

## 38th Board Meeting

# Risk Appetite Discussion

GF/B38/23  
Geneva, Switzerland  
14-15 November 2017

# Session objectives

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- Over the past several months, significant work performed to develop the high level Risk Appetite Framework through consultation within the Secretariat and the board committees
  - The purpose of today's session is to share the work underway on this subject and get your input on how to best move it forward including opportunities for committee and constituency engagement
  - The goal is to reach a decision point on Risk Appetite to be submitted for May 2018 Board meeting
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# Content Overview

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1. What is Risk and Risk Appetite and why it is important
  2. Current Risk Management Framework
  3. How does Risk Appetite support Grant Objectives
  4. Adapting Risk Appetite Approach to the Global Fund Context
    - Defined key risks and countries
    - Resulting matrix from consolidation of 25 countries
    - Indicative Board Decision Point on Risk Appetite
  5. Key Aspects of Risk Appetite and how it Drives Decisions
  6. Next Steps
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# What is Risk Appetite and why it is important

## Definition of Risk Appetite

Risk Appetite is the **amount of risk**, at a broad level, **an entity is willing to accept in pursuit of its objectives**. It reflects the entity's risk management philosophy, and in turn influences the entity's culture and operating style.



## Characteristics

- Set by the Board
- Aligns with strategic objectives
- Implications of levels set are clearly articulated including **resource allocation**
- **Drives** consistent and transparent **risk-reward trade-offs**
- Is specific and actionable by the Secretariat and aligns stakeholder expectations
- Can be measured and aggregated for reporting or disaggregated for implementation

## Importance

A well documented and operationalized Risk Appetite will enable the Secretariat to be better informed and more confident in taking **appropriate** (higher or lower) levels of risks to achieve the objectives of the Global Fund.

# Difference between Risks and Strategic Objectives

<b>Definition of Risk</b>	Risk is an uncertain event or condition that, if it occurs, will interfere with achievement of strategic objectives.
 Strategic Objectives influence the level of risk we should be willing to take (Risk Appetite).	
<b>Objective</b>	<b>Appetite</b>
<b>Mission</b>	We have higher risk appetite for most operational risks (other than say fraud or quality of health products) to achieve our strategic objectives in High Impact and large Core countries.
<b>Delivering COE</b>	We have even higher risk appetite for operational risks (other than say fraud or quality of health products) to achieve our objectives in fragile and challenging operating environments.
 The higher the disease burden, the higher our risk appetite to enable successful delivery of our mission.	

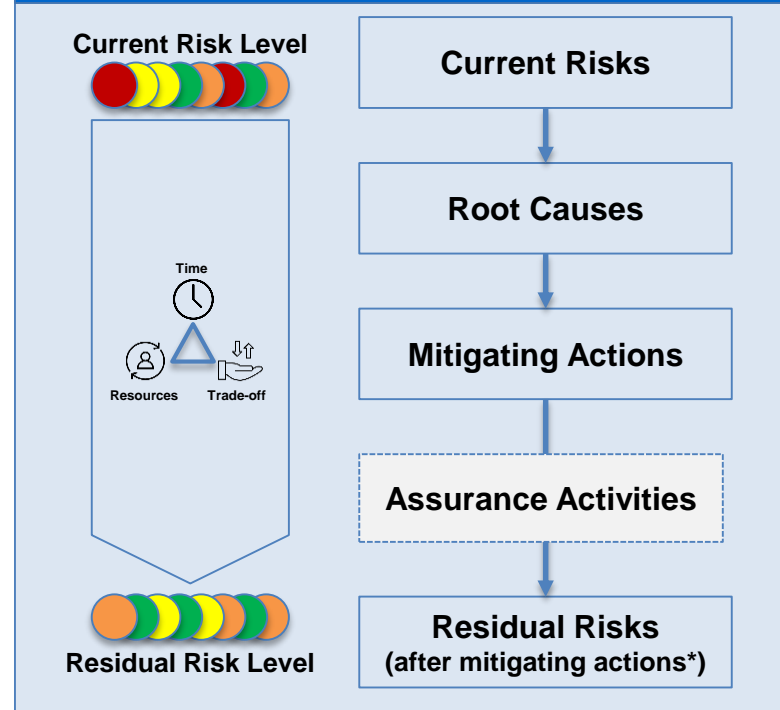
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# Current Risk Management Framework

The grant related risks are thought along the following broad risk categories...

- Program Quality & Efficiency
- Strategic Data Quality & Availability
- Procurement
- Supply Chain
- Quality of Health products
- Financial Fraud & Fiduciary
- Financial Capacity & Reporting by Countries
- Grant Oversight (at PR Level)

... and operationalized through the following risk management process.



