Board Discussion

PURPOSE: To provide the Board with an annual opinion and an updated report on Risk Management.
I. Executive Summary:

1. Infectious diseases like HIV, tuberculosis, and malaria are often the most difficult to tackle in countries where health structures are weak or absent and where political and historical factors create high risk environments. This means that the Global Fund cannot deliver upon its mission to end the three diseases as epidemics without taking significant risks, often over long periods of time. Effective risk management is central towards achieving that longer-term success.

2. The Global Fund is working to integrate risk management within the fabric of its key business processes and partnerships. This requires building increasingly mature ‘outward-looking’ and ‘inward-looking’ processes and controls in order to respond proactively to key risks at all levels of operations, bearing in mind their often changing nature. By doing so, the Global Fund can successfully execute its ambitious new Strategy for 2017 to 2022.

3. Role of the Board. The Board’s guidance and assistance will be critical in steering the Secretariat to successfully manage these priorities in executing bold and transformative initiatives in support of the Strategy for 2017-2022. This will result in an increased pace of improvement in the Global Fund’s risk profile and, consequently, accelerated impact against the epidemics.

4. Annual Opinion. The Chief Risk Officer (CRO) and Secretariat have concluded that, during 2016, there has been clear progress in the maturity of Governance, Risk Management and Internal Controls within the Global Fund, moving meaningfully towards an ‘Embedded’ state. The Secretariat’s vision continues to focus on attaining an overall maturity level of ‘Actively managed and formalized’ over the medium term.

5. The CRO believes that if the momentum in operationalizing the results of the current initiatives is maintained, the development and operationalization of Risk Appetite and build-out of a robust internal control environment will enable the Global Fund to achieve an ‘Embedded’ state of maturity in 18 months. This will require appropriate leadership and governance from the Board. The CRO is also confident that the agenda set for 2017 on these matters is appropriate and achievable and that it will advance enterprise wide risk management at an optimal pace.

6. Report overview. In addition the CRO’s annual opinion, the report covers five key topics:

   a. Key thematic enterprise-wide risks focusing on impact, including sustainability and transition; program quality and efficiency/impact through partnership; reputational risk; drug and insecticide resistance; and ethics.

   b. Progress on initiatives to drive improvements in risk profile, including the Differentiation for Impact (D4I) and Accelerated Integration Management (AIM) projects, development and implementation of the Strategy Implementation Plan (SIP), Impact through Partnership, financial management capacity building under Co-Link, Supply Chain Transformation, Human Resources (HR) Transformation and other processes.

   c. Progress in operationalizing the risk framework, including embedding risk management in core processes with clear roles and responsibilities; developing risk appetite; and improving governance.

   d. Areas requiring increased and continued attention, including strengthening internal controls and monitoring; defining and expressing Risk Appetite; and embedding risk culture.
e. Potential challenges in maintaining current momentum, including maintaining continued focus from the Secretariat; this year’s leadership transition; and the likelihood of materialization of a significant reputational risk event.

II. Introduction:

7. Successfully defeating HIV/AIDS, tuberculosis and malaria in countries with weak governance systems, limited human resources and technical capacities, and fragile or absent healthcare systems represents a major development challenge. In meeting this challenge, the Global Fund is required to operate in difficult operating environments, assuming significant and often long-term financial, programmatic and reputational risks. The Global Fund’s success depends upon its ability to promote a sustained, systematic approach to objective-based risk management that enables the timely delivery of quality services to beneficiaries, identifies and mitigates key risks to acceptable levels, provides assurance that controls and mitigating actions are operating as planned, and ultimately supports the organization in achieving its public health objectives.

8. Effective risk management will be essential in executing the Global Fund’s ambitious new Strategy for 2017 to 2022. In order to meet its main strategic goals the organization is working to integrate risk management within the fabric of its key business processes and partnerships. This requires building increasingly mature ‘outward-’ and ‘inward-looking’ processes and controls in order to respond proactively to key risks at all levels of the Global Fund’s operations, bearing in mind their often changing nature. In such an environment we must also be able to learn from successes and failures across the organization so as to maximize our ability to achieve impact against the epidemics over the next six years.

III. Key Thematic Enterprise-Wide Risks Focusing on Impact:

10. Drawing from the Organizational Risk Register (ORR) which serves to catalogue the key strategic and operational risks facing the organization as it implements its Strategy, these key risks are prioritized by the Global Fund’s Senior Management and their respective Risk Owners. They are discussed regularly at the Enterprise Risk Committee (ERC) and monitored and updated on a quarterly basis relative to their impact on the Global Fund’s mission (See Annex 1 for the ORR covering Q4 of 2016). Many of these risks center on issues critical to Global Fund’s success and extend beyond the Secretariat itself. Their mitigation will require consistent measurement and monitoring, allocation of sufficient organizational resources, and close collaboration with partners. This report highlights five key risks from the ORR that are particularly relevant and timely as the Global Fund embarks on its new Strategy for 2017-2022.

1. Sustainability & Transition:

11. From a risk perspective, focusing on transition is appropriate, given its criticality to achieving the desired goal of program sustainability and epidemic control / elimination both during and after the Global Fund funding relationship with countries comes to an end. Approximately 78 components are currently classified as transition preparedness priorities, meaning that they are either currently transitioning, and/or represent upper middle income countries (all disease burden) or lower middle income countries (with low or moderate disease burden). As the Global Fund decreases its financing for these and perhaps other portfolios, there is a risk that

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1 This classification scheme includes only those components that received a country allocation and does not include regional or multi-country grants.
interventions funded by the Global Fund will not continue, which may negatively affect some countries’ ability to continue to scale service provision, treatment, and prevention activities (particularly for key and vulnerable populations) in-line with their strategic plans and global commitments. At the same time, these countries have greater economic capacity to pay and are expected to assume a greater share of the national disease response. While the overall investments by the Global Fund are targeted toward maximizing our impact on disease burden, in certain “transition contexts” this decrease in funding could result in reduced progress in the fight against the three diseases, or in some cases, a resurgence of the epidemics resulting in both a reversal of gains, and reputational risk for the Fund.

