FRAMEWORK FOR MANAGEMENT OF RISK IN OPERATIONS

Proactive Risk Management for Better Results

Operations Policy and Country Services

August 21, 2014

ABBREVIATIONS AND ACRONYMS

ADM	Accountability and Decision-Making
CD	Country Director
CEN	Country Engagement Note
CN	Concept Note
COO	Chief Operating Officer
CPF	Country Partnership Framework
CPIA	Country Policy and Institutional Assessment
CRO	Chief Risk Officer
DPF	Development Policy Financing
FM	Financial Management
FY	Fiscal Year
GAC	Governance and Anticorruption
GP	Global Practice
IAD	Internal Audit Department
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IDA	International Development Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Policy Financing
ISR	Implementation Status and Results report
MD	Managing Director
MIGA	Multi-lateral Guarantee Agency
OC	Operational Committee
OCC	Operational Core Curriculum
OPCS	Operations Policy and Country Services
ORAF	Operations Risk Assessment Framework
PAD	Project Appraisal Document
PCN	Project Concept Note
PD	Project Document
PDO	Project Development Objective
PforR	Program for Results
PLR	Performance and Learning Reviews
PR	Procurement
P-RAMS	Procurement Risk Assessment and Management System
PRIMA	Portfolio Risk Management
RVP	Regional Vice President
SMT	Senior Management Team
SORT	Systematic Risk-rating Tool
TTL	Task Team Leader

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FRAMEWORK FOR MANAGEMENT OF RISK IN OPERATIONS

Executive Summary

1. This Note provides information on the new Framework for Management of Risk in Operations that the World Bank is proposing to launch on October 1, 2014, to address the recommendations of the Risk and Accountability Working Group and the findings of the Internal Audit Department (IAD) Annual Report of 2012. The Risk and Accountability Working Group focused on designing an approach that promotes informed risk taking to achieve better solutions, innovations, and transformational impact for our clients.

2. The new Framework focuses on risk to the achievement of the development objectives of Bank operations, and the risk of unintended consequences, whereas the Chief Risk Officer (CRO) is responsible for the assessment of country credit risks, market and counterpart risks, and operational risk within Finance and Technology Partners. Operational risk under the domain of the World Bank Group CRO is defined by the Basel Committee as "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events" (see Annex 1).

3. **The new Framework for Management of Risk in Operations will apply to Bank-supported operations and Country Partnership Frameworks (CPFs); and rests on three pillars: (i) Systems and Tools; (ii) Structure and Organization; and (iii) Culture.**

4. **Pillar One** objectives are to: (i) establish a Systematic Operations Risk-rating Tool (SORT); (ii) integrate and harmonize risk related systems, and (iii) link the assessment and management of risks in operations to the achievement of their expected results.

- The SORT will: (i) rate risks of operations and country engagements across all operations (Investment Project Financing – IPF, Development Policy Financing – DPF, and Programs for Results – PforR)[1] and Regions; (ii) help to focus Management attention on high and substantial risk operations, and on the highest risks within operations during implementation; and (iii) provide an organized approach to identifying the appropriate level of corporate review and Board discussion (see Annex 2).

5. **Pillar Two** seeks to strengthen internal accountability. To build a culture of informed risk-taking, organizational change and clear identification of roles and responsibilities for how risks are identified, assessed, monitored, and managed are required.

- The Accountability and Decision-Making (ADM) framework will apply to risk assessment and management throughout the project cycle to clarify responsibility and ownership for different levels of risk. In line with ADM, new procedures are

[1] The SORT will also apply to Bank guarantees, which since 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).

being developed for escalating decisions on risks in operations to appropriate level of Management.

- A Risk Advisory Group supported by OPCS[2] has been created to track corporate-level high-risk operations. The Risk Advisory Group will conduct regular reviews of high risk operations (pipeline and portfolio); arbitrate and calibrate risk ratings to ensure consistency in its application across Global Practices and Regions; and produce analyses of risk trends and risk profiles to facilitate proactive risk management.

6. **Pillar Three** seeks to create a common set of values and behaviors that will guide staff and Management in assessing and managing risks in operations. These values and behaviors should encourage staff and Management to prioritize the maximization of results of Bank-supported operations, while managing risks, instead of avoiding high risk operations, if the expected results justify the risk.

- These values will be instilled and nurtured through such initiatives as Bank-wide communications programs, Human Resources (HR) recruitment and leadership development programs, revisions to the "core competencies" of Senior Management, training programs for Managers and staff, performance evaluation indicators, peer learning instruments, mechanisms for recognizing and rewarding informed risk-taking, and through role modeling by Senior Management.

7. **Risk data will be used overtime** to understand the effect of informed risk taking on the outcome of Bank interventions. The Risk Advisory Group will provide analyses of risk trends and risk profiles to allow Senior Management to proactively monitor their portfolios. These analyses of risks in operations will be shared with the Board.

