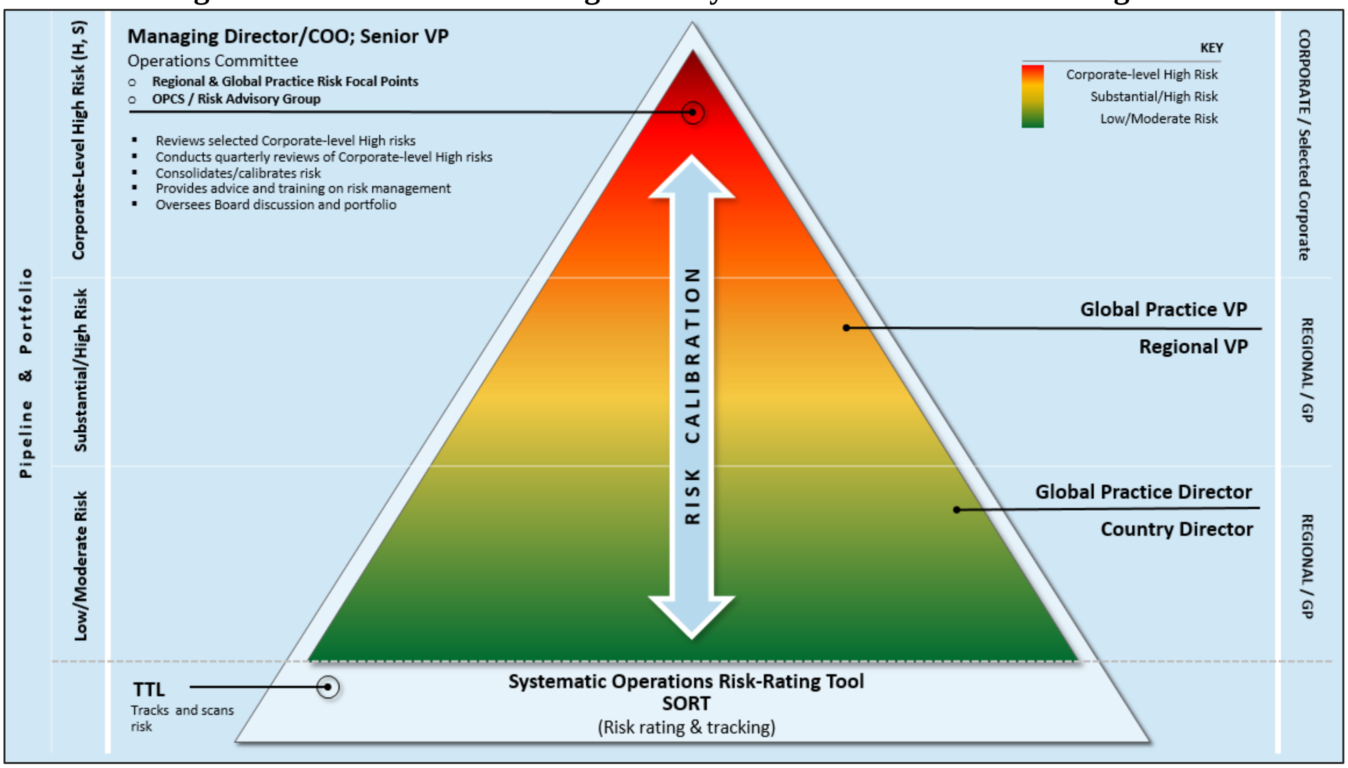
10. **SORT provides data that Management can potentially use—whether to authorize a simplified and streamlined procedure to process an operation with reduced steps and preparation budget, or to require a more detailed process with more specialized input for higher-risk operations.** Staff feedback and workshop experiences suggest that by taking the riskiness of an operation into account, managers are now better equipped to determine the levels and types of oversight, expertise, and resources required for its preparation and supervision. More informed discussions about project risk appear to encourage TTLs to proactively report risk and seek support when needed. This has the potential to foster innovation in the design of projects and programs as risk factors and mitigation strategies are discussed and incorporated.

11. **The data collected under SORT enable uniform and continuous tracking of all country strategies and operations from their initial concept stages to completion.** This potentially allows for the mapping and analysis of macro-level risk patterns in the Bank's portfolio. Data provided through the Operations Portal alert teams and Management to changing risk profiles, enabling them to respond appropriately. Easily accessible reports can help TTs to continuously assess and monitor risks through the life of an operation or country engagement and adjust risk ratings as needed and at specific intervals (for example, at each ISR). Systematic analysis and interpretation of these data will lead over time to a better understanding of the risk-return relationship. This in turn will help derive lessons for the design and implementation of future projects.

12. **A baseline of risk-related information is now available.** This potentially enables the Bank to map risks to the achievement of results in its operations and country strategies in a dynamic database. The dataset can be aggregated at various levels, such as Regions, Practice Groups, Global Practices, countries, and operations. It is filtered using such attributes as Project Phase and SORT ratings to enable quick data analysis and trend visualizations.

13. **Risk data are now available to potentially analyze and understand the impact of informed risk-taking on operational outcomes over time.** Looking ahead, this will help Management to better monitor the portfolio and make strategic choices on resource allocation and levels of managerial attention (see Figure 1).

Figure 1. Proactive Risk Management by the Global Practices and Regions



Note: Proactive risk management is achieved through the Global Practices' and Regions' systematic assessment of risks for all Bank operations. The TTL tracks and records the risks in SORT and assesses them periodically. Country Directors in the Regions and Practice Managers in the Global Practices validate the risk ratings; and the Practice Group VP, the Chief Operating Officer, and the Senior VP of Operations monitor a subset of the highest-risk operations through regular reporting. This continuous process of calibration ensures that Management reviews are aligned with the level of risk.

14. **The SORT ratings are transparent and shared with the client.** In keeping with the Bank's Access to Information Policy, the Bank now discloses risk ratings, along with the discussion of more relevant risks, in public documents related to the operation or country program. This approach is designed to foster a culture of informed risk-taking in partnership with the client. It promotes a more collaborative approach to risk identification and management, encouraging the Bank, its clients, and development partners to work in partnership to address risks.

B. Organizational Accountability

15. **The Bank's Accountability and Decision-Making (ADM) Framework applies to the identification, validation, and management of risks.** It determines who takes responsibility at different levels of risk and when operations are to be escalated to appropriate levels of Management for decision. TTs identify the risks; GP Practice Managers and Country Directors validate the risk ratings. The Practice Group VP, the Chief Operating Officer (COO), and the Senior Vice-President of Operations monitor a subset of high-risk operations through regular reporting. The Regional VPs, the COO, and the Senior Vice-President endorse the final risk ratings during the preparation of the highest-risk operations through review mechanisms such as the ROC, the OC, and the selection of operations to present for full Board discussion.

16. **Arrangements are now in place to help TTs standardize their risk assessments and strengthen quality at entry.** The Bank's ability to use risk data for decision-making will depend on the quality of the data. The ADM structure will enable quality checks and regular monitoring to promote candor. Country Directors and Practice Managers can now ensure that TTLs provide realistic risk ratings during the preparation and implementation of Bank operations. With a detailed Guidance Note, the Framework aims to standardize the way risks are rated; however, it is too early to verify whether risks are being rated consistently across Regions and Practice Groups. Feedback received from TTLs and TTs suggests that they require some degree of standardization when assessing risks. While the data point to the beginnings of converging, this is an area that will be further developed as more risk data are recorded in SORT. It will continue to be important to take care when comparing risk ratings across Regions and countries, as perceptions of and appetite for risk vary across Regions. A decision to go ahead with a project may be influenced by attributes other than risk, such as country circumstances, sector policy, and resource envelopes. Therefore, Management will need to review risk in the context of the different factors that form part of a comprehensive decision-making process.

C. Culture of Informed Risk-taking

17. **The Framework is designed to eventually lead to a behavior change that could shift Bank culture toward better identification and management of risks.** A culture of informed risk-taking may help maximize client results by promoting timely assessment of risks, providing for risk assessments to be shared with clients in a spirit of transparency, and ensuring accountability in both the identification and mitigation of risk. Evidence that such a culture is developing is reflected by the fact that TTs are updating the SORT ratings in their projects. For over 35 percent of projects in which SORT ratings have been posted more than once, the rating of at least one of the risk factors in SORT has been changed. This suggests that TTs are beginning to use their risk assessments under SORT proactively. This provides a platform for the Bank to consider moving forward on activities like the following, to promote a culture of informed risk-taking:

- TTLs are now able to assess and monitor risks continuously, record them in the Operations Portal, and use them to seek support in risk management.
- Country Directors may now use pipeline risk information to better allocate resources for different teams to maximize country-level results.
- Global Practice Managers can promote recognition for risk-based decision-making and seek support from across the institution when needed.

- Human Resources has included “Make smart decisions – take risks” among the World Bank Group core competencies, and has included “innovation” as one of the elements to be used for setting performance objectives. In addition, an Innovation Awards Program was recently launched to recognize teams whose innovation accelerated development results, potential for scale, and other factors. Innovation and risk-taking are also two common criteria used in such programs as the Bank’s VPU Team Awards and IFC Awards programs.
- The President’s message and other outreach initiatives can be used to encourage innovation through informed risk-taking[6].

D. Implementation Support Measures

18. **A Risk Advisory Group was established under the new Framework to function as a critical deliberative mechanism.** The group discusses operations with the highest risks in the pipeline of deliverables and the portfolio of projects under implementation. Chaired by OPCS and comprising representatives of the GPs, Regions, the CRO, ECR, INT, Safeguards, Procurement, and Financial Management, it reviews projects’ risk categorization quarterly[7] and may suggest upgrading or downgrading risk ratings. The Risk Advisory Group helps arbitrate and standardize risk ratings, provides advice on risk management, and monitors the risk profile of the portfolio. It also reviews projects that are escalated for higher-level Management attention on account of reputational risk or unintended negative consequences. Risk Focal Points, who participate in meetings of the Risk Advisory Group, have been designated for each Global Practice and Region to ensure that information on project risk is shared across the organization. Management, particularly in the GPs, can help move the risk agenda forward by undertaking analysis of risk in their GP’s portfolio and making recommendations in such areas as (a) harmonization of approaches, (b) actions to address systemic problems at the GP level, (c) improvements to processes underpinning the Framework, and (d) incentives that could be provided to TTLs.

19. **A process is now in place to track risk in the pipeline, enabling comparisons of risk ratings before and after Board approval.** Since the launch of the new Framework, the number of pipeline operations rated under SORT has increased. While the majority of projects are approved by the Board in a streamlined procedure, a subset of projects—those with the highest risk, major innovation, or an exceptional policy waiver, and those in areas of particular Board interest—are sent to the Board for full discussion.

20. **Building staff skills and capacity for risk assessment and management is a priority to ensure that the Framework is sustainable.** Risk assessment and management are now part of staff training:

- The Operations Core Curriculum, which is mandatory for TTLs, has been updated to include training on the use of SORT.
- The Global Operations Learning Series continues to deliver Risk Clinics each quarter. Over 600 TTLs and technical experts in Washington and country offices have received training on the new Risk Framework so far.

[6] See Kiosk announcement of July 27, 2015, *Driving Innovation through Informed Risk Taking*: http://intranet.worldbank.org/WBSITE/INTRANET/KIOSK/0,,contentMDK:23680735~pagePK:34851~piPK:34971~theSitePK:3664,00.html

[7] The Risk Advisory Group met monthly for the first nine months of implementation of the Framework to address any emerging issues and help facilitate a smooth implementation.

- The Operations Help Desk managed by OPCS provides TTs with 24/7 support in assessing and managing risks.
- The OPCS Risk Team serves as the Risk Advisory Group secretariat and is responsible for designing learning modules and providing custom training and hands-on support. Currently the team is preparing specialized training for Practice Managers and is supporting training on integrated risk categories, such as Safeguards and Fiduciary. The Guidance Note on Risk Rating under SORT is regularly updated to reflect the questions teams raise and the clarifications they request (Annex 1 contains the latest version of the Guidance Note).

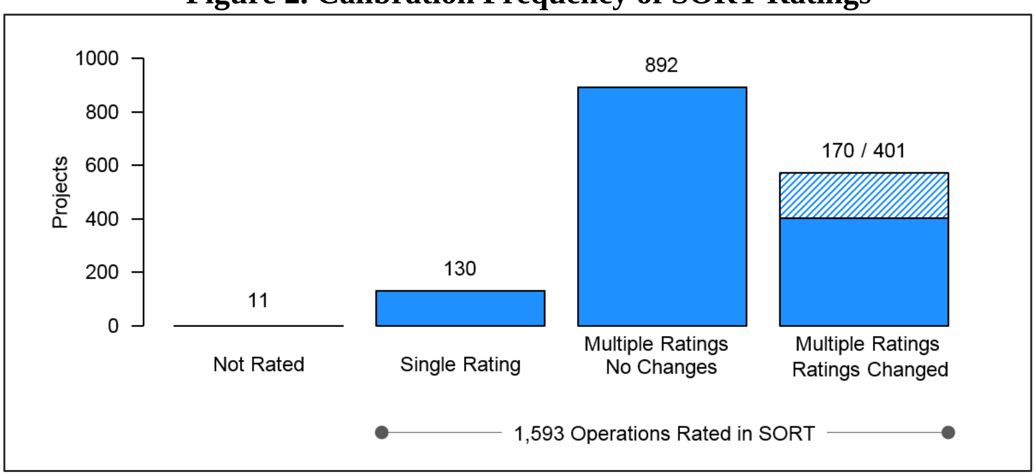
III. INITIAL RISK PROFILES AND PATTERNS

21. **This section documents the initial findings drawn from the Bank's first year of data (as of January 4, 2016) on operations risk.** It explores risk statistics extracted from the Bank's Business Warehouse in the context of project performance and compares key data points across Regions, Practice Groups, and risk categories. These data points were tested with TTs, Management, and technical specialists in procurement, financial management, and safeguards through the year.

22. **SORT has been operational for new Project Concept Notes since October 2014 and for ISRs since November 2014.** It has reached nearly 100 percent coverage of the active portfolio in its first year of implementation. The data collected in this analysis cover October 1, 2014, to January 4, 2016—a total of 15 months. As of January 4, 2016, a total of 1,593 operations from the active portfolio (US$197.5 billion) were rated in SORT. The data in this report do not include Program-for-Results operations, which began using the SORT tool only late in December 2015.

23. **The assessment of risk is now a continuous process, and SORT is used across the Bank.** Of the 1,593 operations rated in SORT, 1,463 projects have been rated more than once since October 2014, and for 571 (36%) the ratings in one or more risk categories were raised or lowered (see Figure 2). In 170 of those operations, the change in risk ratings was for the Overall Risk. In the other 401 operations, a change in the risk rating occurred for any one of the eight risk factors in SORT. This appears to suggest that risk calibration is taking place as TTLs review and assess project risks over time.

Figure 2. Calibration Frequency of SORT Ratings



Source: Data extracted from Business Warehouse on January 4, 2016.
Note: At the time of data analysis, 11 projects—a combination of DPFs and recipient-executed trust funds—had not yet been rated in SORT.

24. **Data from SORT should, however, be interpreted with caution at this early stage.** The initial SORT data merely provide a preliminary overview of the distribution of operations risk in the Bank's portfolio over a brief period. Only with multiple iterations of risk evaluation will it be possible to derive broad conclusions and discern longer-term trends. Lessons will emerge over time from the continuous calibration of risk in the GPs, and it will be possible to make rigorous comparisons across Regions, types of operations, and levels of complexity. It will also be necessary to adjust the conclusions using other risk data sources, such as (a) ECR, (b) the Department of Institutional Integrity (INT), and (c) fiduciary systems such as the Procurement Risk Assessment and Management System (PRAMS) and Financial Management's Portfolio Risk Management (PRIMA) tool. Any reading of the initial data should take into account the fact that the system of checks and balances and the contestability mechanisms in the Framework are still relatively new. Hence initial perception of risk in operations may vary across Regions, Practice Groups, Global Practices, countries, and operations. In addition, subjectivity is an inherent facet of SORT evaluations: TTs are still learning how to interpret and assign risk across the different risk factors captured in SORT.

- Some projects may receive High risk ratings only because they are rated relative to a limited pool of lower-risk projects.
- Bank staff's internalization of risk norms that accord with the SORT Guidance Note will require evaluation, consultation, and adjustments before the risk-rating process can be fully standardized.
- Management validation will be an important control in ensuring a broader and more objective perspective on levels of actual risk, considering different aspects of risk outlook across instruments and the way TTLs rate those risks.
- Greater consistency in risk ratings that approximate the actual distribution of risk will emerge as more collaboration between the GPs takes place under the Bank's new operations framework and as more data points are recorded in SORT.
- RAG's role in overseeing risk assessments in Bank operations and providing cross-calibration of risks is central to achieving consistency in risk ratings across GPs and Regions.