12. The Global Fund’s approach towards addressing this risk (and thereby achieving the Strategic Objective) is based upon the central premise that planning for sustainability is something that should be taken into account by all countries regardless of where they rest on the development continuum, and that transition preparedness should accelerate as a country moves to middle income status and lower disease burdens. Success will require sustained collaboration with governments, civil society, technical and other partners.

13. Over the past six months, the Secretariat has taken a number of measures to mitigate this risk. These include, but are not limited to, developing the required frameworks and tools to help guide both the Secretariat and countries. These, include the Sustainability, Transition and Co-financing (STC) Policy (April 2016), a Transitions Projections document (October 2016), and an STC Guidance Note (December 2016). In addition, the Secretariat has worked to support the development and initial roll out of Transition Readiness Assessment tools (10 assessments, including some focused on a specific aspects of disease responses, completed and 17 planned for 2017; the Secretariat is also working with partners to leverage their own Transition and Sustainability assessments), a new tailored transition application process (which will be used by at least 17 disease components in this application cycle), and more tailored and specific co-financing requirements designed to strengthen sustainability and transition preparedness across the portfolio.

14. The Secretariat has also instituted an STC Coordination Lead based within Grant Management, supported by focal points across relevant specialist Department, and has embedded five STC specialists in the AELAC department and in order to drive effective execution of the STC policy.

15. Key areas of focus include, but are not limited to:

- Transition and sustainability planning including the further development of Transition Readiness Assessments, strategies for transition, and/or Sustainability Plans;
- Enhanced focus in grant design and Global Fund investments on thematic areas that could represent sustainability and transition gaps, including: contracting of non-state actors, strengthening of M&E and procurement systems; and increased co-financing of Global Fund supported programs (including those for key and vulnerable populations)
- Identifying opportunities to increase financial resources for GF supported countries by exploring the potential for innovative finance across the portfolio, a continued focus on advocacy efforts, and systematic efforts to work with partners on sustainability and transition.

16. The Secretariat is also working to further mitigate emergent transition risks via the operationalization of the Board approved catalytic and special initiative funding. The special initiative funding will be used to strengthen transition and sustainability planning (including areas of programmatic and allocative efficiency). Multi-country catalytic funding will also support key-population programming in regions heavily affected by transition.
17. Experience shows that supporting countries to sustainably transition from Global Fund support requires significant time. Moreover, it should be recognized that the Global Fund’s ability to influence sustainability and transition preparedness is inherently limited. Ultimately, countries will determine the extent to which their programs address core sustainability and transition challenges. As a result, despite the steps that the Global Fund is taking to mitigate this risk, it is possible that certain disease components will face significant challenges during the transition process, complicating the sustainability of certain programs currently financed by the Global Fund.

2. Program Quality and Efficiency/Impact through Partnership:

18. Impact through Partnership, is an initiative whose objective is to maximize impact through a country-centric partnership approach and thereby mitigate the risk of poor program quality and inefficient use of Global Fund resources. Impact through Partnership succeeds the year-long “Implementation through Partnership” Project that responded to several key risks discussed at the Board in 2016, including target underachievement and lagging absorption. Last year’s project was successful in increasing shared accountability for specific, prioritized actions, improved processes in place for planning and coordinating technical support with countries and partners, and improved use of funds in key countries. Going forward, Impact through Partnership will leave ‘project mode’ and focus on embedding a strengthened focus on quality, impact and efficiency into the routine way of working across the portfolio, through a country-centric partnership approach.

Four pillars guide the new approach:

1. Focus efforts on measurable outcomes that drive impact
2. Enhance data use for action and improvement
3. Leverage technical and allocative efficiencies to maximize value for money
4. Strengthen mutual accountability

19. While these pillars and approach are not new, the focus now is to leverage learnings from past successes and mainstream them in the Global Fund’s core business. This is being done through:

1. Building enabling processes:
   • Business processes for getting work done fit for purpose and aligned with impact;
   • Country team competencies, incentives and accountability mechanisms aligned with impact;
   • Tools, frameworks and partner support available in support of impact of grant investments

2. Aligning a cascade of metrics:
   • Key Performance Indicators (KPIs) at a strategic level;
   • Indicators in grant performance frameworks aligned with outcome measures covered in KPIs;
   • Individual and team performance indicators and objectives aligned with performance frameworks

3. Aligning risk and impact:
   • Enterprise risk review addresses cross-cutting risks to impact identified across the portfolio;
   • Country portfolio risk review starts with impact at country level;
   • Strengthening existing in-country review and dialogue, with focus on critical path to impact
20. As it is embedded across the Secretariat, ITP will expressly link risks to achieving impact along the results chain. A roll-out plan for the initiative, including timelines and deliverables, has recently been developed.

3. **Reputational Risk:**

21. Reputational risk is inherently high for an organization like the Global Fund, where securing and maintaining the confidence of our stakeholders is key to success. This risk is normally elevated for the Global Fund for a number of reasons including the challenging environments within which we operate, highly visible strategic objectives such as Sustainability and Transition, Human Rights and Gender, and our core principles of transparency. Setbacks in these areas expose the Global Fund to increased reputational risks, the consequences of which can range from attention being distracted from strategic priorities to the survival of the organization.