[2] The Risk Advisory Group recently set up in OPCS is different from the one that had been created under the CRO that is no longer active.

FRAMEWORK FOR MANAGEMENT OF RISK IN OPERATIONS

I. Introduction

1. This Note provides information on the new Framework for Management of Risk in Operations that the World Bank is proposing to launch on October 1, 2014, to address the recommendations of the Risk and Accountability Working Group and the findings of the Internal Audit Department (IAD) Annual Report of 2012.

2. The Risk and Accountability Working Group focused on designing a framework that promotes informed risk taking to achieve better solutions, innovations, and transformational impact for the Bank's clients.

3. To achieve high impact in our operations through a more proactive approach to risk management, the new Framework had to address the following issues:

- Risk management tools which were too complicated and not clearly focused on maximizing clients' results in Bank-supported operations.
- Unclear responsibilities and ownership for risk assessment and management.
- An organizational culture characterized by risk aversion and fear of internal controls.

4. Several rounds of consultations and deliberations were held during the design of the Framework, and pilot-testing was conducted. Bank staff and Management were consulted during the Risk and Accountability Group deliberations and after the endorsement of the proposal of the Risk Framework by the Senior Management Team (SMT) in July 2013. From April to June 2014, the Framework and the proposed new risk rating tool were piloted with fifteen task teams preparing Country Partnership Frameworks and operations across sectors and Regions (see Annex 3). The result of these pilots and several outreach sessions with staff were used to refine the Guidance Note.

5. The Framework includes a simple, systematic tool to rate risk to the achievement of the expected results and unintended consequences of operations, which will apply to all Bank operations and country strategies. The new Systematic Operations Risk-rating Tool (SORT) will replace the current Operational Risk Assessment Framework (ORAF).[1] The Framework also clarifies responsibilities and ownership for risk assessment and management, and seeks to shift the organization to a culture that supports informed risk taking for better results.

6. A recent IAD advisory review of the ORAF (May 2014) concurred with the basic thrust of the proposed changes in the new Framework, and the need for a more proactive approach to risk assessment and management (see Box 1).

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[1] ORAF, the Bank's Operational Risk Assessment Framework, was made effective by Management on July 1, 2010 for all new IPF projects, after discussions with the Board in February 2009 (informal Board meeting), and in October 2009 (Board meeting to present update on Investment Lending Reform).

Box 1: Internal Audit Department Review of ORAF: Key Takeaways

1. 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 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 (PDO); and (v) it advocated a qualitative approach to risk identification and mitigation, emphasizing the importance for professional judgment and experience of the task teams.

2. 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.

3. To prevent similar issues from undermining implementation of the new Framework for Management of Risk in Operations, Management attention is specifically warranted to address the following: (i) commitment and buy-in of key stakeholders for the intended benefits of the new Framework needs to be secured; (ii) ensuring clear responsibility for "oversight of risks in the Bank operations"; (iii) changing institutional risk culture to incentivize risk-informed decision making, with knowledge of organizational acceptance of certain risks (and not others), differentiated risk appetites and tolerances; (iv) ensuring that key enabling elements (IT systems, tools, and guidance) will be in place prior to implementation; and (v) clearly defined milestones and indicators to measure progress.

Source: IAD Advisory Review of ORAF: Engagement Results, May 2014

II. Framework for Management of Risk in Operations

7. The Framework defines risks in operations as "risks to the client's ability to achieve the expected results in World Bank-supported projects, programs, or strategies; and the risks of unintended consequences."[2] The assessment of risks 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, should the risk materialize.

