

Recommendation on Adjustments to Risk Appetite

49th Board Meeting

GF/B49/04

10 – 11 May 2023, Ha Noi, Viet Nam

For Board Decision

Purpose: To recommend adjustments to risk appetite to reflect increasing risk levels or risk levels which have not decreased in line with projections, taking into account the recommendation from the Audit and Finance Committee to the Board.

Decision

Board Decision Point: GF/B49/DPXX: Amended Risk Appetite Statements

1. The Board:

- i. recalls its ultimate responsibility to the Global Fund's stakeholders for overseeing the implementation of effective risk management;***
- ii. affirms the Strategy Committee's concurrence with the amended Risk Appetite Statements under such committee's oversight, as reported to the Audit and Finance Committee; and***
- iii. further affirms the Audit and Finance Committee's concurrence with the amended Risk Appetite Statements under such committee's oversight and integration of the Strategy Committee's concurrence, as set forth in Annex 1 to GF/AFC21/06 and pursuant to decision point GF/AFC21/DP01.***

2. Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statements, including risk appetite and timeframes to achieve target risk, as set forth in the table in Annex 1 to GF/B49/04, acknowledging that the target risk level for each risk shall become the revised risk appetite at the target due date, or when earlier achieved.

3. This decision point and the amended Risk Appetite Statements approved by it shall supersede decision point GF/B46/DP05 (November 2021).

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 3.

Executive Summary

1. The onset of the COVID-19 pandemic in 2020 significantly impacted the Global Fund's operating environment, risk levels, and risk trajectories. In response a range of different measures were implemented. Internally, processes, systems and tools were updated to realign with the new context and to enable the organization to switch into crisis-management mode, whilst in-country program adaptations were introduced alongside new and expanded assurance activities. Despite all these measures, global volatility has persisted, driven by the war in the Ukraine and other factors, and as a result the trajectories for certain risks have not reduced in line with expectations.
2. In November 2021, in recognition of the impact of COVID-19 on the risk landscape and risk levels the Board approved²:
 - i. Temporary increases to risk appetite for four out of eleven grant-facing risks (Program Quality - TB, Procurement, Grant Related Fraud & Fiduciary, and Accounting & Financial Reporting by Countries); and,
 - ii. Extended timeframes for reaching target risk levels for five out of eleven grant-facing risks (Program Quality – HIV, Program Quality – TB, Program Quality – Malaria, Monitoring and Evaluation, and- In-country Supply Chain).
2. Since the November Board meeting in 2021, risk levels have reduced in two areas:
 - i. The Program Quality TB risk has now reduced from Very High to High. This is earlier than the Board-approved target timeframe of December 2023; and
 - ii. The M&E risk has reached the target risk level of Moderate in line with the Board-approved target timeframe of December 2022.
3. However, in other areas risk levels have either not decreased in line with projected timelines or have increased.
 - i. The Program Quality Malaria risk trajectory is increasing and on the cusp of moving to Very High. This reflects political and security threats in several countries impacting programs; changes to epidemiology and transmission trends due to climate change; the introduction of new vectors in Africa; and evolving drug and insecticide resistance patterns.
 - ii. The Procurement, Grant Related Fraud and Fiduciary, and Accounting and Financial Reporting by Countries risks all remain High, compared with a target timeframe for all three risks to reduce to Moderate by December 2022. This reflects the fact that when the Board approved these timeframes in November 2021, COVID-19 was the only external factor impacting risk levels and the estimated trajectories reflected the likelihood of mitigating the impact of COVID-19 including the availability and roll-out of effective vaccines and novel therapeutics. With the invasion of

¹See [GF/B46/06 Recommended Updates to Risk Appetite](#) for more details..

Ukraine, the situation has changed materially and the root causes driving increased risk levels have been magnified.

4. In response the Secretariat is recommending the following adjustments to risk appetite:
 - i. TB Program Quality risk: reduce risk appetite from Very High to High and maintain the target risk timeframe for reaching Moderate as June 2025.
 - ii. Malaria Program Quality risk: increase risk appetite to Very High. A recommendation on the target time frame for reducing the risk level back to High and then to Moderate will be presented to the Committees in the coming months and submitted for approval at the November 2023 Board meeting. Increasing risk appetite will ensure the Secretariat has the flexibility to make the difficult trade-off decisions necessary to maintain program continuity, and to help generate the desired level of attention and call to action from all key stakeholders needed to address the emerging threat.
 - iii. M&E risk: As per the November 2021 Board-approved risk appetite statement, the target risk level is to become the revised risk appetite level at the due date. The risk appetite is therefore now revised to Moderate, and a target risk timeframe is no longer applicable since the residual risk is the same as risk appetite.
 - iv. Procurement risk: Extend the target timeframe for reaching Moderate by 18 months from December 2022 to June 2024.
 - v. Grant Related Fraud and Fiduciary risk: Extend the target timeframe for reaching Moderate by 18 months from December 2022 to June 2024.
 - vi. Accounting and Financial Reporting by Countries risk: Extend the target timeframe for reaching Moderate by 12 months from December 2022 to December 2023.
5. The table below summarizes Board approved risk appetite in November 2021 alongside current residual risk levels and recommended risk appetite and target risk timeframes for all grant-facing risks for which risk appetite has been set.