A. Risk Ratings

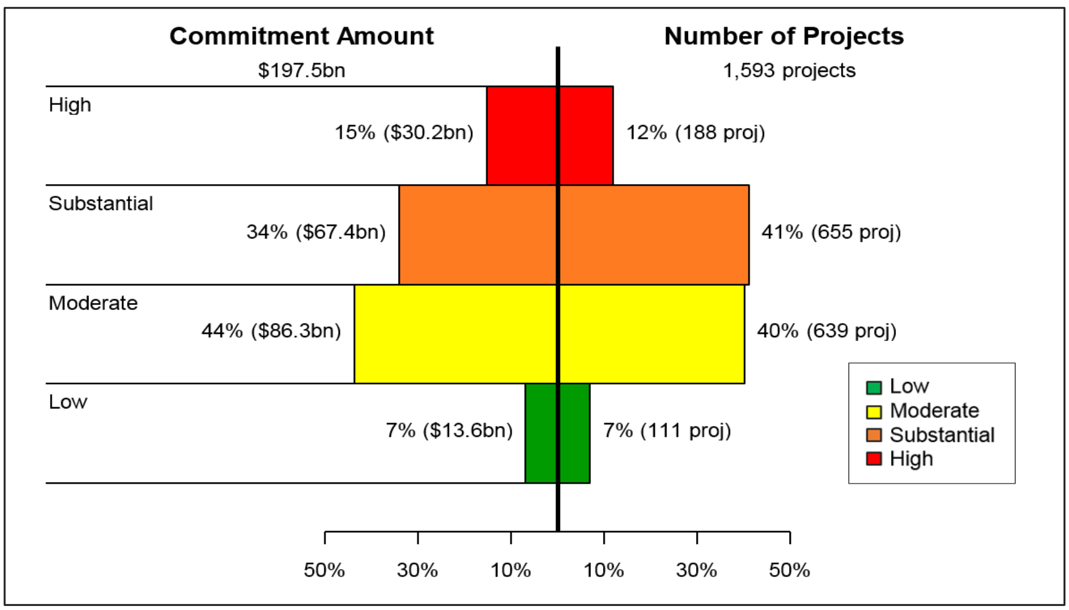
25. **Over 50 percent of the Bank's current commitments of US$197.5 billion in the active portfolio have an Overall Risk rating of either High or Substantial** (see Figure 3)—that is, they face operations risk and uncertainty. Other patterns are emerging in the data:

- A total of 293 operations in the pipeline for review by the Board have been rated in SORT[8], of which 46 (16%) have an Overall Risk rating of High, 195 (67%) have an Overall Risk rating of Substantial, 51 (17%) have an Overall Risk rating of Moderate, and 1 (less than 1%) have an Overall Risk rating of Low (see Figure 4).
- Of 127 projects with risk ratings recorded in SORT in both the preparation (pre-Board approval) and implementation (post-Board approval) phases of the project cycle, 2 (1.5%) have had their Overall Risk ratings in SORT changed at least once. Additional SORT assessments over the next fiscal year will help determine whether the Overall Risk ratings recorded during preparation shift significantly after Board approval and into implementation.

[8] Includes early pipeline.

- Of the 39 CPFs rated in SORT[9], 26 (67%) were rated Substantial or High and 13 (33%) were rated Moderate or Low for risk (see Table 1).
- Table 2 illustrates the risk distribution of SORT-rated CPFs by country income level, as follows:
    - All eight of the CPFs in low-income countries (LICs) have an Overall Risk rating of Substantial (50%) or High (50%), whereas 18 of the 29 CPFs in middle-income countries (MICs) have an Overall Risk rating of Substantial (52%) or High (10%).
    - Of the 11 CPFs in fragile and conflict-affected countries (FCS), 6 were in LICs and 5 in MICs. Of these 11, 3 (27%) had an Overall Risk rating of Substantial and 7 (64%) had an Overall Risk rating of High.
    - Two of the 39 CPFs (those in Chile and Uruguay) were excluded from the analysis because they did not fall into any of the country classifications[10].
- Figure 5 distributes the 473 projects in the Bank's portfolio whose countries have SORT-rated CPFs[11], suggesting a logical relationship between the Overall Risk rating of the CPF and the Overall Risk rating of the projects in that country. For example, in the cluster of CPFs rated Substantial (equivalent to 323 projects), 147 projects (46%) were rated Low or Moderate. Similarly, in the cluster of CPFs rated High (equivalent to 57 projects), 16 projects (28%) were rated Low or Moderate.

Figure 3. Distribution of Overall Risk in Bank Operations



Source: Data extracted from Business Warehouse on January 4, 2016.
Note: A total of 49 percent of current commitments have an Overall Risk rating of High (15%) or Substantial (34%), equivalent to $97.6 billion.

26. **TTs appear to update the risk ratings in SORT differently for DPF and IPF operations.** The initial data from the active portfolio indicate that, as of January 4, 2016, a greater proportion of DPF operations than of IPF projects are rated High in SORT (see Figure 6). As compared to IPFs, DPF operations are typically rated more frequently at the concept, approval, and decision stages; they may or

[9] CPFs rated in SORT are outside the data universe of the 1,593 operations rated in SORT.
[10] Chile and Uruguay are classified as high-income countries on the basis of per capita gross national income.
[11] As of January 4, 2016, all SORT-rated CPFs were under preparation.

may not have a SORT rating during implementation, depending on the nature and length of the operation. Because of this, the distribution of risk in DPFs may fluctuate greatly within the active portfolio. This suggests that different standards should be explored for appropriately rating and evaluating risk in active DPF operations.

Table 1. Risk Ratings of CPFs

Region	*Low*	*Moderate*	*Substantial*	*High*
AFR	0	2	5	4
EAP	0	0	1	1
ECA	0	3	3	1
LCR	1	6	6	0
MNA	0	0	2	1
SAR	0	1	2	0
Total	1	12	19	7

Source: Data extracted from Business Warehouse on January 4, 2016.
Note: As of January 4, 2016, all SORT-rated CPFs were under preparation; hence no correlations can be drawn at this time from available data. Excludes Pacific Islands CPF.

Table 2. Risk Ratings of CPFs by Country Classification

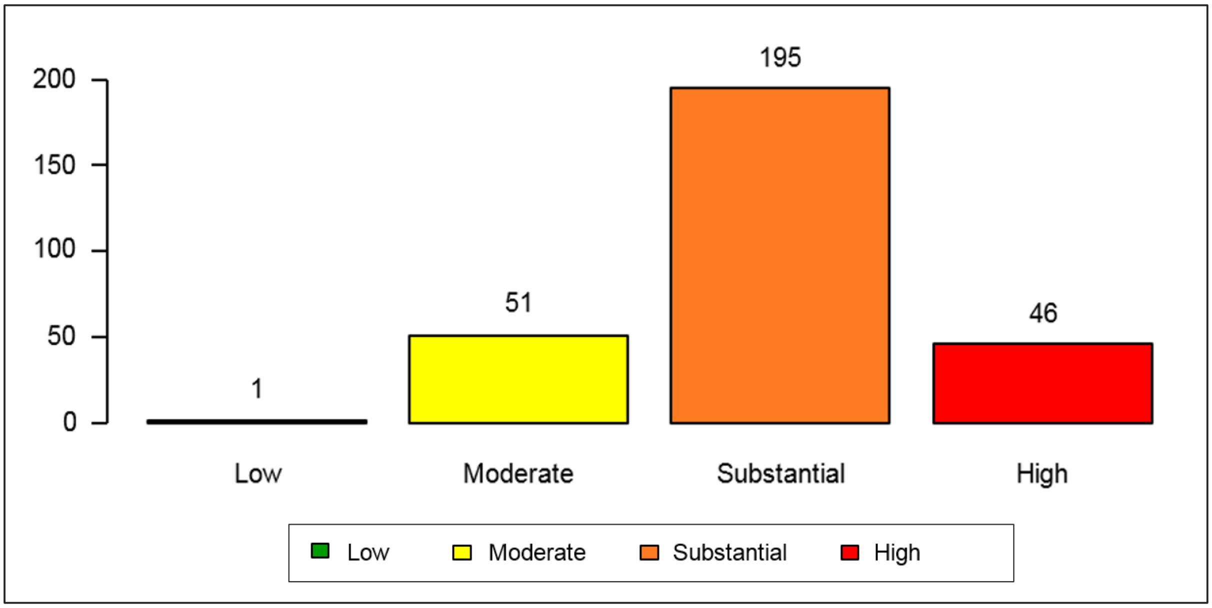
SORT risk rating	*LICs*	*MICs*	*Fragile & conflict-affected states*
Low	0	0	0
Moderate	0	11	1
Substantial	4	15	3
High	4	3	7
Total	8	29	11

Source: Data extracted from Business Warehouse on January 4, 2016.
Key: LIC = Low-income country; MIC = Middle-income country.

27. **Risk distributions appear to indicate different risk profiles for IDA and IBRD projects.** The initial data indicate that IDA projects generally tend to be rated with higher risk than IBRD projects (see Figure 7). Of the current IDA commitment of approximately US$86.2 billion, 62 percent is rated with an Overall Risk of either High or Substantial, compared to 42 percent of the current IBRD commitment. The difference may be explained by a number of factors: for example, IBRD countries have more robust

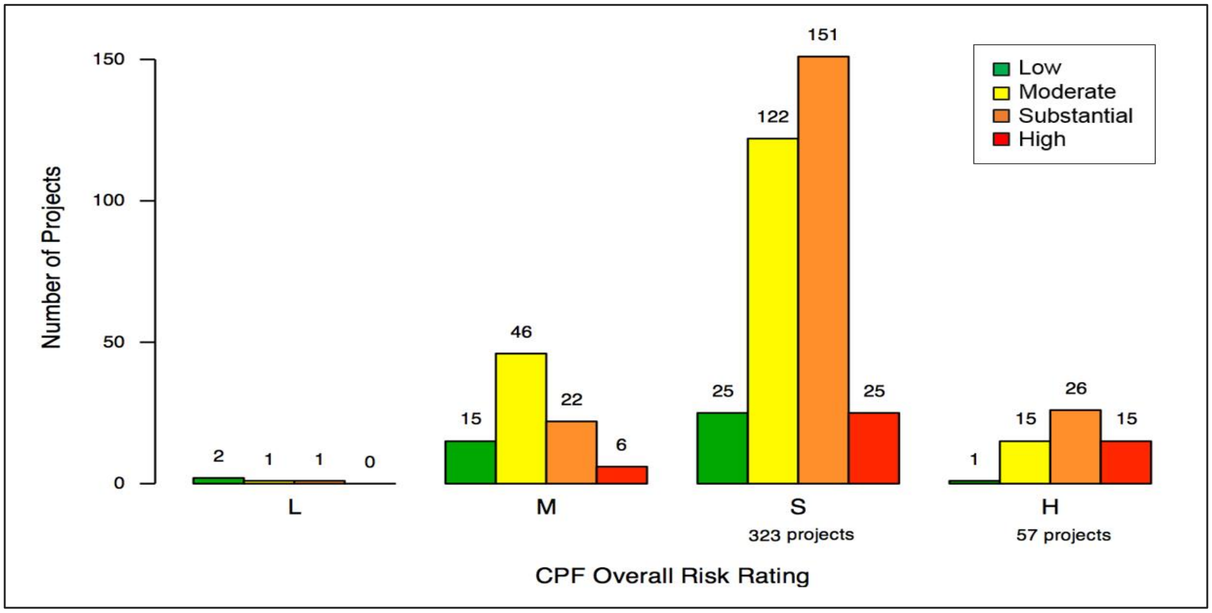
country systems for procurement, financial management, and safeguards, along with stronger institutional capacity and governance frameworks.

Figure 4. Distribution of Overall Risk for Projects Pending Board Approval



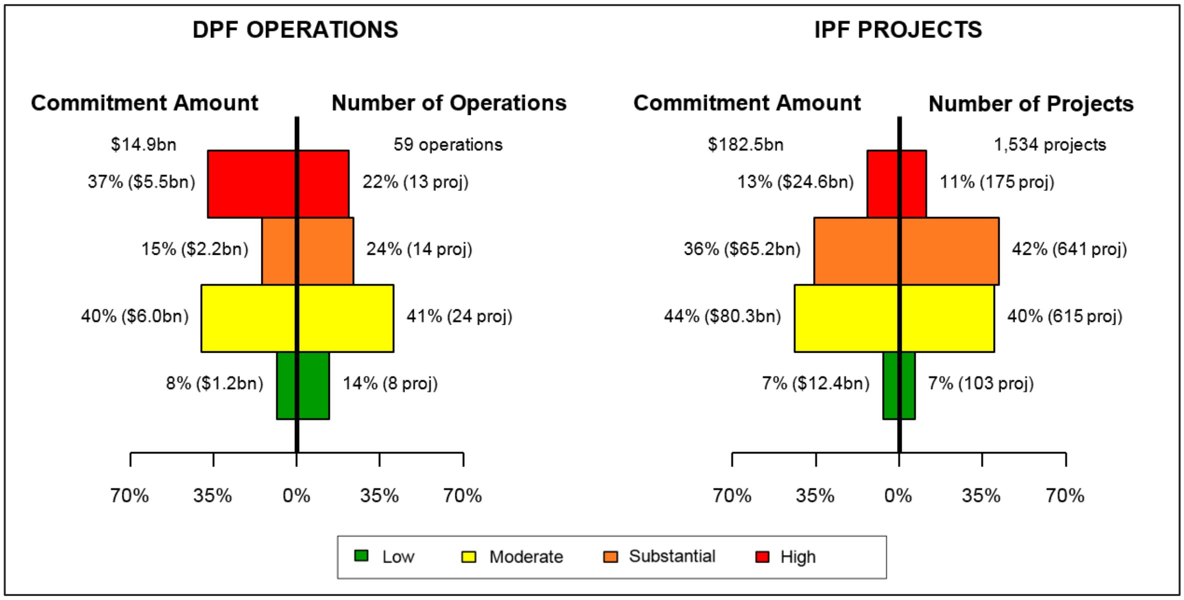
Source: Data extracted from Business Warehouse on January 4, 2016.
Note: Total SORT-rated projects pending Board approval (including early pipeline): 293.

Figure 5. Project Risk by Overall CPF Risk



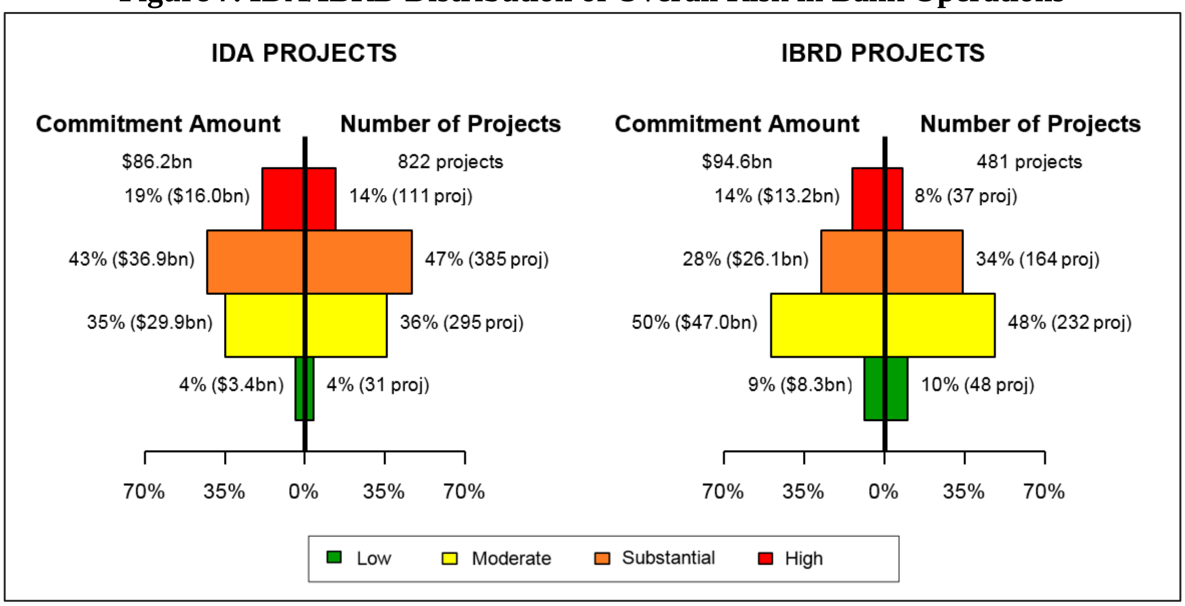
Source: Data extracted from Business Warehouse on January 4, 2016.
Note: Three of the 40 countries with a SORT-rated CPF did not fall under any of the three country classifications and are therefore not included in this table (Chile, Uruguay, and Pacific Islands). The 11 FCS countries are a subset of the LIC and MIC country categories: 6 of the 11 FCS countries are in LICS and 5 are in MICs.

Figure 6. DPF/IPF Distribution of Overall Risk in Bank Operations



Source: Data extracted from Business Warehouse on January 4, 2016.

