Interim Guidance Note
Systematic Operations Risk-Rating Tool (SORT)
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 will: (i) systematically and consistently rate 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) help focus management attention on high and substantial risk operations and on particular risks within operations during implementation; and (iii) provide 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.

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[1] Re-issued with minor updates on November 6, 2014.

[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).

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

5. 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 9 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.

6. 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)**
1. Political and governance	
2. Macroeconomic	
3. Sector strategies and policies	
4. Technical design of project or program	
5. Institutional capacity for implementation and sustainability	
6. Fiduciary	
7. Environment and social	
8. Stakeholders	
9. Other	
Overall	

7. In the SORT matrix, each risk category should be given a single rating, without additional comments or explanations (see paragraph 8 below for information on where to include this discussion). 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.

8. 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 Concept Note (CN), Project/Program Appraisal Document (PAD), 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. 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.

III. Process

9. 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

10. 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

11. 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.

12. 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

13. 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

14. 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.

15. 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

[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).

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).

16. 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.

IV. Guideposts for risk ratings

17. 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

18. 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.

19. 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).

20. 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.

21. 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

22. The CMU and Governance Global Practice staff for the respective country (where available) 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

23. 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.

24. 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.

25. 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

26. 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

27. 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.

28. 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.

29. 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

30. 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

31. 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.

32. 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).

33. 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

34. 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

35 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.

36. 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.

37. 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

38. 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

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

40. 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.

41. 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

42. 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.

43. 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

44. 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

45. 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.

46. 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.

47. 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.

48. 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.

49. 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

50. 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

51. 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

52. 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?

53. 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

54. 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

55. 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

56. 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.