Risk name	Purview	Residual risk	Board Approved Risk Appetite (Nov 2021)			Recommended		
			Risk appetite	Target risk	Target risk timeframe	Risk appetite	Target risk*	Target risk timeframe
Program Quality - HIV	SC	High	High	Moderate	Jun 2024	High	Moderate	Jun 2024
Program Quality - TB	SC	High	Very High	High	Dec 2023	High**	Moderate	Jun 2025
			High	Moderate	Jun 2025			

Program Quality - Malaria	SC	High	High	Moderate	Jun 2024	Very High**	High	TBD**
		High					Moderate	TBD**
M&E	SC	Moderate	High	Moderate	Dec 2022	Moderate	Moderate	Within target risk level
Procurement	SC	High	High	Moderate	Dec 2022	High	Moderate	Jun 2024**
In-country Supply Chain	SC	High	High	Moderate	Jun 2024	High	Moderate	Jun 2024
Grant Related Fraud & Fiduciary	AFC	High	High	Moderate	Dec 2022	High	Moderate	Jun 2024**
Accounting & Financial Reporting by Countries	AFC	High	High	Moderate	Dec 2022	High	Moderate	Dec 2023**
In-country Governance	AFC	Moderate	Moderate	Moderate	Not Applicable	Moderate	Moderate	Within target risk level***
Quality of Health Products	SC	Moderate	Moderate	Moderate	Not Applicable	Moderate	Moderate	Within target risk level

*The target risk level will become the revised risk appetite at the target due date, or when the risk level reduces to the target risk level, whichever is earlier.

**Recommended revisions to risk appetite and target risk timeframes.

***Although the risk trajectory for the In-Country Governance risk is increasing the expectation is that the risk level can be maintained within the Board approved target risk level of Moderate.

Input Sought

The Board is requested to approve the following decision point:

Decision Point: GF/B49/DPXX: Amended Risk Appetite Statements

Key risk appetite concepts

Risk appetite

6. 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.
7. Risk appetite is set by the Board and should align with the strategic objectives that the organization wants to achieve. Risk appetite may change over time, it may decrease as risk management and internal controls mature to a point where strategic objectives can be achieved with less risk. Alternatively, it may increase in response to a crisis situation where increased risk may need to be accepted, to allow for operational continuity or to counter any setbacks in reaching objectives.
8. Since the Board set risk appetite in 2018 the way in which the Global Fund thinks about and operationalizes risk appetite has matured. In determining how best to respond to increases in inherent risk levels driven by a volatile operating context and continually evolving risk landscape, the Global Fund's starting point has consistently been to look at the level of programmatic ambition and the activities that would need to be implemented to deliver on that ambition.

Target risk

9. Target risk is the Board's anticipated future appetite for risk. The target risk timeframe is the period of time that the Board confirms it is prepared to accept, until the current risk is reduced to the target risk level.
10. The target risk level can be affected by a range of factors. Mitigating actions may start to take effect, the external environment may become more or less volatile, or the organization's level of ambition may change. In response to any or all of these scenarios, the Board may need to reassess the target risk level and/or the time frame for reaching that target risk.

Measuring risk levels

11. The eleven grant facing risks for which risk appetite is set are measured at a grant level through the Global Fund's internal risk tool (the Integrated Risk Tool Management (IRM) module) which is completed by Country Teams. 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).
12. To facilitate systematic and consistent assessment of grant risk levels comprehensive guidance is provided to Country Teams, which includes, but is not limited to, reviewing contextual factors influencing the External Risk Index, current and past performance and gap to target, review of available assurance reports including capacity assessments and triangulating with key outcome indicators to inform the risk rating.

13. Risk appetite is measured by reference to a cohort of the top 25 countries by allocation amount.
14. Country risks levels and mitigation and assurance plans are reviewed by 2nd line teams for consistency and rigor. The Portfolio Performance Committee, co-chaired by the Head of the Grant Management Division and the Chief Risk Officer, also regularly reviews and approves the residual risk, the target risk levels and risk trade-off decisions through comprehensive country portfolio reviews and the generation of country risk management memorandums.
15. Separately the Office of the Inspector General assesses risk levels as part of country audits. There is a high level of concordance between Secretariat risk ratings and the ratings assigned by the Office of the Inspector General as part of country audits, >80%.

