



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

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Attachment 3

THE RISK MANAGEMENT FRAMEWORK FOR THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA

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INTRODUCTION

Risk management is a key and complementary element of the Global Fund's objective setting and business management. Its purpose is to help the Global Fund achieve its key strategic corporate objectives so that the Global Fund's mission to fight the three diseases and save lives can be fully realized. When risks are well managed, these results can be achieved; inadequate management of risks can jeopardize the achievement of any significant results.

The Risk Management Framework formally defines the ways in which the Global Fund identifies, manages and takes decisions on risks. The Risk Management Framework encompasses:

1. The Global Fund's Mission and Risk Profile.
2. The Global Fund's Risk Management Policy which outlines the risk environment in which the Global Fund operates, describes the Global Fund's "risk tolerance" and the guiding principles for managing risk.
3. The Risk Management Process which outlines the generic process underlying each risk management decision, describes the process for developing the Corporate Risk Register and summarizes the key responsibilities of the core bodies and stakeholders of the Global Fund for risk management.
4. A model for reviewing and updating the Risk Management Framework.

This Risk Management Framework describes a comprehensive and systematic approach to managing risk. It takes into account organizational and operational risks. The Risk Management Framework recognizes that risk management is not an isolated activity but an inherent part of good corporate governance.

All Global Fund stakeholders have a role to play in managing risk. The Global Fund relies on the commitment of a wide network of organizations and individuals, including Board constituents, Secretariat management and staff, CCMs, implementers and partners, LFAs and suppliers to manage and minimize threats to achieving the Global Fund's mission and to help the Global Fund identify and take opportunities to achieve the Global Fund's mission.

This Risk Management Framework describes the Global Fund's Risk Management Policy and its approach and clarifies the role of its stakeholders in risk management. The Risk Management Framework takes a pro-active stance to risk management which ensures that emphasis is on risk identification, mitigation and monitoring as opposed to prescribing sets of behaviours or reacting to situations where risks have been realized.

Implementing the Risk Management Framework is achieved through a number of different corporate measures which are documented elsewhere, including the Accountability Framework and the Corporate Risk Register.

PART 1: THE GLOBAL FUND'S MISSION AND DEFINITION OF RISK

The Global Fund's Mission and Key Corporate Objectives

1.1 The Global Fund's core mandate is set out in its Framework Document and By-laws.

1.2 The Global Fund is an international financing institution with a mission to finance a significant scale-up of resources in the fight against AIDS, tuberculosis and malaria. It is an innovative public-private partnership between governments, civil society, the private sector and affected communities. The Global Fund works closely with other bilateral and multilateral organizations to help prevent the spread of the diseases and provide treatment and care for people in need, as part of the United Nations' Millennium Development Goals.

1.3 In order to achieve its mission, the Global Fund has developed key corporate objectives to guide its work. Those objectives are developed and measured on an annual basis by the Global Fund Board through the Key Performance Indicators.

Defining Risk at the Global Fund

1.4 At its most basic, failure to achieve the Global Fund's mission presents the absolute risk for the Global Fund, its stakeholders and those affected communities and people it is intended to reach. Since its corporate objectives are the means by which the Global Fund intends to attain its mission, the definition of "risk" at the Global Fund is any threat that could impede the achievement of the Global Fund's core corporate objectives.

Types of Risk at the Global Fund

1.5 Since risks are defined as threats to corporate objectives, the types of risk can be differentiated based on the type of objective. A high-level objective to achieve impact in the fight against the three diseases is very different from an internal control system such as ensuring that a grant disbursement request has been approved at the appropriate level. It is therefore useful to think of risks in two categories: (i) strategic level risks and (ii) operational level risks. At the operational level, risks can be further sub-divided into (a) risks that relate to the Global Fund's organizational operations and (b) risks that relate to its country/portfolio operations.

1.6 It is important to note that there is interplay between these different types of risk. For example, a comprehensive, organization-wide accountability framework, can effectively clarify roles and responsibilities within daily operations, streamline work through

establishment of clear reporting/review lines, and operationalize checks and balances. Similarly a systematic failure of operational controls could lead to a series of financial frauds will have a serious impact on the Global Fund's resources and its reputation.

Strategic Level Risks

1.7 Strategic Level risks include, but are not limited to:

- *Reputational*: reputational risk relates to the perception of external stakeholders. A frequent shorthand way to understand reputational risk is to ask how a specific decision or action would be portrayed in local, regional, national or global press coverage. This is often referred to as the "front page of the newspaper" test. The Global Fund relies primarily on its reputation to raise funds to sustain its resource base for its operations, and engender public trust in the Global Fund's decision-making.
- *Ethical*: ethical risk can relate to internal as well as external factors. Internal ethical risks may concern an institution's systems or standards for operations, its treatment of staff and workers, and effectiveness of its governance and decision-making structures. External ethical risks may concern the manner in which an institution delivers under its mission to its target constituencies.
- *Accountability*: accountability refers to the willingness of the organization to hold itself, its staff, its partners and other stakeholders responsible for both successes and failures in delivering on its mission.
- *Fiduciary*: relates to how available resources are safeguarded and managed. The Global Fund is entrusted with large amounts of public money in addition to donations from the private sector. The organization has a fiduciary responsibility to ensure the money is spent effectively, efficiently and for the purposes for which they were intended.
- *Operating environment*: relates to changes in the environment in which the Global Fund operates; the changes in global thinking, trends, and political decisions on the health development agenda can have a significant impact on the Global Fund, eg. shifting development resources from fighting the three diseases to other areas.
- *Epidemiological*: changes in the epidemiology of the three diseases can have a profound impact on the operations of the Global Fund.
- *Economic*: not having a share-capital structure and being heavily dependent on its funding from government donors, the Global Fund is exposed to global economic and financial climate and other country-based economic factors which could have immediate and direct impact on its funding.