22. Reputational risk tends to be event driven and the Global Fund has historically managed it successfully via a number of mitigation measures including a robust framework of policies, procedures and controls, an effective network of social media support among partners, proactive relationship-building with the traditional media, and agility in answering external questions about policies and control frameworks.

23. Recently, changes in the global political landscape have elevated reputational risk for the Global Fund, and increased the potential impact of negative publicity. Sharper media attention on aid spending has increased reputational risk overall. Since the drivers of the increase are not event driven, this risk is likely to be sustained at this elevated level for an extended period of time.

24. In addition to our traditional mitigation measures, the Global Fund is focusing its attention on heightening awareness of this risk, more pro-actively managing communications and developing new story lines on why aid is effective, expanding partnerships to underscore both the progress achieved in global health and the need to do more. Initiatives are also being undertaken to strengthen our approach to managing ethics related risks, including *Integrity Due Diligence* procedures to prevent (especially fiduciary) risks from materializing. This is important in that many of the Global Fund’s reputational exposures have arisen from fiduciary rather than programmatic issues. Other efforts underway to improve our management of ethics risks are discussed under point 5 of this section, below.

25. Reputational risk will continue to materialize at various levels over time and will need to be managed accordingly.

4. **Drug & Insecticide Resistance:**

26. Global Fund investments have contributed to measurable gains against the diseases, including a 48% global decline in malaria deaths between 2000 and 2015 (6.4 million deaths averted) and onward support for the Global Technical Strategy for Malaria that aims to reduce malaria mortality and incidence by 90% and eliminate malaria in at least 35 countries by 2030. Despite this success, the risk of drug and insecticide resistance continues to remain high, putting gains at risk.

27. As a financing institution, the Global Fund has a limited ability to directly mitigate the risk of drug and insecticide resistance, relying on countries and technical partners to lead in this area. For its part, the Secretariat is focused on a number of areas:

- Strengthening supply chains to ensure efficient delivery of quality health products;
- Leveraging local organizations to reach mobile and remote populations;
- Supporting the improvement of disease surveillance to enhance countries’ ability to quickly respond to outbreaks;
- Supporting therapeutic efficacy studies (with Global Fund resources and/or other sources of funding) and also supporting countries in implementing changes in drug policy when necessary;
- Providing catalytic funding for MDR-TB interventions;
- Advocating for the prohibition of oral artemisinin monotherapies and removal substandard and counterfeit drugs from the market;
- Improving patient adherence to antimalarial treatment through behavior change communication, fixed dose combination therapies and support programs; and
- Continuing to support malaria programs in the Greater Mekong sub-region, working towards malaria elimination.

28. The effectiveness of insecticide-based vector control is threatened by the increasing development of resistance to insecticides used in long-lasting insecticide treated nets (LLINs) and indoor residual spraying (IRS). Insecticide resistance, especially to pyrethroids, is now widespread. In response, the Global Fund has enhanced its focus on optimized vector control, surveillance systems and local capacity building, including support (together with WHO) for development of national insecticide resistance monitoring and management plans. The organization has allocated US$ 33 million through Catalytic Funding for the market entry of new generation LLINs as a means to mitigate insecticide resistance. This investment will overcome the two main economic barriers faced by new WHO-approved LLINs: their additional higher cost and sparse cost-effectiveness data. In response, procurers will need to support data generation during early roll-out and shape the vector control market to allow broad(er) adoption of new tools and, in turn, lower prices.

29. With respect to tuberculosis, the Global Fund continued its support for the implementation of new WHO MDR-TB guidelines including the introduction of new second-line drugs and short treatment regimens. This focus will be supported by two additional initiatives:
- An updated Green Light Committee MoU designed to focus on implementer capacity in fighting MDR-TB in high-burden countries; and
- Support for the scale-up of new diagnostics for rapid detection of TB/MDR-TB cases, as well as new MDR-TB drugs

5. Ethics:

30. The risk of ethical misconduct is inherently high given the potential conflicts of interest in our complex governance mechanisms; the challenging operating environments we operate in, often with elevated corruption levels; and the multi-layered implementation structure of grants of involving principal and sub-recipients. This risk has been managed through a series of measures including Conflict of Interest Policies, Codes of Conduct, Integrity Due Diligence procedures, the “Speaking Out” campaign (including whistle blowing policy) and Investigations & Sanctions.

31. Led by the recently established Ethics Office, a number of initiatives are currently underway to further enhance our approach to managing this risk. These include development of an overarching Anti-Corruption Policy and documenting a comprehensive Anti-Corruption Framework for the organization. The former will create consistent and enforceable definitions of prohibited practices, set prioritization, and clarify responsibilities for anticorruption. The latter will provide the baseline for ongoing corruption risk assessment and identify opportunities for further strengthening anti-corruption measures across the Global Fund.

32. Addressing external risks, a new Code of Conduct for CCMs, along with a performance-based enforcement mechanism, is being developed for approval by the Ethics & Governance Committee
(EGC) and is expected to be rolled out in 2017. The Secretariat is also engaged in the roll out of an Integrity Due Diligence (IDD) Project, with an IDD policy and framework for third-parties to be developed by the end of the year.

33. To mitigate internal risks, the Ethics Office is organizing ethical conduct training for staff and engagement with managers on weaknesses revealed through the 2016 Staff Engagement Survey. By Q1 2018, the Ethics Office plans to enhance our systems for personal certifications, disclosures and compliance monitoring.