Aggregating risk levels from Grant to Portfolio level

16. All grants are rated systematically for each of the grant facing risks and the sub-risks which drive the risk category. 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.
17. The approval of a higher risk appetite does not automatically mean that additional risk should or will be taken in any given portfolio, but rather allows for greater flexibility across the portfolio as a whole. Risk trade-off decisions will always be context specific. (See the section on 'Illustrative case studies of risk trade-offs' for examples.)

Adjustments to risk appetite

External factors

18. To inform recommendations on adjustments to target risk timeframes the Secretariat has conducted a scenario analysis looking at the different external factors that influence risk levels and the Secretariat's ability to mitigate those different factors.
19. The scenario analysis assumes:
 - i. that current external factors impacting inherent risk levels remain stable and there is no significant deterioration over the next 12 months; and,
 - ii. the level of ambition (programmatic and financial), which is a critical determinant in assessing the residual risk, remains consistent with the Strategy and grant objectives.
20. Global Fund supported grants are impacted by a host of external risks, driven by root causes that the organization cannot directly influence but which have a direct impact on the overall operating environment and inherent risk levels. Using the External Risk Index ("ERI")³, the Secretariat has

³ The Global Fund risk-based oversight and assurance model is guided by a composite index called External Risk Index "ERI", calculated annually by compiling nine global published indices for 130 eligible countries funded by the Global Fund grants.

quantified the impact of these external risks on the three risks for which an extension of the target risk timeframe is being recommended.

21. In addition, a simple statistical regression analysis was conducted using ERI data for 25 priority countries to determine the scope of influence of external factors in managing the grant facing risks.

Mitigating actions

22. In addition to assessing the impact of external factors the Secretariat has also looked at the mitigating actions that are being implemented, or planned, the expected impact on residual risk levels taking into external factors, and timelines for execution. This in turn has enabled estimates to be made of when risk levels can be expected to reduce, which in turn have informed recommendations on target risk timeframes.

Recommendations

23. The underpinning rationale for the recommendations for each of the five risks is outlined in this section. Additional details on the different factors driving risk ratings as well as the mitigations in place or planned, can be found in the ‘Overview of key organizational risks: drivers and mitigations’ section of the Risk Report,⁴ and in the Organizational Risk Register (ORR) for Q4-2022, which is in Annex 3 of the Risk Report.

Program Quality - TB

Purview	Residual risk	Risk appetite	Target risk	Previous Board-approved target risk timeframe	Recommendation
SC	High	Very High	High	December 2023	Reduce risk appetite to High
			Moderate	June 2025	Maintain timeframe

24. The TB Program Quality residual risk reduced to the upper end of High in early 2023, ahead of the anticipated target of December 2023. The risk remains on a decreasing trajectory and on track to reach Moderate by the Board-approved target of June 2025.

25. The recommendation is to align risk appetite with the current residual risk of High, noting that the TB Program Quality risk is expected to continue to decrease to Moderate by the Board-approved target time frame of June 2025.

⁴ [GF/B49/16](#) Risk Management Report and Chief Risk Officer’s Annual Opinion

26. **Risk appetite recommendation:** risk appetite to be reduced from Very High to High and the timeframe for reaching a Moderate risk level to be maintained at June 2025.

Program Quality - Malaria

Purview	Residual risk	Risk appetite	Target risk	Previous Board-approved target risk timeframe	Anticipated Recommendation
SC	High	High	Moderate	June 2024	Increase risk appetite to Very High
					Set a target timeframe to reach High
					Revise target timeframe to reach Moderate

27. The risk of inadequate program quality is defined as the possibility that delays and disruptions in the implementation of programs and/or services funded by the Global Fund result in missed opportunities to maximize measurable outcomes in the fight against Malaria, and the effort to strengthen resilient and sustainable systems for health.

28. The trajectory of the malaria Program Quality risk has been increasing over the last twelve months and is currently on the cusp of moving to Very High. Bottom-up analysis indicates that nearly 40% of the High Impact and Core portfolios are rated as High or Very High risk. The increasing trajectory is driven by a combination of factors: political and security threats in several countries impacting programs; changes to epidemiology and transmission trends due to climate change, which are often most severe in countries with larger populations thereby placing further pressure on malaria prevention budgets; the introduction of new vectors in Africa; and evolving drug and insecticide resistance patterns.

29. **External factors and ability to mitigate:** While COVID-19 marginally increased the risk to service delivery and more importantly vector control programs, these have been actively managed and mitigated through various adaptations to campaign operations, strengthening of community delivery models and proactively mitigating the risk of supply chain disruptions.

30. The war in Ukraine has increased the downstream cost of service delivery and also upstream costs driven by fuel prices on costs of health products and commodities and freight costs. This coupled with drug and insecticide resistance, and limited and expensive alternatives (drugs, insecticides or ITNs), significantly impacts ability of programs to comprehensively meet program needs.

31. Several countries have witnessed varying levels of political instability and security threats. These have led to disruptions to service delivery and the timeliness of campaigns, delays in implementation

of grant activities and in some instances changes in program leadership, which have hampered implementation at the national strategy level.

