

# 40<sup>th</sup> Board Meeting

## Risk Management Report

GF/B40/16

14-15 November 2018, Geneva

### **Board Information**

Purpose of the paper: To provide the Board and with an updated report on Risk Management.

# Executive Summary

## Introduction and context

1. The Global Fund supports programs to fight HIV, tuberculosis and malaria across the globe, often in challenging countries where health structures are weak. In such contexts, political and socio-economic factors often contribute to high risk environments. Despite the inherent risks involved, the Global Fund continues to invest successfully in programs that help make critical prevention, treatment and care services available to beneficiaries and end the public health threat posed by the three diseases.
2. In 2017, the Global Fund's focus was on grant approvals. In 2018, with over 200 grants signed, that focus has now shifted to grant implementation. Preparing for the Sixth Replenishment has likewise been a critical priority, with France now secured as the host for the Sixth Replenishment Conference and India as the host for the Preparatory Meeting in 2019.
3. In parallel there has been significant organizational change at the leadership level, with a new Executive Director now in post, and five new members of the Management Executive transitioning into post between Q2 and Q4 of 2018.
4. The Secretariat continues to advance the maturity of its risk management, internal controls and governance. The focus is now on continued strengthening in certain key areas where progress has been slower than planned, as well as on deriving value from all the investment and changes made to date.

## Report structure and focus

5. The areas covered by this Report are:
  - i. Thematic risks and the status of the overall risk profile. This section covers:
    - Risks for increased focus in the near-term, that have particular strategic relevance at present because of their urgency and / or heightened position on the public health agenda. The risks discussed here are: Future Funding, Insecticide Resistance, and HIV Prevention. Although these do not represent new risks, moving forward they require increased focus at least in the near-term.
    - Grant-related risks focused on impact, which are particularly relevant and timely in 2018 as the Global Fund shifts its attention to grant implementation. In this thematic area, four risks from the Organizational Risk Register are discussed: Program Quality; In-Country Supply Chain; Quality of Health Products; and Human Rights & Gender Inequality. Clear risk management strategies are in place for each of these risks. However, it is essential that momentum is maintained, and in the case of In-Country Supply Chain, that diagnostic results effectively translate into execution of transformations.
    - Non-grant related risks that have the potential to negatively impact internal management of Secretariat and Global Fund operations. The risks discussed here are: Internal Data Quality and Safeguarding against Harassment, Sexual Harassment, and Bullying. These risk areas are receiving appropriate levels of attention from management and mitigations are being implemented.

- Status of the overall risk profile and risk levels relative to Board approved risk appetite. This section addresses trends impacting the overall risk profile of the organization. It highlights areas where significant progress is being made, as well as areas where more progress is needed, with particular focus on the three risks with a current risk level that exceeds the future target level set by the organizational risk appetite: Program Quality; Strategic Data Quality & Availability; and In-Country Supply Chain.
- ii. Progress in implementation of key Secretariat initiatives. Highlights include: operationalization of the Grant Operating System; roll out of the Integrated Risk Management module; and operationalization of the Risk Appetite Framework.
- iii. Areas of focus for getting to an ‘Embedded’ state for risk management, internal controls and governance. Significant progress has been made and with the right level of focus the organization is well placed to reach ‘Embedded’ by mid to late 2019.

## Conclusion

6. The organization’s overall risk profile remains stable and for some risks there is a downward direction of travel. All risk levels are within the Board approved risk appetite for nine selected risks from the Organizational Risk Register (ORR)<sup>1</sup>. This reflects the robustness of the risk management strategies being developed and executed by the Global Fund, partners and implementers. However, momentum in implementing mitigating actions must be maintained and in some cases increased.
7. Similarly it is important that the Secretariat maintains its focus on advancing the organization’s maturity in terms of risk management, internal controls and governance. Reaching an ‘Embedded’ state requires sustained effort and the continued engagement of the Board, committees and senior management.

## Input Sought

8. This Report constitutes the Secretariat’s semi-annual update on risk management<sup>2</sup> and the risk profile of the organization. The Report is provided for information.

## Input Received

9. The Report has been shared with all three committees before being submitted to the Board and was discussed as an agenda item at the Audit and Finance Committee and the Strategy Committee meetings. The Committees welcomed the progress that has been made and raised specific points, addressed in the Report, for discussion.

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<sup>1</sup> The Board approved the Risk Appetite Framework, including risk appetite, target risk levels and the indicative timeframes for achieving target levels, for nine selected risks as described in the table in Annex 3 to GF/B39/07, pursuant to GF/B39/DP11 (May 2018).