Operational Level Risks

Organizational Risks

- 1.8 Operational risks at the organizational level include, but are not limited to:
- Lack of extensive privileges and immunities for protection of assets, data and staff
 - Ineffectiveness of internal controls and systems (design and implementation)
 - Ineffective oversight and risk management practices
 - Ineffective/poorly-documented decision-making processes
 - Lack of compliance with legal and regulatory requirements (internal and external)

Portfolio Risks

- 1.9 Operational risks at the portfolio level include, but are not limited to:
- Ineffectiveness of grant architecture and fiduciary arrangements (both in the design and implementation)
 - Ineffectiveness of due diligence and oversight mechanisms and controls
 - Quality of decision-making by Secretariat staff and implementers (see above)
 - Ineffectiveness of implementers' internal controls and systems (design and implementation)
 - Capacity weaknesses
 - Inability to control external factors (political situation, natural disasters, infrastructure etc.)
 - Diversion of funding from intended purpose
 - Lack of harmonization across donor organizations and lack of alignment with or overburdening country processes

PART 2: THE GLOBAL FUND'S RISK MANAGEMENT POLICY

Introduction

2.1 Risk Tolerance: Risk management is an integral part of the decision making processes at the Global Fund. Decision-makers within the Global Fund need to understand the Global Fund's risk tolerance (also known as "risk appetite") in order to distinguish how far the Global Fund will and will not try to mitigate or minimize an identified risk in the pursuit of its objectives - i.e. how much risk the Global Fund is willing to live with to optimize its ability to achieve its objectives.

2.2 Residual Risk and Risk Profile: The likelihood of the risk occurring and the impact of the risk if realized can often be mitigated through measures or controls that are tailored to the identified risk - any remaining risk, after taking into consideration risk mitigation, is the "residual risk". At the extreme, measures which are intended to reduce the likelihood and impact of the risk to nothing and ensure that there is no residual risk can nullify any benefit from taking the risk in the first place. At the other extreme, failing to implement risk mitigation measures or implementing weak and ineffective mitigation measures may undermine the very objectives for which the risks were accepted. Setting clear parameters in defining the Global Fund's risk tolerance is essential in guiding decision-makers on striking an effective balance between mitigating risk and accepting risk. Where the Global Fund strikes that balance is the point which sets the Global Fund's risk profile and defines its ability, as an organization, to deliver on its mission in a sustainable manner.

2.3 This Risk Management Policy defines the Global Fund's risk tolerance and sets out the principles that guide the Global Fund's decisions throughout the risk management cycle, from identifying and assessing risk, developing a risk mitigation strategy and accepting residual risk through to actions and decisions the Global Fund takes if and when the risk is realized.

Context

2.4 The Global Fund's mission is to fight AIDS, tuberculosis, and malaria in those countries where there is the greatest need¹. The Global Fund's operations involve multiple relationships, complex contractual arrangements, difficult humanitarian and development challenges, diverse cultures, capacity to undertake implementation and extensive geographic scope. This is an inherently high risk environment for a number of reasons.

¹ See Framework Document Section III.H.9.: "Give due priority to the most affected countries and communities, and to those countries most at risk". This core principle has been defined in the Global Fund's Eligibility Criteria, the most recent version of which was adopted at the Sixteenth Board Meeting in November 2007. The Eligibility Criteria is under regular review.

- *First*, the countries where Global Fund-supported programs are implemented may not have the optimal institutional and physical infrastructure available for efficient and effective delivery of the programs. The Global Fund's grantees are often operating in difficult and complex situations. The vast majority of the Global Fund's grant portfolio is directed to countries that are classified by the World Bank as low or lower-middle income economies. Some of these countries have recently emerged from conflict or are particularly prone to natural disasters. Often the largest Global Fund programs are in countries where the need is greatest and the risks of investment are the highest. Even in stable countries that have made good progress towards achieving the Millennium Development Goals, the program environment is usually complex.
- *Second*, since 2002, the Global Fund has become the dominant financier of programs to fight AIDS, tuberculosis and malaria². The considerable amount and nature (grants as opposed to loans) of funding involved may attract attempts to misappropriate or divert funds. This risk could be especially high in procurement activities which account for approximately 40% of Global Fund funding.
- *Third*, the Global Fund is an evolving organization that continues to develop its business architecture and processes. Many challenges facing countries fighting the three diseases cannot be solved by doing "more of the same," and call for new and innovative approaches and flexibility, often involving additional risk.
- *Fourth*, the business model of the Global Fund is one that presents a financing mechanism model, not that of an implementing agency, with no country presence. The Global Fund relies heavily on country ownership and its partners for conduct of its business. This presents challenges as well as opportunities.
- *Fifth*, the three diseases are the three highest causes of death by infectious diseases in the developing world. Preventing, treating and curing the diseases are fraught with difficulties, including new challenges such as emerging resistance to effective treatments and the length of time and intensity of resources needed to maintain the treatment; the need to act promptly may not leave sufficient lead time in preparing the grant implementation arrangements and optimize recipients' capacity, thus relying on existing conditions that only meet the minimum requirements.
- *Finally*, due to Global Fund's funding structure, it is exposed to a higher degree of objective and subjective influences such as financial/economic volatility and donor perceptions.