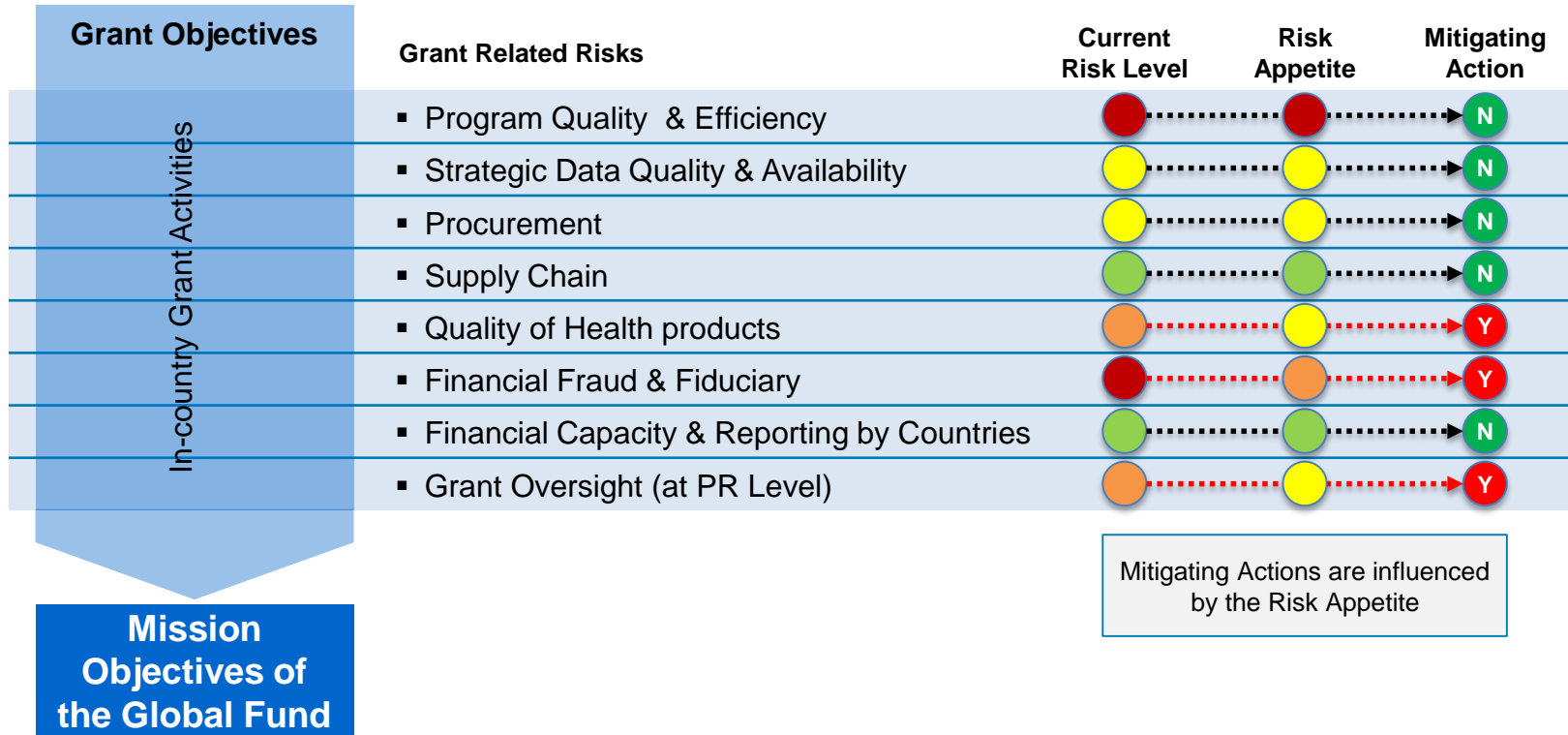
\* Mitigating actions are influenced by management risk appetite



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# How does Risk Appetite support Grant Objectives

Illustrative



● - Very High | ● - High | ● - Moderate | ● - Low/Moderate | ● - Low

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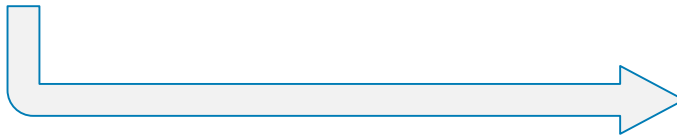
# Adapting Risk Appetite Approach to the Global Fund Context

The greatest risks in mission critical countries often tend to be systemic in nature and would require significant investment and time to mitigate.