<sup>2</sup> This Report is submitted pursuant to the Strategy Committee’s mandate under its Charter, specifically section: 2.2.i Areas of risk that affect strategic objectives, goals and targets or other risk matters assigned by the Coordinating Group.

# Report

## I. Introduction

10. The Global Fund supports programs to fight HIV, tuberculosis and malaria across the globe, often in challenging countries where health structures are weak. In such contexts, political and socio-economic factors often contribute to high risk environments. Despite the inherent risks involved, the Global Fund continues to invest successfully in programs that help make critical prevention, treatment and care services available to beneficiaries and end the public health threat posed by the three diseases.
11. To deliver on its mission and address the many challenges inherent in ending the epidemics, the Global Fund partnership must continue to be ambitious and innovative in the scale and complexity of its interventions. This inevitably means a high level of operational risk over sustained periods of time.
12. A number of the risks highlighted in this report have been discussed in previous reports. This reflects the reality that some of the greatest challenges the organization faces are deep-rooted and systemic, requiring multiple years of investment. That said, the risk landscape also continues to evolve, with new risks coming to prominence. Future Funding and ensuring the success of the Sixth Replenishment is one example.
13. As always, the continued guidance and leadership of the Board and its committees remains critical in ensuring the Secretariat is well positioned to navigate the full range of risks and challenges it faces as it works to deliver on the 2017-2022 Strategy.

## II. Organizational context and key developments in 2018

14. Following the Fifth Replenishment, throughout 2017, the Global Fund was heavily focused on grant reviews and approvals and sustaining gains in the fight against the three diseases over preceding years. In 2018, with over 200 grants signed, that focus has now shifted to grant implementation. Implementers, supported by the Global Fund and partners, are working to ensure grant design translates into effective programs and ultimately, impact. Through robust interventions and ambitious targets, Global Fund investments aim to scale up diagnosis and treatment services, reduce human rights and gender related barriers to health services, and strengthen health systems, thereby reducing the incidence, prevalence and mortality attributable to the diseases.
15. Another key area of focus for the organization in 2018 is on preparation for the Sixth Replenishment in 2019. Significant progress has been made in this area, with France secured as host for the Sixth Replenishment Pledging Conference and India as host for the Preparatory Meeting in 2019.
16. In parallel the organization has seen significant changes in leadership. The new Executive Director has transitioned into post, and has set a clear and positive tone from the outset on the importance of risk management in delivering on the 2017-2022 Strategy. Further change is also in progress at the Management Executive level, with five new senior leaders transitioning into post between Q2 and Q4 of 2018.

17. The Secretariat continues to advance the maturity of its risk management, internal controls and governance. This builds on strong foundations laid over the past few years, including strengthening grant management policies and processes, integrating risk management into the grant life cycle and ensuring an enhanced focus on internal controls across the business. The focus now is on continued strengthening in certain key areas where progress has been slower than planned, and on deriving value from the investment and changes made to date.

### **III. Thematic risks and status of the overall risk profile**

#### **Strategic risks for increased focus in the near-term**

18. This section highlights risks for increased Secretariat focus that have particular strategic relevance at present. They have been highlighted because of their urgency and / or heightened position on the public health agenda and their potential to impact the short and medium term risk profile of the Global Fund and ability to deliver on the 2017-2022 Strategy.

#### Future Funding

19. 2019 is a replenishment year for the Global Fund. Meeting the financial target for the Sixth Replenishment is critical to the successful delivery of the 2017-2022 Strategy as well as the organization's reputation and longer term viability.
20. In the lead up to the Sixth Replenishment a key area of focus has been on laying the necessary foundations for a successful Replenishment Conference when the majority of donor pledges for the 2020-2022 period are expected to be made. Securing the support of France as the host marked a critical step. Similarly, confirmation that India will host the Preparatory Meeting is also a very positive development.
21. Looking forward the Secretariat's immediate focus is to maximize the potential success of the Sixth Replenishment, including: developing a compelling narrative and Investment Case with partners; and securing early pledges to ensure strong momentum leading into the Pledging Conference.
22. The change in leadership of the External Relations Division is also a key milestone for 2018 and is expected to strengthen the replenishment preparation without undue disruption. A plan is in place, supported by an experienced team, to help ensure a smooth transition.
23. Despite the risk mitigations in place, some volatility in the risk level is expected, with a potential increase in 2019 as the date of the Replenishment Conference approaches. To address this, the Secretariat will work to ensure that there is a solid foundation leading into the Replenishment Conference, including, as previously highlighted, by securing early pledge announcements from major donors and ensuring a positive context for Global Fund advocacy. The Secretariat is also working to increase the Global Fund's visibility with donors and strengthen the organization's reputation as a strong investment choice to help guard against potential risk events that could have a negative impact on the Replenishment campaign.
24. There are a number of specific challenges in the context of the Sixth Replenishment which should be highlighted.
25. Perceived underperformance of the Global Fund, particularly in relation to the 2017-2022 Strategy; misunderstandings or misperceptions regarding the Global Fund model; and perceived de-prioritization or lack of prioritization of issues of concern to donors all present

risks to successful replenishment. The focus on a compelling narrative and Investment Case, and on ensuring strong and targeted replenishment communications and advocacy campaigns are critical in this regard.