² As of 14 August 2009, the Global Fund had approved funding of US\$ 16.2 billion for programs in 136 countries.

The Global Fund's Risk Tolerance

The Global Fund's Framework Document

2.5 The Global Fund's Framework Document is the primary source that defines the risk tolerance for the Global Fund. The core principles of the Global Fund as set out in the Framework Document are:

1. Operate as a financial instrument, not an implementing entity
2. Make available and leverage additional financial resources
3. Support programs that reflect national ownership
4. Operate in a balanced manner, in terms of different regions, diseases and interventions
5. Pursue an integrated and balanced approach to prevention and treatment
6. Evaluate proposals through independent review processes
7. Operate transparently and accountably, employing a simplified, rapid and innovative grant-making process

Board and Secretariat Management Decisions

2.6 The decisions of the Global Fund's Board and Secretariat management have repeatedly entrenched the principles of the Framework Document, by underscoring the Global Fund's desire to continue to reach those in need even in the highest risk environments, provided that the basic requirements of performance-based funding, accountability and transparency can be met.

2.7 The Global Fund Board has consistently exercised its discretion to approve technically sound grant proposals for funding recommended by the Technical Review Panel - itself an independent body of experts. This consistency has been achieved at times by reinforcing the need for additional oversight in special situations, resulting, for example, in the Global Fund's Additional Safeguard Policy.

2.8 Secretariat management decisions have also demonstrated the Global Fund's risk tolerance by rewarding those grant recipients that perform well and taking swift and firm action where the risks can no longer be mitigated to an acceptable level or where risks have been realized.

The importance of Information

2.9 Risk management can only be as good as the quality of data and accuracy of the information on which risk assessments and decisions are based. As a financing institution, without a country presence, the Global Fund is highly reliant on other parties for gathering and interpretation of information - its grantees, its partners, its LFAs and members of the community at large.

2.10 As with all aspects of the Global Fund's risk management, a balance must be struck between (i) requiring complete and accurate information and transparency through regular detailed reporting, together with data verification that is required for performance-based decision-making and (ii) ensuring operational efficiency by avoiding over-burdensome reporting and verification demands that may cripple innovation and implementation.

2.11 In line with the Framework Document, and as further reinforced by decisions of the Board, the Global Fund strikes this balance by:

- using existing systems where they provide sufficient information to meet the Global Fund's performance based funding principles etc.
- harmonizing and aligning with other donors where possible (e.g. M&E toolkit, use of national targets, accepting joint audits)
- continuing to emphasize the need for efficient and effective programmatic and financial information systems at the country-level
- mobilizing other donors for capacity building and technical assistance.

2.12 The aim is to build on existing systems and not introduce parallel processes unless absolutely necessary so as to avoid the situation where form-filling distracts from the actual management of the risks.

Systems, People and Risk Management Culture

2.13 The Global Fund's Risk Management Policy strikes an effective balance between intuitive and systematic approaches to risk management.

2.14 Implementing effective checks and balances as part of a comprehensive and well-designed system of internal controls and processes is essential to the Global Fund's risk management strategy. But systems on their own are incapable of delivering sound and well-considered decision-making. An overly bureaucratic system and over-emphasis on risk avoidance can stifle innovation and create a risk-averse culture that fails to take opportunities to achieve the organization's objectives and goals.

2.15 The Global Fund recognizes that successful risk management also depends on the quality of the decision-making by its people at all levels. Exercise of good judgement by decision makers, good leadership, fostering a trusting and collaborative professional environment are essential for securing the engagement and commitment of the Global Fund Board's members and constituents, its staff and its technical advisers. Having adequate numbers of staff with the right skill set, ensuring appropriate delegation of authority and well-defined boundaries of authority are essential tools in ensuring a robust decision-making process.

2.16 The Global Fund promotes an organizational culture that:

1. Supports well-informed and responsible risk management;
2. Ensures the workplace offers the environment and tools to be innovative yet responsive, while protecting the organization's interest;
3. Ensures that staff at all levels are more aware and attentive to risks, that mitigation measures are proportionate to the risk, and that the necessary tools and processes are in place to support them;
4. Values record-keeping and communication; and
5. Continually incorporates lessons learned and shares best practice.

Looking forward

2.17 A strategic approach to risk management does not focus solely on the current business model and operations and maintaining the status quo. Rather, the Global Fund's approach to risk management looks forward and seeks to anticipate potential risks to, as well as opportunities for better, achieving its mission.

Action when Risk Materializes

2.18 The Global Fund has high expectations of itself and of its partners and implementers. These are reflected at all levels through, among other things, the Global Fund's Policy on Ethics and Conflicts of Interest for Global Fund Institutions, its Supplier Code of Conduct, its Sanctions Procedure, its Grant Agreements, its HR Policy and Regulations, its Procurement Regulations etc.

