

DRAFT FOR CONSULTATION OCTOBER 7, 2014

Information Note 1: Environmental and Social Risk Classification

The Board has requested the release of this document for consultation purposes to seek feedback on its content. It has not endorsed the content of the draft, and the Committee on Development Effectiveness and the Board will consider the proposed document following such consultations.

This Information Note is intended to contribute to the discussion about the proposed new risk classification for projects. This Information Note does not form part of the proposed draft Environmental and Social Framework.

Introduction

1. The purpose of this Information Note is to describe the proposed new risk classification for environmental and social risks and impacts of a project and how it would be used. It also discusses how the risk classification relates to the requirements to conduct environmental and social assessment of a proposed project, as set out in World Bank Environmental and Social Policy (**ES Policy**) and ESS1, the review and use of the Borrower's ES Framework and the Systematic Operations Risk-rating Tool (**SORT**).¹

What is the rationale for introducing a new classification for E&S Risk?

2. The current system of ABC categorization of projects used by the Bank, other IFIs and many national assessment systems focuses on an *ex ante* determination of the risks and impacts of a project, and determines the type of environmental and social assessment and consultation that will be required with reference to such categorization. It focuses primarily on technical considerations relating to the type of project, its nature, scale and location, and the characteristics of the potential risks and impacts.² While the *ex ante* determination of risks and impacts is an important aspect of designing projects and mitigation measures and conducting consultation and stakeholder engagement, it is less effective in capturing ongoing and emerging issues, both within and external to the project, many of which can significantly affect environmental and social performance and outcomes.

3. The new risk classification proposed in the draft ES Policy³ will not replace the *ex ante* determination of risks and impacts (this remains a central aspect of ESS1) but will incorporate it into a broader and more integrated strategic risk management approach to projects being supported by the Bank. This more comprehensive classification system will continue to take into account risks that would normally be considered in a traditional ABC categorization, for example the scope and location of the project or whether impacts are long term or irreversible. In addition, it will explicitly require consideration of other risks that could impact the identification, assessment and implementation of mitigation measures and the possibility that, at any time during the project life cycle, the environmental and social risks and impacts of the project are not addressed as required by ESS1. This could include a variety of factors, for example the capacity of the Borrower, changes in commitment to the project or changes in legislation.

4. The new classification system - *High, Substantial, Moderate, Low* - would be used by the Bank as a tool to review and monitor the environmental and social performance of a project, and threats to such performance, on a regular basis throughout the project life cycle. The primary aims of the proposed risk classification are to ensure that the correct level of resources are dedicated **1)** by the Bank, as and

1 See the Report to the Audit Committee and CODE, entitled 'Framework for Management of Risk in Operations', OPCS, dated August 21, 2014.

2 See OP 4.01 Environmental Assessment, para 8.

3 ES Policy, Section A.

when necessary, to enable an appropriate level of corporate oversight and operational support to be provided to a project, and 2) by the Borrower, to enable it to address risks and impacts through appropriate, timely application of the mitigation hierarchy. A secondary aim is to signal to stakeholders the Bank's perception of project risk as context for their own assessment and engagement and as an important criterion for assessment of consistency between the Bank's ESF and third party safeguard frameworks. This implies that, like the Bank, a first step to conducting such an assessment would be the public disclosure of the risk classification by third parties.

5. The risk classification process will ensure that the Bank and the Borrower have accurate and up to date information regarding the status of the project, including issues that could pose a threat to its environmental and social performance and outcomes. It will also help the Bank ensure that the Borrower dedicates sufficient resources, and is provided with targeted implementation support, to ensure that the commitments agreed in the Environmental and Social Commitment Plan (ESCP) are delivered, and that changes to the project or unforeseen risks and impacts are addressed in a time and manner that minimizes or preferably avoids negative environmental and social impacts. The classification will be adjusted by the Bank, if and when necessary, to ensure an appropriate level of support and oversight continues to be provided to the project, and the Board will be promptly informed of such change. The intention is to put in place a system that manages and reduces risk cost-effectively through the life of the project through assessment, monitoring, and suitable and timely interventions, informed by early and ongoing stakeholder consultations.

