

39th Board Meeting

Risk Appetite Framework: Progress Update and Steps for Advancement

GF/B39/07
09-10 May 2018, Skopje

Board Decision

Purpose of the paper: This paper presents an update on the development of the Risk Appetite Framework; and seeks approval of the Risk Appetite Framework, including Risk Appetite, Target Risk levels and the indicative timeframes for achieving Target Risk, as described in the table in Annex 3 to GF/B39/07.

Decision

Decision Point: GF/B39/DP11: Approval of the Risk Appetite Framework

The Board:

- i. Acknowledges the decision of the Strategy Committee concurring with the Risk Appetite Statements for the risks under such committee's purview, as set forth in the table in Annex 3 to GF/SC06/03 – Revision 2;**
- ii. Acknowledges that the Strategy Committee will further discuss the Human Rights and Gender Inequality, Transition, and Drug and Insecticide Resistance risks at its meeting in July 2018, which will include discussion of the risk management strategy for these risks, including mitigation measures in place and/or planned, and a determination of the appropriateness of setting risk appetite statements for these risks;**
- iii. Further acknowledges the decision of the Audit and Finance Committee concurring with the Risk Appetite Statements for the risks under such committee's purview, as set forth in the table in Annex 3 to GF/AFC06/16 – Revision 1; and**
- iv. Based upon the recommendation of the Audit and Finance Committee, approves the Risk Appetite Framework, including Risk Appetite, Target Risk levels and the indicative timeframes for achieving Target Risk, as described in the table in Annex 3 to GF/B39/07.**

Budgetary implications (included in OpEx budget)

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 4.

Executive Summary

Context

- The Global Fund Secretariat has been making risk-reward trade-off decisions based on management judgment. A Board approved Risk Appetite will lead the organization to be more informed and confident in taking appropriate (higher or lower) levels of risks, to realize agreed-upon strategic objectives.
- Over the past few years, the Global Fund has established the necessary risk management architecture and business processes and is therefore ready to operationalize Risk Appetite.
- Development of the Risk Appetite Framework has involved discussions with key stakeholders, including implementing and technical partners, donors and the Global Fund's governance committees, under the overall guidance of the Audit and Finance Committee (AFC).

Questions this paper addresses

- A. What is Risk Appetite and Why Is It Required?
- B. How is Risk Appetite Adapted to the Global Fund Context?
- C. Structure and Components of the Proposed Risk Appetite Framework.
- D. What are the Next Steps?

Conclusions

Summarized below are the Secretariat's conclusions on the four questions raised by this paper:

- A. Risk Appetite is a tool that enables better management of risks. It reflects the risk management philosophy that a Board wants the organization to adopt and, in turn, influences its risk culture, operating style and decision-making.
- B. The Global Fund faces risks in mission-critical countries that often tend to be systemic in nature and require significant investment and time to mitigate. These risks need to be balanced against mission risk i.e. the risk of not delivering on mission/strategic objectives. Hence, a multidimensional approach has to be adapted to guide Global Fund risk-reward decisions, driven by three (3) attributes: Risk Appetite, Target Risk level and Time to Reach Target.
- C. By following agreed upon principles for identifying key risks for Risk Appetite setting, nine (9) risks (eight (8) of which are grant facing) were selected¹. Additionally, a cohort of 25 countries, which represent 76% of the total 2017-2019 allocation amount and a global burden of ~ 80% of the three (3) diseases, was defined to measure the eight (8) grant facing risks.
The Risk Appetite Framework recommends Risk Appetite levels for all nine (9) risks. There are three risks (In-Country Supply Chain, Program Quality and Strategic Data Quality and Availability) where the current risk level is 'High' and a recommended target risk level is 'Moderate'.
- D. The Global Fund is ready to operationalize Risk Appetite. Monitoring and reporting on the progress made towards reaching Target Risk levels will be accomplished via quarterly Organization Risk Register (ORR) updates.

Input Sought

- Decision Point GF/B39/DP11: Approval of the Risk Appetite Framework

¹ The principles for selecting the key risks are set forth in GF/AFC05/08 and the key risks selected according to such principles initially presented to the Board in GF/B38/23.

Input Received

- Global Fund constituencies have provided input through each of the standing Committees of the Board. This feedback has been reviewed and considered by the Secretariat and has been reflected in this paper.

Report

A. What is Risk Appetite and Why Is It Required?

1. **Definition.** Risk Appetite is the amount of risk, at a broad level, that an organization is willing to accept in pursuit of its strategic objectives. Risk Appetite reflects the risk management philosophy that a Board wants the organization to adopt and, in turn, influences its risk culture, operating style and decision-making.
2. **Characteristics and Importance.** Risk Appetite is set by the Board and should align with strategic objectives that the organization wants to achieve. Strategic objectives and/or highly ambitious targets that are more difficult to reach would typically require a higher risk appetite. For example, if a strategic objective is to deliver results in Challenging Operating Environments (COEs), Risk Appetite should allow for taking higher operational risks in such countries. To be truly useful, Risk Appetite should be specific and actionable and reflect stakeholders' expectations. In addition, there should be ways (preferably objective) to measure Risk Appetite, to aggregate it for reporting or disaggregate it to guide implementation.
3. **What Risk Appetite does:**
 - A well-documented and operationalized Risk Appetite leads the organization to be more informed and confident in taking appropriate (higher or lower) levels of risks to realize Board-approved strategic objectives.
 - Helps drive more efficient, risk-adjusted resource allocation
 - Supports stakeholder alignment around a common yardstick to help management make consistent and transparent risk-reward trade-offs
4. **What Risk Appetite does not do:**
 - Reflect the importance of the risk to the organization as all the risk management steps would still be carried out for all risks
 - Lead to a reduction in the country risk level
 - Does not imply greater resource allocation
5. **Risk Management and Risk Appetite.** Effective management of a risk typically requires the following tools, processes and capabilities:
 - Understanding of the risk, its root causes and impact
 - Understanding of the source of risk. For example, countries or components in a portfolio that carry that risk
 - A transparent and preferably objective way to measure the level of risk
 - A set of mitigating actions that can be used to manage the risk down – if a risk cannot be mitigated, the value of risk management is relatively limited
 - A common yardstick to help management make risk trade-off decisions such as a Board-set Risk Appetite
 - Assurance mechanisms to monitor the effectiveness of risk mitigation and evolution of the risk
 - Aggregation and reporting
6. Risk Appetite is a tool that enables better management of risks. While risks can be effectively managed without a defined risk appetite, a clear appetite set by the Board can help senior management make better day-to-day risk trade-off decisions, i.e., decide the

type of mitigation (and time) required and the amount of resources to allocate to attain a desired level of risk.

B. How Risk Appetite is Adapted to the Global Fund Context

7. **Global Fund Context and Risk Appetite.** The greatest risks that the Global Fund faces in mission-critical countries often tend to be systemic in nature and require significant investment and time to mitigate. Given the trade-off with mission risk i.e. the risk of not delivering on mission/strategic objectives, these risks often have to be accepted. For example, consider a mission critical country with high supply chain related risk caused by poor physical infrastructure where grants are focused on HIV/AIDS treatment. Since building supply chain capacity is a long term endeavor requiring cooperation across a number of partners (including the national government) and significant funding, the trade-off decision typically made by the Global Fund is to 'accept the risk' given that, otherwise, it will not be meeting the mission objectives in particular, saving of lives. While this is the right decision and the organization's Risk Appetite should allow for it, continuing to accept the consequences of a weak supply chain over the long term is not a good outcome. Hence, a unidimensional approach to setting Risk Appetite would not work or drive the right results and has to be adapted for the Global Fund context.
8. **Target Risk Level.** As a result, our Risk Appetite Framework defines not only Risk Appetite, but also the added dimensions of a Target Risk level, which is the level of risk that the Global Fund would like to drive towards over time needed to achieve target level.
9. Target Risk will typically be equal to or lower than the current risk level or Risk Appetite unless that risk is intentionally being increased to achieve a specific objective. For example, as documented in the Board approved Challenging Operating Environments Policy², we often encourage taking higher operational risks to deliver on our mission in these countries.
10. **Time to Reach Target.** Achieving Target Risk levels may be followed by a commensurate adjustment (reduction) in Risk Appetite. In addition, as discussed in more detail in the following section, the amount of time that is allowed to reach a Target Risk level (for a country) will influence the types of mitigating actions chosen. Moreover, the inter-relationship of the risks across the portfolio can lead to a mitigation of one risk and increase the level of another risk.