32. Climate change is also impacting epidemiology and transmission trends. This is often most severely impacting countries with larger populations thereby placing further pressure on malaria prevention budgets.
33. These external factors translate into either strategic limitations on the choice of interventions as a result of evolved epidemiology and / or funding gaps due to the increased need and cost of delivering program interventions. Increased coverage needs and costs are linked to both increases in the size of populations at-risk of malaria transmission (either because of population growth or climate change), or the need to meet increased demand due to outbreaks/resurgence/acute climate events and the risk of stock-outs due to upstream delays or higher costs.
34. **Prioritized mitigating actions to help change the trajectory:** The ability of the Global Fund to mitigate these external factors is limited. Mitigation actions focus on a holistic approach to strengthening existing programs. These include:
 - i. use of malaria program and surveillance data to drive sub-national stratification and tailoring of interventions;
 - ii. strengthening monitoring of drug and insecticide surveillance and optimizing the use of diagnostics and therapeutics through pre-emptive measures to limit drug pressure;
 - iii. building and leveraging political and technical leadership to drive implementation of global, regional and national strategies;
 - iv. continuing to mobilize global and national investments in malaria and underlying health systems, including expanding CHW programs and community malaria service delivery models and engaging private sector; and,
 - v. changes to implementation arrangements including use of national and international NGOs and UN partners to maintain program and grant operations.
35. **Target risk timeline:** Developing a recommendation on a revised target risk timeline requires a more in-depth bottom up analysis of the situation, engagement with technical partners and country stakeholders. The upcoming funding requests and gap analysis (programmatic and financial) will also be a critical input to help set the ambition.
36. **Risk appetite recommendation:** In recognition of the external factors impacting the risk trajectory, to ensure the Secretariat has the flexibility to make the difficult trade-off decisions necessary to ensure program continuity the Secretariat recommends increasing risk appetite to Very High. Increasing risk appetite will also help generate the desired level of attention and call to action from all key stakeholders needed to address the emerging threat, A recommendation on the target timeframe for reducing the risk level back to High and then to Moderate will be presented to the Committees in the coming months and submitted for approval at the November Board meeting.
37. **Implications of amendments to risk appetite:** The recommended risk appetite reflects an acknowledgment of the impending crisis or challenge, and the potential for a rapid reversal of gains

in the fight against malaria, if the increasing risk to malaria Program Quality is not holistically addressed. The recommended risk appetite will facilitate the Board, the TRP, and the Secretariat in making risk-based investment decisions. This includes investments in more expensive tools at the cost of maintaining population coverage, and the roll-out of new tools and innovations despite potential programmatic downsides. Risk trade-off decisions also facilitate taking incremental risks to introduce novel tools as part of the next generation market shaping Strategic Initiative.

Procurement risk

Purview	Residual risk	Risk appetite	Target risk	Previous Board-approved target risk timeframe	Recommended target risk timeframe
SC	High	High	Moderate	December 2022	June 2024

38. Procurement risk is defined as the possibility of negative health outcomes for beneficiaries due to stock outs resulting in treatment disruptions, poor quality of health products, product wastage (expiry/ damage/ leakage/ quality-failure/ under-use) due to unreliable forecasting, quantification and/or supply planning; and/or financial losses or poor value for money due to due to inefficient, flawed or fraudulent procurement processes.
39. **Dependency on upstream global sourcing risks and ability to mitigate:** During the pandemic, the key external factors resulting in a High risk rating for Procurement were increased lead times for health product procurement including delays in manufacturing, delays in freight forwarding and clearances, and increases in costs (product and freight costs), all of which had a disruptive impact on grant budgets.
40. Russia’s invasion of Ukraine has resulted in further increases in fuel prices and had an inflationary impact on the price of health products and freight costs. As at the end of 2022, key health product prices have largely stabilized with predictable lead times (albeit longer than pre-COVID baselines), but freight costs remain volatile and directly impacted by fuel prices.
41. Geopolitical divisions and the invasion of Ukraine have also exacerbated macro-economic challenges both for implementer countries and the pharmaceutical sector. Pandemic-era surges in inventories and investment in additional capacity are driving growing cash liquidity risks for most companies. The rising debt risk across enterprises worldwide, and climate change and the evolving regulatory environment, also create risk for businesses. The impact of these can be material if the macro-economic risks to global sourcing markets materialize.
42. In addition, the macro-economic and fiscal stress countries are facing could also result in countries failing to meet their domestic financing and co-financing commitments, especially towards health product procurements leading to delays and stock-outs. The timeliness of local procurement, port clearances and tax refunds are also being affected. These factors in combination are impacting grant-supported procurements, overall grant budgets and driving the procurement risk.