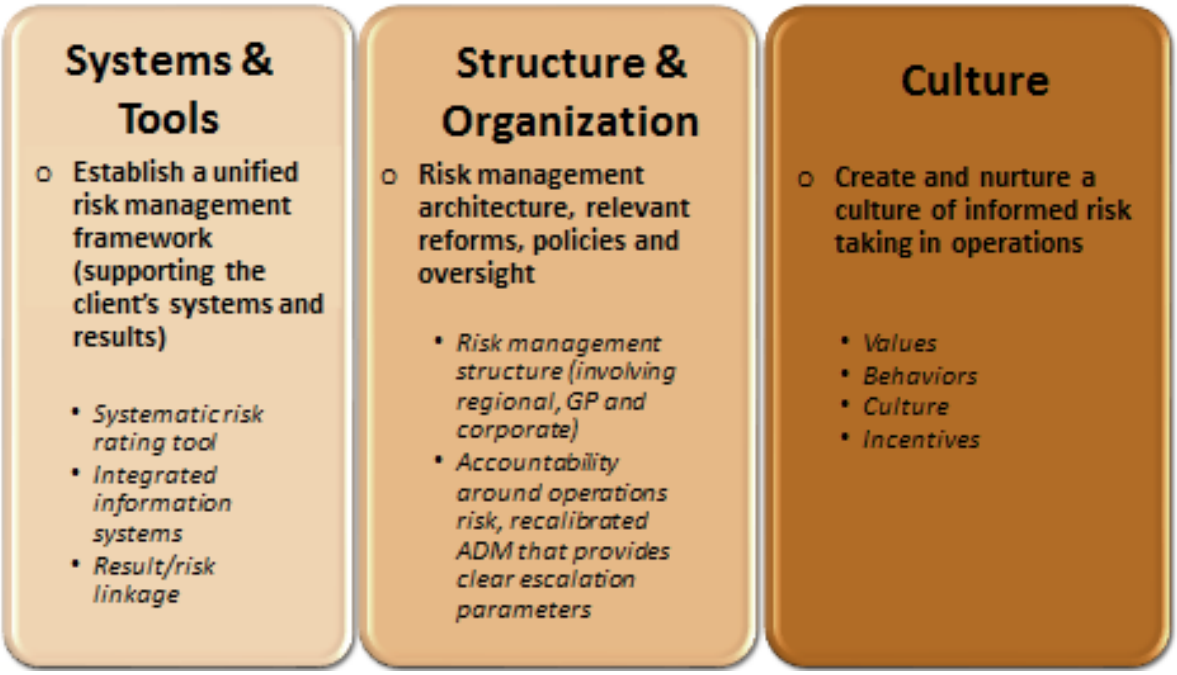
8. The Framework focuses on: (i) identifying, assessing, and managing risks throughout the life of an operation or Country Partnership Framework; (ii) simplifying and integrating existing risk assessment systems into one corporate system; (iii) clarifying roles and responsibilities in

[2] Interim SORT Guidance Note: http://intresources.worldbank.org/INTOPCS/Resources/380831-175264321504/SORTGuidanceNoteJune252014.pdf

decision-making processes on risk determination, ownership and escalation, during preparation and implementation of operations; (iv) using risk data in decision-making, including weighing risks based on impacts on results; (v) incorporating risk-related behavior in staff and Management performance evaluations; and (vi) sharing risk assessments with clients and relevant stakeholders.

9. **The Framework rests on three pillars: (i) Systems and Tools; (ii) Structure and Organization; and (iii) Culture.**

Figure 1: Pillars of Framework for Management of Risk in Operations



A. Pillar One: Systems and Tools

10. **Pillar One focuses on three basic elements: (i) establishing a Systematic Operations Risk-rating Tool (SORT); (ii) integrating and harmonizing risk related information systems; and (iii) linking the assessment and management of risk in operations to the achievement of their expected outcomes.**

11. **The SORT will rate risks across all country strategies and operations: Investment Project Financing – IPF; Development Policy Financing – DPF; and Programs for Results – PforR.**[3] The primary purpose of the SORT is to assist staff and Management to assess and

[3] The SORT will also apply to Bank guarantees, which, since 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).

monitor risks in a comprehensive and consistent manner. It will help to focus Management's attention on high and substantial risk operations and on the highest risks within operations during implementation. It will provide an organized approach to identifying the appropriate level of corporate review and Board discussion. The transition to SORT will begin on October 1, 2014. Existing operations in the portfolio will start using the SORT in the subsequent Implementation Status and Results Report (ISR). The goal is that by end-FY15 all operations would be using the SORT in their preparation, appraisal and implementation stages.

12. **The SORT also applies to Country Partnership Frameworks (CPFs) and Country Engagement Notes (CENs).** It establishes discussion of risk management as an integral part of country engagement and will enable the Bank to better link risk management at the country program level with that at the operation level. Existing country programs will start using SORT at the time of Performance Learning Reviews (PLRs).

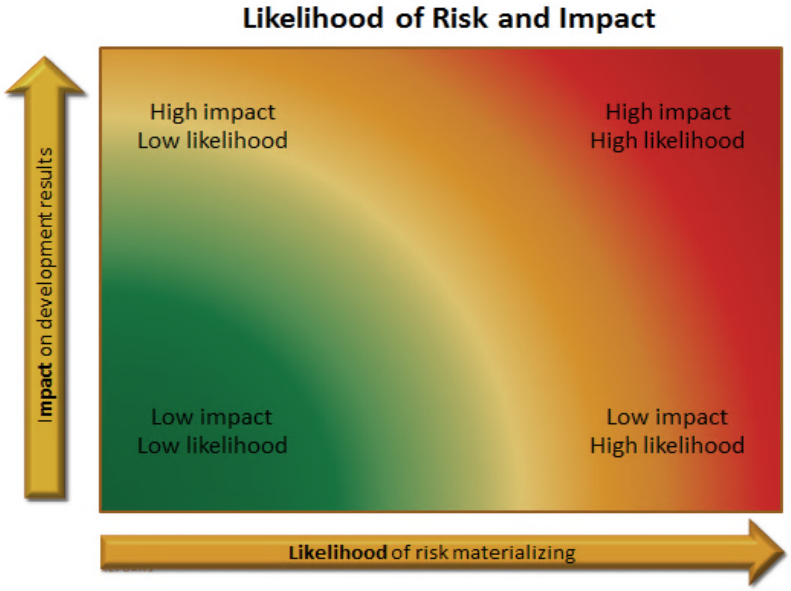
13. **The SORT will apply only to IBRD/IDA-financed operations**. IFC and MIGA have their own risk assessment tools, which they will continue to use (see Annex 1 for more information on risk management within the World Bank Group and other related organizations).