Figure 7. IDA/IBRD Distribution of Overall Risk in Bank Operations

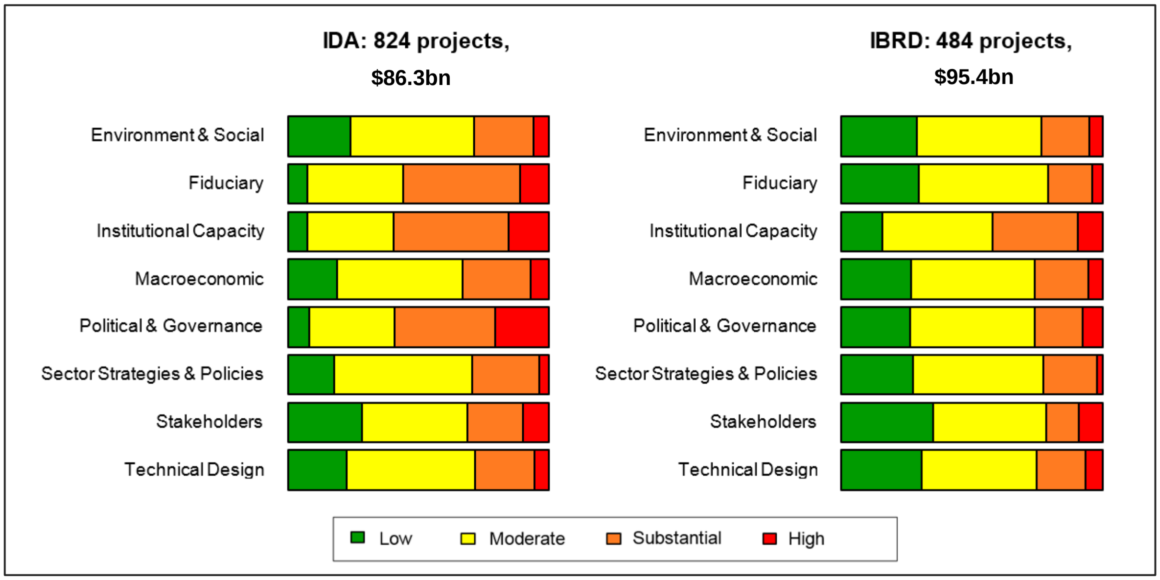


Source: Data extracted from Business Warehouse on January 4, 2016.
Note: Does not include blended projects, Montreal Protocol, GEFs, and CPFs.

28. **The High or Substantial Overall Risk ratings of IDA and IBRD projects are driven by different risk factors, signaling the need for customized risk management strategies.** Although SORT is designed to help standardize risk ratings across financing instruments, Regions, and the IBRD/IDA division, the risk mitigation strategies adopted in response to risk ratings can be custom-designed to reflect the particular risk environment. Figure 8 illustrates a case in point: while Institutional Capacity is a significant risk driver across Regions, GPs, and types of projects, Fiduciary and Political and Governance

risks seem to drive risk ratings in IDA more than in IBRD projects. The risks identified in IBRD projects, however, are more likely to be Political and Governance, Macroeconomic, and Technical Design risks. Consequently, the risk response in IBRD and IDA may result in specific risk management strategies that are fit for purpose and help clients achieve project outcomes. This type of customization is expected to improve as TTLs and Management fine-tune institutional responses to risk.

Figure 8. Risk Profile of IDA and IBRD Operations



Source: Data extracted from Business Warehouse on January 4, 2016.
Note: Does not include Montreal Protocol, GEFs, or IPFs. Includes Blend projects.

B. Profile of Risk Categories

29. **The first year of SORT data suggests that the dimensions of risk most often rated as High or Substantial are Institutional Capacity and Political and Governance** (53% and 46% of commitments, respectively). As Figure 9 shows, this may imply a need for Practice Managers and TTs to increase attention to the institutional aspects and political economy of an operation while developing a risk mitigation strategy during preparation, and to emphasize institutional strengthening during implementation.

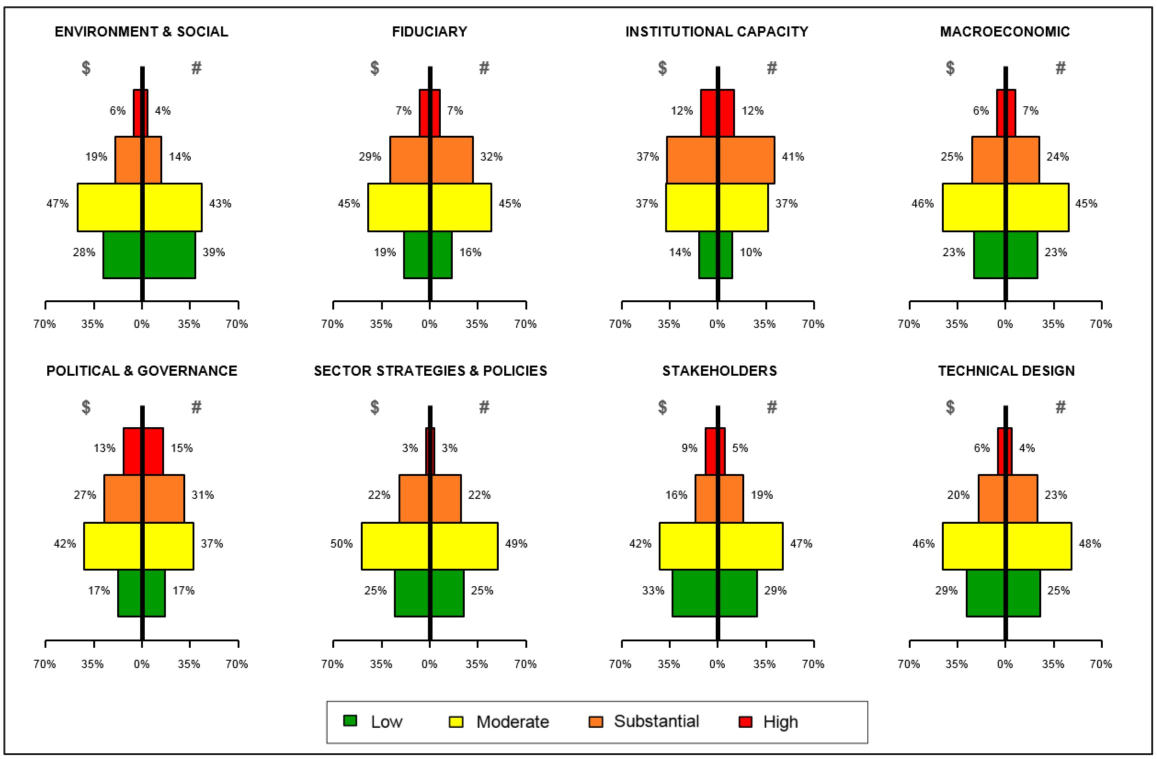
30. **Analysis of risk distribution by category may perhaps necessitate changes in resource allocation[12] to better align technical expertise and management input with areas of high vulnerability and risk.** For example, the present distribution of risk ratings shown in Figure 9 points to Institutional Capacity and Political Governance as drivers of project risk. Addressing risk in these areas may require a more proactive investment in capacity at the Bank and country levels. The Technical Design, Stakeholder, Sector Strategy, and Macroeconomic risk areas have ratings that are close to those of Environment and Social; this may well illustrate a greater degree of Bank expertise in managing the risks

[12] Management will need to guard against staff making claims of higher risk to access increased preparation and supervision budget. Moreover, not all High-risk projects require added supervision budget, and Low-risk projects may require added supervision because of their design.

in such categories and therefore a lower perception of risk. Decisions on project resource allocation would of course have to be considered within the matrix structure, where a risk analysis would form part of the decision-making process.

31. **Using this first year of data as a baseline, Management will begin to track how ratings change from concept to implementation, an exercise that should help the Bank fine-tune project design and resource allocation over time.** Longitudinal analysis of risk ratings will enable Management to identify particularly risky and challenging phases of the project cycle. As the limited data so far indicate, project risk ratings are likely to change through the lifecycle of a project. While a snapshot view of the active portfolio (as of January 4, 2016) may imply, for example, that 12 percent of the projects are of High risk for Institutional Capacity, many of these projects will carry or have carried lower risk ratings at other points in time. Similarly, the risk ratings of many lower-risk projects may rise as implementation proceeds.

Figure 9. Distribution of Risk in Portfolio



Source: Data extracted from Business Warehouse on January 4, 2016.

C. Risk Profiles of Regions

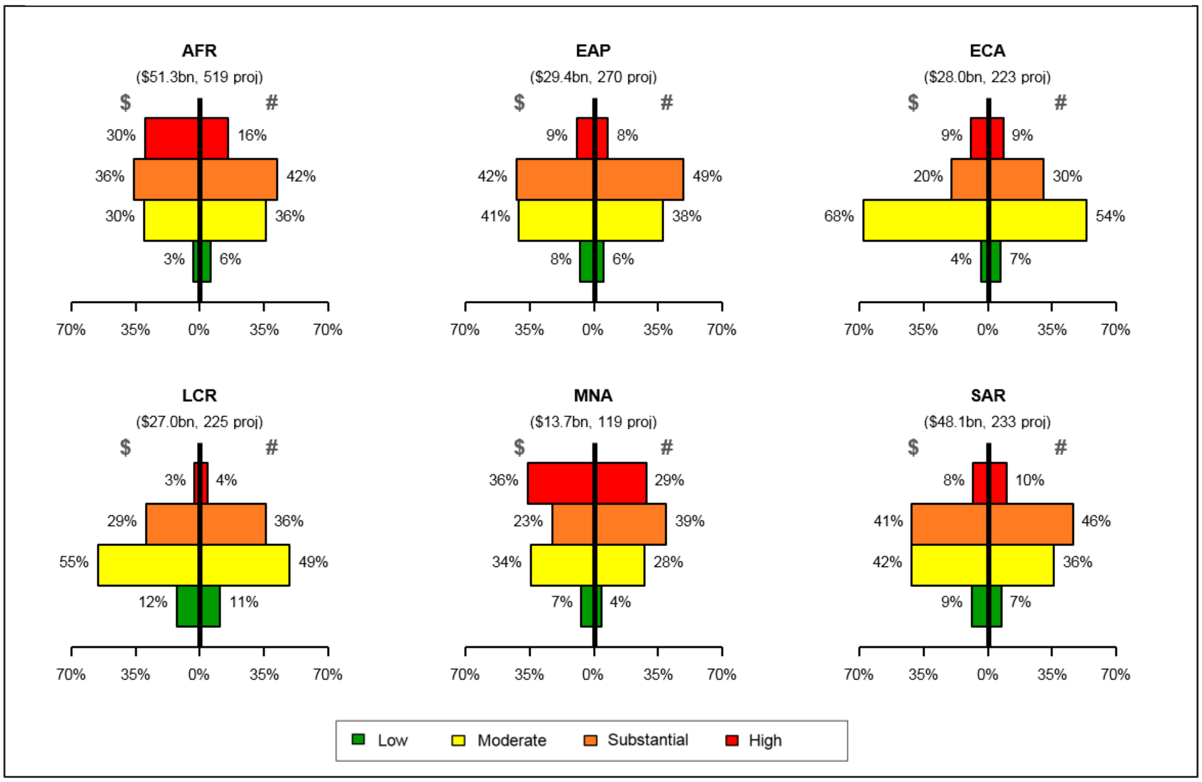
32. **The Regions appear to have diverse risk profiles, suggesting the need for further analysis of regional differences in client business procedures, country climate, and other factors that may contribute to divergence.** Below are some initial observations illustrated in Figure 10.

- High-risk operations seem to be more prominent in AFR and MNA and less prominent in LCR and EAP. This may reflect, among other things, the different nature of the political economy across

Regions, the level of capacity in client countries, and the governance context. As noted before, subjectivity is inherent in SORT risk ratings. The contestability mechanisms built into the Framework will help standardize the assessment of risk over time.

- The early data suggest that ECA has the largest share of operations rated Moderate, followed by LCR and SAR. This information, which is relevant to the Region-specific design of risk mitigation strategies, may point to a correlation between counterpart income levels and political stability on the one hand and risk levels on the other.
- The difference in risk profiles across IBRD and IDA operations may explain why ECA and LCR have smaller proportions of High and Substantial risk in their portfolios (29%, and 32%, respectively, by commitment) than AFR and SAR (66% and 49%, respectively).
- The large proportion of High and Substantial risk in the MNA portfolio (59% by commitment) may reasonably be attributed to political factors beyond the Bank's control.
- More data analysis will be needed to assess whether the Bank is relatively risk-averse in certain Regions, or whether a larger pool of field-based TTLs in a region with a long history of decentralization may have higher comfort levels vis-à-vis country-specific operational context and thus assign a more moderate risk rating.

Figure 10. Distribution of Overall Risk by Region



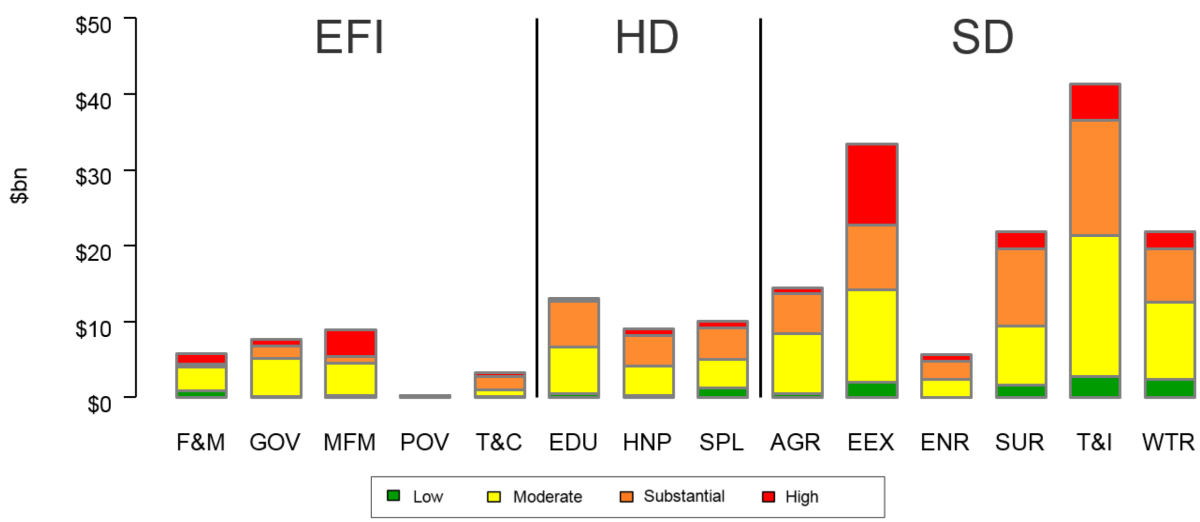
Source: Data extracted from Business Warehouse on January 4, 2016.

33. **In AFR there is a significant difference in the proportion of projects rated with an Overall Risk of High when measured by commitment (30%) and by number of projects (16%).** As compared to the other five Regions, this may suggest that a smaller number of high-value projects tend to be rated with a High Overall Risk in AFR.

D. Risk Profiles of Practice Groups

34. **SORT data can likewise be disaggregated by Practice Group—Equitable Growth, Finance and Institutions (EFI), Human Development (HD), and Sustainable Development (SD).** As Figure 11 illustrates, SD seems to have the largest number of Overall High and Substantial Risk operations. HD and SD also appear to have a relatively uniform distribution of High and Substantial Overall Risks across their GPs, while the distribution of High and Substantial risks in EFI is more varied[13]. Moreover, GPs in the infrastructure sector such as Energy and Extractives (EEX) and Transport and Information Technology (T&I) carry the largest proportion of High Overall Risk, likely because of the size and complexity of their operations. The additional analysis that follows is also useful in understanding the risk profile specific to each Practice Group. Characteristics in each of the Practice Groups may be affecting the distributions analyzed in this section, including sector, project, and portfolio size and complexity, and client capacity.

Figure 11. Proportion of Overall Risks across Practice Groups and Global Practices (Commitment amount)



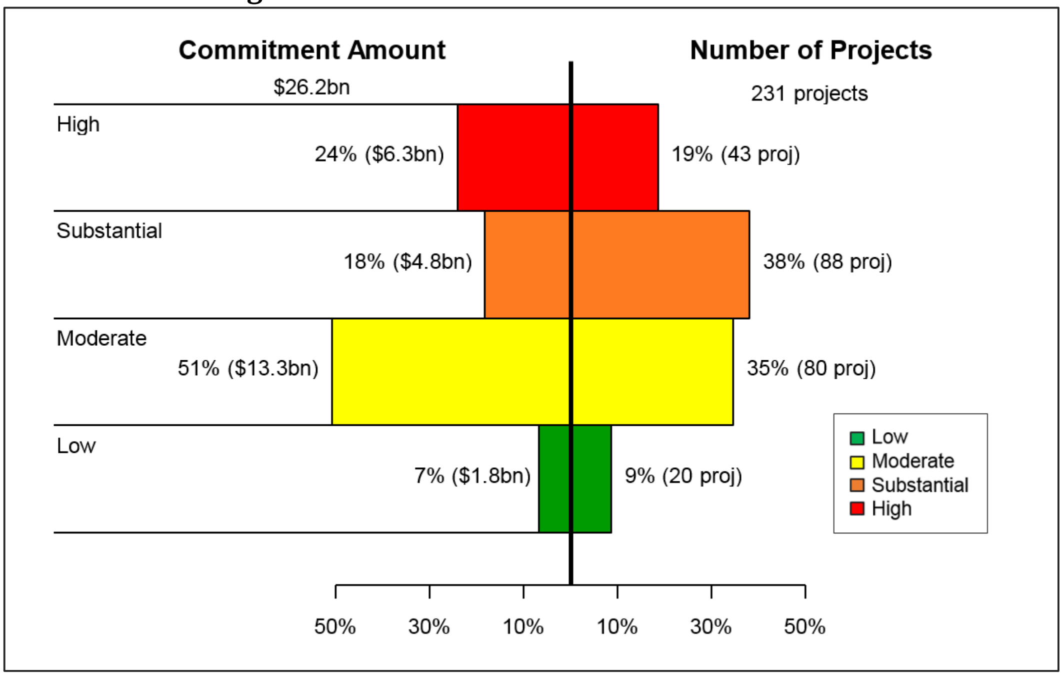
	F&M	GOV	MFM	POV	T&C	EDU	HNP	SPL	AGR	EEX	ENR	SUR	T&I	WTR
Commitment Amount ($bn)	$5.9	$7.8	$9.7	$0.3	$3.1	$13.0	$9.1	$10.0	$14.0	$33.6	$5.7	$22.0	$41.4	$21.9
Number of projects	49	80	40	11	51	133	95	85	155	186	136	197	210	165

Source: Data extracted from Business Warehouse on January 4, 2016.