43. The Global Fund has a low ability to mitigate these external factors and volatility is expected to persist for as long as global fiscal and other challenges continue. The Secretariat continues to monitor the situation and regularly updates its guidance to grant implementers on procurement lead times, unit costs and freight costs. Health product order conversion is being actively monitored to limit late order placement and grant flexibilities are being availed for early order placement. Grant savings, and to a limited extent C19RM funds, have helped to meet the incremental freight cost, which will continue to receive priority to meet country health product needs.
44. **Dependency on in-country procurement risks and ability to mitigate:** At the country level, COVID-19 disruptions due to lockdowns and supply-side constraints have resulted in inefficient, non-competitive procurement practices, which in turn have negatively impacted both the quality and price of products and increased instances of opportunistic fraud. In addition, the repurposing of staff and / or the prioritization of COVID-19 health product procurement over HTM products have also contributed to delays in supply planning and order placement. These have been largely mitigated through proactive follow-up to facilitate early order placements, channeling COVID-19 product procurements through PPM and partner agencies (to facilitate global demand management, quality and pricing), and mandatory pre-award procurement reviews by the LFAs. Gaps in controls resulting from agreed process exceptions are also being addressed through portfolio specific measures. The Global Fund has a high ability to mitigate these factors and is proactively implementing mitigation measures.
45. **Risk appetite recommendation:** The Secretariat recommends an extension of the timeframe for reaching the pre COVID-19 risk appetite and target risk level of Moderate to June 2024. This recommendation takes into account:
- i. the volatility of external factors and the impact on upstream procurement lead times, procurement costs and delays;
 - ii. the impact of external factors on the effectiveness of measures being introduced to mitigate downstream factors;
 - iii. mitigating measures being implemented to strengthen oversight of in-country procurement processes and controls; and,
 - iv. the volumes of procurements planned to be executed both under HTM and C19RM grant components over the next twelve months.
46. **Implications of amending risk appetite:** The recommended extension of the target risk timeframe for reducing the Procurement risk level from High to Moderate acknowledges the volatility in the external environment and the consequent procurement challenges and associated risk of negative outcomes including delays, increasing costs, and or procurement failures.. It also reflects the fact that the absence of extended timeframes may lead to risk avoidance. Efforts to reduce risk levels more quickly to within risk appetite have the potential to impact stock availability and program continuity and / or programmatic ambition. Extending the target risk timeframe will help in actively addressing upstream risks and downstream risks. For upstream risks examples of how risk appetite can be used include innovating and adapting to evolving contexts, for example through early or pre-placement of orders for GC6 and GC7 grants to account for increased lead times, exploring use of

alternative freight channels to manage costs, or accepting higher costs to mitigate risk of stock outs. For downstream risks examples of how risk appetite can be used include steering procurements to preferred channels on a short-term basis (i.e. use of PPM or UN entities) in place of using national systems, and / or the introduction of additional assurances such as pre-award procurement reviews which can lead to increase in lead times for procurements.

Grant Related Fraud & Fiduciary

Purview	Residual risk	Risk appetite	Target risk	Previous Board-approved target risk timeframe	Recommended target risk timeframe
AFC	High	High	Moderate	December 2022	June 2024

47. The Grant-Related Fraud and Fiduciary risk is defined as the possibility that Global Fund assets (financial and non-financial) are misappropriated, financial statements reported to the Global Fund are intentionally misstated and the Global Fund incurs financial loss due to corruption (including conflict of interest and bribery / extortion).

48. The Fraud Risk Management Maturity Assessment by the OIG published in 2022⁵ concluded that the Fraud Risk Governance, Fraud Risk Assessment, and Fraud Control activities were at a repeatable level of maturity, while fraud risk monitoring is at the initial level and fraud risk investigation and corrective actions are at a managed level. The Secretariat has defined the target maturity level to improve fraud risk assessments to managed and fraud risk monitoring to repeatable during the current strategy cycle. These are driven by the need to think more expansively about fraud in line with the Policy to Combat Fraud and Corruption and strengthen approaches to manage fraud across programmatic, data and supply operations. The expanded scope and ambition has informed the recommendation on the target risk timeframe.

49. **Assessment of the external factors and ability to mitigate:** A host of external risks like geopolitical, economic and governance risks, which are shared across in-country implementation partners, influence the inherent risks for fraud in any given context. Inflation, and increases in the cost of living create economic pressures, which mean that people are more likely to commit fraud. In parallel, disruption linked to COVID-19 including reduced controls and oversight, has created opportunity. External factors are a significant driver of the risk level, which limits the Global Fund’s influence and makes risk mitigation more difficult. Nonetheless the Global Fund can, and does, implement a range of mitigating measures. Measures include:

- i. supporting CCMs and PRs to strengthening controls and reversal of flexibilities invoked during the Covid-19 pandemic;
- ii. expanding the use of mobile and electronic payment channels;