26. The geo-political landscape also continues to be unpredictable and the Secretariat is closely monitoring political developments, including major election results and announcements being made by public donors at key events and platforms. With support from advocacy partners in major donor countries, the Global Fund also works to ensure cross-party political support.
27. Furthermore, although there has been limited impact on the Global Fund to date resulting from changes on the global political stage, the growth of the overall overseas development assistance (ODA) budget line has slowed significantly in recent years. There is also an increasing trend for countries to include domestic investment in refugees and migrants as ODA, which puts further pressure on resources. This inevitably increases competition for funds amongst development organizations, which is further exacerbated by the fact that multiple replenishments are scheduled to take place in relatively close succession. A corollary effect of this is a push by donors to ensure strong coordination between partner organizations and root out potential inefficiencies.
28. These challenges should not be underestimated. However, the strategy for resource mobilization and replenishment is robust and is subject to ongoing and rigorous oversight by management.
  - i. The Secretariat is placing significant emphasis on demonstrating partner coordination including joint efforts to showcase collaboration and efficiency across organizations, especially in-country and in relation to respective replenishments. There is also active dialogue with partners and donors on various initiatives such as the development of the SDG 3 Action Plan.
  - ii. There is a strong focus on mobilizing funds, beyond traditional ODA, including catalyzing additional funding for health and disease programs by advocating for increased domestic resources and through innovative financing mechanisms.
  - iii. Expanding engagement with private sector partners both in terms of increasing resources and developing innovative solutions is a priority. As we expand our private sector partnerships, we need to continue to ensure that contributions are derived from legitimate sources and reputable private sector partners that subscribe to the principles of the Global Fund. A review of the risk management and due diligence process with relation to private sector partners is currently underway.
29. Longer term, looking beyond the Sixth Replenishment, the Global Fund needs to ensure increased diversification of funding for advocacy to mitigate its vulnerability to shifts in priorities of external (third-party) funders. This is to ensure increased resilience in our ability to engage with key decisions makers and influencers and maintain appropriate levels of advocacy through civil society partners and networks.

#### Insecticide Resistance

30. While Drug and Insecticide Resistance is captured as a single risk in the ORR, this report focuses on insecticide resistance.
31. Although drug resistance continues to represent a high risk in the fight against the three diseases, with deaths from TB now accounting for approximately one third of all anti-microbial

deaths worldwide, the Global Fund has a clear approach, agreed with partners, to tackle the risk. Insecticide resistance likewise represents a high risk in the fight against malaria, however, there is less consensus on the scale of the threat, and consequently less clarity on how best to prioritize resources in the fight against malaria.

32. After successful gains in malaria control over the past decade, progress has stalled, with many countries now reporting significant increases in malaria cases, particularly those with high disease burden. It is the Global Fund's view, and one shared by many partners, that insecticide resistance is potentially a major contributory factor to this resurgence.
33. To mitigate the insecticide resistance risk the Global Fund is:
  - i. Accelerating the roll out of new vector control tools via catalytic funding for market entry of new LLINs with concurrent evaluation to understand the role these new tools may have in mitigating insecticide resistance. Pilots are already underway with at least three countries due to deploy new nets in their 2019 campaigns;
  - ii. Supporting innovation of new vector control products, including the WHO Innovation for Impact (I2I) initiative.
  - iii. Strengthening insecticide resistance surveillance and enhancing the capacity for public health entomology in malaria endemic countries to inform new vector control strategies and track their impact on malaria transmission; and
34. As highlighted, the lack of alignment among partners on the extent to which insecticide resistance is contributing to increased transmission presents a challenge. In response, the Secretariat is also focusing its efforts on developing an evidence base, building on the results of work to accelerate new vector control tools; this facilitates collaboration with partners to establish a clear framework for addressing insecticide resistance at the national, district and sub-district levels.