C. Structure and Components of the Proposed Risk Appetite Framework.

11. **Selecting Risks to Set Risk Appetite.** The Global Fund faces numerous strategic, financial and operational risks in delivering on its objectives. Some of these risks are internal to the Secretariat while others are external risks that the organization accepts to deliver on its mission. These key risks have been prioritized by the Global Fund's senior management and are catalogued and reported under the Organizational Risk Register (ORR). Working with the Committees, the following principles were used to guide the selection of key risks for Risk Appetite setting. For appetite to be defined for a risk, the risk should:
 - Be important to achieving the Global Fund's mission;
 - Be subject to measurement in a simple, transparent and objective way (where data is relatively frequent, available and complete). This is especially important, so that

² As set forth in Annex 1 to GF/B35/03 and approved pursuant to GF/B35/DP09 (27 April 2016).

stakeholders can see how overall portfolio-wide risk levels are evolving and moving towards target levels over time;

- Can be at least partially mitigated by the Global Fund and its partners (there is limited value to setting appetite if risk cannot be mitigated and therefore has to be accepted).

12. Moreover, Risk Appetite should:

- Provide useful direction for management in making trade-off and resource allocation decisions and the primary purpose of setting Risk Appetite;
- Create alignment between various stakeholders (value is limited if all stakeholders are already aligned).

13. If the above-mentioned principles are not observed when selecting key Risks for Risk Appetite, management effort and resources may be misdirected. For example, setting a Risk Appetite for the 'Organizational Culture' risk would not add value, because, understandably, the Global Fund's risk appetite for this risk would be 'Low' and all stakeholders are aligned on this. This risk can compromise the Global Fund's vision and commitments to combat the three epidemics so the organization will do everything possible within its means to uphold corporate values and drive the Organizational Culture risk down. Furthermore, setting this risk appetite does not help management in making trade-off and resource allocation decisions.

14. Using the above principles and with the concurrence of the relevant Board Committees, nine key organizational risks, most of which are grant-facing, were selected for setting Risk Appetite. (See Annex 1: Organizational Risk Definitions). This list of selected risks is expected to be dynamic and may be changed in consultation with the Committees. If that happens, a revised Risk Appetite proposal will be presented to the Board for approval.

15. **Measuring the Current Level of Risk across the Portfolio.**

- i. **Risk Measurement:** The eight (1-8) grant related risks are measured at a grant level through the Global Fund's internal risk tool (the Integrated Risk Tool Management (IRM) module) which the Country Teams use. A risk matrix is used to derive the level of risk (levels range from 'Very High' to 'Low') through the combination of likelihood of occurrence and severity for a specific risk (for example: the combination of 'High' Severity and 'High' Likelihood will yield a 'Very High' level of risk).

Measuring the level of Foreign Exchange risk is relatively straightforward as we use the Value at Risk (VaR)³ as the primary way to measure and manage that risk.

- ii. **Defining the Country Cohorts:** A cohort of countries was defined to measure the above-mentioned grant related risks. The selection criteria included:
 - Top 25 countries by allocation amount for the five (5) non-commodity related risks (See Annex 2: Country Cohort, Risks 1,3,4,6,7)
 - Top 20 countries by commodity budget to monitor three (3) commodity related risks (See Annex 2: Country Cohort, Risks 2,5,8)

These criteria yielded a cohort of countries (See Annex 2: Country Cohort).

- iii. **Aggregating Risk from Grant to Portfolio level:** As countries have multiple grants, which are rated independently, individual grant risk ratings are weighted by the grant signed amounts to yield an aggregate Current Risk level for a country portfolio. Similarly, each country risk rating is weighted by the country allocation amount in order to arrive at an aggregate risk level for the organization. (See Annex 6: Example of Risk Aggregation) In addition, by leveraging the internal risk management tools, the risks for the defined cohorts will be measured on an ongoing basis, which will allow a bottom-up approach to aggregate the Current and Target Risk levels.

³ Value at risk (VaR) is a statistical technique used to measure and quantify the level of market risk, such as foreign exchange rate, in an organization.

16. **Defining Risk Appetite, Target Risk Levels and Time to Reach Target.** The Global Fund's core principles of Country Ownership and building in-country capacity wherever possible (e.g. not setting up parallel systems) influence the choice of mitigating actions and, therefore, the trajectory of risk towards the Target Level. Hence, the amount of time that the Board confirms it is prepared to accept to reduce a Current Risk level to a Target Risk level will influence the types of mitigating actions that will be chosen. The following two (2) examples illustrate this point:

17. **In-Country Supply Chain Risk Example:**

The Board set Risk Appetite level for the In-Country Supply Chain Risk is '**High**', with a Target Risk level of '**Moderate**' to be reached in the next **4-5 years**.

Country X has a current risk level of 'High', which is primarily driven by:

- (-) Inadequate Human Resources for Health
- (-) Poor Health Facility Infrastructure
- (-) Inadequate LMIS for forecasting, quantification and monitoring
- (+) **Presence of parallel supply chain**
- (+) Effective partnership with PMI and PEPFAR
- (+) Infrastructure improvements in selected pharmacies

Country X target level is driven by the aggregate target risk level of '**Moderate**', to be achieved in the next **4-5 years**.

The following Risk Appetite considerations for Country X need to be taken into account when reflecting on the trade-off decisions:

- Significant investment in health products (investment from GF >75% of grants)
- Parallel supply chain is instrumental in maintaining the current risk level
- HRH issues significantly contribute to the supply chain risk, but there are no short-term fixes
- Strengthening LMIS require interoperability between LMIS, DHIS and other platforms used for managing data

Based on the above, management needs to make risk trade-off decisions and decide on the type of mitigation, time and the amount of resources required to allocate to Country X to attain a desired level of risk:

- a) Continue delivery through a parallel system (higher cost) while using and building the national system, likely take 4-5 years
- b) Remove parallel supply system today and accept '**Very High**' Risk of stock-outs, expiries etc., however, national capacity will likely get built faster (3 to 4 years) under this option
- c) Address specific root causes of supply chain disruption to ensure delivery of essential health products while slowly reducing the level of risk without building the national system and accepting a '**High**' risk level.

Likely Trade –off Decision:

Management will likely go with option a), because the Board set risk appetite provides the time required to build capacity and reduce risk to '**Moderate**'. Option b) and c) would not be chosen because it would result in breach of Board set risk appetite. If the Board had given a shorter time, for example a year to get to '**Moderate**', then the decision can be to either stop the program in a country or change the interventions away from commodities, because there are no short fixes that allow achievement of that level in 1 year.

18. Grant-related Fraud & Fiduciary Risk Example:

The Board set Risk Appetite level for the Grant-related Fraud & Fiduciary Risk is 'Moderate', with a Target Risk level of 'Moderate'.

Country Y has a current risk level of '**Moderate**', which is primarily driven by:

- (-) Weak internal controls & budgeting procedures
- (-) Non availability of updated forecasts taking into account program realities
- (+) **Fiscal Agent in place**
- (+) Restricted Cash Policy in place
- (+) PIU fully functional

The following Risk Appetite considerations need to be taken into account when reflecting on the trade-off decisions related to Fraud & Fiduciary risk:

- Given that the Global Fund has zero tolerance to any fraud or corruption, in case the risk of Fraud materializes, a robust mechanism is in place to address the risk by managing recoveries and placing a Fiscal Agent to control the flow of funds.
- In places where the risk level of Fraud is 'High', to deter and detect fraud, a Fiscal Agent is deployed to reduce the risk level to 'Moderate'.
- Reducing the risk of Fraud to a level lower than 'Moderate' would require affective mechanisms to prevent it from occurring. While this is often very difficult to achieve, the Global Fund places considerable effort in strengthening internal controls, organizing trainings and implementing integrity due diligence practices.