How would the Risk Classification work?

6. In classifying a project as High, Substantial, Moderate and Low Risk, the ES Policy sets out three areas of risk that would be taken into account. These are (i) the type, location, sensitivity, and scale of the project; (ii) the nature and magnitude of the potential environmental and social risks and impacts; and (iii) the capacity and commitment of the Borrower to manage such risks and impacts in a manner consistent with the ESSs⁴. Other areas of risk may also be relevant to the delivery of environmental and social mitigation measures and outcomes⁵, depending on the specific project and the context in which it is being developed. These could include legal and institutional considerations; the nature of the mitigation and technology being proposed; governance structures and legislation; community views and the degree of stakeholder engagement; and considerations relating to stability, conflict, or security.

7. The risk classification will consider the ability of the Borrower to manage the risks and impacts of the project, both positive (i.e. in terms of benefit-sharing, avoiding political capture) and negative. This ability could change over the life of the project, and lead to variable environmental and social outcomes. In establishing the risk classification for the project, the Bank will take into account the Borrower's track record⁶ of past project implementation, institutional capacity and the financial and human resource available for management of the project. The environmental and social performance of the Borrower during project implementation could result in changes to the risk classification of a project. The classification aims to capture relevant risk considerations, and to ensure that both the Bank and the

⁴ ES Policy, para 20.

⁵ See Report referenced in footnote 1, which discusses SORT and the different aspects of risk that could impact a project. Notwithstanding this, It would be inadmissible for improvements in other areas of risk to justify changes in the E/S risk classification or other means of circumventing ESS requirements, unless mitigated.

⁶ Illustrative examples of how a track record might be measured include: a checklist of qualitative or quantitative indicators for minimum review time period, significance of a public record, experience w/ comparable project risks, evidence of significant health, safety or environmental accidents or complaints, evidence of effective stakeholder engagement etc.).

Comment [A1]: Risk classification is important for all who may be engaged in or affected by the project.

Comment [A2]: It is important to recognize that the steps leading to and maintaining/updating the classification serve this function as well.

Comment [A3]: How & to what end? (Added phrase to clarify this.)

Comment [A4]: This is mandatory, not conditional, if this circumstance has arisen.

Comment [A5]: This is mandatory, not conditional.

Comment [A6]: How the assessment and management of other areas of risk through the SORT remains unclear, including the meaning of this sentence. It would be inadmissible for improvements in other areas of risk to justify changes in the E/S risk classification or other means of circumventing ESS requirements. (See note 5.)

Comment [A7]: Negative community views or the absence of stakeholder engagement are serious project risk factors and need to be considered.

Comment [A8]: "track record" of acceptable implementation capacity is an important assessment criterion (also in ESP, para. 20), but requires some explanation of how such a quality will be measured (i.e. checklist of qualitative or quantitative indicators for minimum review time period, significance of a public record, experience w/ comparable project risks, evidence of significant health, safety or environmental accidents or complaints, evidence of effective stakeholder engagement etc.). Illustrative examples would help; see new note 6..

Borrower are in a position to anticipate and **successfully** address issues in the project that might **otherwise** undermine its environmental and social performance and outcomes. **When the Borrower lacks capacity to do this, the Bank will use the risk classification process as a guide to identify technical assistance (TA) needs, and provide TA, subject to availability of Bank resources.**

Comment [A9]: It is important to recognize that Borrowers may need help to anticipate and successfully address issues and that the risk classification process can help the Bank recognize and address these gaps.

What risks should be considered?