IV. Progress on Initiatives to Drive Improvements in the Risk Profile:

34. Over the course of 2016, the Prioritized Action Plan (PAP) tracked significant changes in the Global Fund’s risk profile. The PAP seeks to consolidate the Global Fund’s key initiatives, many of which serve as the major mitigating actions to risks identified within the Organizational Risk Register. It defines the inter-connectedness among many cross-cutting Secretariat-wide initiatives which serve to enhance and embed risk management and acts as a roadmap for Board oversight. Since the last Board Meeting in November 2016, developments in the following key areas point to measurable improvements across the organization:

1. Successful completion of the Differentiation for Impact (D4I) Project, resulting in a reallocation of internal resources and alignment of processes with risk and impact.

2. Progress of the Accelerated Integration Management (AIM) Project with three staged releases successfully completed. When complete, AIM will significantly enhance the availability of strategic data and facilitate more efficient internal processes including risk mitigation and control design. While there have been some delays with the final completion of Phase I, now expected in Q3/Q4, AIM continues to receive appropriate senior management attention, as well as additional resources necessary to ensure its successful completion.

3. Development and implementation of a robust Strategy Implementation Plan for 2017-2022 which links Strategic Objectives to deliverables. A separate but linked work planning exercise led by HR concluded with the development and subsequent MEC approval of Division-level work plans. A plan for communication and change management around strategy implementation was also developed.

4. Successful completion of the Implementation through Partnership (ITP) Initiative, creating a platform to engage with partners in addressing challenges to impact. The initiative is now incorporated into the broader Impact through Partnership that is being mainstreamed into the Global Fund’s core business. As it is embedded across the Secretariat, ITP will expressly link risks to achieving impact along the results chain. A roll-out plan for the initiative, including timelines and deliverables, has recently been developed.

5. Progress in strengthening implementers’ financial management capacity through the Co-Link Project, with work underway in nine countries.

6. The launch and major progress on the Supply Chain Transformation Initiative. Diagnostics in 12 to 20 select countries are expected to be completed in 2017. Strengthening of in-country supply chains will follow and be executed with a select group of partners.

7. Numerous initiatives to improve the efficiency of human resources processes continued as part of the Human Resources (HR) Transformation Initiative. Initiatives to improve
the efficiency of HR processes also continued, including roll-out of awareness raising and trainings on ethics and integrity as part of a new organizational culture project.

8. Improvements to numerous other processes were made, including tailored access to funding and enhanced engagement with CCMs to improve their performance.

V. Progress in Operationalizing the Risk Framework:

35. The Global Fund recognizes that a preventive and focused risk management approach is critical to optimal achievement of the Global Fund’s mission of saving lives. Sound risk management entails a focus on the highest risk portfolios where disease burden and hence the risk against achieving impact is highest. Over the past 12 to 18 months, the Secretariat has been working to develop, operationalize and embed improved risk and assurance frameworks, processes and tools across the organization, develop more robust and strategic controls and mitigations, and both enhance and create more clarity around the roles and responsibilities of the first and second lines of defense. The OIG’s annual report also acknowledges that the “Global Fund’s risk management landscape is improving considerably... [and that] distinct progress is also being made across key areas of the risk architecture.”

36. The Secretariat’s goal is to focus on mitigating key risks/issues, especially in mission-critical countries and portfolios so that the Global Fund can successfully execute its Strategy. Several key areas where material progress has been made are discussed below:

1. Embedding Risk Management in Core Processes with Clear Roles and Responsibilities:

37. The Global Fund’s ability to address key risks to the organization and its mission can be characterized in terms of progress in five areas:

- A Risk Engagement model for grant management was agreed upon, documented and rolled out in a phased manner across High Impact and Core Countries, clarifying the roles and responsibilities of first and second line of defense, including the Risk Department, with appropriate controls for ongoing oversight. The Operational Risk Committee was re-launched, driving greater focus on prioritized countries, key risks and mitigations linked to objectives and acceptance of risk. An Integrated Risk Tool has been designed to facilitate improved and streamlined risk identification/planning of mitigations and follow up. This tool, which will be rolled out per 2017 AIM timelines will be important to systematically embed improved, on-going risk management within the organization.

- Risk & Assurance planning and execution continued following completion of the pilot project, with expected coverage of all High Impact & Risk portfolios in 2017. Assurance tools and options are being expanded, especially for Supply Chain and Data Quality risks in prioritized countries. These plans are systematically discussed with implementers and in-country partners to drive common understanding and agreement on risks and assurances and leverage their on-the-ground presence for better monitoring and assurance. Continued efforts were also made to improve financial reporting through grant-level Financial Risk and Assurance plans throughout the portfolio. While progress was made during the year to integrate these plans into comprehensive assurance plans for High Impact and Core countries, more needs to be done.

- The Global Fund’s ongoing focus on strengthening fiscal controls has resulted in a decrease in large cases of fraud. Last year’s Financial Control Environment Review (FCER) resulted in a
number of further actions that are currently being executed and will result in better fraud prevention, stronger PR controls and improved and aligned financial assurance from various providers, including LFAs and external auditors. Moreover, the Recoveries process has also matured, as evidenced by significantly reduced net recoverables and steps taken to facilitate faster resolutions in the future.

- With active senior-management engagement, a matured Enterprise Risk Committee process is driving improvement in managing key organizational risks with greater focus on mitigating actions and ensuring linkages with strategic goals.