While Country Y target level is aligned to the Risk Appetite and the Target Risk level, management still needs to make risk trade-off decisions and decide on the type of mitigation, time and the amount of resources required to allocate to Country Y to attain a desired level of risk:

- a) Maintain Fiscal Agent for MoH grants to ensure adequacy of internal controls and accept fiscal agent costs, possible delay in implementation and no capacity building
- b) Maintain Fiscal Agent and build PR capacity including installing accounting software, continued work with MOH and support to the development of policies to address fraud, accepting high costs in the interim with ability to pull out fiscal agent in the medium term.
- c) Pull out Fiscal Agent and build capacity including installing accounting software, continued work with MOH and develop policies to address fraud by accepting a High Risk of Fraud in the short term, but building capacity to drive the risk down in the medium term

Likely Trade –off Decision:

Management will likely go with option b), because it aligns with the Global Fund's core principle of building in-country capacity wherever possible. Option a) would not be chosen because it goes against the Global Fund's core principle of Country Ownership and Option c) would be rejected because of risk appetite considerations.

19. Key Characteristics of the Framework.

- i. The Risk Appetite framework for these nine (9) risks has been recommended in line with the current level of risk. This is effectively based on the decisions that the Global Fund and the Board have been making by currently accepting these risks to deliver on the mission.

- ii. The Target Risk level is to get to a minimum of ‘Moderate’ across each of the risks. The three (3) risks where the current level is ‘High’ are In-Country Supply Chain, Program Quality and Strategic Data Quality and Availability. The Target Risk level for each of these three (3) risks is to get to ‘Moderate’ risk. This is broadly consistent with our strategy, as these three (3) areas have been prioritized for investments to strengthen capacity in the countries and hence reduce the level of risk. While the Secretariat may have direct ability to control some of the mitigating actions, achieving others can only be accomplished indirectly through influence. Therefore, the success in reaching the Target Risk level will be contingent on strong level of both political will and financial commitment from host countries that own the underlying systems for health as well as effective support across a large number of in-country partners who play key roles in the overall health systems.
- iii. The Time to Reach Target was arrived at based on a bottom-up analysis for the relevant cohort and would involve moving the rating (reducing the level of that risk) in, typically, the top quarter to a third of the portfolio. The time required to reach the Target Risk level depends on a country’s level of system maturity and, given the contexts in many of these countries, a long time may be required.
- iv. Other Characteristics.
 - a. While risk level risk measurements and Risk Appetite are based on the defined cohort, the principles will apply across the entire Global Fund Portfolio. Risk levels in individual countries will (and should) vary depending on the context and trade-offs involved.
 - b. Trade-off decisions are made in the context of a country/grant, the Global Fund’s strategic objectives and the entire set of risks in that country that may prevent their achievement.

D. What are the Next Steps to operationalize Risk Appetite?

- 20. Over the last few years, the Global Fund has established the necessary risk management architecture and business processes and is therefore ready to operationalize Risk Appetite into its operations, as well as to measure, monitor and report risk against the Risk Appetite on a regular basis.
- 21. **Operationalization.** Risk Appetite will be integrated into the existing Global Fund risk management architecture and business processes as follows:

Governing Body	Current Approach	Enhanced Approach with Risk Appetite
Board / Committees	Reviews Annual Risk Report/Organizational Risk Register	+ Sets Risk Appetite
Executive Management [Enterprise Risk Committee (ERC)]	Discusses key organizational risk acceptance or mitigation	+ Prioritizes and allocates appetite & resources
Senior Level Management [Portfolio Performance Committee (PPC)]	Reviews Key Risk Matrix, makes risk trade-off decisions within management set Risk Appetite	+ Makes risk trade-off decisions to achieve objectives within overall Board approved Risk Appetite
2nd Line of Defense		

[Global Risk Owners, Risk Department]		+ Provides more objective measurement of grant and portfolio risk levels and enables appropriate selection of mitigations to reduce risk to target levels
1st Line of Defense [Country Teams]	Prioritizes key risk, mitigations, and makes recommendations to PPC	
Tools & Systems [QUART / IRM]	Risk data entry and analytics tool	+ Improved analytics with IRM

22. **Reporting.** Upon Board approval of the Risk Appetite Framework, monitoring and reporting on the progress made towards reaching Target Risk levels will be accomplished via quarterly Organization Risk Register (ORR) updates:



Consultations. Development of a Risk Appetite Framework has or will involve discussions with a number of partners, donors and Global Fund’s governance committees, under the overall guidance of the Audit and Finance Committee (AFC). These consultations include:

- Audit and Finance Committee
- Strategy Committee
- Ethics and Governance Committee
- Coordinating Group

Also consulted were external stakeholders:

- Donor and Implementer Constituencies
- Global Health Risk Forum (including WHO, UNITAID, UNDP, GAVI, STOP TB)
- Technical assistance partners

As well as Office of the Inspector General and the Secretariat, including:

- Office of Board Affairs
- Management Executive Committee
- Enterprise Risk Committee
- Grant Management Division including the Directorate, Grant Portfolio Solutions & Support and Supply Chain Department
- Technical Advice and Partnerships
- Program Finance
- Legal

23. Most of these consultations have been done already and the remaining will be done by the Board meeting in May 2018. The outcome of these consultations have been incorporated in the proposed **Risk Appetite Framework**:

Organizational Risks	Risk Levels			
	Current Risk Level	Proposed Risk Appetite	Proposed Target Risk Level	Proposed Indicative Timeframe for Achieving Target Risk
In-Country Supply Chain	●	●	●	4-5 years
Program Quality	●	●	●	4-5 years
Strategic Data Quality and Availability	●	●	●	3 years
Grant-Related Fraud & Fiduciary	●	●	● ↘	N/A
Procurement	●	●	● ↘	N/A
Accounting and Financial Reporting by Countries	●	●	● ↘	N/A
Grant Oversight and Compliance (at PR Level)	●	●	● ↘	N/A
Quality of Health Products	●	●	● ↘	N/A
Foreign Exchange	●	●	●	N/A

● - Very High	● - High	● - Moderate	● - Moderate/Low	● - Low
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Recommendation

The Audit and Finance Committee recommends the Decision Point presented on page 2.

Annexes

- Annex 1 – Organizational Risk Definitions
- Annex 2 – Country Cohorts
- Annex 3 – Risk Appetite Statements
- Annex 4 – Relevant Past Decision Points
- Annex 5 – Relevant Past Documents & Reference Materials
- Annex 6 – Example of Risk Aggregation

Annex 1 – Organizational Risk Definitions

Organizational Risks	Definition
1. In-Country Supply Chain	Disruption or poor performance of in-country health product supply chain services, from port of entry to point of service delivery, which can prevent achievement of grant objectives. Gaps may be in supply systems arrangements, systems and capacity, data process and analytics, physical logistics and/or financing.
2. Program Quality	Inadequate quality of programs/services funded by the Global Fund, which results in missed opportunities to maximize improvement of measurable outcomes in the fight against the three diseases and the effort to strengthen resilient and sustainable systems for health.
3. Strategic Data Quality and Availability	Poor quality and/or unavailability of program data due to weak in-country M&E systems that do not lead to proper planning decisions and efficient investments and therefore hamper programs' ability to reach their targets and health impact.
4. Grant-Related Fraud & Fiduciary	Misuse of funds due to wrongdoing and inadequate financial/fiduciary control.
5. Procurement	Procurement challenges and failures that lead to poor value for money or financial losses, incorrect or sub-standard products or delayed delivery, potentially leading to stock out, treatment disruption; poor quality of services or wastage of funds or products.
6. Accounting and Financial Reporting by Countries	Incomplete, incorrect, delayed or inadequately supported financial records by PRs or SRs due to inadequate financial management systems.
7. Grant Oversight and Compliance (at PR Level)	Inadequate PR oversight of grant programs and non-compliance with Global Fund requirements due to the PRs inability to: (a) Develop and maintain standard processes, procedures and reports required to monitor program activities including at SR level; (b) Identify and manage risks associated with program implementation; (c) Implement appropriate HR policies and procedures to attract and retain high quality staff; (d) Use strong program management practices to manage and leverage available resources and ensure program activities are implemented as planned while adhering to high quality standards; (e) Maintain strong internal controls that demonstrate integrity/ethical values.
8. Quality of Health Products	Patients exposed to health products of substandard quality funded by the Global Fund due to weak national regulatory environment, including weak product quality control and monitoring, weak in-country supply chain, non-adherence to Global Fund Quality Assurance policies requirements, diversion and counterfeit health products.
9. Foreign Exchange	Foreign exchange volatility tied to net Foreign Exchange exposures faced by The Global Fund.