Given the trade-off with mission, these risks often have to be accepted as we work on reducing them. So the **risk appetite approach** needs to be adapted.

To facilitate this, for each major risk, we will define both a **Risk Appetite** and a **Target Risk** level, where the Target Risk is the level of risk we would like to drive towards over a defined **period of Time**.

Target Risk is typically lower than current risk level unless it is being increased to achieve a specific strategic sub-objective (e.g. for COE). Achieving Target Risk levels may be followed by a commensurate adjustment (reduction) in risk appetite.



For each Risk, the Board will not only define **Risk Appetite**, but also the **Target Risk** level and the **Time** to reach it.

# Defined key risks and countries

Key Risks	Key Countries				
<p>For grant risks, levels are measured leveraging the Global Fund's risk tool</p>	<p>Top 25 countries by allocation and representing the majority of the global burden for the three diseases: 85% of HIV/AIDS; 80% of TB; 76% of malaria</p>				
<p><b>Risks</b></p>	▪ Bangladesh	▪ Ethiopia	▪ Malawi	▪ Pakistan	▪ Uganda
<ul style="list-style-type: none"> <li>▪ Program Quality &amp; Efficiency</li> </ul>	▪ Burkina Faso	▪ Ghana	▪ Mali	▪ Rwanda	▪ Ukraine
<ul style="list-style-type: none"> <li>▪ Strategic Data Quality &amp; Availability</li> </ul>	▪ Procurement*	▪ Cameroon	▪ India	▪ Mozambique	▪ South Africa
<ul style="list-style-type: none"> <li>▪ Procurement*</li> </ul>	▪ Supply Chain*	▪ Congo (DRC)	▪ Indonesia	▪ Myanmar	▪ Sudan
<ul style="list-style-type: none"> <li>▪ Supply Chain*</li> </ul>	▪ Quality of Health products*	▪ Côte d'Ivoire	▪ Kenya	▪ Nigeria	▪ Tanzania
<ul style="list-style-type: none"> <li>▪ Quality of Health products*</li> </ul>	▪ Financial Fraud & Fiduciary	▪ Zambia	▪ Zimbabwe		
<ul style="list-style-type: none"> <li>▪ Financial Fraud &amp; Fiduciary</li> </ul>	▪ Financial Capacity & Reporting by Countries				
<ul style="list-style-type: none"> <li>▪ Financial Capacity &amp; Reporting by Countries</li> </ul>	▪ Grant Oversight (at PR Level)				
<ul style="list-style-type: none"> <li>▪ Grant Oversight (at PR Level)</li> </ul>					

\* For Procurement, Supply Chain and Quality of Health products risk measurement, top 20 countries are selected based on the health product budgets (aligned with Supply Chain priorities)

# Resulting matrix from consolidation of 25 countries

Illustrative

Board to review and set the Risk Appetite, Target Risk and Indicative Timeframe to achieve Target Risk

	Program Quality & Efficiency	Strategic Data Quality & Availability	Procurement	Supply Chain	Quality of Health products	Financial Fraud & Fiduciary	Financial Capacity & Reporting by Countries	Grant Oversight (at PR Level)
Current Aggregate Risk								
Risk Appetite								
Target Risk								
Indicative Timeframe for Achieving Target Risk	[4-5 years]	[2-3 years]	[1-2 years]	[4-5 years]	[1 year]	[N/A]	[N/A]	[N/A]

● - Very High | ● - High | ● - Moderate | ● - Low/Moderate | ● - Low

# Aggregation of risk by country

Illustrative

Secretariat to arrive to the Aggregate Risk Level

	Program Quality & Efficiency	Strategic Data Quality & Availability	Procurement	Supply Chain	Quality of Health products	Financial Fraud & Fiduciary	Financial Capacity & Reporting by Countries	Grant Oversight (at PR Level)
Country 1	●	●	●	●	●	●	●	●
Country 2	●	●	●	●	●	●	●	●
Country 3	●	●	●	●	●	●	●	●
Country 4	●	●	●	●	●	●	●	●
Country 5	●	●	●	●	●	●	●	●
Country 6	●	●	●	●	●	●	●	●
Country 7	●	●	●	●	●	●	●	●
...	...	...	...	...	...	...	...	...
Country 25	●	●	●	●	●	●	●	●

Current Aggregate Risk	●	●	●	●	●	●	●	●
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● - Very High | ● - High | ● - Moderate | ● - Low/Moderate | ● - Low

# Indicative Board Decision Point on Risk Appetite – May 2018

**DRAFT** for discussion purposes only

The Board acknowledges the methodology for measuring the level of risks and the process followed for the determination of Global Fund risk appetite, as presented by the Secretariat and recommended by the Committees and set forth in [Board paper citation].