- As Operational Policy Notes (OPNs) are being renewed, there is greater focus on clearly defining roles and responsibilities across the Organization. In addition, the Secretariat is nearing completion of an Accountability Framework and Business Process Owner Matrix with clear roles, responsibilities and accountabilities. The Framework places appropriate focus on Monitoring and Compliance and will help advance progress in strengthening the Global Fund’s internal control environment.

2. Defining and Operationalizing Risk Appetite and Tolerances:

38. A clear and well defined Risk Appetite that is embedded in the core decision making processes is critical to advancing the maturity of the organization. When well executed, this would result in:

- Uniform understanding by the various stakeholders (including Board/Committees, OIG and the Secretariat) of risks that are being accepted;
- Consistent and transparent risk-reward trade-off decisions across the organization;
- Well-informed allocation of resources and
- Clearer linkages between organizational objectives, key risks and mitigating actions

39. As an example, the Global Fund has an explicit and well defined Risk Appetite statement on ‘Fraud’ (zero tolerance for fraud) that is actionable. This zero tolerance then drives allocation of Global Fund resources to support prevention and detection (e.g., Additional Safeguards Policy, Fiscal Agents), to focus on recoveries when fraud is detected and to guide the work of the OIG.

40. Over the past few months, the Global Fund has laid the foundational elements of developing and embedding the decision making processes around Risk Appetite. The discussions at the Operational Risk Committee regularly center around prioritizing risks, agreeing with mitigating actions and accepting residual risk or asking for more robust mitigation if residual risk is unacceptable, all of which are intrinsic aspects of risk appetite. Building upon this experience, the Secretariat is now advancing this work and is pursuing an approach that leverages existing and proposed tools (QUART/CAT and the new Integrated Risk Tool) and processes (Operational Risk Committee). The proposed approach will also enhance the Global Fund’s ability to measure and monitor key organizational risk levels, with the corollary benefit of improving aggregation and reporting. This approach will be discussed at the upcoming Audit and Finance Committee meeting.

3. Improving Governance:

41. Improved governance will enable the Global Fund to pursue its Strategic Objectives while proactively managing key organizational risks. The Board adopted an improved governance structure and new committees following a competency based review. Governance related issues are now expected to receive greater attention with the formation of the EGC. The Board completed induction of new Committee members and leadership, mainstreaming performance assessments and improvement plans into the work of the committees, based on defined strategic and operational KPIs and key risk indicators. A new Board Leadership selection process was initiated.
based on the recommendations of the EGC. While there have been several improvements, some issues raised earlier, including the composition of the Board, remain. Taken together, improvements in governance will result in more informed decision-making in support of the 2017-2022 Strategy.

VI. Areas Requiring Increased and Continued Attention:

42. As the Global Fund works to strengthen risk management across the organization, we need to remain cognizant of where we need to do more and/or will require sustained attention, particularly in view of the fact that improvements in certain areas can be expected to take time. These include:

- Strengthening internal controls and monitoring: While key business processes have been identified and some of these have been assessed for robustness against the COSO framework, this work needs to be completed. In addition, while some of the recent work around the Accountability Framework, Business Process Owner Matrix and Operational Policy Note improvements has strengthened the internal control architecture, a culture in which a Process Owner is held responsible for the control environment of, and compliance with, a process still needs to be embedded. In addition, a second line oversight function to test the controls on a periodic basis is still under development;
- Defining and expressing Risk Appetite: Work on defining and operationalizing Risk Appetite in a manner that becomes an integral part of the Fund’s core processes needs to be completed;
- Embedding Risk Culture: While there are early signs of the development of a healthy risk culture, sustained effort will be required before it becomes a part of the fabric of the organization. This is being facilitated by the right “tone from the top” and increasing recognition across the Secretariat of the importance of risk management.

43. Going forward, each of these areas will be subject to risk management focus.

VII. Potential Challenges in Maintaining Current Momentum:

44. Continued Focus from the Secretariat: Over the past year, the Secretariat has built significant momentum in our efforts to strengthen systems within countries and improve and embed risk management within the organization. In the immediate aftermath of the allocation decisions and ongoing pressures of grant making under the new funding cycle, this level of commitment will need to be sustained by both management and staff and enforced consistently in order to operationalize planned initiatives. As always, allocating appropriate resources to select actions without compromising on the delivery of our core mission will be important.

45. Leadership Transition: As the Global Fund is set to undergo a transition of leadership of both Board and Secretariat over the coming quarters, there exists the risk of potentially changing priorities and loss of momentum of key initiatives to address risk in extreme to high-risk environments with weak health systems. Execution of material changes such as enhancing in-country supply chains will take time and the journey will be iterative. The support of the Board for the continued enhancement of risk management will be critical in further consolidating the commitment required to maintain the requisite momentum.

46. Materialization of a Significant Reputational Risk Event: As mentioned earlier, changes in the broader political landscape and media attention on aid spending has increased the likelihood of reputational risk materializing. This will have to be managed without letting it change the priorities or lead to a loss in momentum.
VIII. Chief Risk Officer’s Annual Opinion:

47. The OIG issues an annual opinion on the state of Governance, Risk Management and Internal Control processes at the Global Fund, and whether they are likely to ensure that the organization’s operational and strategic objectives will be met. OIG’s opinion is based on a rating scale with six choices along a continuum: 1) Optimized; 2) Actively managed and formalized; 3) Embedded; 4) Initiated; 5) Ad-hoc; and 6) Non-existent. The definition of the ratings is provided as Annex 2.

48. Last year, it was the Secretariat and CRO’s opinion that the Global Fund’s maturity is between ‘Initiated’ and ‘Embedded’. Also, in the CRO’s opinion there was a need for the Global Fund to materially increase its efforts to achieve a robust level of enterprise-wide risk management.