In accordance with discussions led by the Coordinating Group:

The Audit and Finance Committee has oversight of, and advises the Board on, risks 4, 6, 7 and 9; and

The Strategy Committee has oversight of, and advises the Board on, risks 1, 2, 3, 5* and 8.

* This authority is to the extent not inconsistent with the Board-delegated authority of the Audit and Finance Committee for procurement-related matters pursuant to its Charter, as set forth in Annex 1 to GF/B34/ERO6 and approved GF/B34/EDP07 (January 2016).

Annex 2 – Country Cohorts

Country	Non-commodity related Risks	Commodity related Risks
1. Bangladesh	✓	✗
2. Burkina Faso	✓	✓
3. Cameroon	✓	✓
4. Congo (DRC)	✓	✓
5. Côte d'Ivoire	✓	✓
6. Ethiopia	✓	✓
7. Ghana	✓	✓
8. India	✓	✓
9. Indonesia	✓	✗
10. Kenya	✓	✓
11. Malawi	✓	✓
12. Mali	✓	✗
13. Mozambique	✓	✓
14. Myanmar	✓	✓
15. Nigeria	✓	✓
16. Pakistan	✓	✓
17. Rwanda	✓	✗
18. South Africa	✓	✗
19. Sudan	✓	✓
20. Tanzania	✓	✓
21. Uganda	✓	✓
22. Ukraine	✓	✓
23. Viet Nam	✓	✓
24. Zambia	✓	✓
25. Zimbabwe	✓	✓

Annex 3 – Risk Appetite Statements

Organizational Risks	Risk Levels			
	Current Risk Level	Proposed Risk Appetite	Proposed Target Risk Level	Proposed Indicative Timeframe for Achieving Target Risk
1. In-Country Supply Chain	●	●	●	4-5 years
2. Program Quality	●	●	●	4-5 years
3. Strategic Data Quality and Availability	●	●	●	3 years
4. Grant-Related Fraud & Fiduciary	●	●	●↓	N/A
5. Procurement	●	●	●↓	N/A
6. Accounting and Financial Reporting by Countries	●	●	●↓	N/A
7. Grant Oversight and Compliance (at PR Level)	●	●	●↓	N/A
8. Quality of Health Products	●	●	●↓	N/A
9. Foreign Exchange	●	●	●	N/A

● - Very High	● - High	● - Moderate	● - Moderate/Low	● - Low
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In accordance with discussions led by the Coordinating Group:

The Audit and Finance Committee has oversight of, and advises the Board on, risks 4, 6, 7 and 9; and

The Strategy Committee has oversight of, and advises the Board on, risks 1, 2, 3, 5* and 8

* This authority is to the extent not inconsistent with the Board-delegated authority of the Audit and Finance Committee for procurement-related matters pursuant to its Charter, as set forth in Annex 1 to GF/B34/ER06 and approved GF/B34/EDP07 (January 2016).

In-Country Supply Chain

		Risk Summary			
		Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
		●	●	●	4-5 years
Description	Disruption or poor performance of in-country health product supply chain services, from port of entry to point of service delivery, which can prevent achievement of grant objectives. Gaps may be in supply systems arrangements, systems and capacity, data process and analytics, physical logistics and/or financing.				
Impact	With over 40% of grant funding allocated to health commodities, high volumes of lifesaving products flow through in-country supply chains that are often fragile, insecure or inadequately managed or coordinated, which can lead to multiple risk events including treatment disruption and poor quality of services, increased drug resistance, wastage of health products and poor value for money. Ultimately, this can lead to reduced impact of Global Fund investments and increased mortality and morbidity.				
Key Root causes	<ul style="list-style-type: none"> ▪ Inadequate facility/storage capacity and conditions, logistics information and planning, inventory management and distribution; ▪ Lack of data availability and/or data quality related to consumption and patient information, and/or MIS, resulting in inaccurate quantification and forecasting; ▪ Poor oversight, data visibility and control of stock of key products at different levels of the supply chain system; ▪ Inadequate supply chain leadership and accountability; ▪ Insufficiently trained/qualified staff for recording, reporting, managing and monitoring health commodities throughout the system; ▪ Lack of coordination among key stakeholders involved in or supporting the supply management cycle of health products. 				
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Grant support for supply chain systems strengthening activities in key countries to address priority supply chain gaps, from capacity building to infrastructure investments; ▪ Systematic review, at least annually, and approval by the Secretariat of the List of Health Products (LoHP) based on national demand, for High Impact countries and countries with high supply chain risk; ▪ Collaboration and coordination with key partners at country level, with focus on High Impact countries for the development of national forecasts and supply plans; ▪ Ongoing supply chain-focused support and guidance provided through the Supply Chain Department; ▪ Available Supply Chain Assurance Framework and expanded supplier base for carrying out assurance activities. 				
Current Risk	With current controls and mitigating actions, the current risk level is 'High', which is driven by high and very high-risk levels within the GF portfolio that represents a third of the total by allocation amount.				
Risk Appetite Statement	The current level of In-Country Supply Chain risk is ' High '. The Global Fund's <u>current appetite</u> for this risk is ' High ' with a <u>Target Risk</u> level of ' Moderate ' to be reached in 4-5 years .				
Ability to Mitigate	The Global Fund together with key partners such as Agencies of the US Government, The Bill and Melinda Gates Foundation, DFID, GAVI, World Bank and World Health				

	<p>Organization have a moderate ability to mitigate the risk of In-Country Supply Chain. Appropriate focus on a sub-set of countries that represent a quarter of the Global Fund total by allocation amount will allow the current risk level to be reduced.</p>
Resources Required & Risks to achieve target	<ul style="list-style-type: none"> ▪ Additional sources of funding from either grants or partners to complete transformational projects resulting from supply chain diagnostics; ▪ National commitment, leadership, accountability and financing to address systemic weaknesses.
Approach to Mitigation	<p>In order to achieve the target risk level, the Global Fund will support interventions focused on implementation of targeted supply chain diagnostics that result in country-level transformation projects related to in-country supply chain. Complementary financing and engagement by national entities and partners will be an essential element of the transformation projects.</p>
Planned Mitigations to reach target level	<p>In addition to implementing current controls and mitigating actions, additional planned actions include:</p> <ul style="list-style-type: none"> ▪ Implementation of targeted supply chain diagnostics in priority countries, to lead to transformation plans to address priority issues and risks; ▪ Continued focus on strengthening collaboration with partners for joint investments; ▪ Capacity building across high impact countries via expanding supply chain universities and supply chain training; ▪ Supply chain innovation to identify technology-driven solutions and private sector investments.
Time to Reach Target	<p>At a Target Risk level of 'Moderate', the overall in-country supply chain functioning must be largely effective, with improved controls and performance. This would include improved product visibility and traceability, better ways to measure performance and adequate staff capacity. Improved data availability and stronger linkages between data information systems to improve decision-making is also necessary. Finally, significant national leadership to drive transformation is essential. As a result, a period of 4-5 years is required to drive Supply Chain risk from a risk level of 'High' to 'Moderate'.</p>