Based on the recommendations of the Committees, the Board approves the risk appetite levels for key grant-related risks from the Organizational Risk Register, as set forth in Annex 1. The Board further approves the target risk levels associated with key grant-related risks as indicated in Annex 1.

Accordingly, the Board:

1. Requests the Secretariat, under the oversight of the Committees, to work towards the target risk levels indicated within the respective indicative timeframes indicated in Annex 1;
2. Requests the Secretariat to report regularly on progress in reaching the target risk levels indicated in Annex 1;
3. [other]



# Annex 1: Target risk levels

Illustrative

**DRAFT** for discussion purposes only

Key Grant-Related Risk	Current Risk	Risk Appetite	Target Risk	Indicative Timeframe for Achieving Target Risk
Program Quality and Efficiency	[High]	[High]	[Moderate]	[4-5 years]
Strategic Data Quality and Efficiency	[High]	[High]	[Moderate]	[2-3 years]
Supply Chain	[High]	[High]	[Moderate]	[4-5 years]
Procurement	[Moderate]	[Moderate]	[Low]	[1-2 years]
Quality of Health Products	[Moderate]	[Moderate]	[Low-Moderate]	[1 year]
Grant-related Fraud and Fiduciary	[Moderate]	[Moderate]	[Moderate]	[N/A]
Financial Capacity and Reporting by Countries	[Moderate]	[Moderate]	[Moderate]	[N/A]
Grant oversight (at PR level)	[Moderate]	[Moderate]	[Moderate]	[N/A]

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# Key Aspects of Risk Appetite

**Risk Appetite** related trade-off decisions are typically made in the context of a country/grant considering the strategic objectives and the entire set of risks to achieve it

**Risk Appetite** levels for a given risk is set across the Global Fund portfolio. **Risk levels in individual countries will (and should) vary depending on the context and trade-offs involved**

Amount of Time that the Board decides will influence the types of mitigating actions we choose

The **Amount of Time** to reach the Target Risk level for a country should depend on its maturity level

It will not be unusual for Target Risk level to be **lower** than the Risk Appetite

A transparent Risk Appetite Framework will also help align all partners and implementers

Objective measurement and reporting of individual risks by country is critical so stakeholders can see how the **overall portfolio-wide risk levels are evolving and moving towards target levels**

# How Risk Appetite Drives Decisions













**Supply Chain Risk Example:** High Impact country with a high supply chain related risks caused by poor physical infrastructure and demand forecasting resulting in expiries of health products, stock outs and leakage.

#	Current Risk	Risk Appetite	Target Risk [Time]	Mitigating Actions	Consequences / Trade-Off
1			 [3 - 6 m]	Scale back the program or reprogram away from health products because there isn't a feasible short term option.	Exposure to High risk of not achieving strategic objectives
2 <sup>✓</sup>			 [1 year]	Go for a parallel supply chain	Accepting higher cost and not building national capacity
3			 [2-3 years]	Work on a combination of short and medium term solutions to reach the target level balancing risks with our objectives/principles	Exposure to High risk, while building national capacity and mitigating risk
4			 [N/A]	No actions implemented	No trade-off. Material consequences on delivering results, i.e. expiries and stock-outs

● - Very High | ● - High | ● - Moderate | ● - Low/Moderate | ● - Low

# How Risk Appetite Drives Decisions

**Fraud and Fiduciary Risk Example:** High Impact country with high Fraud and Fiduciary risks, characterized by previous instances of and opportunity for fraud, poor management capacity and weak internal controls.

#	Current Risk	Risk Appetite	Target Risk [Time]	Mitigating Actions	Consequences / Trade-Off
1			 [3 - 6 m]	In countries with high levels of corruption, inadequate financial management capacity and weak detective and preventive controls, Low Risk Appetite presents no good options short of disengagement	Exposure to High risk of not achieving strategic objectives
2✓			 [1 year]	Restricted Cash Policy and/or Fiscal Agent, if necessary	Accepting higher cost, delay in implementation and limited capacity building
3			 [2-3 years]	Work on a combination of short and medium term solutions, including technical assistance to strengthen financial capacity and internal control environments	Accepting High fraud risk in the short/medium term, while building capacity
4			 [N/A]	No actions implemented	Consequences on delivering results, because of fraud and reputational risk