#### HIV prevention

35. There is growing recognition that without increased investment in HIV prevention the goal of ending the HIV epidemic will remain out of reach. Meeting the global target of fewer than 500,000 new HIV infections requires both sustained and scaled up primary HIV prevention, alongside the HIV prevention benefits of ART. Although the Global Fund has improved the focus and quality of investments in prevention for key and vulnerable populations, overall investment has decreased since 2014. This reflects the pressure on other investments created by the successful scale up of HIV treatment and the tension that globally, there are simply not enough resources available to address both HIV prevention and treatment goals.
36. However, without further reductions in the numbers of new HIV transmissions the demand for HIV treatment will increase, ultimately placing even greater pressure on already stretched resources. As such HIV prevention investment needs to be further examined and prioritized both in terms of the level of resources available, and the quality of the Global Fund's investments: the complexity of HIV prevention programming, and its often politically or socially sensitive elements, can lead to a de-prioritization of high impact, high value investments.
37. The Global Fund's work to improve strategic data quality and availability, as well as data-driven program quality is critical in strengthening prevention. In addition, the Global Fund is focusing on:
  - i. High level engagement in the Global Prevention Coalition;

- ii. Specifically encouraging an increased focus on HIV prevention through investments in the five pillars for HIV prevention defined by UNAIDS: adolescent girls and young women (AGYW), key populations, condom programming, voluntary medical male circumcision and pre-exposure prophylaxis;
- iii. In-depth attention to the quality and scope of prevention investments targeting AGYW in priority countries;
- iv. Increased focus on measurement and performance of key population programming under KPI5, which reports on service coverage for key populations ; and
- v. Analysis of the Global Fund's investment in condom programming, combined with planning for a strategic shift in the investment approach toward investment in sustainable and diverse markets for condoms, as distinct from bulk procurement and supply of commodities.

38. Looking forward two areas where further focus is needed in the shorter term are:

- a) Technical assistance for national HIV prevention planning to ensure greater results-orientation in planning, and for improved implementation. Technical assistance importantly needs to prioritize civil society implementers, the critical workforce for implementing HIV prevention interventions; and
- b) Maintaining sustained investment in HIV prevention, through monitoring and analysis of investments to ensure that national prevention plans are well resourced and executed.

39. In the medium to long term there is also a need for ongoing advocacy for increased domestic investment in HIV treatment, which is itself a form of prevention. This will help create fiscal space for the Global Fund to invest more in HIV prevention programs, particularly ones which are more socially and politically sensitive, for high risk populations.

## Grant related risks focused on impact

40. This section highlights a number of key risks from the ORR that are particularly relevant and timely in 2018 and 2019 as the Global Fund focuses on grant implementation for the majority of its portfolio. There has already been considerable investment to mitigate each of the risks highlighted below, and significant progress has been made in a number of key areas. Nevertheless, continued focus is needed in order to maintain momentum.

### Program Quality

41. Improving program quality is central to achieving impact against the three diseases and requires multi-year investment. To mitigate the risk of poor program quality the Global Fund has implemented a number of different initiatives including: practical guidance and ongoing dissemination of best practices; support for the implementation of new WHO guidelines, and development of new and innovative disease management strategies; enhancing data use for action and improvement; and strengthening monitoring of drug and insecticide resistance.

42. Forward looking priorities include: differentiated care for HIV; finding an additional 1.5 million missing TB cases; acceleration of malaria elimination through utilization of new vector control tools; strengthening integrated service delivery through antenatal and postnatal care; and strengthening human resources for health.

43. To deliver on these priorities there is a need for an increased emphasis on quality improvement in program design and implementation. This requires technical assistance to program implementers, along with facility-level or implementer-level quality improvement plans.

Linked to this is understanding the extent to which quality of service delivery is impacting results. Lastly, continued innovation is also key. This necessitates responsive and well thought through implementation of changes in normative guidance, which in turn requires collaboration and ongoing coordination between the Global Fund, WHO and other partners, as well as between the Global Fund and implementers.

44. Key mitigating actions in place to address these challenges include:
- i. Refined analysis of risk levels triangulated with programmatic outcome indicators, to highlight areas across the portfolio that need increased attention;
  - ii. Work with the Bill and Melinda Gates Foundation and the Primary Healthcare Initiative, to develop a series of diagnostic indicators, including indicators to more systematically assess and track service delivery; and
  - iii. Utilization of a range of platforms to ensure a coordinated response to changes in normative guidance, including the HIV and TB situation rooms, Roll Back Malaria Country/Regional Support Partner Committee and the recently launched partner support platforms.
45. An additional broad and critical area of focus for the Secretariat is to establish a more systematic approach to the roll out of quality improvement initiatives. This is a cross-divisional approach, which will address several areas including:
- i. Exploring country facing mechanisms, policies and processes to mainstream program quality and efficiency, and quality improvement;
  - ii. Developing a framework for quality, efficiency and quality improvement for High Impact countries across the HIV treatment and prevention cascades; and
  - iii. Building in-house capacity to support increased focus on implementation quality, including developing tools and guidance for country teams to support the implementation of high quality and efficient programs.