2.19 The Global Fund holds itself, its staff, its partners and implementers accountable when they fail to reach the standards expected of them. In line with the Global Fund's performance-based funding model, the Global Fund is prepared to take strong and immediate action where performance or behaviour falls short. This action may take many forms and is always tailored to the specific circumstances of the case and the actual impact resulting from the realization of the risk.

2.20 If the risk is realized at the country/portfolio level, then the Global Fund expects implementers and the relevant authorities within the implementing country to take appropriate action. The Global Fund seeks to support countries in their efforts in this regard and to mobilize support among relevant partners.

2.21 Therefore, the Global Fund works with implementers and partners to provide support when action is taken and ensure that the consequences on all those concerned have been adequately considered. If strong action is necessary, then the Global Fund seeks ways in which to mitigate the impact of that action for those it strives to reach.

Conclusion

2.22 *Risk management is everyone's business:* Risks attach to what we do and the decisions we make. All Global Fund stakeholders have a role in risk management. All staff members are expected to identify, assess and manage risks related to their area of work.

2.23 *Responsible risk taking:* The Global Fund is prepared to take informed and calculated risks to pursue and invest in opportunities that will help to achieve the Global Fund's key corporate objectives and, ultimately, its mission to save lives. Total risk elimination would involve extensive and costly controls and inhibit decision-making. Identifying, profiling, recording and monitoring risks help create a more facilitating, flexible and well-documented decision-making process.

2.24 *"Trust but verify":* The Global Fund relies on others for information on which its decisions are based. It places a high level of trust in its partners and implementers as essential elements of its business model. But, as a responsible funder with a fiduciary duty to its public and private funders, the Global Fund verifies information it receives in a reasonable manner, working inclusively with implementers and LFAs, partners and CCMs.

2.25 *Breach of trust and accountability:* Where that trust has been breached, the Global Fund will take strong and immediate action to protect its assets and ensure that funds are directed as intended. Priority is always given to finding a solution to ensure that essential services are maintained and to minimize the impact on the country's health systems.

2.26 *Finding solutions:* When a risk is realized, the Global Fund works with countries and partners to find solutions and, in defining the actions it takes to remedy or reduce the impact of the risk, strives to ensure that support for communities and people in need is not abandoned.

2.27 *Learning lessons:* The Global Fund seeks to continually adapt and improve its risk management and responses by learning from experience and from best practice and listening to feedback from its stakeholders and partners.

PART 3: THE RISK MANAGEMENT PROCESS

Introduction

3.1 The purpose of the risk management process is to define the methods by which decisions on risk are made as part of the overall business management of the organization. The Global Fund's Risk Management Process has been designed to reflect best practice and, consistent with the Risk Management Policy, to balance the principles of transparency and accountability with creating a safer environment for decision-making. The Global Fund's Risk Management Process is also intended to provide assurance to its stakeholders regarding decision-making at the Global Fund.

Risk Management: Standard Process

Standard Process

3.2 Risk management is an integral part of all decision-making at the Global Fund at every level. The process of risk management is the same irrespective of the level at which it is being conducted. The key steps in the process are as follows:

- Step 1: Identify the risks.
- Step 2: Assess each risk by reference to (i) its potential impact (the extent of the damage if the risk is realized) and (ii) its probability (the likelihood of the risk being realized).
- Step 3: Prioritize the risks: are they high or low risk? Which risks do we consider the most important?
Assign responsibility for oversight of each risk.
- Step 4: Take action: take calculated risk to pursue opportunities and take measures to mitigate the potential impact and reduce the probability of the risks being realized.
- Step 5: Record and communicate decisions on risk management.
- Step 6: Continue to monitor, report and re-assess the risk management decisions.

Step 7: Take action: if a risk is realized, take timely action to contain the impact of the risk and enforce accountability. Continue to learn from experience and use this experience to inform risk reviews.

Each step is informed and guided by the Global Fund's Risk Management Policy.



General Considerations

3.3 Management and staff are required to apply the Risk Management Policy in their work. Decisions should be made upon consideration of the risks and their significance in relation to the expected results and the context of the particular situation.

3.4 Identifying and assessing risks should be conducted as early as possible. When developing strategies and work plans, designing or reviewing initiatives, or preparing for emergencies, it is important to consider risks to the achievement of expected result from the outset. Risks are more easily mitigated when they are identified during planning and before implementation or action has been taken. At the same time, it is important to recognize opportunities for better achieving results, to explore opportunities as they arise and assess the risks related to such new interventions.

3.5 Identifying and assessing risks and determining the appropriate risk mitigation measures is a process that requires reliable information, experience and, in some cases, expert opinion. In all cases, a judgment call will need to be made by the person or group responsible for decision-making on the risks. It will not always be possible to have all the

data necessary to make a fully informed decision. (This may, for example, be as a result of lack of information gathering capacity at the country-level or because a decision needs to be made immediately without the time to gather the information). In such cases, a judgment call will need to be made, drawing on accumulated knowledge and experience.

3.6 Determining the appropriate risk mitigation measures in each case is a fine balance. Measures should therefore be tailored to the risk event being reported, and their benefits described and measured. Factors such as frequency of occurrence, time to implement mitigating measures and consequences all need to be considered. Responding to new threats by putting in new controls may not necessarily manage risks in the optimum way. In some cases, the cost of imposing additional controls may exceed the benefits, or encourage staff to be unduly risk averse. Through on-going monitoring, the impact and probability of the risk and the effectiveness of the mitigation plans are regularly re-assessed.