14. **The SORT is not intended to be a risk management strategy or mitigation plan.** It will be the screening mechanism on which such a plan would be based. This plan will be included in project documents (Concept Note, Project/Program Appraisal Document, Program Document, and CPF Document), and would draw Management's attention to the highest risks within operations during preparation and implementation.

15. **The SORT consists of nine risk categories, plus an overall risk rating**. The risks to be assessed in the SORT are defined as the client's risks to the achievement of development outcomes. 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 stemming from the operational engagement, including risks to the money, people, and environment.

16. **Staff will derive the overall risk rating through judgment**, based on collective team expertise and other relevant information, rather than through a formula. Staff may find that one particular category assessed as high risk makes the overall operation or CPF high risk, even if other risk categories are rated low or moderate. For instance, an infrastructure project with a high likelihood of adverse environmental impacts may be rated as overall high risk even if risks related to the technical design or institutional capacity, among others, are rated low. 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 supported by a write up, describing the rationale for it, in the operation or CPF document.

Graph 1: Likelihood of Risk and Impact on the Operation



17. **The assessment takes into account the likelihood of the risk materializing and 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 (see Graph 1).

18. **The risk categories are designed to capture the key risks that could impact Bank operations as well as CPFs.** In addition to the eight fixed categories, there is an "other" category to capture additional risks specific to the project.

Table 1: Risk Categories and Ratings

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	

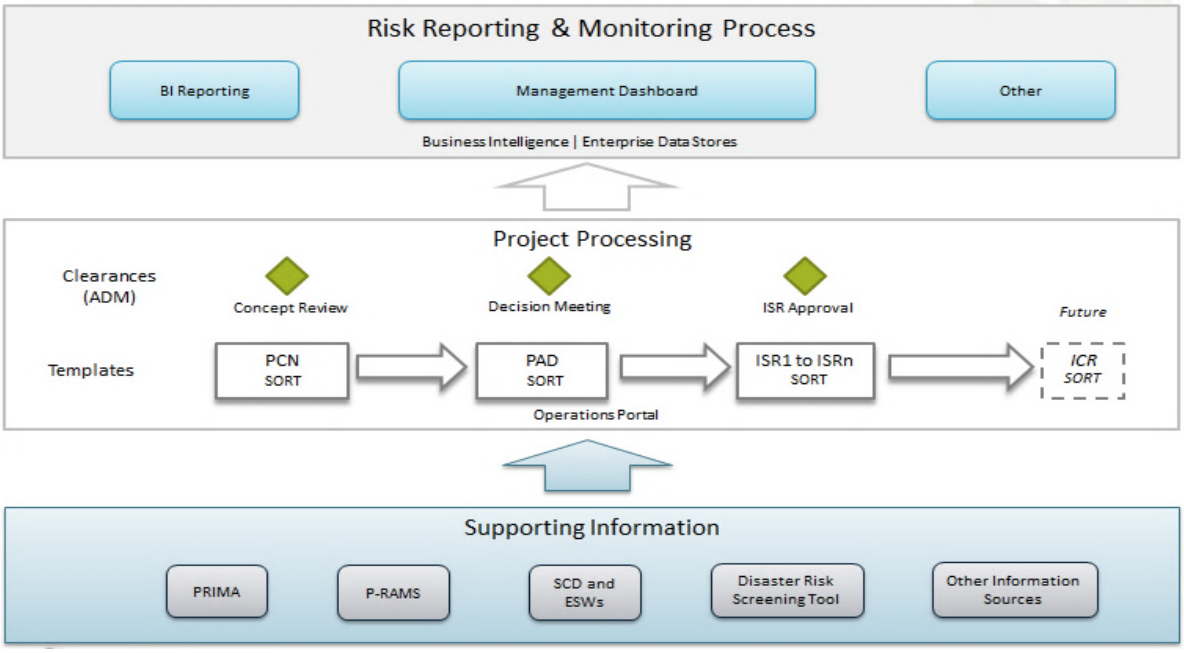
19. Each risk category should be given a single rating and should consider the most important possible event within it. The four ratings are high (H), substantial (S), moderate (M) and low (L).