#### In-Country Supply Chain

46. Improving coverage of commodity-based interventions in order to scale up case finding, diagnosis and treatment of beneficiaries is a key aspect of the Global Fund Strategy. To deliver on this objective and to address the inherently complex issue of supply chain strengthening, the Global Fund established a dedicated Supply Chain Department in 2016.
47. Grant-financed activities remain the key mechanism for supply chain system strengthening. During 2017 and 2018, the Board approved funding for supply chain related interventions of more than 150 million USD. These include interventions within national costed supply chain master plans aimed at: development of supply chain infrastructure, processes, capabilities and tools; facilitating health product forecasting, distribution, and product selection; registration; and quality monitoring.
48. In addition, to further strengthen the response, a number of key initiatives are being rolled out under the Supply Chain Strategy. These include: supply chain diagnostics and transformations; capacity building; demand planning for countries using the Pooled Procurement Mechanism (PPM); and supply chain KPI reporting.
49. Key progress in the last reporting period includes:
- a) Continued roll out of country-level supply chain diagnostics;
  - b) Milestones reached in capacity building efforts, with contracts signed for the provision of technical support and the development of supply chain university programs;

- c) Testing the proof of concept for demand planning and through improved forecast accuracy for countries procuring using the PPM; and
  - d) Launch of the KPI Reporting on product availability.
50. Despite the completion of diagnostics in a number of critical countries, significant challenges are being encountered in translating the results of specific diagnostic exercises into the execution of transformations. There are therefore, a number of areas where further focus is needed and where lessons learnt are starting to be applied to improve implementation moving forward. These areas of focus are:
- a) Engagement with external and internal stakeholders on comprehensive approaches to supply chain transformation, including emphasis on bilateral quick wins; and
  - b) Effective alignment across the Secretariat teams to improve pace with government stakeholders and efficiency in the implementation of transformation initiatives.
51. A new Head of Sourcing and Supply Chain has been appointed and is scheduled to start in post in October 2018. This is expected to have a positive impact on the alignment of deliverables across various teams within the Sourcing and Supply Chain function. In addition, the transformation related challenges are getting heightened management attention and the expectation is that the pace of delivery to improve over the next few months.

#### Quality of Health Products

52. Health products represent a significant proportion of Global Fund investments. Poor quality health products risk exposing patients to products which are of substandard quality, compromising treatment, safety and efficacy.
53. The Global Fund has made significant progress to decrease the risk of poor quality health products, with a particular emphasis on strengthening procurement to ensure drugs are screened for compliance with international quality standards. Procurement through PPM and international procurement agents include these quality-focused safeguards, and now account for 80% of the procurement financed through Global Fund investments.
54. Another area of focus has been strengthening in-country supply chains. Such efforts better ensure that storage and distribution conditions are adequate to maintain the quality and integrity of health products and increase the capacity of countries to control, monitor and maintain quality. Progress in this context is discussed in the previous section.
55. Looking forward, supporting quality control and quality assurance at the country level is a priority. Factors that can limit effectiveness of quality control and assurance, once products arrive, include gaps in national pharmacovigilance and post-market surveillance systems, varying maturity levels of national procurement mechanisms, limited capacity of national regulatory authorities, and variable maturity levels of implementers.
56. Key mitigating actions underway or planned to address these challenges include:
- i. Strengthening oversight and enforcement of the Global Fund's quality assurance policies, including through improved performance management of Procurement Services Agents (PSA) quality assurance and quality control, and implementer capacity building;
  - ii. Strengthening of national regulatory capacity, post market surveillance and pharmacovigilance, with a particular focus on products with the highest risk of quality issues countries with a high quality of health product risk level; and

- iii. Effective engagement with partners to provide guidance, facilitate access to technical assistance, and build the capacity of implementers and national labs in quality assurance /quality control.
57. Beyond the stand alone benefits, these activities can also catalyze effective systems building for product quality control in-country; this is increasingly critical as many countries progressively assume responsibility for procurement and quality control of first line commodities through domestic financing.
  58. Other opportunities being explored for reducing the risk of poor quality health products include improving the availability of data and reporting to ensure routine visibility of adherence to quality standards; and increased involvement of user communities to enable patient insight into quality of health product issues to inform identification of high risk areas.