3.7 The responsible manager, through the initial mitigation plan and subsequent revisions, needs to identify (in quantitative or qualitative terms) the residual risk that is accepted by the Global Fund. It is not possible to eliminate risk but the level of risk needs to be recognized and responsibility for managing this risk clearly identified (and reflected in the Accountability Framework).

3.8 Because there are a large and diverse number of interventions occurring, it is important that risk patterns be identified early. An incident that may be managed well by the staff responsible should be reported up the chain of command, even if no further action is required by senior management in that particular case. This will allow for meta-analysis to identify emerging risks and to share the outcome widely throughout the organization so that lessons can be learned.

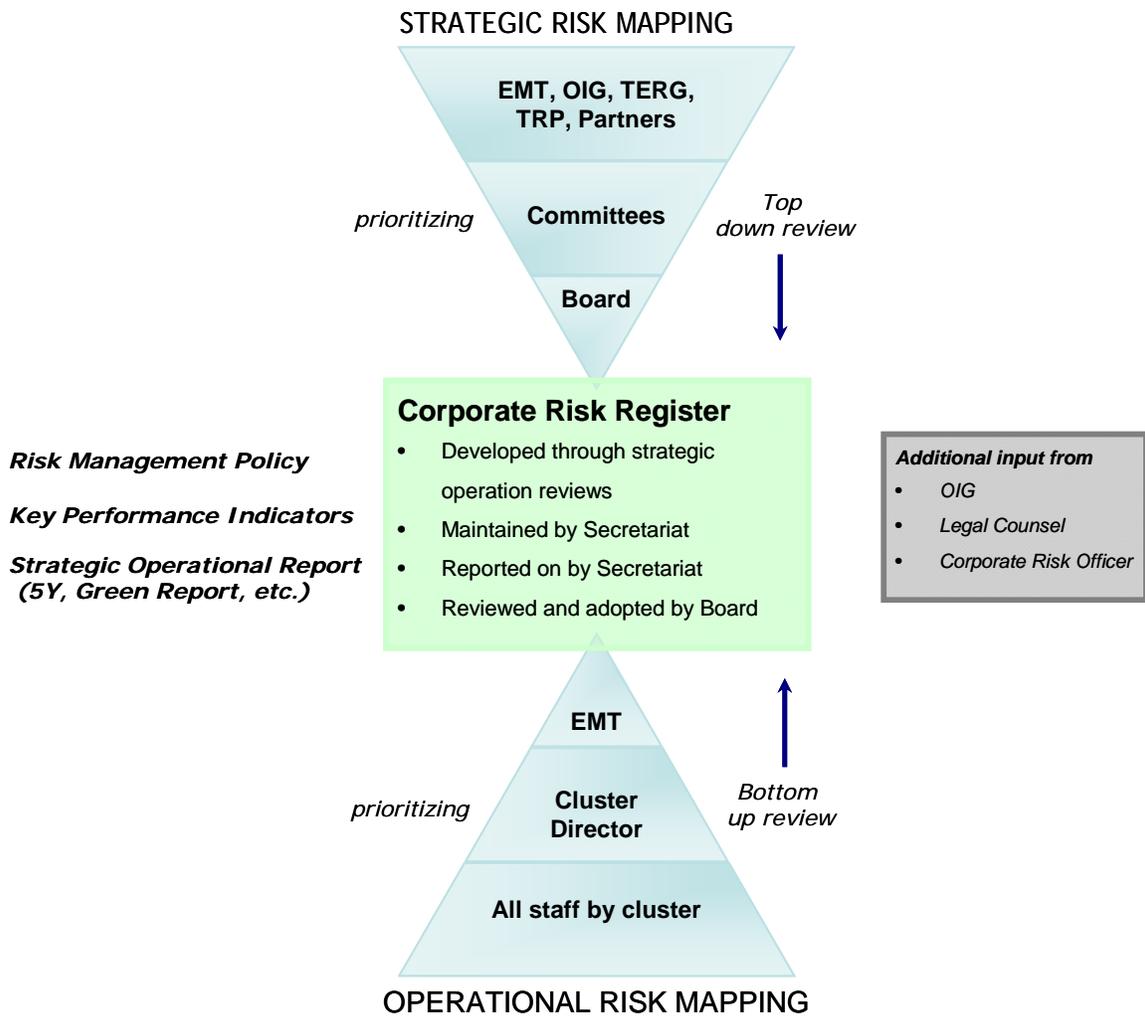
3.9 Similarly, it is important to evaluate each risk on its own and in combination with other risks related to the same overall objective. The best strategy for the achievement of a major objective may involve a combination of different responses to risks related to contributing objectives.

3.10 Avoiding or delaying decisions may exacerbate the problem or miss an opportunity, and in humanitarian situations may even lead to loss of lives. Taking no decision is a decision to default to the status quo; affirmative management of risks is critical to success.