13 The distribution of risk ratings observed in the EFI Practice Group may be the result of the comparatively smaller size of the EFI portfolio.

35. **In EFI the greatest proportion of High and Substantial risks is in Institutional Capacity (51%) and Macroeconomics (44%).** The lowest proportion of High or Substantial Risks is in the Environment and Social category (5%).The EFI portfolio rated in SORT is valued at US$26.2 billion, and 57 percent of the number of projects in the EFI portfolio is rated with an Overall Risk of High or Substantial (see Figure 12).

Figure 12. Distribution of Overall Risk in EFI

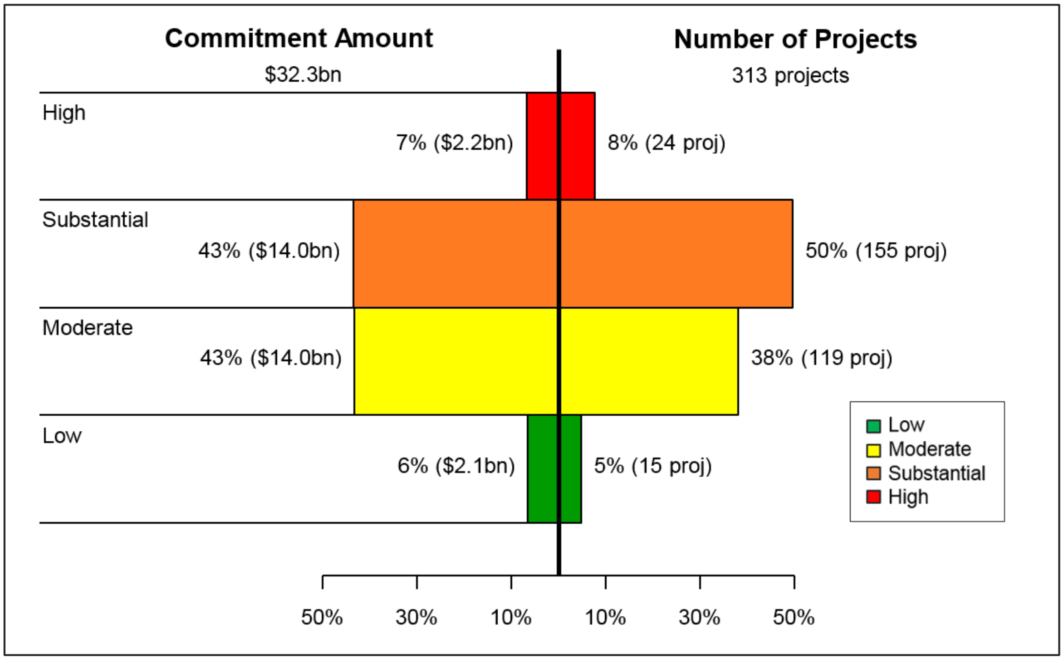


Source: Data extracted from Business Warehouse on January 4, 2016.

36. **In HD much of the High or Substantial risk is concentrated in Fiduciary (53%), Institutional Capacity (62%), and Political and Governance (57%).** The lowest proportion of High or Substantial risks is in the Environment and Social category (8%). The HD portfolio rated in SORT is valued at US$32.3 billion, and 50 percent of this commitment has an Overall Risk rating of High or Substantial (see Figure 13).

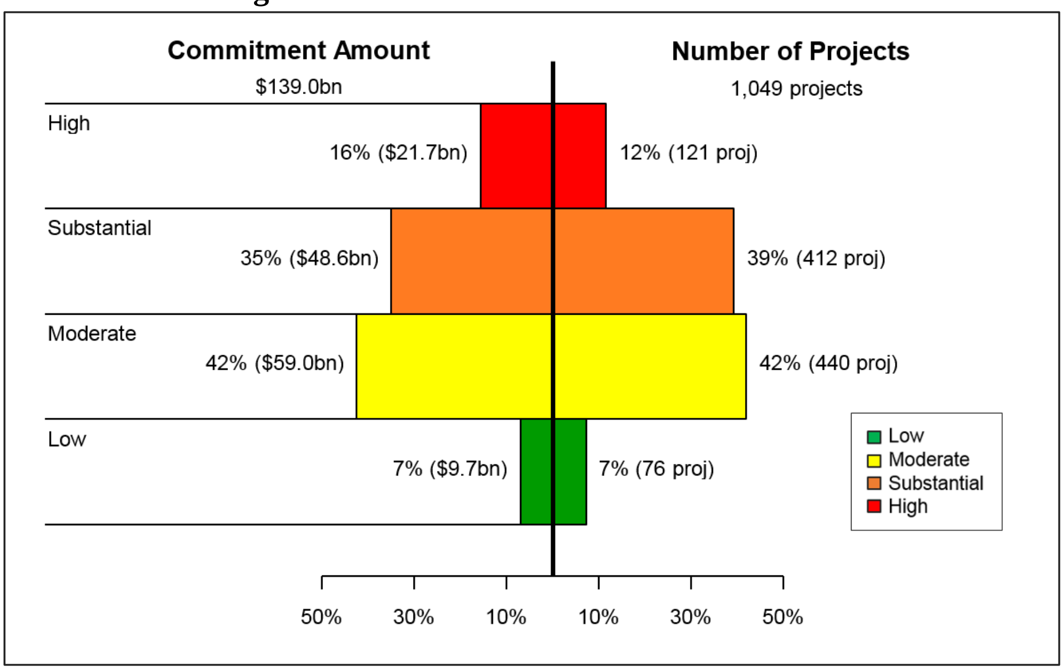
37. **In SD much of the High or Substantial risk is in Institutional Capacity (51%), Political and Governance (38%), and Fiduciary (38%).** The SD portfolio rated in SORT is valued at US$139.0 billion, and 51 percent of this commitment is rated with an Overall Risk of High or Substantial (see Figure 14).

Figure 13. Distribution of Overall Risk in HD



Source: Data extracted from Business Warehouse on January 4, 2016.

Figure 14. Distribution of Overall Risk in SD



Source: Data extracted from Business Warehouse on January 4, 2016.

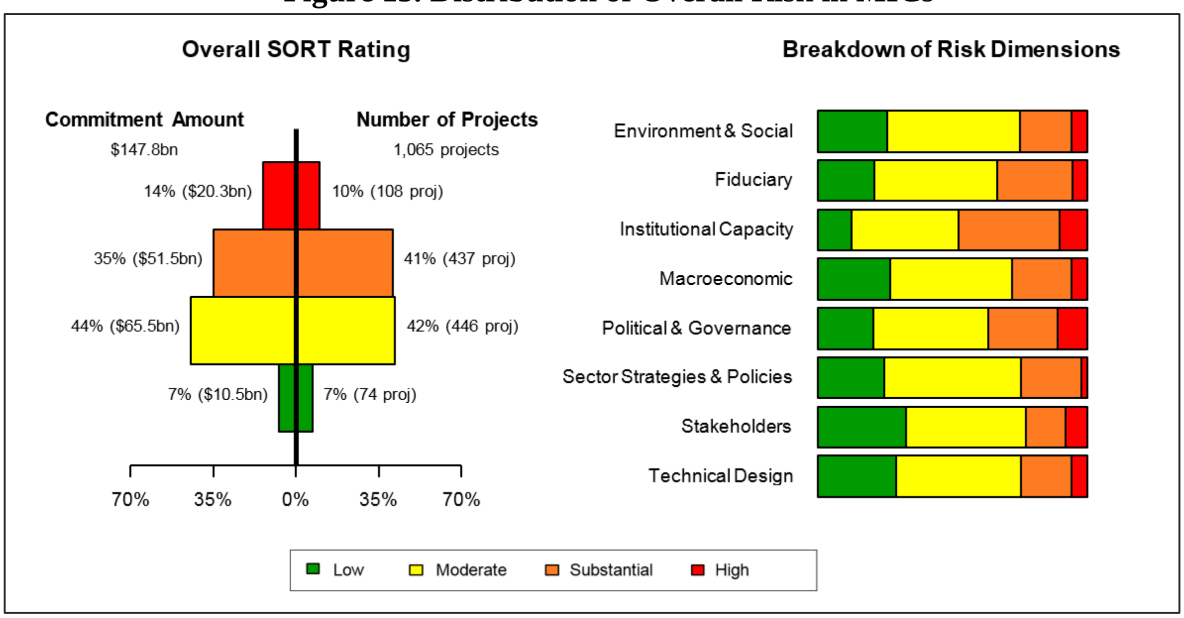
E. Country Groupings

38. **For middle-income countries (MICs), 51 percent of projects rated in SORT have an Overall Risk rating of High or Substantial.** The Bank has 1,065 projects valued at US$147.8 billion in MICs[14] (see Figure 15). The two highest risk dimensions in MICs are Institutional Capacity (48% at High or Substantial) and Political and Governance (33%).

39. **For low-income countries (LICs), 62 percent of projects rated in SORT have an Overall Risk rating of High or Substantial.** The Bank has 347 rated projects valued at US$29.0 billion in LICs (see Figure 16). Though the percentage of projects with High or Substantial ratings is noticeably higher than in MICs, the percentage of commitments in High or Substantial projects for LICs is 51 percent compared to 49 percent in MICs. The comparison suggests that operations in LICs tend to have higher risks in smaller projects while maintaining a similar risk distribution to MICs in overall commitments.

40. **For FCS, 76 percent of projects rated in SORT have an Overall Risk rating of High or Substantial.** Of the Bank's 294 projects in FCS, 281 projects (US$18.5 billion) have been rated under SORT (see Figure 17). Much of the High or Substantial risk is in the dimension of Political and Governance (78%), followed by Institutional Capacity (62%). Of the 281 projects, 114 are in MICs and 167 are in LICs. As Figure 17 shows, the FCS portfolio contains operations facing vastly higher risks than any other cut of risk data presented, implying that risk may be strongly correlated with political instability.

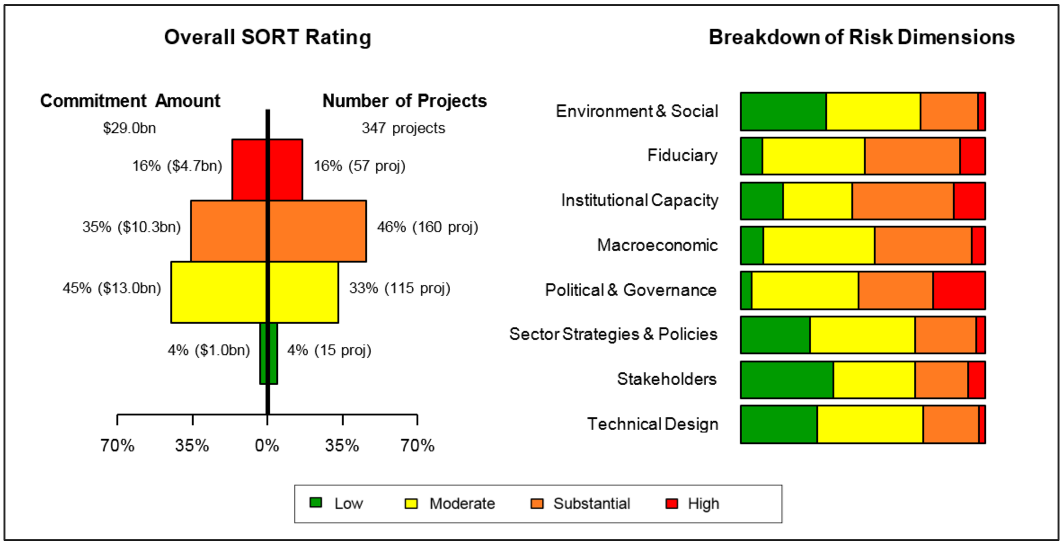
Figure 15. Distribution of Overall Risk in MICs



Source: Data extracted from Business Warehouse on January 4, 2016.

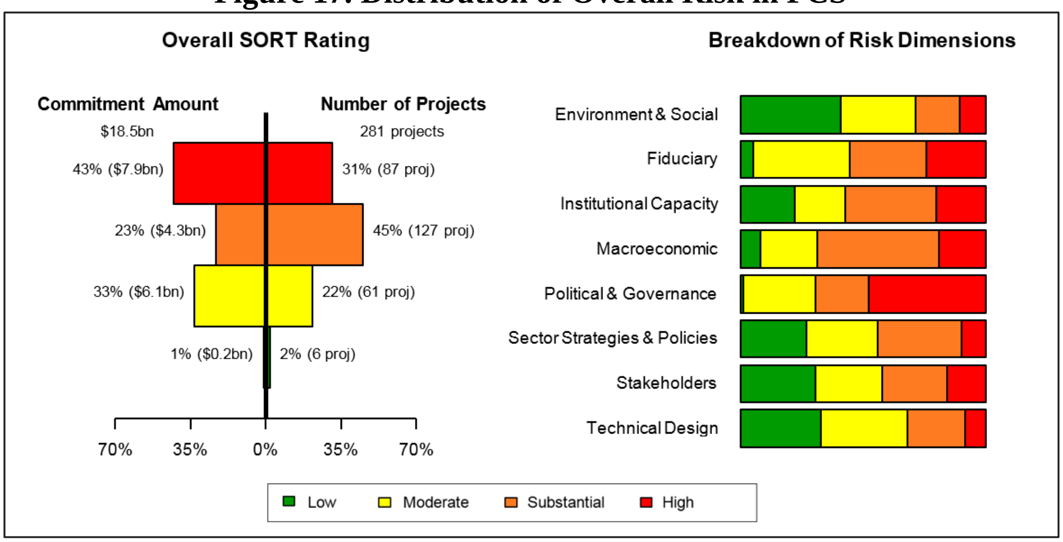
[14] The list of MICs used in this report was downloaded from http://data.worldbank.org/about/country-and-lending-groups.

Figure 16. Distribution of Overall Risk in LICs



Source: Data extracted from Business Warehouse on January 4, 2016.

Figure 17. Distribution of Overall Risk in FCS



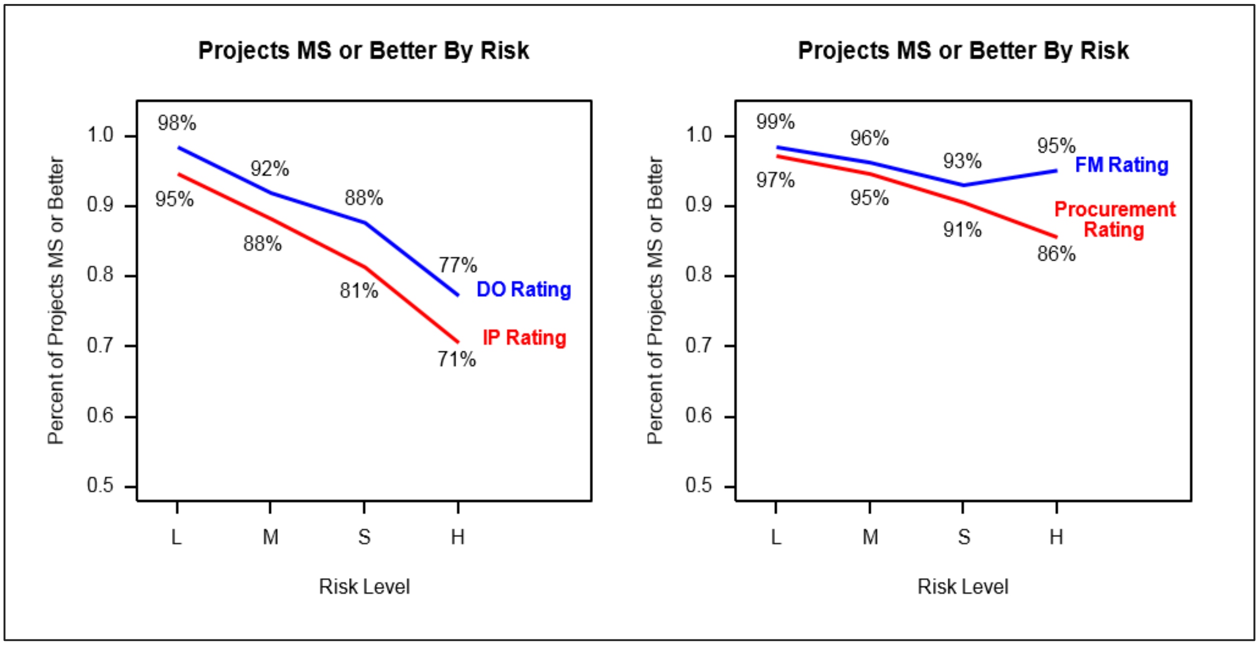
Source: Data extracted from Business Warehouse on January 4, 2016.