⁵ https://www.theglobalfund.org/media/12141/oig_gf-oig-22-010_report_en.pdf

- iii. a cross-functional approach to fraud with emphasis on supply chain and high risk programmatic interventions;
 - iv. strengthening grant oversight including targeted risk based LFA assurances; and
 - v. engagement with independent assurance providers including supreme audit institutions to strengthen fraud risk assurance and monitoring.
50. In addition, in exceptional circumstances, where regular measures fail to address the incremental risks, additional measures that may be taken include:
- i. avoiding or minimizing risks through the use of more stable in-country implementing partners like UN or international organizations, particularly in challenging operating environments;
 - ii. exceptional use of hard currency during in-country implementation;
 - iii. limiting operations to critical activities (in very rare situations); and/or
 - iv. a reduction or deferral of high-risk interventions like trainings, supervisions etc.
51. **Assessment of the operating factors and ability to mitigate:** Operational risks which increase the risk of fraud include sub-optimal governance arrangements, controls and oversight, weak implementer capacity, complex implementation arrangements, and poorly designed programs. To a large extent these are being mitigated through measures including capacity assessments of new Principal Recipients / Sub-recipients, reviews of implementation maps, flow of funds, manual procedures and internal controls, and implementation readiness assessments of grants. On-going assurance activities are also key.
52. A range of initiatives are also in progress to strengthen the overall approach to managing the Grant-Related Fraud & Fiduciary risk. These initiatives include:
- i. strengthening the Secretariat's second-line review, monitoring and oversight of the Grant Related Fraud and Fiduciary risks in countries;
 - ii. improving the consistency and robustness in evaluating key root-causes to ensure accurate assessments of risk ratings⁶;
 - iii. gathering further insights on gaps in controls and potential fraud schemes through Secretariat commissioned Fraud Risk Assessments;
 - iv. leveraging the strengthened baseline of risk ratings to ensure countries agree to mitigating measures that are qualitatively stronger, more current, and more contextually relevant in responding to the portfolio fraud risks; and
 - v. targeted use of assurance coming from country missions, spot checks and audits.
53. **Risk appetite recommendation:** The Secretariat recommends an extension of the timeframe for reaching the pre COVID-19 risk appetite and target risk level of Moderate to June 2024. This recommendation takes into account:

⁶ Key root causes driving grant fraud and fiduciary risk: i) Flow of funds; ii) Internal controls; iii) Fraud and fiduciary risk; iv) Value for money.

- i. the continued volatility of the risk landscape;
- ii. the Secretariat’s increased visibility and understanding of its fraud risk exposure; and,
- iii. the good progress being made in implementing mitigating measures.

54. **Implications of amending risk appetite:** The recommended extension of the target risk timeframe for reducing the Grant-Related Fraud & Fiduciary risk level from High to Moderate acknowledges the highly volatile external environment, and in particular the effect of inflationary pressures and the cost-of-living crisis as a key driver of fraud. While the Global Fund maintains a Zero tolerance policy on fraud, there is nonetheless a higher than usual likelihood of gaps and or override of controls, which could lead to opportunistic fraud. Extending the target risk timeframe will also facilitate the Secretariat and implementers in continuing to implement planned program activities in pursuit of program objectives that are considered to be traditionality at higher risk of opportunistic fraud, such as trainings, supervisions or outreach activities, and local procurement. In addition, it allows for implementation of mitigations to specifically address the key findings from the Fraud Risk Assessments. Risk appetite also allows for implementation of program activities in instances where regular assurances cannot be implemented due to the poor security situation in several COE contexts.

Accounting & Financial Reporting by Countries

Purview	Residual risk	Risk appetite	Target risk	Previous Board-approved target risk timeframe	Recommended target risk timeframe
AFC	High	High	Moderate	December 2022	December 2023

55. The risk of inadequate Accounting and Financial Reporting is defined as the possibility that the records maintained, and the financial reports provided by, Principal Recipients and Sub Recipients in relation to Global Fund funds are incorrect, delayed, and incomplete or have inadequate supporting documents. This also includes the possibility that external and internal auditing arrangements are not effective (design and operating) enough to provide the Global Fund with the level of financial assurance expected on the risk management actions of the implementers’ or inadequate.

56. **Assessment of the external factors and ability to mitigate:** During COVID-19 the main driver of the risk was linked to travel restrictions and remote working arrangements making Sub-Recipient monitoring, and Principal Recipient reporting more challenging. This negatively impacted the ability of the Global Fund’s typical assurance providers such as LFAs and Fiduciary and Fiscal Agents to provide the requisite assurance and oversight. There were also suspensions and or delays in internal and external audits. This period also witnessed banking and treasury operations being affected, and an increased risk of cyber fraud and fraudulent financial transactions. With the lifting of COVID-19 restrictions, the majority of the controls have been reintroduced and assurance activities are being executed as per plan. There is also greater attention at all levels, including

workshops organized by the Secretariat and OIG for the grant implementers, to mitigate cyber security threats and fraud.