3.11 Each risk that is identified on a risk register will have a corresponding risk owner. Ownership must sit at an appropriate level, with the person who can take effective action (for example by being able to move resources to tackle a risk or give agreement not to deliver other work of lower priority). If a risk owner finds that they cannot take such action, then the risk needs to be escalated to the next level. The risk owner is responsible for overseeing key controls to manage the risk. Where there is a different person nominated as the day-to-day manager of the risk, the risk owner will provide appropriate supervision.

Risk Assessment and Prioritization

RISK ASSESSMENT + PRIORITIZATION: THE CORPORATE RISK REGISTER



Risk Mapping and the Corporate Risk Register

3.12 The Global Fund follows a dual approach for assessing and prioritizing risk: a strategic level review (“top down”) and an operational level review (“bottom up”). The aim of these reviews is to develop a comprehensive map of the risks the Global Fund faces and to prioritize the risks that the Global Fund, as an organization and a leader in global health, considers the most likely to threaten the achievement of the Global Fund’s objectives.

3.13 This approach is implemented by following the generic risk process described in Section 3.2 above. In conducting these reviews, the Global Fund is guided by the principles outlined in the Risk Management Policy. The review is framed by the key corporate objectives of the Global Fund as identified through the Key Performance Indicators and is informed by the results and reviews of the Global Fund’s performance as demonstrated through reports such as the Five Year Evaluation, the annual impact reports, external reviews by donors and OIG reports

3.14 The culmination of the risk assessment and prioritization process is the Global Fund’s Corporate Risk Register. The purpose of the Corporate Risk Register is to record and provide a basis for monitoring and accounting for risk. Consistent with the Risk Management Policy, it is intended that the Corporate Risk Register focus only on a limited number of risks that present the highest risk to the Global Fund.

3.15 The Corporate Risk Register is maintained by the Secretariat. On an annual basis prior to a scheduled Global Fund Board Meeting:

- The Corporate Risk Register is reviewed and updated by each Cluster Director, facilitated by the Corporate Risk Officer, to reflect any changes arising from the operational risk assessment;
- The Executive Management Team (EMT) reviews and endorses the Corporate Risk Register, including a reflection on any emerging strategic risks;
- The Secretariat reports to the Board on the Corporate Risk Register; and
- The Board gives direction on high-level strategic risks so that the Secretariat can review and adapt the Corporate Risk Register as necessary.

3.16 For key identified risks, the Corporate Risk Register will document the main controls in place to mitigate these risks and identify who is responsible for each control. When a significant corporate risk is identified and included in the Corporate Risk Register, it is important that the mitigation, monitoring and reporting requirements are defined.

Strategic review of risks (Top down process)

3.17 Risk management is part of the strategic planning of the Secretariat and of the Board of the Global Fund and must be a visible part of that planning. On an annual basis, Secretariat management presents to the Board, through the Finance and Audit Committee, its assessment and prioritization of the inherent and potential risks facing the Global Fund as well as opportunities for achieving the Global Fund's objectives at a strategic level (see Part 2). Secretariat management also presents the proposed risk mitigation measures and residual risk.

3.18 This assessment and prioritization is informed by identification of risks by:

- The Executive Management Team (EMT) of the Secretariat
- The Office of the Inspector General
- The Board Committees
- The Global Fund Board
- Global or in-country partners of the Global Fund
- An external body of experts

3.19 Mechanisms to identify these risks and ensure they are adequately considered should include:

- Specific agenda items at Board and Committee meetings
- Chairs and Vice-Chairs Retreat
- EMT meetings and retreats
- Other input from high level bodies: eg: Five Year Evaluation from the TERG
- Partnership Forum

Operational review (Bottom up process)

3.20 On an annual basis, the Secretariat conducts an assessment and prioritization of the inherent and potential risks facing the Global Fund as well as opportunities for achieving the Global Fund's objectives at an operational level (see Part 1). The bottom up process is one of identifying risk management activities that are in place, giving assurances that normal operational risks are being managed and emerging significant corporate risks are being identified and managed (the 'Risk Map'). In so doing, staff, through their clusters, must be alert to changing conditions or controls that are not achieving the desired outcomes. The identification of these risks is part of the internal scan to be co-ordinated by the clusters (for processes that involve more than one cluster, a lead cluster will be appointed to take on the co-ordination role).

3.21 All new initiatives are subject to a risk assessment to establish the likelihood and impact of the risks that might threaten the achievement of the objectives for that initiative.

3.22 As with the strategic level review, consistent with standard risk management process, the key residual risk needs to be documented on the Risk Map.

3.23 Once the Risk Map is completed a summary of the key (including strategic) risks from this operational area is made to enable the lead cluster to determine which of these risks should be included on the Corporate Risk Register.

3.24 As mentioned in Section 1.6, there is likely to be interplay between the risks at the strategic and operational levels. Accordingly, this summary of the key risks identified through the Risk Map informs the risk assessment presented by Secretariat management to the Board. Through prioritization at the Board meetings, the strategic level review and the operational level review come together to form the Corporate Risk Register.

Responsibilities

Introduction

3.25 All Global Fund stakeholders have a role in risk management at the Global Fund. However, the primary responsibility for risk management at the strategic level lies with the Board and Secretariat Management. Responsibility for day-to-day risk management at the operational level rests with the Secretariat. In addition, the Office of the Inspector General has an important role in providing assurance and advising both the Board and the Secretariat on risk management.