F. Assessing Risk and Performance in Operations

41. **Early analysis suggests there may be a correlation between operational performance and risk assessed under SORT, although additional evidence will be needed to draw firm conclusions.** SORT facilitates a dynamic risk assessment throughout project preparation and implementation. Emerging patterns in the overall portfolio indicate that as the proportion of projects rated Moderately Unsatisfactory (MU) or lower for implementation progress/development objectives (IP/DO) increases, so does the Overall Risk of a project. Similarly, the chart on the left in Figure 18 shows the steady decline of satisfactory outcomes at successively higher levels of risk. This suggests that more Management attention and resources—whether appropriate technical expertise or Management input—may be needed for higher-

risk operations to ensure that the intended development outcomes are achieved. A similar but weaker pattern can be observed in comparing risk to performance in procurement (see chart on right in Figure 18). The current data do not indicate a correlation between overall risk and FM rating[15]. As more data are collected from SORT, possible correlations with other indicators in the ISR will be explored, including the performance ratings for project management, monitoring and evaluation, disbursement lag, and safeguards ratings.

Figure 18. Percent of Satisfactory Projects (DO/IP/FM/Procurement) by Risk Rating

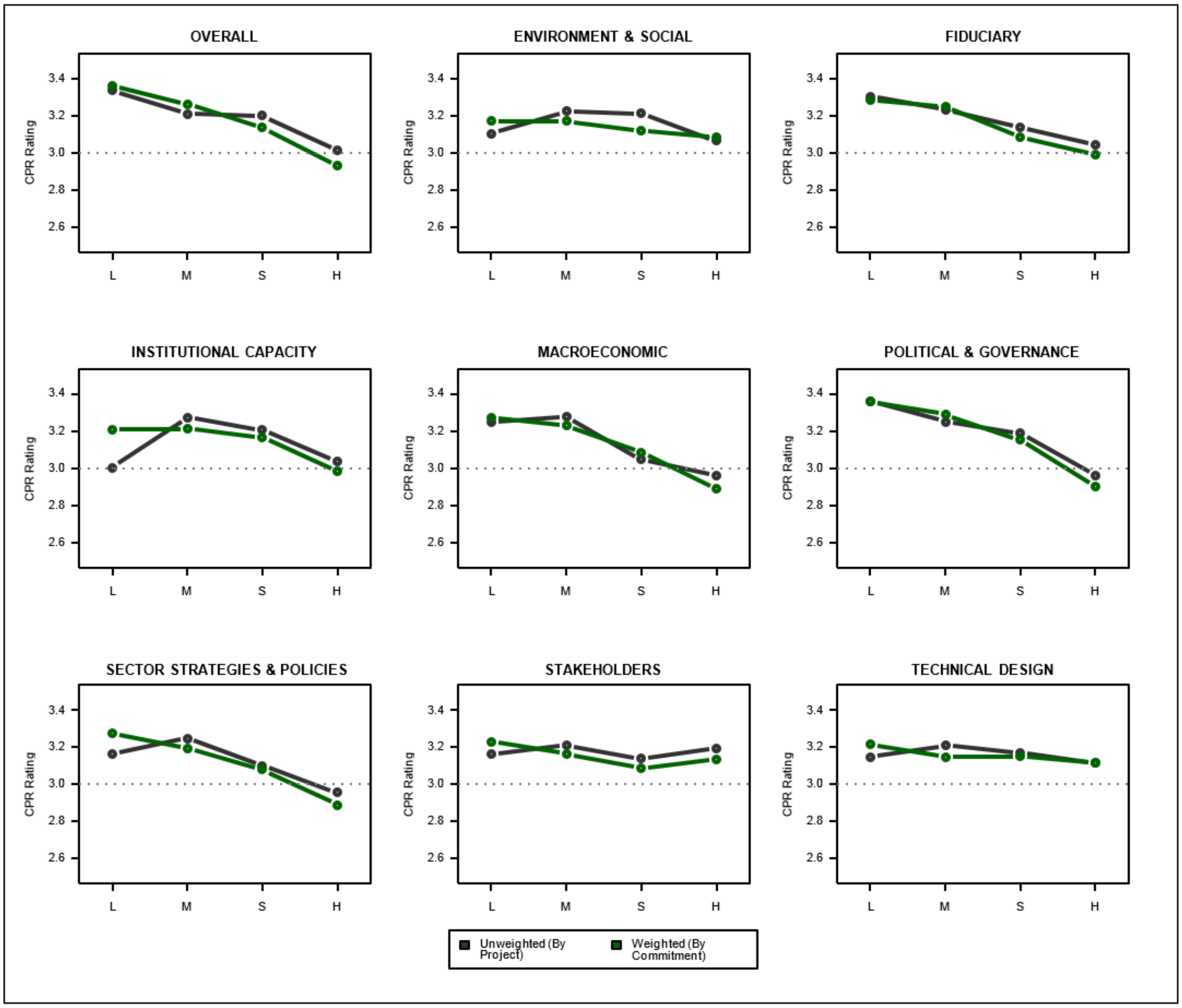


Source: Data extracted from Business Warehouse on January 4, 2016.
Key: MS = Moderately Satisfactory; L = Low; M = Moderate; S = Substantial; H = High.

42. **Preliminary analysis likewise appears to indicate possible correlations between levels of risk in projects recorded in SORT and the average Country Performance Rating (CPR) in the Country Policy and Institutional Assessment (CPIA)[16].** As Figure 19 illustrates, the average CPIA rating seems to decrease at higher risk levels in particular SORT risk categories. However, further evidence is required before any broad conclusions can be made about such possible correlations.

[15] The examples used to illustrate correlations between SORT and performance data focused on procurement and financial management because those functions provided the most complete and accurate dataset vis-à-vis projects rated in SORT.
[16] See latest IDA CPRs as of 2013: http://www.worldbank.org/ida/CPR.html.

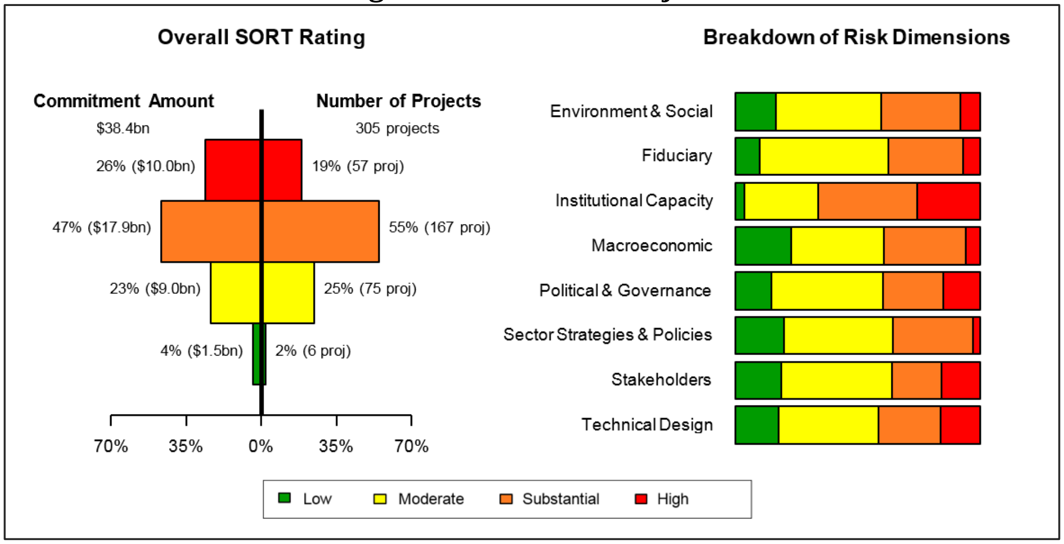
Figure 19. CPIA Country Performance Ratings and Risk Ratings in SORT



Source: Data extracted from Business Warehouse on January 4, 2016. Latest data on IDA CPRs retrieved at http://www.worldbank.org/ida/CPR.html.

43. **Emerging risk distributions in problem projects suggest that the risk factors driving the highest risks in these projects are Institutional Capacity, Technical Design, and Political and Governance.** Of the 1,593 active operations rated in SORT, 305 (19%) are problem projects. And of the problem projects, 74 percent are rated either High or Substantial, 25 percent are rated Moderate, and only 2 percent are rated Low (see Figure 20).

Figure 20. Problem Projects



Source: Data extracted from Business Warehouse on January 4, 2016.

G. Future Uses of Risk-rating Data

44. **The collection of more data from SORT over the next fiscal year will enable further analysis of risk trends, which will begin to inform Management on the most appropriate technical resources and team compositions and on modifications to the design of operations to improve the chances of success.** For example, noting the predominance of Institutional Capacity as an area of heightened risk in Bank projects would demonstrate the need for increased expertise in TTs to assess institutional capacity and provide clients more support in that area. Such data can also inform teams about how best to design an operation in terms of both inputs and the time that is required for a project to reach its results. Examining risk ratings as projects enter the portfolio can also help to indicate the direction the portfolio may be taking so that managers can reallocate resources where they are most needed. These examples and other key areas listed below indicate how Management can use data from SORT to improve the Bank's effectiveness and deliver better outcomes for its clients.

- Differentiate the allocation of resources for preparation and implementation of operations on the basis of the risk category.
- Simplify processing steps and reduce preparation time of lower-risk operations while increasing Management oversight of higher-risk operations.
- Adjust the way in which projects are monitored and managed throughout their lifecycle in order to better allocate resources as risk ratings change.
- Explore mechanisms to adjust team composition in TTs according to the risk category and the technical expertise required to manage the highest risks of an operation.
- Further integrate information systems to better alert Management to risky operations and vulnerabilities in the Bank's portfolio, including the streamlining of processes with INT and Inspection Panel cases that come up during implementation.

- Develop new monitoring indicators such as portfolio risk tolerance[17].
- Apply the latest analysis on risk data to customize learning for specific technical and managerial staff, such as procurement and financial management specialists, operations advisors, and Practice Managers.
- Develop approaches to help clients build their capacity to identify, assess, and manage operations risks under Bank-funded operations.
- Over time, explore analyzing outcome ratings from the Independent Evaluation Group against results from the Implementation Completion Reports to strengthen the Bank's understanding of correlations between risk ratings and development outcomes.

IV. MOVING FORWARD

45. **The Bank is now better placed to start mapping trends over time and across risk categories.** The experience from the first year of implementation demonstrates that SORT is a nimble instrument to identify, assess, and report risk. It has provided a baseline of risk-related operational data that will help the Bank better understand what types of operations are more likely to achieve their intended outcomes, what projects are more challenging to implement, what risk mitigation strategies have a track record of success, and where to focus resources. Over time, SORT data can also help define a more robust portfolio and lending strategy for the Bank. It should be noted that while the technical rollout, staff training, and use of SORT have been seamless, feedback from users over the past year has highlighted the need to continue refining the Guidance Note. Further training tailored to TTLs and Management will also be needed to improve staff understanding of risk assessments and promote greater consistency in rating projects, greater use of risk data in supervision, and better calibration of risk across Bank operations.

46. **The Bank intends to ensure an easy automation of the SORT data charts to enable presentations in real time, determine ideal levels of risk tolerance, and provide the empirical evidence for the optimal distribution of risk across GPs and the portfolio.** With almost all IBRD/IDA projects rated under SORT, Management will now begin to (a) track how risks change over time, especially between preparation and implementation; (b) identify robust mitigation strategies; and (c) deepen the analysis of the distribution of risk across GPs, Regions, instruments, and IBRD/IDA. As more data on risk become available, SORT data will be reviewed in light of other indicators of project success such as DO and IP ratings.

47. **SORT can likewise provide empirical and evidence-based approaches to risk forecasting to improve project design during preparation and strengthen the linkages between resource allocation and risk levels.** The Bank proposes to develop risk-based algorithms to forecast project performance and outcomes, develop predictive indicators for risk, and build data models to identify risk response strategies across instruments and types of risks[18]. It also intends to explore mechanisms such as institutional arrangements and support systems to adjust resource allocation processes as needed, and to monitor implementation.

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[17] *Risk appetite* is the amount of risk the Bank would be willing to broadly accept to meet desired development outcomes for its clients. *Risk tolerance* is the level of variation the Bank would be willing to accept around specific objectives.
[18] This initiative will require extensive testing and ongoing consultations with the Regions to validate results.

48. **The Bank has been discussing its Framework for the assessment and management of risk in operations with other development partners and has spearheaded a community of Development Risk Practitioners.** Members of this community, including MDBs and bilateral development organizations, will share information on approaches to identification, assessment, and mitigation of risk in development operations. By sharing information and ideas on how best to manage the risks of development operations, the Bank will seek to increase collective efforts to find new solutions to the development challenges its development partners and client countries face.

49. **During FY16, training and other outreach efforts will continue to be a key area of focus for OPCS to strengthen the Bank's understanding of risk in operations and of the Framework itself.** The Risk Clinics and training will be refined to reinforce the guidance on risk and improve participants' understanding of each of SORT's risk dimensions. For instance, additional guidance is being provided to help staff differentiate risk ratings of Low and Moderate and risk ratings of Substantial and High, and understand the boundaries between risk categories such as Political/Governance and Fiduciary. More tailored training will be designed and rolled out to help TTLs, country management units (CMUs), Practice Managers, and GP directors use SORT data for improved risk-based decision-making. OPCS will increase the number of results-focused trainings, workshops, and clinics, and will provide regular analysis of risk trends. This will ensure a more consistent understanding of risk across Regions and GPs, as well as a strengthened CMU-client interface on SORT.

50. **Building client skills and capacity to assess and manage risks in operations is critical.** The Bank will explore ways to improve client capacity to proactively identify, assess, and manage risks throughout an operation or program.

51. **Fiduciary and safeguards rating tools will be further aligned with SORT to streamline risk identification and management.** The Integrated Fiduciary Risk Rating Tool was designed to help fiduciary staff complete joint risk assessments and inform the TTL of the recommended risk rating for fiduciary risk in SORT. Fiduciary staff were trained in the use of this tool during the Risk & Reform Forum in June 2015. During FY16 more outreach will promote the use of this supplemental tool and address challenges in aligning its ratings with SORT ratings. SORT ratings of fiduciary risk are derived from input provided by fiduciary staff: procurement and financial management (FM) risk assessments prepared with the PRAMS and PRIMA inform teams of the level of risk from a fiduciary perspective. The procurement and FM risk ratings recorded in each system are then evaluated to suggest a combined single Fiduciary Risk Rating in SORT. The technical team's judgment and the TTL's assessment regarding the impact of fiduciary risks on the project's ability to reach its development outcome result in the final fiduciary risk reflected in SORT.

52. **The Environmental and Social (E&S) risks are recommended by the E&S experts on the team, with advice from the relevant Safeguards Advisors, who clear the proposed E&S category (A, B, or C) during preparation.** Under the Bank's safeguards policy, projects are categorized on the basis of their E&S impact. Because safeguards categorization does not always denote the level of E&S risk of an operation (e.g., some category B projects could be riskier than category A projects), teams have been assessing and reflecting E&S risks on the basis of the E&S risks under the projects as well as the unintended E&S outcomes they might cause. The risk rating under the proposed new Environment and Social Framework is expected to be more closely aligned with SORT ratings, so that risk categorization will reflect the impacts and likelihood of E&S risks in an operation. During FY16, additional training will be needed to help staff align E&S risks with the E&S ratings in SORT.

53. **Reputational considerations raised by ECR and INT integrity concerns are being aligned with SORT to further integrate and streamline the information flows underpinning the Framework.** ECR produces weekly heat maps for Senior Management that include readouts of sensitive political and stakeholder concerns, and INT issues reports on fraud and corruption. The active participation of ECR and INT in the Risk Advisory Group meetings helps ensure that teams have access to ECR and INT information as they assess their operations' risks. This ensures a more candid and robust rating of individual risk categories.

54. **OPCS will develop an alert system in the Operations Portal to flag Volcker Trigger[19] projects and other integrity concerns identified by INT to improve the Bank's ability to address corruption risks.** A Volcker Trigger flag will facilitate (a) early identification of operations for which the Volcker Trigger applies, (b) timely notifications to TTs on relevant disclosure requirements, and (c) an improved exchange of information on integrity concerns during project preparation. This will support more informed risk-based decisions and will help TTLs proactively identify, assess, and mitigate corruption risks in Bank-financed projects.