Program Quality

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	●	4-5 years
Description	Inadequate quality of programs/services funded by the Global Fund, which results in missed opportunities to maximize improvement of measurable outcomes in the fight against the three diseases and the effort to strengthen resilient and sustainable systems for health.		
Impact	Poor adherence to international standards for diagnosis, treatment and prevention, poor adherence to regimens and irrational use of health products. Such risks are exacerbated in high-risk environments that account for a significant portion of Global Fund investments.		
Key Root causes	<ul style="list-style-type: none"> ▪ Inadequate use of data for appropriate design of quality programs targeted and relevant to epidemiological context; ▪ Interventions/targets not based on programs' context or do not address National Strategic Plan priorities; ▪ Key interventions not sufficiently focused on populations most in need of services, or well-linked to achieving program outcomes; ▪ Guidelines/tools to review quality of services are not available or programs are not routinely reviewed; ▪ Programs do not adhere to approved national or WHO guidelines e.g. medicine formulations; diagnostic tools; lab; procurement; prevention, identification, care treatment or adherence guidelines; ▪ Inadequate staff capacity working in environments that are often not enabling (gaps in training, support and supervision, misaligned incentives, etc). 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Strengthening focus on measurable outcomes that drive impact, enhancing data use for action and improvement, leveraging efficiencies to maximize value for money and strengthening mutual accountability; ▪ Strengthening in country review and dialogue with partners to identify opportunities to improve quality and leverage partner technical, financial and political resources accordingly (Impact Through Partnership (ITP)); ▪ Promoting differentiated approaches and integrated service delivery models to achieve impact in diverse country contexts, including at community level; ▪ Strengthening review of quality internally through country-specific and cross-portfolio reviews of performance, to identify gaps and opportunities for improvement; ▪ Ongoing dissemination of best practices and practical guidance by partners and support teams in SIID, including quality standards, normative guidelines and support for identification and transfer of best practice; ▪ Strengthening monitoring of drug and insecticide resistance to ensure optimal choices of interventions for maximum impact; ▪ Aligning program and data quality assurance with overall Risk Assurance Planning; ▪ Catalytic funding for data systems, TB on finding additional 1.5 million missing cases in 13 priority countries, accelerating elimination of malaria in 20 countries and RSSH catalytic funding on integrated service delivery for 2017 – 2019. 		

Current Risk	With current controls and mitigating actions, the current risk level is ‘High’, which is driven by high and very high-risk levels within the GF portfolio that represents a third of the total by allocation amount.
Risk Appetite Statement	The current level of Program Quality risk is ‘ High ’. The Global Fund’s current appetite for this risk is ‘ High ’ with a target risk level of ‘ Moderate ’ to be reached in 4-5 years .
Ability to Mitigate	The Global Fund can influence rather than control the quality of programs; the Global Fund’s ability to successfully influence quality is very much co-dependent on efforts of bilateral, multilateral and civil society partners.
Resources Required & Risks to achieve target	<ul style="list-style-type: none"> ▪ Additional sources of funding from either grants or partners will be required for transformational projects; ▪ Joint and coordinated efforts with governments and partners.
Approach to Mitigation	In order to achieve the target risk level, the Global Fund will support interventions that proactively address issues of poor adherence to international standards for diagnosis, treatment and prevention, poor adherence to regimens and irrational use of health products. Catalytic funding will also support TB intensive case finding, integrated service delivery, malaria elimination acceleration, data systems and data quality reviews, as well as supporting introduction of next generation bed nets for malaria.
Planned Mitigations to reach target level	<p>In addition to implementing current controls and mitigating actions, additional planned actions include:</p> <ul style="list-style-type: none"> ▪ Refocusing on key areas to improve quality of service delivery in collaboration with partners and through improved data use by way of new Data Use and Action Framework; ▪ Scale up of program quality activities based on performed pilots with focus on HIV service delivery for KPs and AGYW, active case finding and improved treatment in TB, and integration of services for three diseases into broader service delivery platforms, including specific focus on integrated community case management; ▪ Catalytic funding for data systems, including Request for Proposals for building analytical capacity to improve program quality and resource allocation in 15 High Impact countries, place technical service providers to build capacity in quality and efficient service delivery as well as creating a pool of technical assistance for country data systems and use; ▪ Support for expanded client/patient-centered services and monitoring thereof in the new funding cycle; ▪ Continued expansion of private-public mix in the new funding cycle.
Time to Reach Target	In order to reach the Target Risk level of ‘ Moderate ’, further improvement of quality of service delivery, improving adoption of global quality standards for key interventions in new grants for the three diseases and health systems strengthening as well as building analytical capacity to improve program quality and resource allocation would allow for the risk reduction. As a result, a period of 4-5 years is required to drive Program Quality risk from a risk level of ‘ High ’ to ‘ Moderate ’.

Strategic Data Quality and Availability

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	●	3 years
Description	Poor quality and/or unavailability of program data due to weak in-country M&E systems that do not lead to proper planning decisions and efficient investments and therefore hamper programs' ability to reach their targets and health impact.		
Impact	Poor quality data can impede implementers' management of the program and the Global Fund's ability to assess impact. This can result in flawed investment decisions in programs with improper focus on beneficiary populations and failure in achievement of desired public health impact.		
Key Root causes	<ul style="list-style-type: none"> ▪ Insufficient human and financial resources and infrastructure; ▪ Inadequate national M&E and HMIS Strategy with costed work plans; ▪ Incomplete, multiple or non-functional in-country data systems and data sources; ▪ Inadequate supervision; ▪ Weak management; ▪ Poor analytical capacity; ▪ Fraud of program and performance data; ▪ Sub-optimal access to and use of program data. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Grant supported investments for strengthening of in-country M&E systems, including routine monitoring facility and community systems rollout and maintenance; ▪ Developed Global Fund Data Use for Action and Improvement Framework for 2018 – 2022 to guide how the Global Fund will support countries in strengthening their data collection and analysis capacity in order to ensure good quality data and analyses are available at country level and used for decision making during all stages of the program cycle. ▪ Through Catalytic Funding for Data Systems, agreements with partners based on outcome deliverables to ensure availability of normative M&E tools and guidance, integration of disease reporting within countries' national HMIS with epi-based analytical dashboards, and inclusion of new functionalities / software applications into countries' national HMIS to more readily assess data quality, e.g. WHO Data Quality Review app for DHIS2; ▪ Through Catalytic Funding for Data Systems, development of pools of providers to increase availability of Technical Assistance for M&E and for strengthening analytical capacity using local network of Universities; ▪ Systematic roll-out of evaluations in all Focus countries; ▪ Guidance note on key areas for M&E investments issued and being used by Country Teams during country dialogue and grant making. 		
Current Risk	With current controls and mitigating actions, the current risk level is ' High ', which is driven by high and very high-risk levels within the GF portfolio that represents a third of the total by allocation amount.		
Risk Appetite Statement	The current level of Strategic Data Quality and Availability risk is ' High ' with a target risk level of 'Moderate' to be reached in 3 years.		

<p>Ability to Mitigate</p>	<p>The Global Fund together with key partners, such as: The World Health Organization, GAVI, Gates Foundation and University of Oslo and in-country partners have a moderate ability to mitigate the risk of Strategic Data Quality and Availability. Appropriate focus on a sub-set of countries that represent a quarter of the Global Fund total by allocation amount will allow the current risk level to be reduced.</p>
<p>Resources Required & Risks to achieve target</p>	<ul style="list-style-type: none"> ▪ Given the potential consequences of this risk, significant Global Fund's resources are being invested to mitigate this risk; ▪ Catalytic funding, partner support and national budgets are adequate in the near term for data system interoperability and evaluations and in-country reviews; ▪ Additional sources of funding from either grants or partners will be required for transformational projects and increasing the maturity of in-country health systems; ▪ Stronger global support and investments are also needed in the core / central costs of developing and maintaining M&E public goods (e.g. DHIS2, other open-source solutions, etc.).
<p>Approach to Mitigation</p>	<p>In order to achieve the target risk level, the Global Fund will continue support of strengthening and maintenance of in-country M&E systems, interoperability with LMIS, work with partners and focus on key areas to improve program and data quality.</p>
<p>Planned Mitigations to reach target level</p>	<p>In addition to implementing current controls and mitigating actions, additional planned actions include:</p> <ul style="list-style-type: none"> ▪ Continued support to investments and work with country partners for strengthening in-country M&E systems including DHIS2, roll out and maintenance; ▪ Continued integration of disease reporting in countries' national HMIS; ▪ Integration of community HIS with national HMIS; ▪ Standardization of reporting tools and protocols; ▪ HR needs assessment for M&E system strengthening, including staff training and resource planning, including Request for Proposals for creating a pool of technical assistance for country data systems and use; ▪ Tracking country M&E system performance in RSSH Dashboard.
<p>Time to Reach Target</p>	<p>In order to reach the Target Risk level of 'Moderate', it will on average, take about 3 years to improve data availability and quality. To build timely reporting and completeness of data in country is a long-term goal, requiring between 2 and 5 years to achieve, depending on the country circumstances and the maturity level of the existing HMIS. As a result, a period of 3 years is required to drive Strategic Data Quality and Availability risk from a risk level of 'High' to 'Moderate'. Targets for the data quality and availability indicator in the Global Fund Data Use for Action and Improvement Framework, described as % of countries with fully deployed and functional HMIS, are as follows: 25% of HI and Core countries by 2018, 50% by 2019, 55% by 2020 and 70% by 2022.</p>