 - Very High |  - High |  - Moderate |  - Low/Moderate |  - Low

# Governance and Management of Risks

	<u>Current Approach</u>	<u>Enhanced Approach with Risk Appetite</u>
<b>Board / Committees</b>	Reviews Annual Risk Report/ORR*	+ Sets Risk Appetite
<b>Executive Management</b> Enterprise Risk Committee (ERC)	Discusses key organizational risk acceptance or mitigation	+ Prioritizes and allocates appetite & resources
<b>Senior Level Management</b> Operational Risk Committee (ORC)	Reviews KRM, makes risk trade-off decisions within Management Risk Appetite	+ Makes risk trade-off decisions to achieve objectives within overall Board Approved Risk Appetite
<b>1st &amp; 2nd Lines of Defense</b> Country Teams, Global Risk Owners, Risk Department	Prioritizes key risk, mitigations, and makes recommendations to ORC	+ Drives behavior on grant decisions and mitigating actions- operationalizing decisions
<b>Tools/Systems</b> QUART/CAT/IRT	Analytic tools rate risk	+ Improved Analytics with IRT

\*ORR: Organizational Risk Register

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# Next Steps

1. November Pre-Board Day session on risk levels and Risk Appetite (underway)
2. Additional set of consultations during April 2018 Committee meetings to agree on Risk Appetite statements
3. Decision point on Risk Appetite submitted for May 2018 Board meeting

*Parallel work within the Secretariat to educate and advance work on Risk Appetite across the organization*



# Organizational Risk Register (ORR)

Once the Risk Appetite Framework is approved, we will then report on the progress made towards reaching the Target Risk Level via the quarterly Organization Risk Register

## ORR Risk Summary

Risk	Residual Risk Q2	Direction of Travel	Global Fund Ability to Mitigate
1. Program Quality and Efficiency	●	→	☆☆
2. Strategic Data Quality and Availability	●●	→	☆☆☆
3. Procurement	●●●	→	☆☆☆☆
4. Supply Chain	●●●●	→	☆☆☆☆
5. Grant-Related Fraud & Fiduciary	●●●●●	→	☆☆☆☆
6. Financial Capacity and Reporting by Countries	●●●●●	→	☆☆☆☆
7. Grant Oversight and Compliance (at PR Level)	●●●●●	→	☆☆☆☆
8. Quality of Health Products	●●●●●	→	☆☆☆☆
9. Human Rights and Gender Inequality	●●●●●	→	☆☆
10. Transition	●●●●●	→	☆☆
11. Drug and Insecticide Resistance	●●●●●	→	☆☆
12. Internal Operations	●●●●●	→	☆☆
13. Integrated Process, Systems and Tools	●●●●●	→	☆☆
14. Risk Management and Internal Controls	●●●●●	→	☆☆
15. Foreign Exchange	●●●●●	→	☆☆
16. Governance and Oversight	●●●●●	→	☆☆
17. Organizational Culture	●●●●●	→	☆☆
18. Ethics	●●●●●	→	☆☆
19. Staff Health	●●●●●	→	☆☆
20. Future Funding	●●●●●	→	☆☆
21. Privileges and Immunities	●●●●●	→	☆☆
22. Reputation	●●●●●	→	☆☆

## Aggregation of Risks

The screenshot displays a complex web-based interface for risk management. It features multiple tabs at the top, including 'Risk Register', 'Program Quality and Efficiency', and 'Strategic Data Quality and Availability'. The main content area is divided into several sections: 'Risk Register', 'Program Quality and Efficiency', and 'Strategic Data Quality and Availability'. Each section contains detailed information about specific risks, including their descriptions, impact, and mitigation strategies. The interface is designed to provide a comprehensive overview of the organization's risk profile and the progress of various mitigation efforts.

## Review of Individual Risks

Risk Owner	TAF	ISF Category	Programs Quality and Efficiency	Direction of Travel	Time change since last quarter	Residual Risk	Risk Aggravator
Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency	ISF Category: Program Quality and Efficiency
<p><b>Key Commits/Commitments</b></p> <p>Agency of the UN Secretariat-General, United Nations Office on Drugs and Crime, World Health Organization and Health Sector Collaborators are a member ability to mitigate Program Quality and Efficiency risk.</p>							
<p><b>Key Persons</b></p> <p>Agency of the UN Secretariat-General, United Nations Office on Drugs and Crime, World Health Organization and Health Sector Collaborators are a member ability to mitigate Program Quality and Efficiency risk.</p>							
<p><b>Timeline</b></p> <p>2017</p> <p>2017</p> <p>2017</p> <p>2017 - 2018</p> <p>2017 - 2018</p>							