#### Human Rights & Gender Inequality

59. Human rights and gender related barriers, including gender inequality, can significantly limit the impact of Global Fund grants, driving up new infections and reducing uptake of health services and retention in care. Addressing these barriers is, therefore, an integral component of the 2017-2022 Strategy.
60. Key progress in mitigating the risk of human rights and gender related barriers includes:
  - i. Ensuring grant design and implementation is appropriate to the needs of key and vulnerable populations through engagement of technical advisors in grant-making, embedding of AGYW advisors into GMD, implementation of the CRG Strategic Initiative, dissemination of technical briefing notes and guidance, Secretariat staff training, and incorporation of sex and age disaggregation into performance frameworks (where possible);
  - ii. Signed partnership agreements and action plans with technical partners for the provision of support to address key coverage gaps for all three diseases, and the development of innovative partnerships with the private sector, foundations and others, including the launch of HER, the HIV Epidemic Response, a platform to raise resources and build partnerships towards reducing HIV incidence amongst adolescent AGYW;
  - iii. Provision of intensive support in twenty countries to develop comprehensive responses to human rights related barriers, building on the results of baseline assessments, and with follow-up studies planned to measure impact; and
  - iv. Formalization of a Secretariat level human right crisis response protocol.
61. The challenge moving forward is to increase evidence-based innovation and appropriate targeting of interventions to ensure they are designed around the specific needs of the communities they are intended to benefit.
62. Key priorities moving forward, therefore, include:
  - i. Monitoring the investment and impact of matching funds for programs to remove human rights related barriers, and reduce HIV incidence amongst AGYW, in twenty and thirteen priority countries, respectively;
  - ii. Investment in assessments to: understand the scale of challenges faced in terms of barriers to services and prioritized responses to address these barriers; improve data quality, including sex and age disaggregated data; and learn from the successes and failures of packages of interventions aimed at reducing HIV risk in adolescents and young people;

- iii. Improving Secretariat capacity to support countries to increase programming that reduces human rights related barriers to services, and broadening ownership across the Secretariat of human rights and gender related elements of the 2017-2022 Strategy.
- iv. Operationalizing the approach to addressing inequities, including gender inequality, through mainstreaming the use of sex and age disaggregated data in grant design and using qualitative data to improve program quality; and
- v. Investment in long term capacity development for networks and organizations of key and vulnerable populations; and implementation of innovative programming to reduce human rights-related barriers to services and reduce HIV incidence among AGYW.

## **Non-grant related risks affecting internal operations**

63. This section highlights the Secretariat's response to risks that are not directly related to grant implementation but which have the potential to negatively impact the effective internal management of the Secretariat and Global Fund operations. These risks are a sub-sets of risks captured in the ORR and have been highlighted because of their heightened position on the organizational agenda and broader external interest.

### Improving internal data management

64. To strengthen data management across the Secretariat, an enterprise-wide Data Management Strategy has been agreed with the aim of improving data quality, availability and usability and reducing the risk of inconsistencies, inaccuracies and inefficiency. A Data Governance Committee (DGC) has been created to oversee and drive forward the implementation of the Data Management Strategy. The DGC is comprised of representatives from across the organization.

### Safeguarding against harassment, sexual harassment and bullying

65. A review was initiated in February 2018 to examine the organization's approach and policies on harassment, sexual harassment and bullying. The review is ongoing but has already resulted in and / or helped shape a number of initiatives with regard to Secretariat Staff. These include: updates to the Code of Conduct for Secretariat staff; updates to the Employee Handbook with additional clarity and specificity on the prohibition of harassment and bullying; and accompanying training.

66. The next step is to ensure that the Global Fund also holds implementers to account and ensure appropriate safeguarding of beneficiaries. The outputs of the International Safeguarding Summit being hosted by the UK's Department for International Development and scheduled for October, will help inform further work in this context.

## **Status of the overall risk profile and risk levels relative to Board approved risk appetite**

67. The organization's overall risk profile remains stable. This reflects the continued effectiveness of risk management in critical areas. In some cases, such mitigation is resulting in a more immediate positive downward trajectory of risk levels. In other areas, it is ensuring gradual progress toward a medium term reduction of risk levels. Lastly, effective mitigation is enabling containment of certain risks that might otherwise be increasing due to external factors.