49. As in the previous year, the Risk Department facilitated and led a discussion with the senior leadership to formulate a Secretariat view on the present state of governance, risk management and internal controls, and on what it should be, recognizing that the highest level of optimization does not necessarily need to be achieved in all respects. In developing this opinion, the Secretariat considered, among other things: a) the results of a Survey with senior management; b) progress during the year on key initiatives, including those under PAP; c) progress on thematic areas highlighted in OIG’s opinion from previous year; and d) progress on rolling out the Risk Management (and Assurance) framework, as well as improvements in Governance.

50. The Secretariat concluded that, during 2016, there has been clear progress in the maturity of Governance, Risk Management and Internal Controls within the Global Fund, moving meaningfully towards an ‘Embedded’ state. The Secretariat’s vision continues to be to attain an overall maturity level of ‘Actively managed and formalized’ over the medium term. Given considerations such as value for money and contextual factors such as the external environment, senior leadership agreed that aiming to achieve an overall ‘Optimized’ state will not be appropriate. That said, it remains likely that some of the processes in areas such as financial management may well achieve a level between ‘Formalized’ and ‘Optimized’.

51. The CRO concurs with the Secretariat’s view, basing his opinion on the progress in a number of initiatives/areas described in this report above, as well as on the: i) quality of assessments, discussions and decisions at the Grant Approval Committee and the Operational Risk Committee; (ii) Risk Department’s direct oversight work based on the revised engagement model, including in-country risk assessments; iii) quality and results of assurance plans that have been rolled out; iv) COSO reviews of key corporate processes; (v) quality of presentations and senior management discussions and decisions on key organizational risks; and vi) observations around early signs of development of a healthy risk culture.

52. While there has been some progress on improving the internal control environment as noted in Section VI of this report, the need remains to materially increase efforts. The CRO believes that if the momentum in operationalizing the results of the current initiatives is maintained, and with appropriate leadership and governance from the Board, the development and operationalization of Risk Appetite and build-out of a robust internal control environment will enable the Global Fund to achieve an ‘Embedded’ state of maturity in 18 months. The CRO is also confident that the agenda set for 2017 on these matters is appropriate and achievable and that it will advance enterprise wide risk management at an optimal pace.

IX. Conclusion:

53. With the continued operationalization of the Risk Management Framework with clearer roles and responsibilities, successful completion of other related actions such as D4I, progress on AIM, and
continued focus on the OIG Agreed Management Actions, there has been significant progress in moving Governance, Risk Management and Internal Control towards an ‘Embedded’ state. In addition, the organization’s key risks are generally receiving an appropriate level of management attention and focus.

54. More importantly, if the Global Fund is successfully able to execute some of the bolder and more transformative actions already underway, including in-country supply chain strengthening and embedding program quality and efficiency within the Global Fund’s core business processes, the pace of improvement in the Global Fund’s risk profile and, therefore, impact should accelerate.
Annex 1: Organizational Risk Register: Q4 2016
### Annex 2: Organizational Maturity Scale

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimized</td>
<td>Internal controls, governance and risk management processes are optimized to ensure that the organization’s operational and strategic objectives are met.</td>
</tr>
<tr>
<td>Actively managed and</td>
<td>Internal controls, governance and risk management processes are actively managed and overseen with clear lines of accountability. Decision making is based on reliable data sets with sufficient due diligence, leading to assurance mechanisms that are robust and fit for purpose to enable the organization’s operational and strategic objectives to be met.</td>
</tr>
<tr>
<td>formalized</td>
<td></td>
</tr>
<tr>
<td>Embedded</td>
<td>Internal controls, governance and risk management processes have been defined and are embedded in everyday management practice. However, there is insufficient close supervision or active management of these processes and/or they are not consistently measurable. It is likely but uncertain that they will allow the organization’s operational and strategic objectives will be fully met.</td>
</tr>
<tr>
<td>Initiated</td>
<td>Internal controls, governance and risk management processes have been defined through institutional policies approved by executive management and/or the Board. However, they are not applied consistently and are not fully embedded in everyday management practice. They are unlikely to ensure that the organization’s operational and strategic objectives will be fully met.</td>
</tr>
<tr>
<td>Ad hoc</td>
<td>Internal controls, governance and risk management processes are inchoate or ad hoc. They have not been fully defined and/or not approved by executive management or the Board. Processes are insufficient to ensure that the organization’s operational or strategic objectives will be met.</td>
</tr>
<tr>
<td>Nonexistent</td>
<td>Internal controls, governance and risk management processes are absent.</td>
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<td>Risk Type</td>
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<td><strong>Strategy Risk</strong></td>
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</table>

### Notes

- **NFM grants feature increased investments in DHIS, high disease burden countries, and sustainable development goals.**
- **Consultations with GMD Heads on monitoring of counterpart financing as well as policy forums on the operationalization of the STC policy**
- **Increased investments for vector control to address insecticide resistance and improve health outcomes.**
- **Consultation on human rights issues in operations and the Human Rights Complaints Management System.**
- **New allocation supports the 2017-2022 Strategy. A further US$ 800 million in Catalytic Investments approved by the Board in Q4 2016 to support the 2017-2022 Strategy.**
- **Ghana and planning to expand to additional countries underway.**

### Additional Mitigating Actions Underway

- **Programmatic & M&E Risks**
  - In order to mitigate programmatic & M&E risks, the following actions are planned:
    - Implementing streamlined budget decisions resulting from ZBB (2017).
    - Leveraging ITP, CRG, SAGE and catalytic funding support in support of GF objectives under the new Strategy (2017).
    - Implementing of streamlined budget decisions resulting from ZBB (2017).
    - Portfolio Review processes through use of optimization models to review currently being conducted.