8. A project **would** be classified by the Bank as *High, Substantial, Moderate* or *Low Risk*. The discussion and assessment of the appropriate risk level for many projects will be a complex one, which will require the involvement and professional judgment of different Bank staff. The discussion will include considerations relating to the physical project, with reference to many of the environmental and social issues that are taken into account currently by the Bank in the ABC categorization. For example, certain types of projects such as large infrastructure projects (e.g. dams and reservoirs, power plants, airports, major roads), large-scale commercial forestry, agriculture production projects and hazardous waste management and disposal, are likely to have significant adverse risks and impacts, **and which will normally result in a risk classification of "High."**

Comment [A10]: Again, mandatory, not conditional.

9. In general, a large scale project will have more significant risks and impacts, and issues, associated with it than a small scale project. Likewise, the potential impacts from a new greenfield construction project are likely to be more significant than those from projects entailing rehabilitation, maintenance or upgrading. The nature of the potential risks and impacts will need to be taken into account, for example whether the impacts are irreversible, unprecedented or complex. Irreversible impacts, not susceptible to mitigation, can constitute particularly significant impacts for example, loss of natural habitat or conversion of wetland, **which will normally result in a risk classification of "High."**

Comment [A11]: Assessment of risk might be complex, but risk classification should not be. Provide a list of presumptive high, substantive and moderate risk activities to reduce the complexity of the classification judgment and ensure a precautionary approach is adopted.

10. The risk classification applied by the Bank to the project will consider risk in a broader context, and assess it in a more integrated manner. It will take into account the ability of the Borrower to manage **and reduce** the risks and **negative** impacts of the project, and implement the measures and actions agreed in the ESCP. It will consider other issues that could impact the environmental and social performance and the outcomes of the project. If, for example, a project is being developed in a country with weak governance structures or weak legislation, regulatory and permitting requirements and enforcement relating to environmental and social issues, the risks of not being able to implement the ESCP can be significantly increased. Similarly, the social context, such as social conflict or political instability, may pose particular risks to the project or to its outcomes, and exacerbate an already complex and challenging environment. **Both of these situations would normally result in a risk classification of "High," or at least one grade higher than if these factors were not present.**

Comment [A12]: It is useful to clarify what this means for classification (as is true in para. 10 below).

How does the Risk Classification relate to the Environmental and Social Assessment?

11. The environmental and social assessment will be informed by, and feed into, the risk classification. The Borrower will be required to carry out environment and social assessment of the project pursuant to ESS1, with the aim of assessing the environmental and social risks and impacts of the project during each stage of the project cycle and identifying appropriate mitigation.⁷⁶ The assessment will be commensurate to the potential risks and impacts of the project. Following the review of the Borrower's ES Framework by the Bank, it is anticipated that much of the environmental and social assessment will be conducted pursuant to national requirements, as enhanced by measures and actions to reflect the ESSs. The commitments of the Borrower, in the form of measures and actions, will be summarized in the ESCP. From a risk assessment perspective what will matter is the scope, quality and substance of the assessment, whether it has appropriately identified and assessed relevant environmental and social risks

Comment [A13]: while sensible as a general approach, this paragraph and sections below all seem quite vague with respect to how risk classification is related to decisions regarding the scope and intensity of ESIA. Unlike OP 4.01, there are no explicit triggers for specific ESIA parameters. While some of these minimum requirements are recommended to be restored in the ESSs, similar language should be consistent in this note as well.

⁷⁶ ESS1, para 21.

and impacts and mitigation measures, and the ability of the Borrower to implement such measures.

How does the Risk Classification relate to the Borrower's ES Framework?

12. The review of the Borrower's ES Framework (that is, the Borrower's existing environmental and social framework relevant to the development and implementation of the proposed project) will consider to what extent the use of such framework is likely to be able to address the risks and impacts of the project, and enable it to achieve objectives materially consistent with the ESSs. The considerations to be taken into account in making this assessment are described in more detail in the relevant Information Note⁸². Following the Bank's review of the Borrower's ES Framework and agreement with the Borrower of the measures and actions to be taken to address issues, the development of the project will proceed on the basis of the ESCP.