57. **Assessment of the internal factors and ability to mitigate:** The internal drivers of the Accounting and Financial Reporting by Countries risk are linked to weak Principal Recipient or implementer capacity, absence of documented procedures, absence, or inadequate use, of accounting systems, and non-compliance with processes, systems and controls to ensure timely availability and integrity of consolidated financial data. COVID-19 related disruption resulted in delays in external audits, and extensions to timelines to review and close the financial closure reports for the 2020/21 financial period. In response there are ongoing efforts to update the procedures, controls and grant management tools in-lieu of the remote working arrangements and electronic approval systems being adopted in several countries.
58. Systematic efforts through grant investments, measures to strengthen PR/implementer capacity including development and use of Integrated Financial Management Systems have yielded positive results. In addition, Co-Link initiative action plans are in place and being implemented in at least 46 High Impact and Core countries for strengthening implementers' financial management capacity in People, Processes, and Systems. The outcomes of assessment of implementers in financial management (via the FMIR⁷ tool targeting High Impact and Core countries) and reporting on improvements across six key financial management areas including financial absorption are continuously monitored.
59. **Risk appetite recommendation:** The Secretariat recommends an extension of the timeframe for reaching the pre COVID-19 risk appetite and target risk level of Moderate to December 2023. This recommendation takes into account:
- i. lifting of COVID-19 restrictions and restoration of routine grant oversight and assurance activities; and,
 - ii. the good progress being made in implementing mitigating measures to strengthen PR capacity, including update to procedures, internal controls, and systems to adapt to the post-COVID-19 working arrangements.
60. **Implications of amending risk appetite:** The recommended extension of the target risk timeframe for reducing the Accounting & Financial Reporting by Countries acknowledges that the residual risk continues to be high. This reflects the ongoing impact of COVID-19 on implementer capacity, with additional and significantly higher volumes of C19RM funds being channeled through grant recipients and the need to maintain separate budgets, accounts and financial reporting, which is stretching systems and capacity. These pressures translate into delays in financial reporting by grant recipients, loss in quality (completeness, timeliness and accuracy), and in turn the ability of the Secretariat to have timely and rigorous financial forecasts (expenditures, grant absorption etc). The extended time frame will enable ongoing prioritization of capacity building around PR financial management systems and timelines for accelerating and concluding C19RM reinvestment and integration of PO awards, as well as supporting the expanded scope of audits.

⁷ Financial Management Impact Review (FMIR) assesses implementers on timeliness and accuracy of financial reports, identification of major issues and their resolution, reports from assurance providers, and key financial performance metrics.

Illustrative Case Studies of risk trade-offs

Trade-off case study #1 – Grant Related Fraud and Fiduciary Risk	
Context:	The grant related fraud and fiduciary risk is high due to factors including geo-political, economic and governance risks, inflation, and increases in the cost of living all of which are increasing the inherent risk level, and reduced controls and oversight.
Options for mitigation (risk trade-offs):	<p>Option A - continue to use existing risk mitigation tools with the assumption that they continue to be effective. This is a form of passive risk taking, which assumption that in-country and PR governance structures are sufficiently robust to mitigate the root causes driving the fraud risk.</p> <p>Option B - actively manage the increases in the inherent risk level, by actively trying to incrementally mitigate the key drivers of fraud. Potential mitigations include shifting procurement channels to a lower-risk entity, strengthening assurances through LFAs (pre-award procurement reviews, supply chain reviews or verification of implementation) and / or introducing a Fiscal Agent (where implementer capacity to mitigate fraud is noted to be deficient).</p> <p>Option C – risk avoidance and reducing programmatic ambition – by limiting or curtailing high risk programmatic activities or interventions which are noted to be prone to opportunistic fraud in a given context.</p>
Contextual considerations in assessing options for Country X:	<p>Low risk settings – may support Option A and the continued use of existing tools, with a focus on engaging PRs and CCMs in actively addressing emerging threats in the current context. For example, strengthening measures for cyber security threats, shifting to digital payments, actively engaging internal audit and Supreme Audit Institutions to strengthen grant oversight.</p> <p>High risk and context supports maintaining ambition – may support Option B and the implementation of incremental mitigating measures to facilitate continuity of programs, while acknowledging there may be some delays.</p> <p>High risk and context does not support maintaining ambition – may support Option C because of the noted ineffectiveness of available risk mitigation tools, the limited ability to institutionalize changes in the remaining months of grant implementation and the critically of ensuring core program delivery. For example, delivering on LLIN campaigns is programmatically critical and needs to be maintained despite a heightened risk, but support for</p>