68. Risk levels, trajectories and mitigations for all organizational risks are captured in detail in the ORR, Annex C.

69. The Board has approved risk appetite statements for eight grant facing risks and one corporate, externally facing risk: foreign exchange. The current risk levels for the nine risks are all within the approved risk appetite.
70. Target levels have also been set for the nine risks. For all grant facing risks other than Program Quality, Strategic Data Quality & Availability, and In-Country Supply Chain, the current risk levels are moderate and equal to the target levels. For these six risks, mitigating actions will continue to be implemented and trade-off decisions made in order to maintain or reduce the risk levels within the agreed risk appetite level of ‘moderate’.
71. For Program Quality, Strategic Data Quality & Availability and In-Country Supply Chain, the current risk levels are ‘high’ with target risk levels of ‘moderate’. Timeframes for reaching these target levels are by mid-2021 for Strategic Data Quality & Availability, and by mid-2023 for Program Quality and In-Country Supply Chain.
72. Progress is already being made to reduce the risk levels:
- i. Program Quality. Countries for specific focus are being finalized, where the focus will be on strengthening identification of improvement opportunities through reviews, monitoring and enhanced use of data; and further promotion of differentiated approaches and service delivery integration. – Good progress is being made.
  - ii. Strategic Data Quality and Availability. Countries for specific focus have been finalized, where the focus will be on strengthening in-country data systems and systems integration; and capacity building. – Good progress is being made with significant momentum.
  - iii. In-Country Supply Chain. Countries for specific focus are being finalized. While the organization has already progressed in certain countries in spearheading supply chain diagnostics, delays are being experienced and the focus is now to ensure that the results of diagnostics start translating into the execution of transformations.
73. Overall these risks are receiving adequate levels of management attention and continue to be on an appropriate trajectory to reach the target levels within the time frames approved by the Board.

#### IV. Progress in implementation of key Secretariat initiatives

74. The Secretariat has made good progress in the first half of 2018 in rolling out key initiatives. Highlights include:
- a) **Operationalization of the Grant Operating System**, streamlining and automating grant management processes and controls. Teething troubles have inevitably been experienced as releases have been rolled out but overall, Project AIM (Accelerated Integration Management) releases represent a significant step in terms of process integration, efficiency and control.
  - c) Successful **roll out of the Integrated Risk Management (IRM)** module through AIM, providing an integrated module for Country Teams to assess implementer capacity and to capture, track and manage risks, mitigating actions, and assurance activities, at the grant and country portfolio levels.
  - d) **Strengthening of Portfolio Performance Committee (PPC)** with an increased focus on impact and financial performance as part of oversight of High Impact and selected Core portfolios.
  - e) **Operationalization of the Risk Appetite Framework** including: leveraging the IRM to determine risk levels; cross-organizational consultation to agree on key risks, mitigating

actions, and target risk levels for key countries; and ensuring that mitigating actions and risk trade-off and acceptance decisions take into account Board approved risk appetite and the impact on target risks levels. Following input from the Strategy Committee in July it was agreed that a risk appetite should not be set for the Drug & Insecticide Resistance, Transition, and Human Rights & Gender Inequality risks. These risks continue to receive significant attention from the Secretariat. In addition, as drug and insecticide resistance is an important dimension of program quality the risk appetite statement already set for the Program Quality risk is being used to track and manage the Drug & Insecticide Resistance risk; and use of sex and age disaggregated data is being mainstreamed into program design and implementation to strengthen the mitigation of the Gender Inequality risk.

- f) **Initiation of the CCM Evolution Project** which will position CCMs to more fully exercise their oversight responsibilities, take a key role in leading the national disease response and ensure the inclusion of key stakeholders, including civil society.
- g) **Implementation of process improvement action plans** to address gaps arising from key business process reviews conducted in 2017. Development of a comprehensive suite of reports to monitor business process performance, including the effectiveness of process controls, is also underway.
- h) **Continued progress with recoveries.** As a result, as of 30 June 2018, the total outstanding recoverable balance (OIG identified), net of written commitments to repay declined to US\$1.9 million. This represents a resolution of 98% of the aggregate recoverable amount. The trend on non-OIG identified recoverables was similar, with the amount declining to US\$10.2 million.
- i) Approval and **roll out of prioritization framework for portfolio optimization** enabling strategic investment within the allocation period.
- j) **Establishment and implementation of a Performance and Accountability Framework** to drive improved process performance and accountability across the Secretariat. This work has led to an enhanced focus on business processes across the organization, underpinned by the development of a comprehensive business process model to describe Global Fund operations.

## V. Areas of focus to achieve an ‘embedded’ state for risk management, internal controls and governance

- 75. The 2017 Risk Report noted that the following would be areas of focus in order to advance organizational maturity and reach an ‘Embedded’ state for risk management, internal controls and governance:
  - i. Maintaining momentum in embedding risk management – Good progress has been made to strengthen organizational risk management policies, processes, systems and tools and to integrate operational risk management into grant management. These improvements now need to be fully leveraged and given time to mature.
  - ii. Operationalizing the results of current initiatives – Again, good progress has been made as highlighted in the previous section. However, as also previously highlighted, greater attention and effort are needed for the remainder of 2018 and through 2019 in the context of in-country supply chain strengthening, to translate the results of diagnostic exercises into the execution of transformations.
  - iii. Building out a robust internal control environment – There has been notable progress in defining and prioritizing key internal processes and controls and work has also started to develop standard reports for monitoring process performance. Further work is now needed to develop first line exception reporting on select controls across key grant management processes.