20. **The SORT is a self-contained tool that is linked to the operation in the on-line portal and is also included in the project, program or CPF documents.**[4] All ratings will be disclosed in the public documents related to the operation or CPF. In addition, the risk sections 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 highest (high and substantial) risks. In this section, teams will summarize the client's plans and the Bank's support for risk management and mitigation for the highest risks.

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

21. **Risk ratings will be updated systematically throughout the project cycle.** To assess risk and prepare the SORT, teams will draw upon existing sources of risk related data and those suggested in the SORT Guidelines. These risk data sources, whenever possible, will be accessible in the Operations Portal (e.g. PRIMA, and P-RAMS, ICR, ESW). During Concept Review and Decision Meeting, risk ratings will be reviewed and updated if needed. During implementation, teams will be required to update risk ratings in the Implementation Status Reports (ISR) and Implementation Completion Reports (ICR) (see Figure 2).

Figure 2: Risk Reporting and Monitoring Process



22. **The SORT ratings proposed by the team will be discussed, validated or revised in accordance with the Accountability and Decision Making (ADM) framework.** During preparation, this will occur during relevant review meetings (e.g., concept review, decision meetings). During implementation, risks will be updated in the Implementation Status and Results Reports (ISRs) for operations, and Performance and Learning Reviews (PLRs) for CPFs.

23. **The SORT encourages a team-based approach to assess risks against development outcomes of each operation or CPF**. Currently, Bank task teams include those with technical, safeguards, fiduciary, and GAC expertise. Assessment of risks will be conducted throughout the project cycle with participation of the whole task team. For IPF operations, the fiduciary as well as environmental and social risks will be assessed in line with the proposed risk based approach under the two ongoing reforms in Procurement[5] and Safeguards.[6]

24. **The ratings will determine the risk management measures required to support the implementation of the operation or CPF.** It is expected that risk ratings would also help inform decisions related to Management support that may be needed.

[5] See http://go.worldbank.org/5SJR1O8XH0
[6] See http://go.worldbank.org/YPUUVXEX50

25. **Management support to high risk operations can take several forms**. It can range from providing guidance and advice, to interventions with partners and clients at high levels to agree on mitigation measures that teams would not be able to achieve at their level, to provision of resources both technical (e.g., hiring an international panel of experts for a hydro project) and budgetary.

26. **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 serves as an important input for the Implementation Completion Report (ICR) or Completion and Learning Review (CLR) and learning for staff, Management, and clients.

27. **Over time, as the relationship between risk ratings (as captured by the SORT) and quality of projects at exit becomes clearer, the data can also be used to establish risk tolerances.** As a baseline is established, and portfolio information becomes available, Senior Management will be provided with the results achieved by the operations compared to the risk rating at entry and during implementation. Discussions about this risk-return relationship will become part of Management's on-going dialogue with the Board and other stakeholders.

B. Pillar Two: Structure and Organization

28. **Building a culture of informed risk-taking will demand changes in how risks are identified, assessed, monitored and managed.** Thus the introduction of the SORT will be accompanied by appropriate organizational structures and strengthened internal accountability.