- **Sustainability Risk**
  - In order to mitigate sustainability risks, the following actions are planned:
    - Undertaking supply chain diagnostics in twenty prioritized countries (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - Integration of HSS activities into SDG agenda for 2017.

- **Operational Risk**
  - In order to mitigate operational risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - Middle East Regional Initiative targeting refugees ongoing.

- **Governance Risk**
  - In order to mitigate governance risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Strategic Risk**
  - In order to mitigate strategic risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Innovation Risk**
  - In order to mitigate innovation risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Compliance Risk**
  - In order to mitigate compliance risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Technology Risk**
  - In order to mitigate technology risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Cyber Risk**
  - In order to mitigate cyber risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
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- **Environmental Risk**
  - In order to mitigate environmental risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
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- **Societal Risk**
  - In order to mitigate societal risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Supply Chain Risk**
  - In order to mitigate supply chain risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Regulatory Risk**
  - In order to mitigate regulatory risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
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- **Political Risk**
  - In order to mitigate political risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).

- **Legal Risk**
  - In order to mitigate legal risks, the following actions are planned:
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
    - On track/Ongoing (Q4 2017) implementation of streamlined budget decisions resulting from ZBB (2017).
Financial & Fiduciary Risks

- Secretariat -

Q4 2016 - Global Fund Organizational Risk Register - Summary version

Financial

17

13

12

19

- Secretariat -

Q4 2016 - Global Fund Organizational Risk Register - Summary version

Financial

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Financial

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Financial

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Financial

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Financial

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Financial

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Financial

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IT Risks

- Disruption, the movement of seasoned staff -

The movement of seasoned staff may lead to productivity damage.

- Reputational -

Disruption, the movement of seasoned staff may lead to productivity damage.

- Financial Management Capacity (Co-

The movement of seasoned staff may lead to productivity damage.

- Accelerated Integration Management -

The movement of seasoned staff may lead to productivity damage.

- Financial Management Capacity (Co-

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**G4 2016 - Global Fund: Risk Register - Executive summary**

**Health Product Management & Supply Chain Risks**

- Continued governance improvements in alignment of regulatory systems to GMP standards.
- Increased public awareness of the importance of EID certain human infections.
- Expanded Global Fund support to countries to strengthen key public health interventions (see table below).
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Financial & Fiduciary Risks**

- Ongoing implementation of strategies to ensure adherence to High Impact and Core countries' financial assurance plans.
- Strengthened monitoring through third-party providers and financial assurance providers.
- Continued development of comprehensive financial assurance policies and guidelines.

**Operational Risks**

- Continued development of comprehensive financial assurance policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Overarching Anti-Corruption Policy**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Strategic Health Investment Programs (SHIPS)**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Governance, Oversight & Management Risks**

- Continued development of comprehensive financial assurance policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Risk Assessment & Strategic Management**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Operational Assurance and Quality Assurance (OAQA)**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Financial Risk and Assurance**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Risk Management**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.

**Risk Assessment & Strategic Management**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
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**Financial Risk and Assurance**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
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**Risk Management**

- Ongoing development of comprehensive anti-corruption policies and guidelines.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
- Continued support for WHO and other partners to strengthen diagnostics capacity in lower income countries.
Progress Update – Prioritized Action Plan (PAP)

March 2017
Geneva, Switzerland
Summary

- The Prioritized Action Plan has been updated at the end of Q1 2017.

- Overall, the results are aligned to the Plan, as 84% of deliverables are completed on time.

- 8% representing 5 deliverables were re-prioritized. The status is on-track, according to the priority revision. The projects/initiatives developed robust mitigation plan that resulted in limited impact on overall operations.

- 8% are due to re-alignment of the Supply Chain project based on initial diagnostic and revised roadmap.

As of today, 65% of the overall PAP deliverables have been fully completed.
Timeline & Milestones

<table>
<thead>
<tr>
<th>Strategy Implementation</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Differentiation for Impact</td>
<td>▲</td>
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<tr>
<td>Implementation through Partnership</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
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<tr>
<td>Procurement and Supply Chain Improvement</td>
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<tr>
<td>Supply Chain Optimization</td>
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<tr>
<td>Accelerated Integration Management (AIM)</td>
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<tr>
<td>Program and Data Quality</td>
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<td>Co-Link</td>
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<tr>
<td>Country Presence</td>
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<tr>
<td>Risk Management Engagement</td>
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<tr>
<td>Assurance</td>
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<tr>
<td>FCER</td>
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</tbody>
</table>

Additional milestone dates TBD

Additional Wave 2 milestones and timelines TBD

Additional actions dependent on Board decision

Additional Actions dependent on decision by AFC
Prioritized Action Plan

65% of 2016-2018 deliverables are completed

84% of deliverables due for end of March are completed
## Deliverables Update Report

### Current status of key initiatives

| Strategy Planning and Implementation | • Cascade from the organization’s performance management framework metrics or measurements for Secretariat teams  
| • Implementation plans for each SO linked to the performance management framework  
| • 2017 activity & work plan for each SO linked to the implementation KPIs and thematic reporting  
| • Operational policy notes and guidelines approved by EGMC  
| • MEC review of SO implementation | End of March 2017 |

| Differentiation for Impact (D4I) | • Approved Country Categorization with high level definitions of scope and impact  
| • People Strategy for Focused, Core and HI portfolios Approved  
| • Finalized and roll-out trainings for at least 90% of the country teams | End of March 2017 |

| Implementation through Partnership | • Collective Analysis of 20 Countries Convened  
| • Actions Identified & Prioritized  
| • Mobilization and Coordination of Technical Support Finalized  
| • Actions Implemented in-country, Results Monitored  
| • Integration of ITP as a part of mainstreamed processes/activities | End of March 2017 |
### Deliverables Update Report