Grant-Related Fraud and Fiduciary⁴

Risk Summary				
	Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
				N/A
Description	Misuse of funds due to wrongdoing and inadequate financial/fiduciary control.			
Impact	Fraud and weaknesses in internal control environments can result in financial losses that affect value for money and lead to inadequate program coverage, execution and impact against the diseases, as well as potentially cascading reputational losses.			
Key Root causes	<ul style="list-style-type: none"> ▪ Weak systems and controls for prevention; ▪ Weak mechanisms for detection; ▪ Weak capacity; ▪ Inadequate disincentives for fraud; ▪ High levels of corruption. 			
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Strengthening of fiduciary controls including over procurement throughout grant life cycle; ▪ Development and implementation of grant-level financial assurance plans across the portfolio; ▪ Use of Fiduciary/Fiscal Agents in high risk countries; ▪ Use of Pooled Procurement Mechanism, 3rd party procurement, or procurement agent; ▪ Implementation of the recommendations of the Financial Control Environment Review pilot. 			
Current Risk	With current controls and mitigating actions, the current risk level is 'Moderate', which is driven by high and very high-risk levels within the GF portfolio that represents a third of the total by allocation amount.			
Risk Appetite Statement	The Global Fund's current appetite for this risk is ' Moderate ' with a target risk level of ' Moderate '. While current and target risk levels are 'Moderate', the Global Fund will continue risk level reduction efforts.			
Ability to Mitigate	The Global Fund has a significant ability to mitigate the Grant-Related Fraud and Fiduciary risk with strengthening of fiduciary controls, the use of fiduciary/fiscal agents and through outsourcing of procurement to 3rd party procurement agents.			
Approach to Mitigation	<p>Resources Required:</p> <ul style="list-style-type: none"> ▪ Important Global Fund's sources are invested in current controls and mitigations to reduce Grant-Related Fraud and Fiduciary risk; ▪ Additional sources of funding from either partners or local governments will be required for transformational projects. <p>Planned Activities:</p> <p>Given that the Current Risk level, Risk Appetite and Target Risk level are aligned, no timeframe is defined. However, in order to further reduce the risk level within the current 'Moderate' risk, aside from implementing current controls and mitigating actions, additional planned actions include:</p>			

⁴ The Global Fund has zero tolerance to any fraud or corruption. As noted in the paper, this is consistent with the 'Moderate' level of risk.

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- Roll-out of revised financial audit Terms of Reference emphasizing risk based assessment of PR internal controls for grants in Core and High impact countries as well as high risk grants in Focused portfolios;
 - Development and implementation of financial risk management and anti-Fraud Risk Guidelines to manage and better respond to financial/fiduciary and fraud risk respectively;
 - Develop and implement new Integrity Due Diligence policy and framework for selection and ongoing monitoring of implementers, suppliers and other third parties;
 - Develop and roll out of the financial management Handbook for Grant Implementers, which describe best practice for financial management to Implementers.

By implementing the additional actions, the Global Fund will make sure that the financial controls are well designed and effective.

Procurement

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	● ↘	N/A
Description	Procurement challenges and failures that lead to poor value for money or financial losses, incorrect or sub-standard products or delayed delivery, potentially leading to stock out, treatment disruption; poor quality of services or wastage of funds or products.		
Impact	Global Fund exposure to health commodities procurement is material, as it captures over 40% of grant funding across the portfolio. The risk is concentrated in sub-Saharan Africa, with up to 75% of grant funds in the region budgeted for health commodities. This makes it imperative to subject health commodity procurements to appropriate technical, regulatory and financial oversight, with robust and cost efficient processes. While 55 to 60% of Global Fund health commodities procurement is centralized through the Pooled Procurement Mechanism (PPM), the balance is conducted through a wide range of procurement channels, including national systems, UN agencies or Procurement Agents. Challenges include poorly managed quantification and planning processes, fraud that negatively affects the supply chain creating risks of stock-outs, treatment disruptions, drug expiration, degraded quality or loss. Procurement failures have the potential to reduce the impact of Global Fund investments and increase mortality and morbidity from the three diseases.		
Key Root causes	<ul style="list-style-type: none"> ▪ Inadequate human resource capacity and data systems for quantification/forecasting and demand planning; ▪ Limited product market knowledge from non PPM buyers to ensure value for money; ▪ Lengthy processes, and other governance-related challenges leading to inefficient procurements; ▪ Inadequate focus on other elements of procurement beyond prices, often resulting in poor supplier performance and delays in deliveries; ▪ Lack of availability and process for market data /information sharing; ▪ Fragmented procurement leading to poor Value for Money. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ PPM leverages Global Fund spend to shape markets of health products by aggregating order volumes on behalf of participating grants to negotiate best value, lowest sustainable pricing and delivery conditions with manufacturers for Principal Recipients; ▪ wambo.org - the online procurement platform that provides access to negotiated prices and conditions through PPM for health products; ▪ Rapid Supply Mechanism (RSM) available to all PRs that responds to emergency needs of countries and addresses stock out situations for key health products; ▪ Pre-qualification of pharmaceuticals and health products through Quality Assurance (QA) policies; ▪ Reduced PSA dependency by continued insourcing of strategic sourcing activities for all health products 		
Current Risk	With current controls and mitigating actions, the current risk level is ' Moderate '. This aggregate risk level is a composite, which takes into account the variability of risks by product category. The current risk level is driven by high and very high-risk levels within the Global Fund portfolio that represents a fifth of the total by allocation amount.		

Risk Appetite Statement	The Global Fund's current appetite for this risk is ' Moderate ' with a target risk level of ' Moderate '. While current and target risk levels are 'Moderate', the Global Fund will continue risk level reduction efforts.
Ability to Mitigate	The Global Fund has a significant ability to mitigate the Procurement risk with the PPM. In addition, and beyond PPM, donors including the World Bank, France and US provide technical support to continue improve health commodity procurement in Global Fund supported countries.
Approach to Mitigation	<p>Resources Required:</p> <ul style="list-style-type: none"> ▪ Funding from Global Fund, partners or local governments will be required for transformational projects. <p>Planned Activities:</p> <p>Given that the Current Risk level, Risk Appetite and Target Risk level are aligned, no timeframe is defined. However, in order to further reduce the risk level within the current 'Moderate' risk, aside from implementing current controls and mitigating actions, additional planned actions include:</p> <ul style="list-style-type: none"> ▪ Development of a market information-sharing framework ▪ Procurement Capability Building (procurement portal, training and mentorship); ▪ A focused and coordinated approach to quantification & demand forecasting and planning; ▪ Using PPM reference prices as benchmark for non-PPM procurement; ▪ Extending negotiated prices and conditions to non-PPM procurements using Global Fund grants; ▪ Health Product Management budgeting/supply planning tool development; ▪ Extending and measuring PPM KPIs to non-PPM procurements; ▪ Enhancing risk-monitoring mechanisms by establishing standards and key indicators to assess procurement risks across the portfolio. <p>By implementing the additional actions, the Global Fund will make sure that there is significant reduction in the procurement inefficiencies with the resulting stock-outs, treatment disruption and wastages.</p>