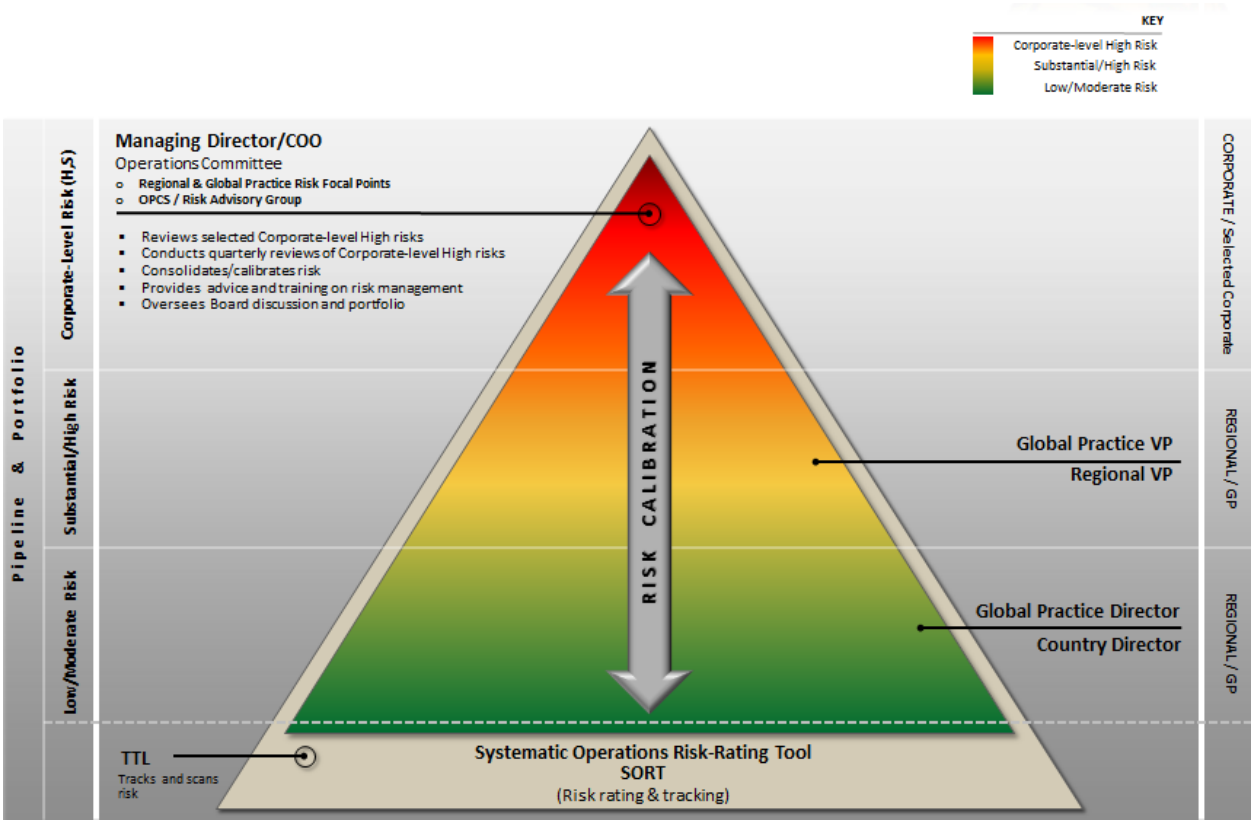
29. **The Accountability and Decision-Making (ADM) framework will be applied to risk assessment and management throughout the project cycle.** ADM will clarify who takes responsibility for different levels of risk, and new procedures will be developed for escalating decisions on operations risks to relevant levels of Management. Each Region and Global Practice will designate Risk Focal Points who, given their knowledge of the Region or Global Practice, will advise task teams on risk ratings and be responsible for managing the maintenance of their respective Regional or Global Practice risk reports.

30. **Assessment of high risk operations will be monitored and validated at the corporate level**. OPCS will review quarterly the rolling Bank-wide pipeline and portfolio of high and substantial risk operations and CPFs/CENs identified by Regions and Global Practices, and confirm the risk assessments. 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.

31. **A Risk Advisory Group supported by OPCS has been created to track corporate-level high-risk operations.** It will conduct regular reviews of all such operations, arbitrating, and calibrating risk ratings; providing advice on risk management; and monitoring the risk profile of the Bank's portfolio (see Figure 3).

32. **OPCS will provide greater instructional and advisory support for risk management during the preparation and implementation of operations**. This responds to IAD's advice that adequate support to staff during implementation of the Framework was critical for its success. Support will be provided to staff through Task Team Leader (TTL) accreditation programs that include risk management; staff and Management performance reviews; development of core technical competencies; dissemination and learning events; e-learning training; assistance to teams through the Operations help desk; and participation in corporate reviews for high-risk operations.

Figure 3: Responsibilities for Risks in Bank Operations



C. Pillar Three: Culture

33. **The implementation of the new Framework will be supported by the development of a common set of values and behaviors to guide staff and Management in assessing and managing risks to operations.** The main goal is to ensure that staff and Management are able to prioritize the maximization of clients' results in their respective operations through informed risk taking and risk management. To this end, the Risk and Accountability Working Group identified the following set of desired values and behaviors:

- Maximizing client results through informed risk taking and management
- Sharing risk assessments as well as results with clients
- Ensuring candid assessments of risks

- Being responsible and accountable for risk taking and management.

34. These values will be instilled and nurtured through initiatives such as Bank-wide communications programs, Human Resources recruitment and leadership programs, revisions to the "core competencies" of Senior Management, training programs for Managers and staff, performance evaluation indicators, peer learning instruments, mechanisms for recognizing and rewarding informed risk-taking, and through role modeling by Senior Management.

35. **Different opportunities will be used to incentivize the desired behavior change for staff and Management:**

- For TTLs the desired behavior will be to use every opportunity to maximize development impact in their clients' operations by consciously assessing risks and monitoring and seeking support for proper management of risk. To develop this behavior, customized training and peer learning will be used.
- For Country Directors, the desired behavior is to maximize country-level results, and carefully consider risk in the portfolio, ensuring needed support for different teams.
- For advisory staff, such as those responsible for safeguards, financial management, procurement and legal, the desired behavior is to support clients and TTLs to design and implement an operation that achieves the development outcome, while complying with internal and country policies/procedures and risk tolerances. Therefore, specialized training for different technical families will be used.
- For Global Practice Directors, Vice Presidents and Practice Managers, the desired behavior will be to role model values and behaviors related to informed risk taking; recognizing and rewarding appropriate behavior in staff; and optimizing portfolio risk during implementation. Human Resources will incorporate these dimensions for staff and Management recruitment; performance management and rewards.
- For Senior Management who oversees World Bank Group (WBG) Risk, the expectation is that they will assess the effect of risks on developmental impact of operations at a global/WBG level, ensuring that the institution is able to achieve its strategic objectives.