13. The risk classification of the project is separate from the review of the Borrower's ES Framework. It may include issues that were considered in the review of the Borrower's ES Framework (e.g. scope of legislation to cover resettlement) but will focus more on risks to implementing measures agreed by the Borrower to address this at a project level, or factors external to the project which could have a negative impact on such implementation.

How does the risk classification relate to the SORT?

14. The proposed risk classification discussed in this Information Note will feed into and inform the Systematic Operations Risk-Rating Tool (SORT) ratings. The SORT consists of nine risk categories, one of which relates to environmental and social risk. The SORT recognizes that the assessment of environmental and social risk will be established primarily through the risk-based approach being proposed through the E&S Policy.⁸⁹

Comment [A14]: Although this abbreviation is spelled out elsewhere (on p. 1/para. 1), it is still helpful to have it spelled out here. Also true for abbreviations used in para. 15 below.

Comment [A15]: if there are instances when the ESIA would not be defined by the ESP/ESS1 (i.e. when informed by info from the SORT), these circumstances should be explicitly stated.

Who will be responsible for risk classification of a project?

15. Individual project environmental and social risk classification will be determined by agreement between the Bank's Task Teams and Operational Policy and Country Services (OPCS) Environmental and Social Standards Advisory Team (ESSAT) staff. The classification will take into account stakeholder inputs and both environmental and social considerations, and there will be one risk classification per project. It is important that a consistent approach is taken across sectors and regions. Consolidated risk data for all projects will be considered from a country, regional and sectoral perspective over time to provide an overall portfolio perspective of the Bank's risk profile. The OPCS Regional Safeguard Advisor will clear the project risk classification and assessment plan at concept review, as agreed in the Accountability and Decision Matrix (ADM).

Comment [A16]: This clearance authority statement belongs in a mandatory procedure to ESP or ESS1.

⁷⁻⁸ See Information Note 2: Use and Strengthening of Borrower's Environmental and Social Framework.

⁸⁹ The SORT, para 23. It states "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 and Safeguards".

Attachment

In classifying the risk of a project, the Bank will take into account the objectives and requirements of the ESSs and stakeholder views as well as other considerations discussed above. Management intends to develop a more detailed methodology and guidance for risk classification and the ongoing review mechanism following discussions during the phase 2 consultations. The issues set out below are intended to inform that discussion.

For risk classification at an early stage of a project, the Bank will not take into account the application of possible mitigation measures identified during the environmental and social assessment at the project identification stage. This will be based on professional judgement, and the information available at the time of project identification.

High Risk:

Classification of a project as *High Risk* would include consideration of all ~~range of~~ relevant issues, (including the following), and an evaluation of how these issues, when considered together, could impact the environmental and social performance of the project:

(i) the project is likely to generate a wide range of significant adverse risks and impacts on human populations or the environment. This could be because of the complex nature of the project, the scale (large to very large) or the sensitivity of the location(s) of the project. This would take into account whether the potential risks and impacts associated with the project have the majority, some, or all of the following characteristics:

- long term, permanent and/or irreversible (e.g. loss of major natural habitat or conversion of wetland), and impossible to avoid entirely due to the nature of the project
- high in magnitude and/or in spatial extent (the geographical area or size of the population likely to be affected is large to very large)
- cumulative and/or trans-boundary in nature
- a significant probability of serious adverse effects to human health and/or the environment (e.g. due to accidents, toxic waste disposal, etc.)

(ii) the area likely to be affected is of high value and sensitivity, for example sensitive and valuable ecosystems and habitats (protected areas, National Parks, World Heritage Sites, Important Bird Areas), lands or rights of indigenous people or other vulnerable minorities, intensive or complex involuntary resettlement or land acquisition, impacts on cultural heritage or densely populated urban areas;

(iii) some of the significant adverse environmental and social risk and impacts of the project cannot be mitigated or specific mitigation measures require complex and/or unproven mitigation, compensatory measures or technology, or sophisticated social analysis and implementation;

(iv) there are concerns that the adverse social impacts of the project, including the risk of political capture of project benefits, and the associated mitigation measures, may give rise to significant social conflict;

Comment [A17]: It is important for the Bank's classification to consider the "big picture," the why & what of the ESSs, and external views.