#### Current status of key initiatives

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Indicators</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Procurement and Supply Chain Improvement</strong></td>
<td>- Document of network design</td>
<td>End of March 2017</td>
</tr>
<tr>
<td></td>
<td>- Agreement from countries to participate</td>
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<td></td>
<td>- Request for Proposal for support to carry out project</td>
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<tr>
<td></td>
<td>- Report to evaluate and assess the current state of the strategy</td>
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<td></td>
<td>- Diagnostic document for 3 countries</td>
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<td><strong>No milestone as end of March 2017</strong></td>
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<tr>
<td><strong>Supply Chain Optimization</strong></td>
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<td>- Diagnostic document for 3 countries</td>
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<tr>
<td><strong>Accelerated Integration Management (AIM)</strong></td>
<td>- Approved end to end business process design</td>
<td>End of March 2017</td>
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<td>- Finalize a risk management process flow</td>
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<td>- Roll-out of the new operating system that provide grant portfolio data</td>
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<tr>
<td></td>
<td><strong>No milestone as end of March 2017</strong></td>
<td></td>
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<tr>
<td><strong>Program and Data Quality</strong></td>
<td>- Rollout GF Strategy for Program and Data Quality Improvement</td>
<td>End of March 2017</td>
</tr>
</tbody>
</table>

#### Supplementary Information

- **Very satisfactory**: Green
- **Satisfactory**: Green
- **So-so**: Green
- **Not satisfactory**: Green
- **Disappointing**: Red
- **n/a**: Grey
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Financial Management Capacity (Co-Link)</th>
<th>Country Presence Model</th>
<th>Strengthening Internal Controls of Key Processes &amp; Risk Oversight</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status</strong></td>
<td>• Approved Roadmap and project structure</td>
<td>• Comprehensive list of country presence options</td>
<td>• Internal controls for 12 core processes strengthened &amp; formalized (80% COSO compliant)</td>
</tr>
<tr>
<td></td>
<td>End of March 2017</td>
<td>End of March 2017</td>
<td>End of March 2017</td>
</tr>
</tbody>
</table>
# Deliverables Update Report

## Current status of key initiatives

### Assurance Practices

- Completed Key Risk Matrix per each country
- Assurance Assessment per each country
- OPN/Guidance Note
  - Staff Training Module
- Completed Key Risk Matrix Assurance Assessment
- List of key assurance needs, the most probable options for each assurance need (with pros and cons)
  - RFI launched to seek information from possible providers
  - Complete budgeting exercise to increase funding to SC assurance

**End of March 2017**

### FCER (Financial Control Environment Reviews)

- Formal opinion on the reliability of financial controls within the high-risk Nigeria grants over the period 1 June 2015 to 30 April 2016, including formal testing of expenditures to ensure in alignment with the approved grant budgets.
- Assess the Financial Risk and Assurance Model (FRAM) developed by the country teams at key risky PRs in the selected countries
- Report to Audit and Finance Committee on findings with recommendation on whether the FCER should be embedded into the overall risk and assurance framework of the organisation

**End of March 2017**
Deliverables Update Report

Current status of key initiatives

**Risk Management Engagement**
- Integration of risk’s management team’s view in grant management decision making processes.
- Revised criteria, country list and updated Country Risk Dashboard.
- Minutes of the ORC with key decision points.
- “Operational Plan on Risk Department Engagement Model vis-à-vis Grant Management” shared with GMD and Senior Management.
- Complete and consulted OPN approved by EGMC.
- ERC Minutes.
- Risk Report together with latest Corporate Risk Register submitted to the Board.
- Country Risk Dashboard.

End of March 2017

**Project Management**
- Resources allocated for PMO function and team structure.
- PMO Standard toolkit and governance model for monitoring.
- Approved project management competency level for training and identification of training provider.
- Training initiated for the basic and intermediary project and change management competencies.
- Monthly Project Coordinating meetings and quarterly reporting to MEC.

End of March 2017
<table>
<thead>
<tr>
<th>Risk Report</th>
<th>Objective: Detail emerging risks that could potentially impact project success and identify if escalation to Board and/or committees is required.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Name</strong></td>
<td><strong>Risks</strong></td>
</tr>
<tr>
<td><strong>Initiative</strong></td>
<td><strong>Risk description</strong></td>
</tr>
<tr>
<td></td>
<td>Expected timelines have been changed</td>
</tr>
<tr>
<td>Strengthening</td>
<td><strong>Internal Controls of Key Processes &amp; Risk Oversight</strong></td>
</tr>
<tr>
<td>Accelerated</td>
<td><strong>Integration Management (AIM) (Risk section in GOS)</strong></td>
</tr>
<tr>
<td>Co-Link: Budgeting Guidelines</td>
<td><strong>Expected timelines have been changed</strong></td>
</tr>
<tr>
<td>Co-Link: Financial Handbook</td>
<td><strong>Expected timelines have been changed</strong></td>
</tr>
<tr>
<td>D4i: “approved responsibility matrix”</td>
<td>Not yet been validated - document has been finalized by D4i project in draft, however, important sections are being finalized (for example Grant Making).</td>
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<tr>
<td>Supply Chain</td>
<td><strong>Optimization</strong></td>
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