55. **Integrating risks in operations within the broader ERM Framework is essential to a more integrated/holistic view of the Bank's risk management activities and risk appetite and tolerances.** The WBG CRO leads the risk management function for IBRD and IDA, with primary oversight responsibility for financial and operational risks across finance and technology partners. The CRO also assists Management with identifying and managing the Bank's top and emerging risks, providing integrated responses to cross-cutting risks, reducing financial and operational surprises and losses, seizing opportunities, and improving deployment of capital.

56. **Risk Governance at the Bank.** Figure 21 provides a schematic representation of risk governance at the World Bank. Oversight of project risks in operations and operational risk arising from nonfinancial activities associated with the delivery of the Bank's work program falls under the responsibility of OPCS, with ownership resting with the Regions and GPs, and ultimately with Senior Management. The application of this Framework within this broader scheme of risk identification and management will better inform the Bank's ERM framework. IFC's approach to risk management is summarized in Box 2.

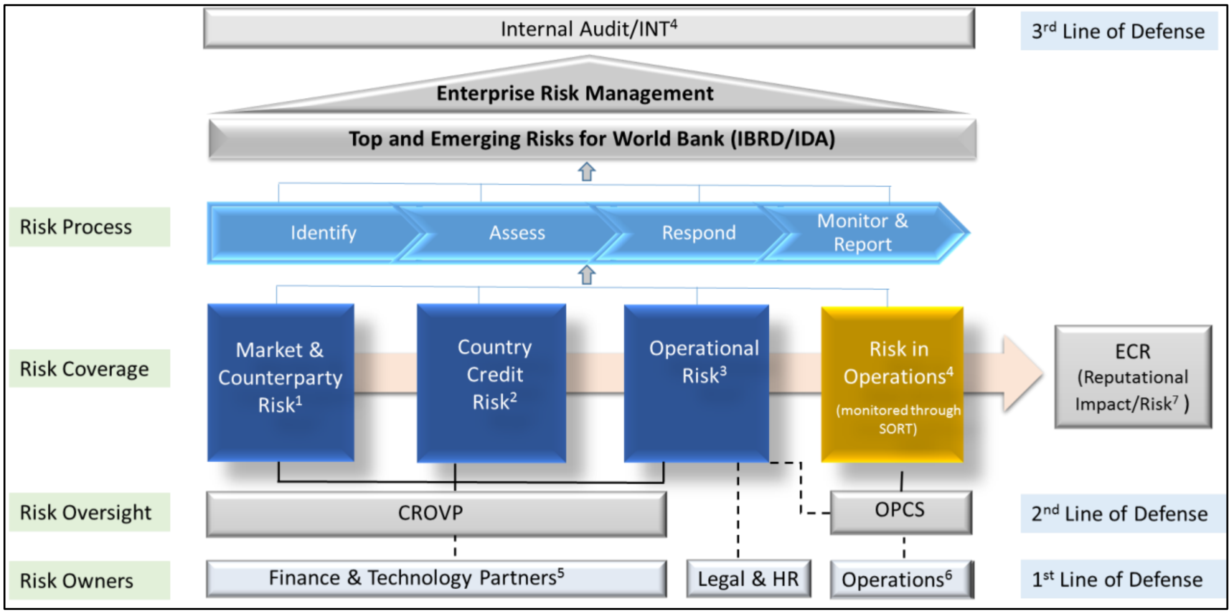
Box 2. IFC's Approach to Risk Management

IFC has its own independent risk management governance structure for project approvals that meet its risk appetite and risk tolerance criteria. Risk appetite and risk tolerance at IFC are informed by IFC's Enterprise Risk Management Framework. Risk is managed in IFC in terms of limit frameworks; Board policies; IFC Directives, Procedures, and Guidelines; and performance measurement metrics.

All projects are risk-rated at origination and undergo a dual approval process performed by both Investment and Risk Management before they are submitted for Board approval. All transactions in the portfolio are reviewed regularly for creditworthiness and valuation. Compliance at IFC is measured and monitored regularly to ensure that IFC's risk profile remains aligned with its risk appetite.

[19] A Volcker Trigger is a disclosure requirement to the Board of Executive Directors which helps inform management decisions on high integrity risk operations.

Figure 21. The Bank's ERM Framework



1. Market risk includes price risks, liquidity, and counterparty credit risks associated with Treasury activities.
2. Credit risk covers sovereign credit risks arising from IBRD/IDA lending activities.
3. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events; it includes such risks arising from HR, Legal, and business continuity for the World Bank.
4. Risk in operations includes oversight of project risks and operational risk arising from activities associated with the delivery of the Bank's work program; these risks are monitored through SORT with input from ECR and INT and are not under CROVP oversight. Risk in operations excludes the strategic and stakeholder risks that are under the purview of SMT and ECR.
5. Some units, including Information Technology and GSD, are corporate functions that own and manage operational risk across the Bank for their respective areas, including operations.
6. Operations owns the operational risks associated with people, processes, and systems related to projects.
7. Reputational impact/risk occurs when there is a gap between the performance or behavior of the WBG and the expectations of its critical stakeholders. ECR's role is to flag reputational risks to business units and to help them respond.

57. **The Bank will continue monitoring the implementation of the Framework. Regular reviews of risk ratings during Risk Advisory Group meetings, as well as regular reporting, outreach, and learning for staff, will help ensure better use of the system, improve the quality of the Bank's portfolio, and enhance results for clients.** Following this update, Bank Management will start reporting on risk in Bank operations through Management's Operations Updates and the Quarterly Business Risk Review.

Annex 1: SORT Guidance Note

June 25, 2014[1]

I. Introduction

1. The objective of the Systematic Operations Risk-rating Tool (SORT) is to help the World Bank consistently assess and monitor risks across all operational instruments and country programs. This in turn will allow us to become more effective at supporting client countries in managing development results. The risks considered are the risks to development results associated with the operation: both the risks to not achieving the intended (positive) results intended by Bank-supported operations; and the risks of Bank-supported operations causing unintended (negative) results. The SORT provides the information needed to help clients adequately manage and, where possible, mitigate operational risks within a broader risk management framework. It is intended to identify those risks on which the Bank needs to focus management attention and resources – within any given operation or at the level of the country, region, global practice or cross-cutting solution area.

2. The SORT: (i) systematically and consistently rates risks of operational and country engagements in all regions and across all operations (Investment Project Financing – IPF, Development Policy Financing – DPF, and Programs for Results - PforR)[2]; (ii) helps focus management attention on high and substantial risk operations and on particular risks within operations during implementation; and (iii) provides a light but systematic and contestable way of identifying the appropriate level of corporate review process and any need for Board discussion. The SORT also applies to Country Partnership Frameworks (CPF), in order to focus management attention on high risk CPFs during preparation and implementation, to better link risk management at the country program level with risk management at the operational level, and to establish risk management as an integral part of country engagement. The SORT covers risks during both the preparation and the implementation stages, in an integrated manner, and is updated throughout the life of the operation/CPF.

3. The SORT is harmonized across instruments and regions. It replaces the Operational Risk Assessment Framework (ORAF, for IPF operations) and the Integrated Risk Assessment Framework (for PforR operations), and will also apply to instruments that do not currently use a standardized risk assessment tool (DPFs and CPFs). The SORT will be the primary source of information for the so-called "risk lists", i.e. inventories of the highest risk operations that require special management attention at the regional or corporate level.

4. The SORT will be part of a broader framework for operations risk management. The SORT itself is not intended to be a risk management strategy or mitigation plan. Instead, it is intended to be the screening mechanism on which such a plan would be based. It would enable Management to focus attention on the highest risk operations (and the highest risks within operations) during preparation and implementation.

[1] Re-issued with minor updates on September 25, 2015.
[2] The SORT will also apply to Bank guarantees, which, beginning on July 1, 2014, are part of Development Policy Financing (in the case of policy-based guarantees) and Investment Project Financing (in the case of project-based guarantees).

5. This guidance note is organized as follows: section II describes the SORT and its components. Section III provides an overview of the process of preparing and reviewing the SORT. Finally, section IV provides guidance on how to rate risks in each category.

II. The SORT

6. The SORT is a simple matrix consisting of nine risk categories, plus an overall risk assessment. The risks to be assessed in the SORT are defined as the client's risks to development results associated with the operation or operational engagement. The risk assessment in the context of Bank activities should therefore consider two types of risk: (i) risks to achieving the intended (positive) results as per the Program/Project Development Objectives (PDO) of the operations, or the Country Partnership Objectives in the case of CPFs; and (ii) risks of adverse unintended (negative) consequences to the client flowing from the operational engagement, including risks to the money, people, and environment, even where these do not disrupt the achievement of the development objectives. In addition, the assessment takes into account both the likelihood of the risk materializing, as well as the severity of its impact on the achievement of the intended results. The risk assessment should be based on current residual risk, i.e. after taking into account the impact of mitigation measures that have already been implemented; but not presuming any future additional mitigation measures, beyond those already in place. There is no pre-assigned weighting of the different aspects of risk under each category, and teams should use judgment in determining a single rating. Similarly, the overall risk rating does not necessarily reflect an average of the nine individual ratings, but rather a judgment based assessment of the relative weight of risks under each category in the context of the CPF or operation.

7. It is important to emphasize that in all risk categories the assessment is of the risk to PDO or the risk of unintended consequences associated with the operational engagement, and does not refer to "country level" risk in and of itself. This means that for operations, risk under each category should be assessed in the context of the specific project or program; or, in the case of programmatic DPF, in the context of the program series. For CPF, the risk assessment should be based on the proposed program of engagement. As the assessed risks are specific to the operational engagement, ratings in each category may vary among different operations in the same country.

Risk Categories	Rating (H, S, M or L)
Political and governance	
Macroeconomic	
Sector strategies and policies	
Technical design of project or program	
Institutional capacity for implementation and sustainability	
Fiduciary	
Environment and social	
Stakeholders	
Other	
Overall	

8. In the SORT matrix, each risk category is given a single rating, without additional comments or explanations (see paragraph 8 below for information on where to include this discussion). No additional

columns should be added to the matrix. Staff should carefully consider the most important possible event under each category. If several different aspects are relevant in a given risk category, staff should use their own judgment to determine the single rating for that category, taking into account both the likelihood and the severity of the impact of each of the risks. The four available ratings are high (H), substantial (S), moderate (M) and low (L). All risk categories should be rated, with the exception of "other", which may be left blank if not applicable.

9. The SORT is a self-contained tool that is linked to the operation in the on-line portal[3] and is also included in the project, program or CPF document[4]. All ratings will be disclosed in the public documents related to the operation or CPF. In addition, the risk section of the Project Concept Note (PCN), Project/Program Appraisal Document (PAD), Project Paper (PP), Program Document (PD) or CPF Document states the overall risk rating and also discusses the most relevant risks. If the "other" risk category is selected, a brief description of the nature of the risks should also be included. If a risk category is rated "low" or "moderate", it is generally not necessary to include a write-up of this category in the document. In this section, teams are also required to summarize the client's plans and the Bank's support for risk management and mitigation for the most relevant risks; and update them in Implementation Status and Results Reports (ISRs) for operations and Performance and Learning Reviews (PLRs) for CPFs. For the placement of the SORT table in the project, program or CPF document, see the applicable document templates on the OPCS website.

III. Process

10. SORT will initially apply to all CPFs and CENs; and to all DPF and IPF operations that are in the early stages of preparation[5]. In the case of instruments that have passed the decision stage and/or are already under implementation, teams will not be required to "retroactively" change to the SORT. Instead, they will switch over and use the new template in the next Implementation Status and Results Report (ISR) or Performance and Learning Review (PLR).

Preparing the template

11. The task team prepares a preliminary version of the SORT and write-up of the highest risks at the concept stage of the operation or CPF. The risk ratings will be part of the concept review package and will be discussed during the concept review meeting. The decision note will record the risk ratings agreed upon during the meeting, and these will be reflected in the next version of the SORT. The ratings agreed on during the concept review will also help determine the processing track to be followed (in the case of IPF), and the level of corporate review required for the decision stage of the operation or CPF.

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[3] In the case of IPF, the SORT is part of the operations portal during identification, preparation and implementation. In the case of PforR and DPF, the SORT is in the portal during implementation only (as part of the ISR).

[4] See the revised templates for IPF, PforR, DPF and CPF for the exact location of the SORT. These templates are available on the OPCS website.

[5] For more details on the transition arrangements, please refer to the kiosk announcement dated September 23, 2014. PforR operations will begin applying SORT at a later date.

Updating the SORT

12. At the relevant decision points before negotiations, the SORT should be updated taking into account any additional information obtained during the preparation of the CPF or operation. For those operations that require decision meetings, it will form part of the decision package and will be reviewed during the meeting. The decision note should reflect the final risk ratings agreed upon during the meeting in accordance with the overall Accountability and Decision Making (ADM) responsibilities for the CPF or operation.

13. In the case of operations, the task team reviews the initial risk assessment throughout the course of implementation as part of project or program supervision, reflecting the impact of any mitigation measures that have been implemented. Updates to the SORT will be recorded as part of the ISR/PLR process, in accordance with the overall ADM responsibilities for the operation as a whole. For programmatic DPF not requiring an ISR[6], the risk assessment will be updated during the identification and preparation of the next operation in the series. For CPFs, the update will take place at the PLR stage, which would provide an opportunity to reflect any impact on the risk ratings from adjustments in the scope and nature of the operational engagement. These updates provide the opportunity to re-assess risks in light of new developments and the impact of any mitigation measures taken to address them.

Corporate validation of risk ratings

14. The risk ratings will be validated as part of the concept review, decision review, ISR advice and decision and CPF progress report decision. At the corporate level, a team in OPCS reviews quarterly the rolling Bank-wide pipeline of high and substantial risk operations and CPFs identified by regions to validate the risk assessment. Risk is one of the four criteria (along with major innovation, significant policy waivers and enhanced Board interest) that determine the pipeline for full Board discussion and the associated level of corporate review. OPCS also reviews the highest risk operations in the portfolio as part of the "corporate risk list" validation.

Use of the risk ratings

15. The primary purpose of the SORT is to help staff and management assess and monitor risks in a comprehensive and consistent manner. The ratings will determine the risk management measures required to support the implementation of the operation or CPF. The ratings will also help focus management attention on the highest risks in the operations pipeline and portfolio, as well as on the country program level. Over time, the risks ratings may also become a key factor in decisions related to budget allocations and staffing, among others.

16. At completion stage, the SORT is used to check, record and learn whether the risks assessed did or did not materialize; what they were; how serious they were; what was done about them; and what impact they had on the implementation of the operation and achievement of the development objective. It thus serves as an important input for the Implementation Completion Report (ICR) or Completion and Learning Review (CLR).

[6] ISRs are not required for stand-alone operations and are only needed for operations that are part of programmatic series if the time between the last operation's Board date and next operation's Board date in the programmatic series exceeds 12 months. The same rule applies for multi-tranche loans (the period of 12 months is counted between tranche release approvals).

17. Over time, as the relationship between risk ratings (as evaluated by the SORT) and quality of exit becomes clearer, the SORT can also be used to establish risk tolerances. Senior management and the Board will come to know what is the likelihood that an operation rated “High” risk overall exits the portfolio as Moderately Satisfactory or Satisfactory; as against an operation rated “Low” risk overall; and on this basis can make transparent trade-offs.

Guideposts for risk ratings

18. This section provides guidance on how to rate the risk in each of the nine categories. Each section contains a brief definition of the risk, as well as a rating guide, which describes the key guideposts that correspond to the four rating levels (H, S, M and L). The rating guide by no means represents an exhaustive list of potential risks, but rather is designed to provide a general yardstick to be adapted to the specific context of an operation or CPF. Finally, each section provides a list of useful sources of information that could help teams in their assessments.

1. Political and governance

Definition

19. This category assesses the risks to the development objective stemming from the country's political situation and governance context. It is important to note that it does not assess the overall riskiness of a country. Political and governance risks should be assessed against the development results associated with the operation or CPF. For instance, it is conceivable that an operation or CPF in a country that is perceived to be highly risky in terms of its overall political and governance context could nevertheless have a low or moderate risk rating in this category.

20. The assessment of political risk should consider political developments that could impact the government's priorities with respect to the operation or CPF. This includes (but is not limited to) upcoming elections or an impending change in government; and other factors that could impact the political commitment to the operation or operational engagement and the political decisions required for successful implementation (including laws and the provision of counterpart financing).

21. Governance is a country's exercise of power in managing its economic and social resources for development. The assessment of governance risks, therefore, should take into account the extent to which the three key principles of good governance ("TAP" principles of Transparency, Accountability and Participation) have been adopted and implemented in the context of the operation or operational engagement. Special attention should be paid to fraud, corruption and other unethical practices resulting from governance failures.

22. In some circumstances, the operation or operational engagement may have unintended negative consequences on political and governance aspects (such as on vested interests or political stability), which should also be taken into account in the risk assessment, based on political economy and stakeholder analyses.