	trainings and outreach interventions may need to be de-prioritized because of the higher levels of risk and limited ability to mitigate.
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Trade-off case study #1 – Program Quality malaria	
Context:	The Program Quality malaria risk has increased to the cusp of Very High due to a multitude of factors: political and security threats in several countries impacting programs; changes to epidemiology and transmission trends due to climate change, which are often most severe in countries with larger populations thereby placing further pressure on malaria prevention budgets; the introduction of new vectors in Africa; and evolving drug and insecticide resistance patterns.
Options for mitigation (risk trade-offs):	<p>Option A - continue to use existing tools with the assumption that they continue to be effective. This is a form of passive risk taking because whilst coverage will be maintained under this option, there is a higher likelihood and risk of increasing drug and insecticide resistance.</p> <p>Option B - actively manage drug and insecticide resistance and opt for new tools that are likely to be more expensive. This is a form of active risk taking. Newer tools will cost more and population coverage will be difficult to maintain within the available program budgets (all sources), with a focus instead on maximizing impact in high transmission regions or for the most vulnerable populations. It also involves accepting the risk of outbreaks among unprotected populations and the associated political/reputation risk.</p>
Contextual considerations in assessing options for Country X:	<p>Low risk settings – may support Option A and the continued use of existing tool, with a focus instead on improving quality of delivery to mitigate the emergence of drug and insecticide resistance.</p> <p>High risk and context supports maintaining ambition – may support Option B and the use of malaria surveillance data and sub-national stratification data to target new tools to the populations at highest risk.</p> <p>High risk and context does not support maintaining ambition – may support Option A because of limited surveillance data on the geographical spread and pattern of D&I, an extremely fragile political, security or economic situation and high risks to program delivery, which consequently makes it difficult to monitor the effectiveness of new and expensive tools alongside a higher risk of diversion of health products.</p>

Trade-off case study #2 – Procurement	
Context:	<p>The Procurement risk remains High due to a combination of upstream and downstream factors including increased lead times for health product procurement, linked to manufacturing, freight forwarding and clearance delays, and increased production and freight costs.</p> <p>Russia’s invasion of Ukraine has further increased the cost of production and / or the cost of key ingredients. COVID-19 disruptions due to lockdowns and supply-side constraints have also resulted in inefficient, non-competitive procurement practices, which in turn have negatively impacted both the quality and price of products and increased instances of opportunistic fraud.</p>
Options for mitigation (risk trade-offs):	<p>Option A - maintain current operations, acknowledging higher costs that will eventually impact grant budgets and the associated risks to the availability of health products to meet country needs.</p> <p>Option B - improve demand planning; implement rigorous forecasting to keep buffer stocks tight; move to early order placement to have sufficient lead time to organize cost efficient freight routes; and / or implement framework contracts/volume commitments which will have a short-term impact on market dynamics. Procurement channels can also be changed to negotiate prices and or minimize procurement related fraud. However, there is a likely to be a higher LOE with potential unknown returns, and a top-down approach also has implications for country ownership.</p>
Contextual considerations in assessing options for Country X:	<p>Low risk settings – may support Option B because good LMIS and PR capacity will enable active stock monitoring and adjustment of forecasts.</p> <p>High risk settings with likelihood of success – may support Option B because CCMs and PRs have capacity to maintain agility and actively manage procurement risks.</p> <p>High risk setting with limited support – may support Option A because PRs have limited capacity to actively monitor and limited agility to course correct.</p>

Annexes

The following items can be found in the Annex:

- Annex 1: Relevant past Board decisions
- Annex 2: Links to relevant past documents and reference materials

Annex 3: Relevant Past Board Decisions

Relevant past Decision Point	Summary and Impact
GF/B46/DP05: Amended Risk Appetite Statements (November 2021) ⁸	Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statements, including risk appetites, target risk levels and timeframes to achieve target risk, as set forth in Annex 1 to GF/B46/06, acknowledging that the target risk level for each risk shall become the revised risk appetite at the target due date.
GF/B39/DP11: Approval of the Risk Appetite Framework (May 2018) ⁹	Based upon the recommendation of the Audit and Finance Committee, the Board 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.
GF/B32/DP11: Approval of the Risk Management Policy (November 2014) ¹⁰	Based on the recommendation of the Finance and Operational Performance Committee, the Board approves the Risk Management Policy, as set forth in Annex 3 to GF/B32/13.

⁸ <https://www.theglobalfund.org/board-decisions/b46-dp05/>

⁹ <https://www.theglobalfund.org/kb/board-decisions/b39/b39-dp11/>

¹⁰ <https://www.theglobalfund.org/board-decisions/b32-dp11/>

Annex 4: Relevant past documents and reference materials

Relevant past documents:

- [Semi-annual Risk Management Report GF/B48 \(November 2022\)](#)
- [Risk Management Report and Annual Chief Risk Officer Opinion GF/B47 \(May 2022\)](#)
- [Recommended Updates to Risk Appetite GF/46 \(November 2021\)](#)

Reference materials:

- [The Global Fund Risk Management Policy \(November 2014\)](#)
- [The Global Fund Risk Appetite Framework \(May 2018\)](#)