Comment [A18]: A presumptive list of high and substantial risk activities should also be provided. This could be drawn from the annexes to the OECD Export Credit Group's Common Approaches on the Environment.

Comment [A19]: Even one of these may be significant enough to warrant being classified as "High Risk."

(v) there is a history of unrest in the area of the project or the sector, and there may be significant concerns regarding the activities of security **or other armed** forces;

Comment [A20]: Need to consider the risk of guerilla groups, gangs, etc.

(vi) the project is being developed in a legal or regulatory environment where there is significant uncertainty or conflict as to jurisdiction of competing agencies, or where the legislation or regulations do not adequately address the risks and impacts of complex projects or changes to applicable legislation are being made, or enforcement is weak;

(vii) the past experience of the Borrower and/or the implementing agencies in developing complex projects project is limited, and their **track record** regarding environmental and social issues generally is poor;

Comment [A21]: see question above about qualitative or quantitative threshold criteria for this important concept.

(viii) Stakeholder engagement, **especially community participation in the project area**, is weak; or

Comment [A22]: Development practice shows the importance of community participation for projects' success.

(ix) there are a number of factors outside the control of the project which could have a significant impact on the environmental and social performance and outcomes of the project.

Substantial Risk:

Classification of a project as *Substantial Risk* would include consideration of all **range of** relevant issues (including those identified under *High Risk* above) and an evaluation of how these issues, when considered together, could impact the environmental and social performance of the project. Specifically:

(i) the project **may is not be** as complex as *High Risk* projects, its scale **is may be** smaller (large to medium) and the location **may is not be** in such a sensitive area. This would take into account whether the potential risks and impacts have **the majority, some** or all of the following characteristics:

Comment [A23]: For clarity. (If it were the same as High Risk, then it should be classified High Risk.)

- mostly temporary, predictable and/or reversible, and the nature of the project does not preclude the possibility of avoiding or reversing them (although substantial investment and time may be required);
- medium in magnitude and/or in spatial extent (the geographical area and size of the population likely to be affected are medium to large);
- the potential for cumulative and/or trans-boundary impacts may exist, but they are less severe and more readily avoided **or** mitigated than for *High Risk* projects;
- medium to low probability of serious adverse effects to human health and/or the environment (e.g. due to accidents, toxic waste disposal, etc.), and there are known and reliable mechanisms available to prevent or minimize such incidents;

(ii) the effects of the project on areas of high values or sensitivity will be lower than *High Risk* projects;

(iii) mitigatory and/or compensatory measures that may be designed more readily and be more reliable than those of *High Risk* projects.

Moderate Risk:

Classification of a project as *Moderate Risk* would include consideration of a range of relevant issues (including those identified under *High or Substantial Risk* above) and an evaluation of how these issues,

when considered together, could impact the environmental and social performance of the project.

Specifically:

(i) the potential adverse risks and impacts on human populations and/or the environment are not likely to be significant. This is **so** because the project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas. As such, the potential risks and impacts and issues are likely to have the following characteristics:

- predictable and expected to be temporary and/or reversible;
- low in magnitude;
- site-specific, without likelihood of impacts beyond the actual footprint of the project;
- low probability of serious adverse effects to human health and/or the environment (e.g. do not involve use or disposal of toxic materials, routine safety precautions are expected to be sufficient to prevent accidents, etc.); **and**

(ii) risks and impacts can be easily mitigated in a predictable manner.

Low Risk:

A project will be classified as *Low Risk* if its potential adverse risks and impacts and issues on human populations and/or environment are likely to be minimal or negligible **and are less than those in projects classified as *Moderate Risk***. These projects, with few or no adverse risks and impacts and issues, will not require further environmental and social assessment.

Comment [A24]: Both must be true for the risk to be low.

Comment [A25]: It is helpful to be clear about relative as well as absolute standards.