Useful indicators and information sources

23. The CMU and governance specialists for the respective country (where applicable) are resources that the task team may draw upon to determine the level of political and governance risk in the context of their operation or operational engagement. Information on potential sources of political and governance risks is available through the Country Policy and Institutional Assessment (CPIA), surveys (including World Bank Group investment climate surveys), country-specific analytical work (including Country Governance and Anti-Corruption (CGAC) assessments), Political Economy and Governance (PEG) Briefs, governance at a glance briefs and INT reports. Additional information can be obtained from experts in the Governance Global Practice, as well as from external sources (for a list, follow this link).

Rating guide

H There is a high likelihood that political and governance factors could severely impact the PDO. At the program level, implementation could be derailed by a high degree of political instability, fragility, uncertainty or transition. The country may be undergoing conflict or may have recently emerged from conflict, and the political context is fragile. The government's development priorities are unclear. Anti-corruption and public sector ethics regulations do not exist or are not enforced. At the operation level, political commitment at the highest levels is required, in a context of political uncertainty and/or transition. Key political decisions (including approval of laws and regulations) that underpin the operation have not yet been taken, are being challenged by the legislative or judicial branches of government or are otherwise vulnerable to reversal. Political figures associated with the operation are suspected of fraud, corruption, conflict of interest or other ethical misconduct. There is a history of large-scale high-level corruption in similar operations in the country. The government is characterized by low levels of transparency, accountability and participation. The operation/CPF presents a serious threat to powerful vested interests, or could lead or contribute to political instability and turmoil.

S There is a substantial likelihood that political and governance factors could significantly impact the PDO. At the program level, the PDO could be impacted by significant political uncertainty or transition. This may include post-conflict countries that have achieved some level of political stability; or countries that enjoy a period of relative stability but have a history of endemic political upheaval with negative effects on the operational engagement. Likewise, the government has taken initial steps to improve transparency, accountability and participation, but with limited impact. The government has a set of development priorities, but they lack coherence and do not have broad-based political support. Some anti-corruption and public sector ethics regulations exist, but are only selectively enforced. At the operation level, political commitment at the highest levels is required, in a relatively stable political context. Some political decisions (including approval of laws and regulations) that underpin the operation have not yet been taken or could be reversed easily. Only limited legal resource against the state is available to citizens or other actors affected by the operation. There have been cases of high-level corruption in similar operations in the country, and/or political figures associated with the operation have been implicated in corruption in the past. The operation/CPF may present a threat to vested interests, and may contribute to pre-existing political instability.

M There is a moderate likelihood that political and governance factors could adversely impact the PDO. At the program level, the political context is relatively stable and not likely to significantly affect the PDO. The government has a clear set of development priorities, which are generally supported across the political spectrum and are consistent with the program. Adequate anti-corruption and public sector ethics regulations exist and are generally enforced. The principles of transparency, accountability and participation are generally adhered to. At the operation level, the success of the project or program does not depend on political commitment at the highest level, although it would benefit from it. Most political decisions underpinning the operation have been taken, and few (if any) of them could be reversed easily. Cases of high-level corruption in donor-funded operations are rare. The operation/CPF does not represent a significant threat to vested interests or political stability.

L There is a low likelihood that political and governance factors could adversely impact the PDO. At the program level, the political and governance situation does not represent a risk to the PDO thanks to political stability, consensus on development priorities, a strong anti-corruption and ethics environment and high levels of transparency, accountability and participation. All relevant political decisions (including approval of laws and regulations) have been taken and cannot be reversed easily. Citizens and other actors affected by the operation have access to effective legal recourse against the state, and legitimate cases are generally successful. The government has effective accountability mechanisms in place and makes information about the project available to the general public. The operation/CPF does not represent a threat to vested interests or political stability.

2. Macroeconomic

Definition

24. These risks include external and domestic economic risks that may derail proper preparation, implementation and achievement of results of the proposed operation or CPF or otherwise affect the development results associated with the operation or CPF.

25. The assessment should consider risks to the PDO stemming from the government's macroeconomic policy, as well as external or domestic shocks. In the case of DPF and CPF, the assessment should be based on the detailed analysis presented in the macroeconomic section of the program or CPF document[7]. This analysis should include, at the minimum, the following aspects: quality of economic policies and institutions; vulnerability to domestic and external exogenous shocks; and resilience to domestic and external exogenous shocks. In the case of IPF and PforR, the assessment should focus on the consistency of the operation with the government's budgetary and other macroeconomic policies. Teams should carefully consider, in consultation with the country economist for the relevant country, any macroeconomic risks that could affect their particular operation.

26. In exceptional circumstances, the operation or operational engagement may support policies or investments that could have an adverse macroeconomic impact, and the associated risk should also be assessed. This could include adverse impacts on the country's balance of payments; overheating, currency appreciation and high inflation; Dutch disease/resource allocation impacts; medium- to long-term adverse impacts on the budget; adverse impacts on debt sustainability; and contingent liabilities.

Useful indicators and information sources

27. The country economist of the respective country is a key resource that the task team may draw upon to determine the level of macroeconomic risk. Information on potential sources of macroeconomic risks may also be found in relevant ESW (such as Country Economic Memorandum, Public Expenditure Reviews etc.), IMF reports, and the CPIA. For debt sustainability analysis, see the Macroeconomic and Fiscal Management GP website. Sectoral PERs (if available) or other sectoral ESWs may also provide information on macroeconomic and fiscal issues relevant to the specific operation or CPF.

7 For detailed guidance on the macroeconomic assessment for DPF, see the *Guidance Note on Macroeconomic Policy Framework and Collaboration with the IMF in Development Policy Operations*, which is available on the OPCS website.

Rating guide

H The risk of emerging or continuing external and/or domestic imbalances is high, and consequent macroeconomic effects would severely undermine the achievement of the PDO if they materialize. Macroeconomic institutions are weak, macroeconomic policies are at high risk of becoming unsustainable and/or vulnerability to external shocks is high. Severe imbalances may result from high inflation, low foreign exchange reserves, large fiscal deficits or inadequate intergovernmental transfers. The government is planning to take measures to address these imbalances, but they may be incomplete, not credible and hampered by a weak track record. Programs are highly vulnerable to macroeconomic instability that would undermine the government's focus on the structural reform agenda. Individual operations may be severely affected by one or more of the following: lack of fiscal space for investment in priority programs; high inflation and balance of payments imbalances that make key project/program inputs expensive or unavailable; overall macroeconomic instability and a negative impact on demand that is detrimental to assumed benefits (e.g. demand and ability to pay for key public services, especially utilities).

S The risk of emerging or continuing external and/or domestic imbalances is substantial, and consequent macroeconomic effects would undermine the achievement of the PDO if they materialize. Most macroeconomic institutions are weak, macroeconomic policies are at risk of becoming unsustainable, and/or there is substantial vulnerability to external shocks. Risks could stem from limited room for policy adjustments and ability to respond to external or domestic shocks; large fiscal deficits and high public debt, which may be sustainable only in a reform scenario; a weak intergovernmental fiscal system that could affect subnational or central fiscal sustainability; and monetary and exchange rate policy that is inconsistent with stability and growth objectives. The government has taken adequate measures but they are not entirely credible and build on a mixed track record. Country programs are vulnerable to macroeconomic instability that would undermine the government's focus on the structural reform agenda. Individual operations are affected by one or more of the following: tight fiscal space which requires difficult decisions in order to ensure the availability of counterpart funds; availability and prices of key imported inputs that depend on improvements in external accounts; and an uncertain outlook for the demand and financial viability of public services (especially utilities) due to fragile growth.

M The risk of emerging or continuing external and/or domestic imbalances is moderate, and consequent macroeconomic effects would only moderately affect the achievement of the PDO if they materialize. Macroeconomic policies and institutions are generally adequate. Monetary, exchange rate and fiscal policies are generally consistent with macroeconomic stability and growth objectives. Residual macroeconomic risks may stem from some vulnerability to external shocks; fiscal balances and public debt that remain vulnerable to shocks; and an intergovernmental fiscal system that supports fiscal sustainability but has some loopholes. The government has taken measures to address these risks but additional reforms are needed. The macroeconomic environment has limited effect on individual operations. For example, there is reasonable fiscal space to ensure the availability of counterpart funding, although cuts may occur in the future. Prices are moderately stable and key operational inputs (including imports) are generally available.

L There is a strong track record and macroeconomic management is proactive, consistent with stability and supports long-term development objectives. External and fiscal account balances are consistent with medium-term sustainability. The PDO of individual operations is not likely to be negatively affected. Macroeconomic policy supports an economic environment that is conducive for the project/program.

3. Sector strategies and policies

Definition

28. These risks are specific to the sector(s) which are at the core of the operation or CPF. If the operation covers several sectors, teams need to judge which sectors contribute most to the achievement of the development results associated with the operation, and/or which of the identified sector risks would have the most significant impact on the development results. In the case of CPFs, these risks should be assessed for the main sectors in which Bank engagement is foreseen.

29. Key considerations for the assessment of these risks include the adequacy of the sector-level organizations' strategies, policies and governance arrangements relevant to the operation; their stability and predictability; their alignment with the country's development strategy and objectives; and their financial and fiscal sustainability.

30. In exceptional circumstances, the operation or operational engagement may have unintended adverse impacts with respect to sector policies and strategies, including negative effects on other projects or programs in the sector(s), or on the government's broader development agenda. In these cases, such risks should be taken into account in the assessment.

Useful indicators and information sources

31. The risk assessment should be aligned with the sectoral assessment in the PAD, Program Document or CPF document. Other information related to risks associated with sector strategies and policies can be found in sector-specific ESW, sector-specific questions in the CPIA as well as ICRs or Performance and Learning Reviews for projects or programs in the same sector.

Rating guide

H There is a high risk of severe adverse impact on the PDO stemming from inadequate sector strategies and policies. Strategies or policies in the sector(s) relevant to the operation or CPF are inadequate and not linked to overall country goals. Sector governance is inadequate. Sector strategies are unfunded or financially unrealistic. Key sector policies (including utility tariffs, user charges etc.) are financially unsustainable. Funding for the sector is unpredictable, inadequate or highly variable from year to year.

S There is a substantial risk of adverse impact on the PDO stemming from inadequate sector strategies and policies. Policies in the relevant sector(s) are weak, and the overall sector framework does not convey a clear strategy. Sector governance is weak. Sector strategies are not fully funded or their future funding may be uncertain. Key sector policies (including utility tariffs, user charges etc.) may become financially unsustainable in the short run. Linkages with country development objectives are weak. Funding for the sector is frequently inadequate and variable from year to year.

M There is a moderate risk of adverse impact on the PDO stemming from sector strategies and policies. Policies and strategies in the relevant sector(s) are generally adequate for the purposes of the operation and mostly consistent with the country's development strategy and objectives. Sector governance has some weaknesses but is overall adequate. Sector strategies are financially viable and sector policies are generally sustainable. Funding for the sector is predictable and broadly adequate. Some residual risk to the PDO remains, however.

L Sector strategies and policies represent a low risk to the PDO. At the program and operation level, policies and strategies in the relevant sector(s) are evidence-based and technically sound, and are articulated in a clear framework, which is aligned with overall country development objectives and government priorities. Sector governance is strong. The sector is well funded, with predictable budgets linked to sector strategies. Sector policies contribute to fiscal and financial sustainability.

4. Technical design of project or program

Definition

32. These risks include those related to technical aspects of the operation's design, or of the design of the core operational engagement in the case of a CPF (to the extent that it is known) that could affect the development results associated with the operation or CPF.

33. Consideration should be given to risks stemming from the operation's economic rationale, analytical underpinnings, technical soundness and complexity, number of components and design flexibility that could impact the achievement of the PDO. In the case of PforR, special attention should be given to the government's expenditure framework, as well as the selection of disbursement-linked indicators. In the case of DPF, teams should consider the technical design of prior actions (and, in the case of programmatic series, the indicative triggers for subsequent operations in the series). The risk assessment should be aligned with the technical assessment (IPF and PforR) as well as the economic analysis and economic justification (PforR).

34. In exceptional circumstances, the operation or operational engagement may have adverse unintended consequences related to technical design aspects. Such risks should be taken into account in the assessment.

Useful indicators and information sources

35. Relevant information can be found in sector-specific analysis, public expenditure reviews, ICRs/CRs or PLRs for similar operations and CPFs that include similar operational engagements (if applicable).

Rating guide

H There is a high likelihood that factors related to the technical design of the program or project may severely impact the achievement of the PDO. Such factors could include the following: the operation (or operational engagement envisaged under the CPF) is of high technical complexity; it was not informed by strong analytical work; it has a large number of components and sub-components; the client or the Bank has no experience designing similar operations; the design incorporates or relies on untested or unfamiliar technologies and processes; and making adjustments to the operation's design would be very difficult and costly. It may also be the case that the program's or the project's economic benefits are largely dependent on factors that cannot be controlled through the operational design. Cost and time assumptions related to PforR program activities may not be realistic or cannot be properly calibrated.

S There is a substantial likelihood that factors related to the technical design of the program or project may adversely impact the achievement of the PDO. Such factors could include the following: the operation (or operational engagement envisaged under the CPF) is technically complex; it was informed by limited analytical work; it has several components and sub-components; the client or the Bank has limited experience with similar operations; and the design incorporates or relies on relatively new technologies and processes, which do not yet have a track record. It may also be the case that the program's or the project's economic benefits significantly depend on external factors that cannot be controlled through the operational design. Cost and time assumptions related to PforR program activities may not be entirely realistic or can only partially be calibrated.

M There is a moderate likelihood that factors related to the technical design of the program or project may adversely impact the achievement of the PDO. Such factors could include the following: the operation (or operational engagement envisaged under the CPF) is technically moderately complex; it was informed by adequate analytical work; it has a small number of components and sub-components; the client or the Bank has some experience with similar operations; and the technologies and processes used in the design have been successfully used elsewhere. The operation's economic benefits depend primarily on factors that can be adequately addressed in the design. Cost and time assumptions related to PforR program activities are overall realistic and adequately calibrated.

L There is a low likelihood that the achievement of the PDO is adversely affected by factors related to the technical design of the program or project. Reasons for this could include the following: the operation (or operational engagement envisaged under the CPF) is technically simple; it was informed by extensive analytical work; the client and the Bank have extensive experience with similar projects or programs; and its economic benefits depend almost entirely on operation-specific factors that can be effectively addressed in the operational design. Cost and time assumptions related to PforR program activities are realistic and well calibrated.

5. Institutional capacity for implementation and sustainability

Definition

36. This risk relates to the capacity of the government to implement the activities supported by the operation or the CPF's operational engagement and to achieve the expected results.

37. The assessment should take into account the institutional capacity of the implementing agencies, implementation arrangements (including PIUs), and monitoring and evaluation arrangements. Teams should also evaluate risks related to the sustainability of the results beyond the Bank's support, including relevant financial, capacity and governance aspects. Does the implementing agency have adequate resources, processes and/or systems to allow for efficient program/project management and successful achievement of the results envisaged by the program/project? Are multiple donor agencies involved in the same project or program, which may require a high degree of coordination and ability to meet different monitoring and evaluation requirements? Teams should look at the availability of competent staff with adequate skills, organizational knowledge and financial resources to implement the project and monitor implementation and results. For PforR, the adequacy of verification arrangements for disbursement-linked indicators is particularly critical.

38. In exceptional circumstances, the operation or operational engagement may have adverse unintended impacts on the government's capacity to sustain other important functions, programs or projects. This may be particularly relevant where implementation relies on PIUs staffed by consultants, which could negatively affect incentives for the creation of in-house capacity. Such risks should be taken into account in the assessment.

Useful indicators and information sources

39. Relevant information can be found in ICRs/CRs or PLRs for similar projects and similar operational engagements in the case of CPFs (if applicable). Task teams should also consult any INT reports related to the relevant implementing agencies.

Rating guide

H There is a high likelihood that insufficient institutional capacity for implementing and sustaining the operation or operational engagement may severely impact the PDO. Implementation arrangements are complex and span several agencies. Several different donor agencies are involved in the operation. The operation includes different levels of government and includes activities in different locations that are spread over a wide geographical area and are not easily accessible. The implementing agencies have not worked on Bank (or other multilateral development partner) operations before, and have insufficient capacity and rely on external consultants for the implementation of projects or programs. Staff turnover is high and staff do not have access to relevant training. The agencies do not have clear lines of accountability, and their own monitoring and evaluation arrangements are inadequate. Operational rules, processes and systems in the implementing agencies do not exist, are not well understood by staff or not enforced. Oversight and control mechanisms are non-existent or weak, and serious fraud and corruption are pervasive in the implementing agencies. The government does not currently have the financial or human resource capacity to ensure the sustainability of the outcomes.

S There is a substantial likelihood that weak institutional capacity for implementing and sustaining the operation or operational engagement may adversely impact the PDO. Implementation involves several agencies and activities in several different locations. Other donor agencies are involved in the operation. The implementing agencies have limited experienced with Bank and other multilateral development partner operations. The implementing agencies have some in-house capacity, but external consultants play an important role in the design and day-to-day operation implementation. Staff turnover is substantial and staff have limited access to relevant training. There are significant gaps in the agencies' monitoring and evaluation arrangements, and the lines of accountability are somewhat unclear. Some operational rules, processes and systems exist but they are largely formalities and not widely used or complied with. Oversight and control mechanisms are weak, and instances of minor fraud and corruption are common in the implementing agencies. There is some uncertainty regarding the implementing agency's capacity to sustain the outcomes of the operation.