3.26 Applying the risk management process involves both an advisory function and a decision-making function. The assignment of responsibilities for risk management is aligned with these two functions. In particular, in advising on risk management, expert assistance may be necessary. The Global Fund has established internal expert areas to ensure that it has day-to-day access to expert opinion, including expertise in the three diseases, pharmaceutical procurement and supply chain management, legal, finance, monitoring and evaluation, civil society and other partnership experts and gender experts. In addition, one of the key components for risk assurance in the grant architecture is the role of the Local Fund Agent - often referred to as the “eyes and ears” of the Global Fund. In some cases, specialist knowledge may be necessary and external expertise may be sought (by the Board or the Secretariat).

3.27 As regards the decision-making function, it is important to manage risk at the appropriate level. Consistent with the Risk Management Policy and the need to achieve operational efficiency while maintaining an appropriate level of risk assurance, decision-making authority should be delegated to the level appropriate for the identified level of risk.

Risks should not be assumed at a level which does not have the requisite authority. Risk should also be escalated to a higher level of management when necessary.

3.28 The quality of decision-making depends on many factors including the expertise and experience of the particular decision-maker. Another important element in assuring appropriate risk management and ensuring the quality of decision-making is to hold the decision-makers accountable for their decisions. As explained in Part 4, the Accountability Framework describes the elements of the Global Fund that are intended to address these important aspects of ensuring quality decision-making.

Board

3.29 The Board is ultimately responsible to the Global Fund's stakeholders for overall risk management. In conjunction with setting the Global Fund's Key Performance Indicators, the Board, supported by the Secretariat, is responsible for the regular review and prioritization of strategic risks. The Board also approves the Global Fund's Risk Management Framework and takes the lead in refining the Risk Management Policy. The Board monitors the Global Fund's performance in managing risk, through its review of reports from the Secretariat and the Office of the Inspector General. The Board holds the Executive Director and the Secretariat accountable for their risk management decisions.

3.30 The Committees of the Board advise the Board and provide guidance to the Secretariat on risk management matters that fall within their area of oversight. Only if the Board has specifically delegated authority to a Committee does the Committee's role extend to decision-making. Annex 1 shows the proposed oversight role of the Board and its committees for the current risks in the Corporate Risk Register.

Secretariat

3.31 The Executive Director is responsible for the day-to-day management of the Global Fund's operations. The primary responsibility for risk management of Global Fund operations therefore rests with the Executive Director.

3.32 Consistent with the principle that risk management should be delegated to the level appropriate for the identified level of risk, the Executive Director has delegated responsibility for risk management through a management structure designed to ensure effective leadership on these matters by specific cluster areas.

3.33 The Executive Management Team (EMT), which is composed of all the Cluster Directors, have the following key responsibilities for risk management:

- carry out a regular scan of external risks, in consultation with the Board, other stakeholders and outside experts.

- appoint individuals responsible for monitoring strategic risks
- on a regular basis, review the Corporate Risk Register to ensure risk mitigation is adequate
- report on strategic risks regularly to the Board and its Committees

3.34 The Cluster Directors have the following key responsibilities for risk management:

- identify, assess, approve mitigation plans for, and periodically review risks associated with assigned responsibilities in the following manner:
 - identify and assess the risks associated with each of the main systems within their area of responsibility that contribute to the primary objectives of the Global Fund
 - within each main system, identify the main controls, who is responsible for each, the main risks associated with failure of the controls, and the impact and significance of each control failure.
 - mitigate normal operational risks as required and document more serious potential risks on the Corporate Risk Register
 - carry out further analyses of strategic risks as requested.
- act on reports from the Inspector General and others on risk management matters
- report to EMT on a regular basis, using the Corporate Risk Register

3.35 The Global Fund has also created the role of Corporate Risk Officer whose responsibilities include:

- develop and manage the corporate risk management framework including:
 - establishing appropriate methodologies for risk measurement
 - acting as catalyst in defining the corporate risk tolerance
 - developing and managing processes to assess and follow-up strategic risks and related reports (from the Inspector General and others)
 - assist the reporting to the EMT on the status of strategic risks regularly via the Corporate Risk Register
- co-ordinate and facilitate the development and operation of all risk management processes throughout the Secretariat

3.36 In addition, the office of the Legal Counsel of the Global Fund provides advice in respect of risk management at all levels of the Global Fund's operations.

Office of the Inspector General

3.37 The mission of the OIG is to provide the Global Fund with independent and objective assurance over the design and effectiveness of controls in place to manage the key risks impacting the Global Fund's programs and operations. Through its work, the OIG provides assurance on the effectiveness of such controls and identifies actions that will enable the

Global Fund to achieve better results. The role and responsibility of the OIG in risk management is described in more detail in the OIG Charter and Terms of Reference.

Implementers

3.38 The implementers are responsible for delivering programmatic results with the funds provided based on the country-led implementation model of the Global Fund. They are the key drivers for the achievement of the Global Fund's mission. Implementers have an obligation to operate internal control systems to ensure that (i) funds are efficiently and effectively directed to achieving programmatic results and reaching people in need and (ii) programmatic and financial data are accurate and complete. These control systems are subject to regular review by external bodies, such as the LFA and the external auditor, throughout the grant life cycle. When sub-recipients are implementing a significant part of the program, the implementer has an additional responsibility to manage the sub-recipients and its internal control systems must be adapted to manage these risks.