- iv. Development and operationalization of risk appetite – A Risk Appetite Framework has been developed and risk appetite statements approved by the Board. The Framework is now being operationalized and needs to be allowed to bed-in. To get maximum benefit from risk appetite it will be important that in the long term, country audits and investigations consider and align with the approved risk appetite and the risks that have been accepted under it. To ensure this occurs in a coordinated manner, the operationalization needs to be done in consultation with the Office of the Inspector General.
  - v. Improved Governance – Governance strengthening initiatives are being operationalized on the basis of the Governance Action Plan. Key initiatives, which need to be implemented are: criteria for strategic agenda setting; and new Board leadership selection process.
76. Overall significant progress has been made. With the right level of focus, and subject to competing operational priorities, the organization is well placed to reach an ‘Embedded’ state by mid to late 2019. (See Annex B for Gantt chart on plan for reaching ‘Embedded’.)

## VI. Conclusion

77. The Global Fund’s operational context remains challenging and it continues to face a range of external and internal risks over which it has varying levels of influence. Nonetheless the organization’s overall risk profile remains stable and for some risks there is a downward direction of travel. This reflects the robustness of the risk management strategies and their effective execution by implementers, the Global Fund and its partners.
78. Nevertheless, momentum must be maintained, and in some cases increased, if the organization is going to implement the range of mitigations needed to reduce risk levels and maximize the impact of investments. Working with partners, it is essential that planned activities are followed through to completion and that opportunities to strengthen the risk response continued to be identified. The risks highlighted in this report represent long term challenges and it is only through sustained focus and creative problem solving with collaboration from partners that the Global Fund can make the headway needed to end the epidemics as public health threats.
79. Similarly, it is also important that the Secretariat continues to focus on advancing the organization’s maturity in terms of risk management, internal controls and governance. Fully embedding risk management is a critical enabler to ensuring the Global Fund is able to deliver on its 2017-2022 Strategy. As already highlighted the organization is well placed to reach an ‘Embedded’ state by mid to late 2019. However, this requires sustained effort and the continued engagement of the Board, committees and senior management. This engagement is also key in ensuring the organization derives maximum benefit from the investment and changes made to date.

## Annex A: Committee input

1. The Committees recognized the important progress that has been made in the context of risk management. The Committees also noted:
  - The status of key thematic risks;
  - That the overall risk profile is stable to slightly improving and that the current risk levels for all nine risks, where risk appetite has been set, are within the approved risk appetite; and
  - The progress being made in reaching an embedded state of organizational maturity for risk management, internal controls and governance and that the organization is well placed to reach an embedded state of maturity by mid to late 2019.

## Annex B: Gantt chart on plan for reaching ‘Embedded’ for risk management, internal controls and governance

Area	Key outstanding deliverables	2018		2019			
		Q3	Q4	Q1	Q2	Q3	Q4
Embedding Risk Management across the grant lifecycle	Finalize risk ratings, mitigating and assurance actions in IRM for High Impact & Core Countries	■	■				
	Fully leverage IRM functionality, including improvements, to effectively manage risks across the grant lifecycle	■	■	■	■		
Operationalizing Risk Appetite	Effectively embed use of risk appetite into regular decision making across the grant lifecycle	■	■	■	■		
Building a robust internal controls environment	Develop first line exception reporting on select controls across key grant management processes	■	■	■	■		
Improving governance	Criteria for strategic agenda setting applied for Board and committee meetings	■	■				
	Enhanced Board Leadership selection process implemented		■	■	■		
Momentum in operationalizing other initiatives	Successfully link results of Supply Chain diagnostics to transformation plans and initiate execution of Supply Chain transformation plans for at least 2 countries	■	■	■	■	■	■

## Annex C: Organizational Risk Register, 2018 Q2 update

### Updates to key risks

1. A number of risks in the ORR have been substantially reframed or updated for a variety of reasons, including to reflect broadened scope and incorporate input from previous committee meetings.
  - a. 'National Program Governance & Grant Oversight' replaces the Program Governance & Oversight (PR level) risk and has been expanded to incorporate governance of national programs.
  - b. 'Legal' replaces the Privileges & Immunities risk and has been reframed to incorporate the broader set of legal related risks facing the organization, including contractual and internal risks.
  - c. 'Workforce Capacity, Efficiency & Wellbeing' replaces the Staff Health risk and has been reframed to reflect the fact that poor staff health is a negative outcome of a combination of factors including workforce capacity and efficiency.
  - d. Program Quality has been updated to more explicitly incorporate the root causes of, and mitigations actions for, addressing the risk of drug and insecticide resistance.