III. Implementation of the Proposed Framework

D. Staff and Client Capacity Development

36. **Staff skills and capacity for risk assessment and management**: Risk assessment and management will become part of mandatory staff training. For example, the Operations Core Curriculum (OCC) that is mandatory for TTLs is being updated to include training on the use of the Framework and SORT.

37. **Client skills and capacity for risk assessment and management**: The World Bank will share with clients available risk management tools, and support necessary capacity building efforts during project implementation to ensure satisfactory risk assessment and management.

E. Operations Policy and Country Services (OPCS) Support

38. OPCS is mindful of the importance of ensuring that staff and Management fully assimilate the principles and processes associated with this Framework for its successful implementation. For that purpose, it will provide training and outreach, and keep staff and Management informed of implementation progress.

IV. Expected Outcomes

39. The Framework will; (i) ensure greater consistency and effective risk management in country strategies and their operations; (ii) establish risk management as an integral part of country engagement; (iii) support innovative project designs; (iv) encourage more risk-informed decisions on portfolio composition and management; and (v) alert clients, staff, and Management to changing circumstances and allow them the flexibility to adapt to those circumstances.

40. Effectiveness of the Framework will be measured through regular monitoring of our risk portfolio, and comparisons between pipeline and portfolio risk profiles over time. This will be done more systematically once the pipeline and all operations under implementation have transitioned to the SORT and a baseline is established. The risk profile of operations will be compared to their results, and trends will be established and monitored. The Risk Advisory Group will develop portfolio trend analysis that would inform staff and Senior Management regularly.

Annex 1: Risk Management in the World Bank Group and Other Organizations

Role of the Chief Risk Officer (CRO): The CRO is responsible for assessing country credit risks (including their impact on provisions, capital adequacy and exposure limits), market and counterpart risks (primarily those arising from Treasury and Finance), and operational risk within Finance and Technology Partners. Operational risk under the domain of the WBG CRO is defined by the Basel Committee as "the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events."

The Bank's integrated risk management framework, first endorsed by the Board in 2003, comprises four broad areas of risk: strategic, operational, stakeholders and financial, and they have been periodically updated. Best practices on risk management have evolved, and several parties – COSO,[9] ISO[10] and others – have revised and re-formulated standards. For that reason, the CRO plans to update the framework in FY15 and clearly spell out the accountabilities for risk management.

This approach, also known as an Enterprise Risk Management framework, can be thought of as an umbrella, as different risks are managed under it by different units across the Bank. For example, the risks to Bank operations, discussed in this paper, would be included under Enterprise Risk Management framework. MIGA, IFC, and IBRD have different frameworks for risk management suited to their specific businesses, which allows the CRO to combine them under an integrated perspective by the CRO.

Trust Fund Approach to Risk Management: Risks associated with Trust Funds are evaluated at several levels: operations, institutional, and financial. Assessment of risks to project level activities financed by Trust Funds follows World Bank policies and procedures. Thus, risks to the achievement of their expected outcomes will follow the Framework described in this paper and use SORT. Efforts are underway to further harmonize and simplify the design, establishment and management of Trust Funds by aligning resource mobilization, program/activity planning, and monitoring and reporting cycles to that of the Bank's regular operations. This effort is expected to further facilitate a unified approach to risk management across the Bank. Risks to Partnership Programs as a whole, i.e., institutional risks, will be assessed from the point of view of the non-quantitative characteristics of partnership program risks in line with the Bank's Enterprise Risk Management Framework. The Development Finance Vice Presidency (DFi) will be responsible for these assessments, and will work with the Working Group, that has been set up to develop a toolkit for partnership programs, including the risk management aspects. Financial risks for trust funds are assessed by DFi with advice and support from the CRO.

IFC Approach to Risk Management: The proposed Framework for managing risk in operations presented in this paper will apply to World Bank operations, and to all CPFs and CENs, which are joint WB, IFC, and MIGA documents. IFC has its own independent risk management governance structure for project approvals based on its risk appetite. Risk appetite

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[9] COSO - Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org).

[10] ISO - International Organization for Standardization (www.iso.org).

at IFC is expressed in terms of limits captured via policies, directives, procedures and rules. All projects are risk rated at origination and undergo a dual approval process performed by both the Investment Department and Risk Management prior to being submitted for Board approval. All transactions in the portfolio are reviewed for credit worthiness and valuation on a regular basis. Compliance at IFC is measured and monitored regularly to ensure that IFC's risk profile remains aligned with the Corporation's risk appetite.