CCMs

3.39 The Country Coordinating Mechanisms perform an important oversight and monitoring function of the grant recipients' performance. Their role in risk management is to detect weaknesses in performance or controls systems and to stimulate remedial action amongst partners on the ground.

Partners

3.40 As mentioned, the Global Fund works closely with partners and relies on its partners to help achieve the Global Fund's mission. This includes a role in risk management. Partners fulfil this role by providing essential technical assistance to implementers in proposal development, the preparation of implementation plans, assistance on programmatic matters and reporting and wide variety of other capacity building measures. Partners also serve as a critical source of information and feedback on both strategic and operational risks for the Global Fund across all aspects of its business as well as advice and recommendations on measures to mitigate these risks. This information, feedback and advice are provided through various means, including most notably through the four non-voting Board constituencies, but also on a day-to-day level through interaction with Secretariat staff. The Global Fund recognizes that this partner input is essential to the successful and efficient implementation of its risk management policy.

PART 4: APPLYING THE RISK MANAGEMENT FRAMEWORK

Review

4.1 This Risk Management Framework enters into effect immediately upon approval by the Global Fund Board.

4.2 The Global Fund Board, with support from the Secretariat, will organize an evaluation of this Risk Management Framework and its implementation every three years after the effective date.

4.3 Review and update of this Risk Management Framework and the Risk Management Policy will consider the evolving needs of the Global Fund and the environment in which it operates as well as the direction of risk management initiatives of other partner organizations, leading practice developments, and updates to applicable standards. As the Risk Management Framework evolves, consideration will also be given to technological means to support the risk management process.

Accountability Framework

4.4 The Accountability Framework is a term that encompasses all of the Global Fund's structures, systems and controls for managing risk at all levels. Just as risk management assessment and decisions are informed by the Risk Management Policy, the Accountability Framework is developed in line with the Risk Management Policy. The Accountability Framework comprises both organizational and portfolio structures and controls.

4.5 In this way, the Accountability Framework is the result of the efforts of both the Board and Secretariat Management. The components of the Accountability Framework are constantly being adapted and improved to address the changing needs and focus of the organization, the results of the annual risk assessment and prioritization (i.e. the Corporate Risk Register) and its Risk Management Policy.

4.6 The purpose of the Accountability Framework is to ensure that there are sufficient checks and balances in the organization's policies and processes to support informed, transparent and accountable decision-making. Since decisions on risk management involve not only a review of available information but a judgment call, measures have been put into place through the Accountability Framework to ensure that decision-making authority is being conducted at the appropriate level by people or groups (as the case may be) with the appropriate expertise and experience, the quality of decision-making is regularly reviewed and decision-makers are held accountable for their decisions.

4.7 The elements of the Accountability Framework include:

- clear statements of roles and responsibilities for each key process
- clarity on the roles and responsibilities of the various assurance providers (LFAs, Legal, Office of the Inspector General etc.)
- delegations of authority for decision-making (including monetary limits if applicable)
- codes of conduct specific to major stakeholder groups
- enhanced and reinforced whistle blowing system
- clear internal rules and guidance on how misconduct allegations will be investigated and resolved, whether at the Secretariat or in-country
- staff performance management systems that document performance that is consistent with the Global Fund's core ethical values
- a uniform disciplinary system with oversight provided by governance

Communication

4.8 This Risk Management Framework will be disseminated through an appropriate directive to all staff. It will also be made widely available through a dedicated page on the Global Fund's website.

4.9 Improving the consistency and rigor in risk management involves a shift in organizational culture. This requires further communications, training, and day-to-day reinforcement of risk management expectations. To ensure increased awareness and reinforcement of risk management expectations, Cluster Directors must ensure that all staff understand the Risk Management Framework and take the opportunity to discuss it within their clusters.

4.10 The Executive Management Team and Operational Policy Committee will incorporate the relevant risk management expectations and risk tolerances through new or revised organizational policy, procedures, and guidance, as necessary. Cluster Directors are expected to facilitate learning of staff on risk management practices, such as when to perform a risk assessment, how to perform a cost/benefit analysis, and how to monitor key risks. Judicious risk management will be recognized in performance evaluation reviews.

4.11 The Country Programs Cluster, with support from the OIG and the Corporate Risk Officer as necessary, will communicate the key elements of the Global Fund's Risk Management Policy and other elements of this Framework to implementers to help them understand their role in risk management and the expectations of the Global Fund. This may

include the development of guidance and information sessions provided at regional meetings and other relevant opportunities.

Board Oversight of Risks in Corporate Risk Register

No.	Risk	Type	Board oversight
1	Meeting Demand for Funds in A Resource-Constrained Environment	Economic	Board
2	Financial Fraud within Grants	Fiduciary	FAC & PIC
3	Poor Quality Pharmaceutical Products	Ethical	MDC
4	Results and Data Verification	Reputational	PIC
5	Independence and Objectivity of Program Oversight	Fiduciary	PSC
6	Misperceptions of the Global Fund by External Bodies	Reputational	PSC
7	Risk of Engagement with Inappropriate Partners	Reputational	FAC & Ethics
8	Staff Security	Operating Environment	PIC
9	Integrity and Security of Data Repository Systems	Reputational	FAC

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