Accounting & Financial Reporting by Countries

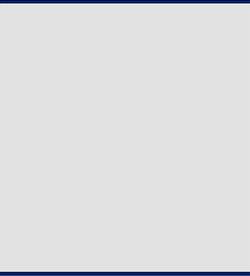
Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	● ↘	N/A
Description	Incomplete, incorrect, delayed or inadequately supported financial records by PRs or SRs due to inadequate financial management systems.		
Impact	Misallocation of resources; reduced grant coverage and performance.		
Key Root causes	<ul style="list-style-type: none"> ▪ Insufficient human and financial resources and infrastructure; ▪ Weak financial reporting processes; ▪ Weak or nonexistent financial management systems. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Development and implementation of grant-level financial assurance plans across the portfolio; ▪ Follow-up of grant-level financial assurance plans by Country Team finance officers; ▪ Co-Link initiative action plans for strengthening financial management capacity of implementers in place for 13 countries; ▪ Enhanced tracking of audit report follow-up. 		
Current Risk	With current controls and mitigating actions, the current risk level is ' Moderate ', which is driven by high and very high-risk levels within the GF portfolio that represents a quarter of the total by allocation amount.		
Risk Appetite Statement	The Global Fund's current appetite for this risk is ' Moderate ' with a target risk level of ' Moderate '. While current and target risk levels are ' Moderate ', the Global Fund will continue risk level reduction efforts.		
Ability to Mitigate	The Global Fund together with key partners, such as: The World Bank, US Government agencies and Supreme Audit Institutions (SAI) have a moderate ability to mitigate the risk of poor Accounting & Financial Reporting by Countries.		
Approach to Mitigation	<p>Resources Required:</p> <ul style="list-style-type: none"> ▪ Additional sources of funding from either partners or local governments will be required for transformational projects. <p>Planned Activities:</p> <p>Given that the Current Risk level, Risk Appetite and Target Risk level are aligned, no timeframe is defined. However, in order to further reduce the risk level within the current 'Moderate' risk, aside from implementing current controls and mitigating actions, additional planned actions include:</p> <ul style="list-style-type: none"> ▪ Implementation of action plans for strengthening implementers' financial management capacity of implementers; ▪ Financial Risk and Assurance Plans for High Impact and Core countries and integration into Comprehensive Assurance Plans at country level; ▪ Strengthening external audit quality to include assessment of PR internal control including controls around accounting and financial reporting at the PR and SR levels. (Financial Control Environment Review agreed management action); ▪ Improve audit process by engaging with partners in the assessment and utilization of accredited audit firms. 		



By implementing the additional actions, the Global Fund will make sure that there are fewer delays in reporting and reduced number of errors in financial information (where minor reconciliation items affect no more than 5 to 10% of expenditure reported).

Grant Oversight & Compliance (at PR Level)

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	● ↘	N/A
Description	<p>Inadequate PR oversight of grant programs and non-compliance with Global Fund requirements due to the PRs inability to: (a) Develop and maintain standard processes, procedures and reports required to monitor program activities including at SR level; (b) Identify and manage risks associated with program implementation; (c) Implement appropriate HR policies and procedures to attract and retain high quality staff; (d) Use strong program management practices to manage and leverage available resources and ensure program activities are implemented as planned while adhering to high quality standards; (e) Maintain strong internal controls that demonstrate integrity/ethical values.</p>		
Impact	<p>Poor grant oversight and compliance by principal recipients can result in reduced impact against the diseases, poor value for money, fraud and reputational damage to the Global Fund.</p>		
Key Root causes	<ul style="list-style-type: none"> ▪ Inadequate PR management and reporting capacity; ▪ Inadequate SR oversight; ▪ Weak internal controls at the PR level; ▪ Weak human resource capacity. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ PR Capacity Assessment performed, prior to PR selection and prior to Technical Review Panel and Grant Approvals Committee recommendation to the Board; ▪ Selection of PR's that meet Global Fund minimum standard; ▪ Identified potential issues and solutions through implementation arrangement maps prepared for all grants prior to grant signing; ▪ Roll-out of actions during grant making to address implementers capacity issues; ▪ Completed Financial Risk and Assurance Plans for High Impact and Core countries. ▪ Development and Implementation of comprehensive assurance plans for High Impact and Core portfolios; 		
Current Risk	<p>With current controls and mitigating actions, the current risk level is 'Moderate'.</p>		
Risk Appetite Statement	<p>The Global Fund's current appetite for this risk is 'Moderate' with a target risk level of 'Moderate'. While current and target risk levels are 'Moderate', the Global Fund will continue risk level reduction efforts, through capacity building.</p>		
Ability to Mitigate	<p>The Global Fund has a moderate ability to mitigate this risk.</p>		
Approach to Mitigation	<p>Resources Required:</p> <ul style="list-style-type: none"> ▪ No additional resources required. <p>Ongoing Activities:</p> <p>Given that the Current Risk level, Risk Appetite and Target Risk level are aligned, no timeframe is defined. However, in order to further reduce the risk level within the current 'Moderate' risk, aside from implementing current controls and mitigating actions, additional planned actions include:</p>		

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- Implementation of initiatives aimed at improving implementer capacity and internal controls;
 - Streamlined risk oversight and risk tools at the Secretariat level to ensure better monitoring and performance evaluation at PR level;
 - Development of the Financial Management Impact Review tool to monitor progress on financial risk and enhanced focus of the auditor on assessment of PR internal control.
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Quality of Health Products

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	● ↘	N/A
Description	Patients exposed to health products of substandard quality funded by the Global Fund due to weak national regulatory environment, including weak product quality control and monitoring, weak in-country supply chain, non-adherence to Global Fund Quality Assurance policies requirements, diversion and counterfeit health products.		
Impact	Poor health outcomes; reduction in the impact of Global Fund investments.		
Key Root causes	<ul style="list-style-type: none"> ▪ Procurement of substandard health products; ▪ Patients/end users exposed to substandard products due to weak national regulatory system that manage post marketing surveillance activities; ▪ Weak supply chain systems that control, monitor and maintain product quality throughout the in-country supply chain; ▪ Poor logistics management. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Global Fund Quality Assurance policies for pharmaceutical and diagnostic products (revised version of the latter approved at the 37th Board meeting), including pre-shipment inspection and testing to prevent procurement of substandard products and post marketing surveillance activities; Grant requirements for Quality Assurance activities, including Quality Control plans to monitor product quality throughout the in country supply chain; ▪ About 55% of health commodity procurement spend is centralized through the Pooled Procurement Mechanism, allowing a high level of control and oversight to ensure that pre-shipment quality assurance procedures, in line with Global Fund Quality Assurance policies, are followed. ▪ To increase availability and access of medicines of assured quality, safety and efficacy, The Global Fund signed an MoU with the US Pharmacopeia Convention (USP) to facilitate access to technical assistance for strengthening national regulatory authorities, supporting quality assurance activities/quality control; ▪ Targeted RSSH investments for strengthening countries' pharmacovigilance systems and regulatory systems; ▪ Many grants support supply chain strengthening to improve adherence to good storage practice and good distribution practice, secure and control products flows, in particular to combat counterfeit. 		
Current Risk	With current controls and mitigating actions, the current risk level is ' Moderate '. While the risk of procuring substandard health products is largely addressed, weak supply chain systems that control, monitor and maintain product quality throughout the in-country supply chain and weak national regulatory environment drive the current level of risk. At aggregate, the current risk level is driven by high and very high-risk levels within the GF portfolio that represents a quarter of the total by allocation amount.		
Risk Appetite Statement	The Global Fund's current appetite for this risk is ' Moderate ' with a target risk level of ' Moderate '. While current and target risk levels are 'Moderate', the Global Fund will continue risk level reduction efforts.		

Ability to Mitigate

Approach to Mitigation

The Global Fund together with key partners, such as: Agencies of the US Government, World Bank, World Health Organization and GAVI have a **moderate** ability to mitigate health product quality risk.