MIGA Approach to Risk Management: Under MIGA's risk governance framework for operations, risk rating and risk quantification underpin project review and approvals. The Economics and Sustainability Group assesses a variety of risk categories political and credit, environmental and social sustainability, and integrity risk. MIGA also monitors risks in its existing portfolio. Country risks are assessed on a regular and periodic basis while specific project risks are assessed as and when new guarantees are evaluated. Country risk assessments are done separately from the Operations Group that has responsibility for business development and deal execution. At MIGA, risk appetite is expressed in terms of the quantified risk, represented by economic capital (EC) consumption on a deal-by-deal basis, and is also reviewed periodically on a portfolio basis. Beside EC consumption considerations, all projects are subject to rigorous risk assessment, informed by detailed analysis, internal review, and approval processes prior to being submitted for Board approval.

IMF Approach to Risk Management: The IMF is in the process of strengthening its risk management including clarifying the existing structure; bringing greater coherence to risk analysis and mitigation; and broadening the application of risk management tools that are suited to the business model of the Fund. This process is considered evolutionary and, in that context, on July 18, 2014 the Fund's Board adopted the elements of a new risk management architecture that includes a central risk management unit in the Office of the Managing Director, and a risk committee to replace the Advisory Committee on Risk Management (ACRM). Modalities for the functioning of the new architecture (including staffing, development of applicable tools and techniques and reporting arrangements) are being developed, and further consultations with the Board are envisaged as the framework evolves.

Annex 2: Excerpts from Interim SORT Guidance Note[11]

I. Guideposts for Risk Ratings

Guidance is available to teams on how to rate the risk in each of the nine categories. For each risk category, a brief definition of the risk is provided, along with 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, for each category a list is provided of useful sources of information that could help teams in their assessments.

II. Guideposts for each Risk Category

1. Political and governance

Definition

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.

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).

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.

[11] For the purpose of presentation of the new World Bank Framework for Management of Risk in Operations to the Board, the first three sections of the SORT Interim Guidance Note (June 25, 2014) have been incorporated to the main text. This Annex presents section IV of the Interim Guidance Note, which presents a detailed explanation for each risk category.

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

1. Task teams should work closely with the CMU and governance specialists for the respective country 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 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

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.

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.[12] 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.

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

Task teams should work closely with the country economist of the respective country 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.

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

[12] 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.

	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 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

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.

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.

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

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

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.

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).

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

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

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.

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.

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

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 are 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

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

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.

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

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.

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

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[13]

Definition

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.

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.

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.

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.

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

[13] The guidelines are consistent with current policies and will be updated in line with changes in the future.

resources;[14] or (ii) have significant poverty and social consequences, especially on poor people and vulnerable groups.

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

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

[14] 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

	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

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 extend 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?

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

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

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 should be rated “low”.

10. Overall

There is no formula for arriving at the rating for the overall risk 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.

Annex 3: The Framework: Lessons Learned from Pilots

For the past six months, consultations on the application of the new Framework for Management of Risk in Operations, related guidance notes, and the new Systematic Risk-rating Tool (SORT) were conducted. The new Framework has been piloted with fifteen task teams, covering all Regions, lending instruments, and Country Partnership Frameworks (CFPs). During the pilots, task teams applied the SORT and thoroughly reviewed each risk rating respective to their project's development objectives.

The pilots consisted of three sessions: (i) a presentation of the Framework: (ii) a risk assessment of their project using the SORT, with guidance from the implementation team; and (iii) an interactive presentation of a fictitious case study, describing the organizational structure and accountabilities surrounding risk. Participant reactions were encouraging and many teams saw immediate value in the Framework, requesting usage of the Framework and SORT as soon as possible. The accountability and decision-making roles resonated with participants, and many emphasized the importance of Management's ability to lead and become role models for staff to take more informed risks. The pilots allowed safe space to discuss risks in operations and time to reflect upon the new concepts of the overall Framework.

The pilots also highlighted the need for incentivizing risk-taking. Doing so would not only encourage staff and Management decision-making, but also help Senior Management focus their attention on the most important risks. There is also a need to achieve better alignment between staff training and cultural and behavioral training for Senior Management to ensure that the Bank cultivates an environment of frank and open discussions, taking informed risks to better achieve developmental results. Participants voiced interest in resource allocation based on risk and further expressed the importance of more managerial, technical and financial support for substantial or high risk projects.

The overall outcome of the pilots was that participants appreciated the benefits of the Framework and its role for smart risk-taking to achieve better developmental results. Participants appreciated that it offers a simplified yet systematic and team-based approach to risk assessment – improving capacity of teams to provide harmonious and structured judgments, and offering a powerful communication tool that helps focus Management's attention on the most considerable risks.

As the World Bank moves forward with implementation of the new Framework, OPCS is fully committed to ensuring that these key findings and outcomes are incorporated into learning materials and further training on risk, and that appropriate behaviors are ingrained in the organizational culture.