M There is a moderate likelihood that institutional capacity for implementing and sustaining the operation or operational engagement may adversely impact the PDO. The operation involves a small number of well-coordinated implementing agencies which have the capacity to implement the operation with some assistance from external consultants. Monitoring and evaluation arrangements are largely adequate, although reports may be produced with some delay. The operation is focused on a well-defined geographical area. Operational rules, processes and systems are comprehensive and generally enforced, but are inefficient and generate an unnecessary bureaucratic burden. Oversight and control mechanisms are adequate but not routinely applied; and instances of fraud and corruption occur but are infrequent and small in the implementing agencies. The institutional decision-making structure is clearly defined and well-functioning. There is adequate capacity to ensure the operation's sustainability.

L There is a low likelihood that institutional capacity for implementing and sustaining the operation or operational engagement will adversely impact the PDO. The implementing agencies have strong in-house capacity for project design, preparation and implementation.

Monitoring and evaluation arrangements are comprehensive and capable of producing real-time data. Fraud and corruption in the implementing agencies are rare. The operations forms part of a long-term plan and the government has committed resources to ensure its sustainability.

6. Fiduciary

Definition

40. This category includes risk related to fiduciary aspects that could affect the development results associated with the operation or CPF.

41. It assesses the risks that the project/program funds will not be used to achieve value for money with integrity in delivering sustainable development (or, in the case of DPF, that the country's budget resources are not managed appropriately). Such risks could arise from deviations from key fiduciary principles, including economy, efficiency, effectiveness (3Es), integrity, openness and transparency, and fairness and accountability.

42. The assessment should take into account the institutional capacity of the implementing agencies to manage budgeting, procurement, accounting, funds flow, internal controls, and financial reporting; prior implementation experience in managing these functions for similar projects/programs; existence and robustness of oversight arrangements including external audits and scrutiny; the level of transparency in disclosing procurement/contract, financial reporting and audit related information; and the design and complexity of the project. In addition, the assessment should also look at the degree to which planning, bidding, evaluation, contract award, review of the procurement decisions and resolution of complaints; contract administration arrangements and practices, and oversight provide reasonable assurance that the operation will achieve intended results. The overall fiduciary risk assessment should draw upon the experience (including fraud and corruption related) from the existing portfolio. In the case of DPF, the fiduciary risk assessment should also consider the foreign exchange and control environment within the Central Bank. In CPF, the fiduciary risk is assessed at the engagement level and thus considers the fiduciary risks related to all types of instruments foreseen in the program (IPF, PforR and/or DPF

43. For both FM and procurement risk, task teams should also consider any potential negative effects of onerous FM or procurement arrangements that could lead to delays in the disbursement of financing and thereby affect the achievement of the PDO.

44. In exceptional circumstances, the operation or operational engagement may have adverse unintended consequences stemming from the fiduciary arrangements used for the operation or operational engagement. In those cases, and in view of the Bank's overarching objective of strengthening a country's own fiduciary systems and using them to the extent possible, the assessment should consider the risks of proposed fiduciary arrangements on the achievement of greater use of country systems and strengthening capacity.

Useful indicators and information sources

45. The fiduciary team (FM and procurement specialist) will suggest a combined fiduciary rating based on the likelihood and impact of fiduciary risks in the specific context. Country-level assessments such as the PEFAs, CPARs, ROSC accounting and auditing module, PERs, Open Budget Index, Peer Reviews of SAIs, and the CPIA can help identify fiduciary risks in addition to the information collected through the project specific assessments. INT reports on the relevant sector, implementing agency or PIU should also be consulted.

Rating guide

H Fiduciary risks have a high probability of impacting the PDO in a highly adverse way. Overall fiduciary environment is weak with little evidence that key principles including value for money, economy, efficiency, effectiveness (3Es), integrity, transparency, and accountability have been adopted. Regular and long delays in approving annual budgets resulting in delays in procurement and project implementations; project appropriations routinely diverted and no predictability of funds for implementation; FM systems lack data controls; delayed financial reports; internal controls unable to prevent or detect irregularities, misuse, and inefficient use of funds. No internal audit; extremely weak external audit capacity, delayed audits, little follow up. Regulatory framework, institutional capacity, market conditions, procurement system integrity, complaints mechanisms for open, fair, transparent, efficient procurement are insufficient; accountability for procurement decisions not defined. Contracts routinely exceed their original value and schedule; significant payment arrears to contractors. In the case of CPFs, the overall fiduciary environment is weak, characterized by low scores in key diagnostics and significant and persistent fiduciary problems in the Bank portfolio.

S Fiduciary risks have a substantial probability of impacting the PDO in an adverse way. Overall fiduciary environment has substantial weaknesses and the principles including value for money, 3 Es, transparency, accountability and participation are not being implemented. Substantial delays in approving budgets; project appropriations often diverted; substantial delays in project funds availability; Major weaknesses in data controls in FM system; substantially delayed financial reports. Weak internal controls and substantive and wide-spread non-compliance with core set of rules. Very weak internal audit and external audit; major delays in audit reports and minimal follow up. Regulatory framework, institutional capacity, market conditions, integrity of the procurement system, controls, complaints mechanisms to ensure fair, transparent, efficient procurement are weak. In the case of CPFs, the overall fiduciary environment has substantial weaknesses characterized by low and moderate scores in key diagnostic indicators and recurring fiduciary problems in the Bank portfolio.

M Fiduciary risks have a moderate probability of impacting the PDO in a moderately adverse way. Overall fiduciary environment has some weaknesses. In 2 of the last 3 years, budgets approved after the start of the fiscal year; project appropriations sometimes diverted; some delays in project funds availability. Weak data controls in FM system. Some delays in financial reporting. Some internal control deficiencies; reasonable compliance with core rules. Internal audit not using generally accepted standards; adequate external audit but some delays in audit reports and follow up. Procurement function and controls are broadly adequate but occasional slippages occur. In the case of CPFs, the overall fiduciary environment has some major weaknesses characterized by moderate scores in key diagnostic indicators and occasional fiduciary problems in the Bank portfolio.

L The overall fiduciary environment is strong. Annual budget approved before the start of the fiscal year; project appropriations available on a timely basis. Adequate data controls in FM system. Timely financial reports; adequate internal controls and high compliance with core rules. Effective internal and external audit with timely audit reports and follow up. Procurement function and controls are strong and compliance is very high. Principles of 3Es, integrity, transparency, fairness and accountability embraced and implemented. In the case of CPFs, the overall fiduciary environment is strong, characterized by high scores in key diagnostic indicators; absence of fiduciary problems in the Bank portfolio.

7. Environment and social

Definition

46. Environmental (including climate change and natural disasters) and social risks are determined by a combination of design and operational characteristics, together with exogenous factors, which: (i) may adversely affect the ability of an operation to achieve and sustain its development objective(s); and (ii) define the nature, scale and significance of direct and indirect environmental and social impacts.

47. One type of environmental and social risk is that posed to the project or CPF. The successful implementation of an operation or CPF may be affected by existing or possible future environmental and social factors that are exogenous to the operation or CPF itself. In the case of IPF and PforR, teams should assess the vulnerability of the project/program and its components to environmental, climate, disaster or social risks; and in the case of DPF, the vulnerability of the objectives and policies supported by the DPF to such risks. These factors might include risks from existing or on-going air, water or ground-water contamination, unsustainable land management, or risks due to natural disasters or short- and long-term climate change. Similarly, an operation or CPF may be negatively impacted by exogenous social factors such as civil unrest, social conflict, out-right civil war, famine, disease epidemics, or forced land relocation on a large scale to cite a few examples. These factors may undermine the sustainability of the operation's achievements and results or could lead to unnecessary or costly implementation delays.

48. Another type of risk includes adverse unintended consequences, such as the potential negative environmental impacts of the operation or operational engagement on physical, biological and cultural resources and on human health and safety. Where appropriate, it should also take into account impacts on the climate arising from unchecked anthropogenic emissions of greenhouse gases (GHGs) and short-lived climate pollution (SLCPs). The assessment of social risks should take into account the potential negative impacts of the operation or operational engagement on poverty, equity, gender, indigenous peoples, fragility and conflict.

49. In the case of IPF and PforR, the assessment of environmental and social risks takes into consideration: (i) the sensitivity and vulnerability of environmental and social assets and values to changes within the project's area of influence as a result of the operation; and (ii) the potential for adverse environmental and social changes based on the scale, complexity, duration, and magnitude of project activities and operations. Typically, such risks take into account the potential effects on human health and safety; effects on biodiversity; the nature, scale and duration of social effects such as the need for land acquisition and/or involuntary resettlement; impacts on household or community livelihoods indigenous peoples; and physical cultural resources impacts. Risk assessment also considers the potential for cumulative or synergistic effects and the potential for exacerbating social conflict among other concerns.

50. In the case of DPF, the team assess to what extent the policies supported by the operation are likely to (i) cause significant effects on the country's environment, forests and other natural resources[8]; or (ii) have significant poverty and social consequences, especially on poor people and vulnerable groups.

[8] For detailed guidance on the assessment of environmental aspects DPF, see the *Guidance Note on Environmental and Natural Resource Aspects of Development Policy Lending*, which is available on the OPCS website.

51. For all instruments, the assessment should also consider the effects that investments or policies supported by the operation or operational engagement could have on the climate. Examples include the fuel mix and efficiency of energy policies and projects, mode choice or efficiency performance of transportation policies and projects, land-use change implications, and integrated waste management approaches.

Useful indicators and information sources

52. The assessment of environmental and social risks from the operation or CPF should draw on the operation's environmental and social analyses including (i) in the case of IPF and PforR, safeguards assessments; and (ii) in the case of DPF, poverty and social impact analyses (PSIA) and other analytical work. Country environmental assessments and CPIA ratings can provide additional information on the overall context. Climate change and natural disaster related information (including Country Climate Risk and Adaptation Profiles and Disaster Risk Management country notes) is available in the Climate Change Knowledge Portal and on the Disaster Risk Management website. The overall rating of this risk category should take into account inputs from the relevant environmental, social and disaster risk management specialists.

Rating guide

H There is a high likelihood that exogenous environmental or social risks could adversely affect the achievement of the operation's (or operational engagement's) objectives or the sustainability of results. Environmental risks include extreme events such as heat waves, flooding, severe storms, storm surges, earthquakes, landslides and volcanic eruptions, as well as slower changes due to droughts and sea-level rise. In the case of IPF, these risk factors will be clearly present within the project's area of influence but outside of the direct control of the operation itself.

The operation is likely to have adverse environmental impacts that are sensitive, diverse, and/or unprecedented. In the case of IPF and PforR, such operations are typically very complex both in terms of their design and their institutional arrangements; they have a large geographic footprint; have strong synergistic or cumulative effects with other initiatives and involve mitigation or management measures which are complex or unproven. In the case of DPF, such operations may include those that support policies in sectors such as infrastructure and natural resource management that could have severe negative environmental impacts. The operation or operational engagement may also have significant adverse impacts on GHG or SLCP emissions or change in the emissions intensity or efficiency. The operation is also likely to have significant adverse social impacts on indigenous peoples, the poor, and/or other vulnerable groups and have the potential to contribute directly to increased social fragility or conflict.

S There is a substantial likelihood that exogenous environmental or social risks could adversely affect the achievement of the operation's (or operational engagement's) objectives or the sustainability of results. Environmental risks include extreme events such as heat waves, flooding, severe storms, storm surges, earthquakes, landslides and volcanic eruptions, as well as slower changes due to droughts and sea-level rise. These risks will be less diverse or complex and, while they may be more predictable, many such risks are still beyond the direct control of the operation.

The operation may have potential adverse environmental impacts, but these are less severe. In the case of IPF and PforR, such impacts could be on environmentally or socially sensitive areas, but the operation is less likely to have a large footprint and impacts will be site-specific, less divers and complex and will have less potential for strong synergistic or cumulative impacts. In the case of DPF, the potential negative environmental impact of the policies supported may be significant. The operation or operational engagement may also have some adverse impacts on GHG or SLCP emissions or change in the emissions intensity or efficiency. The operation may also present potential adverse effects on gender, vulnerable groups, poverty and/or equity, and may have the potential to aggravate existing situations of fragility or conflict.

M There is a moderate likelihood that exogenous environmental or social risks could adversely affect the achievement of the operation's (or operational engagement's) objectives or the sustainability of results. Environmental risks include extreme events such as heat waves, flooding, severe storms, storm surges, earthquakes, landslides and volcanic eruptions, as well as slower changes due to droughts and sea-level rise. These risks are well understood and expected to be limited in impact.

The operation may have some adverse environmental and social impacts. In the case of IPF and PforR, such impacts would tend to be away from environmentally or socially sensitive areas. The operation or operational engagement may also have some adverse impacts on GHG or SLCP emissions or change in the emissions intensity or efficiency. The operation may also have moderate adverse effects on gender, vulnerable groups, poverty and/or equity.

L There is a low likelihood that the achievement of the operation/CPF objective could be affected by exogenous environmental and social risk factors (including those related to climate change and natural disasters) because they are not present or are not relevant to the operation.

There are few or no risks of adverse impacts. In the case of IPF, this is because the project footprint is small and activities present little or no direct impacts. The operation or operational engagement is not likely to have adverse impacts on GHG or SLCP emissions or change in the emissions intensity or efficiency.

8. Stakeholders

Definition

53. These risks are related to stakeholders who may have grounds to object to the operation or CPF design, implementation or objective, and who may affect its successful completion by delaying or halting its implementation. Stakeholders may exert pressure on the client or on the Bank. Such stakeholders could include civil society, private sector organizations, labor unions, governments of other countries, other donors and other members of the general public. The assessment should focus on actors with an interest in the relevant sector(s). The following questions should be asked: To what extent does the general public understand the development objectives of the operation or CPF? Who are the main actors that may oppose the operation or CPF design, implementation arrangements or objectives? What is their capacity to disrupt implementation? How serious would the impact be for the success of the operation or CPF?

54. In some circumstances, an operation or operational engagement may have adverse unintended consequences related to stakeholders. In those cases, opposition from stakeholders may create spill-over effects for other World Bank operations or operational engagements in the same country or the same sector(s). The assessment of this type of risk should take into account the extent to which potential opposition is likely to extend beyond the specific operation or operational engagement (under a CPF), given the nature of the opposition and the voice, influence and staying power of the opponents.

Useful indicators and information sources

55. Staff may have sufficient knowledge of these actors from operation/CPF consultations. In some cases, however, the risk assessment would benefit from a detailed political economy analysis, including a mapping of stakeholders. Teams should also consult the relevant external affairs specialists for guidance.

Rating guide

H Opposition from stakeholders could have a negative impact on the achievement of the PDO, and the likelihood and/or impact of this opposition is high. The operation's or CPF's objectives are not well understood by the public. There are many stakeholders that are opposed to the specific operation or the CPF as a whole and are actively campaigning against it. Several of them are large, international entities, well organized and with significant public support. There are many other donors with interest or involvement in similar operations, which may lead to duplication or inconsistencies across donor-supported operations.

S Opposition from stakeholders could have a negative impact on the achievement of the PDO; and the likelihood and/or impact of this opposition is substantial. The operation's or CPF's objectives are widely discussed but not always correctly represented and understood. A number of stakeholders are opposed to key parts of the specific operation or the CPF. A small number are large organizations with international and national influence. Some donors have interest or involvement in similar operations, and there is some duplication and/or inconsistency.

M Opposition from stakeholders could have a negative impact on the achievement of the PDO, but the likelihood and/or impact of this opposition is moderate. The operation's/CPF's objectives are generally well understood by the public. A number of stakeholders are opposed to minor parts of the operation or the CPF. Most of them are smaller organizations or groups of individuals, and they have some popular support. Few donors have competing or overlapping operations. Many stakeholders and donors support the operation or CPF.

L Opposition from stakeholders could have a negative impact on the achievement of the PDO, but the likelihood and/or impact of this opposition is low. The operation's/CPF's objectives are widely discussed and well understood by the general public. Very few stakeholders are opposed to the operation or CPF. They do not have significant popular or political support. Most stakeholders actively support the operation or CPF. Donor interventions are well coordinated and complementary to each other.

9. Other

56. This category would capture any other risks relevant in the context of the specific operation or CPF that are not covered in any of the eight categories in the template. Risks that might be captured in this category include international political risks, specific risks related to regional operations, security risk, risk of spillovers from neighboring countries (such as a large influx of refugees) etc. If all relevant risks are captured in one of the eight other categories, this category can be left blank. If a rating is entered for this category, it should be explained in the risk section of the document (see above).

10. Overall

57. There is no formula for arriving at the rating for the overall to client associated with the operation or operational engagement. Staff should use their judgment based on collective team expertise. Staff may find, for instance, that one particular category assessed as high risk makes the overall operation or CPF high risk. In other cases, several categories assessed as substantial or high might be judged as not seriously endangering the achievement of the key results and objectives, which may justify a moderate or even low overall rating. In any case, the overall rating should be backed up by the write up in the operation or CPF document.