Resources Required:

- Additional sources of funding from either grants or partners will be required for transformational supply chain projects and for increasing the capacity of national regulatory authorities for post marketing surveillance.

Planned Activities:

Given that the Current Risk level, Risk Appetite and Target Risk level are aligned, no timeframe is defined. However, in order to further reduce the risk level within the current '**Moderate**' risk, aside from implementing current controls and mitigating actions, additional planned actions include:

- Targeted RSSH investments for establishment of in-country accredited Quality Control lab and strengthened post marketing surveillance.
- Development and Implementation of the Supply Chain Assurance Framework to better mitigate supply chain risks, including risks related to health product management that may impact quality
- Strengthened compliance monitoring with Quality Assurance policies requirements and national Quality Assurance plan activities
- Continue targeted supply chain diagnostics

By implementing the additional actions, the Global Fund will continue to reduce the exposure of patients to substandard health products and improve products security and integrity.

Foreign Exchange

Risk Summary			
Current Risk	Risk Appetite	Target Risk	Indicative Timeframe
●	●	●	N/A
Description	Foreign exchange volatility tied to net Foreign Exchange exposures faced by The Global Fund.		
Impact	Financial losses due to currency fluctuations from existing FX exposures, which reduce the amount of funds that can be invested in grants and initiatives (as part of a broader ALM process). Insufficient liquidity available to meet short and long-term cash needs.		
Key Root causes	<ul style="list-style-type: none"> ▪ Foreign Exchange (FX) market volatility; ▪ Assets and Liabilities Management (ALM) changes (i.e. donor pledges or grant commitment changes leading to different FX exposures and potentially over/under hedging); ▪ Internal operational risk: <ul style="list-style-type: none"> - Poor Foreign Exchange limit management (FX Policy); - Poor Foreign Exchange execution; - Model risk. 		
Current Controls and Mitigations	<ul style="list-style-type: none"> ▪ Global Foreign Exchange Management Framework approved by the Audit and Finance Committee in 2016 allows for hedging on and off-balance sheet exposures (i.e. mostly pledges); ▪ Treasury, Cash and FX Management Procedure updated 2 May 2017; ▪ FX limit established that reflects risk appetite. Exposure is well within the FX limit. 		
Current Risk	With current controls and mitigating actions, the current risk level is ‘Moderate/Low’		
Risk Appetite Statement	The Global Fund’s current appetite for this risk is ‘Moderate/Low’ with a target risk level of ‘Moderate/Low’ . While current and target risk levels are ‘Moderate/Low’ , the Global Fund will continue to monitor the net Foreign Exchange exposures faced by The Global Fund.		
Ability to Mitigate	The Global Fund has significant ability to mitigate this risk.		
Approach to Mitigation	<p>Resources Required:</p> <ul style="list-style-type: none"> ▪ No additional resources required. <p>The Global Fund will continue to monitor and manage the Foreign Exchange risk within the approved limits.</p>		

Annex 4 – Relevant Past Decision Points

Relevant past Decision Point	Summary and Impact
<p>GF/AFC06/DP03: Acceptance of the Risk Appetite Statements and Recommendation of the Risk Appetite Framework to the Board</p>	<p>The Audit and Finance (“AFC”) recognized the decision of the Strategy Committee, for risks under such committee’s purview, concurring with the Risk Appetite Statements as set forth in the table in Annex 3 to GF/SC06/03 – Revision 2;</p> <p>Based on its review and discussion, for risks under its purview, the AFC concurred with the Risk Appetite Statements as set forth in the table in Annex 3 to GF/AFC06/16 - Revision 2;</p> <p>The AFC accepted the Risk Appetite Framework, including Risk Appetite, Target Risk levels and the indicative timeframes for achieving Target Risk, as described in the table in Annex 3 to GF/AFC06/16 –Revision 1, in its entirety; and</p> <p>The AFC agreed to recommend the Risk Appetite Framework to the Board for approval at the 39th meeting in May 2018</p>
<p>GF/SC06/DP03: Agree on the Risk Appetite Statements as described in Annex 3 to GF/SC06/03 – Revision 2</p>	<p>The Strategy Committee (SC) agreed with the Risk Appetite Statements for the risks under its purview as described in the table in Annex 3 to GF/SC06/03 – Revision 2;</p> <p>The SC recommends to the Audit and Finance Committee to incorporate the Risk Appetite Statements endorsed through this decision in the final Risk Appetite Framework to be recommended to the Board for approval; and</p> <p>The SC agreed to further review the Human Rights and Gender Inequality, Transition, and Drug and Insecticide Resistance risks at its meeting in July 2018, which will include discussion of the risk management strategy for these risks, including mitigation measures in place and/or planned, and a determination of the appropriateness of setting risk appetite statements for these risks.</p>
<p>GF/B32/DP12: Applying Risk Differentiation (November 2014)⁵</p>	<p>Based on the recommendation of the Finance and Operational Performance Committee, the Board adopted the risk differentiation framework presented in paragraphs 34 through 37 of GF/B32/14.</p> <p>The Board directed the Secretariat to operationalize this risk differentiation framework and report on its implementation at each Board Meeting. Furthermore, the Secretariat shall conduct annual reviews to update the risk differentiation framework as appropriate, and</p>

⁵ <https://www.theglobalfund.org/board-decisions/b32-dp12/>

Relevant past Decision Point	Summary and Impact
	report to the Board once a year on the outcome of such reviews.
GF/B32/DP11: Approval of the Risk Management Policy (November 2014)⁶	Based on the recommendation of the Finance and Operational Performance Committee, the Board approved the Risk Management Policy as set forth in Annex 3 to GF/B32/13.

⁶ <https://www.theglobalfund.org/board-decisions/b32-dp11/>

Annex 5 – Relevant Past Documents & Reference Materials

- [Risk Appetite Framework: Progress Update and Steps for Advancement GF/AFCo6/16 – Revision 1](#) (March 2018)
- [Risk Appetite Framework: Progress Update and Steps for Advancement GF/SCo6/03 – Revision 2](#) (March 2018)
- [Risk Appetite Framework: Progress Update and Steps for Advancement GF/EGCo6/16-A](#) (March 2018)
- [Risk Appetite Discussion GF/B38/23](#) (November 2017)
- [Risk Management Report GF/B38/18](#) (November 2017)
- [Advancing Risk Appetite at the Global Fund GF/AFCo5/08](#) (October 2017)

Annex 6 – Example of Risk Aggregation

Consolidation of risk from grant to country level:

- Country X has three grants, the grant signed amounts are \$20mln, \$50mln and \$40mln and the risk level for 'Procurement' risk is '4-Very High', '2-Moderate', '1-Low' respectively for each grant. This results in the country 'Procurement' risk level to be $(20 \times 4 + 50 \times 2 + 40 \times 1) / (20 + 50 + 40) = 2$, which is a 'Moderate' risk level.

Country X	Signed Amount (\$ mln)	Procurement Risk Level	Contribution
Grant-1	20	Very High (Value = 4)	$20 \times 4 / 110 = 0.73$
Grant-2	50	Moderate (Value = 2)	$50 \times 2 / 110 = 0.91$
Grant-3	40	Low (Value = 1)	$40 \times 1 / 110 = 0.36$
Total:	110		Moderate (Value = 2.00)

Consolidation of risk from country to organization aggregate level:

- Country X allocation is \$110mln and Country Y allocation is \$50mln and the 'Procurement' risk levels are '2-Moderate' and '1-Low' respectively for each country, then the organization aggregate risk level for 'Procurement' is $(110 \times 2 + 50 \times 1) / (110 + 50) = 1.69$, which is a 'Low/Moderate' risk level. The risk levels are determined by a defined risk range scale.

Aggregate	Allocation Amount (\$ mln)	Procurement Risk Level	Contribution
Country X	110	Moderate (Value = 2)	$110 \times 2 / 160 = 1.38$
Country Y	50	Low (Value = 1)	$50 \times 1 / 160 = 0.31$
Total:	160		Moderate/Low (Value = 1.69)