

Recommendation on Amended Risk Appetite Statements

52nd Board Meeting

GF/B52/03A

20 – 22 November 2024, Lilongwe, Malawi

Board Decision

Purpose: The Board is requested to consider and decide on the adjustments to the risk appetite statements for In Country Supply Chain Risk and Grant-Related Fraud & Fiduciary Risk, taking into account the recommendation from the Audit and Finance Committee to the Board.

Decision

Board Decision Point: GF/B52/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 Statement under such committee's oversight, as reported to the Audit and Finance Committee; and
 - iii. further affirms the Audit and Finance Committee's integration of the Strategy Committee's concurrence into the Audit and Finance Committee's overall recommendations on the Risk Appetite Statements, as set forth in Annex 1 to GF/AFC26/04A and pursuant to decision point GF/AFC26/DP02.
2. Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statements, including the timeframes to achieve target risk levels, as set forth in the table in Annex 1 to GF/B52/03A, 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 supplement decision points GF/B49/DP04 and GF/B50/DP03.

Background

1. In response to the COVID-19 pandemic, in November 2021, the Board approved temporary increases to risk appetite for four grant-facing risks (Program Quality – TB; Procurement; Grant Related Fraud & Fiduciary; and Accounting & Financial Reporting by Countries), and extended timeframes for reaching target risk levels for five grant-facing risks (Program Quality – HIV; Program Quality – TB; Program Quality – Malaria; Monitoring and Evaluation; and- In-country Supply Chain).
2. In early 2023 the Secretariat highlighted the increasing risk trajectory of the Program Quality – Malaria risk due to a confluence of factors including climate change events, biological threats, drug and insecticide resistance, and gaps in funding. In recognition of this situation, in May 2023 the Board approved an increase in risk appetite for this risk to Very High.
3. In parallel the impact of a protracted post-COVID-19 recovery, widespread conflict, food and energy crises, and macro-economic pressures also saw the Board approve extended timelines for reaching target risk levels for the Accounting and Financial Reporting risk to December 2023 and for the Procurement, In-Country Supply Chain, and the Grant-Related Fraud and Fiduciary risks to June 2024.

Progress

4. In December 2023 the Accounting and Financial Reporting risk met the target risk level of Moderate, and by June 2024, the Program Quality – HIV and Procurement risks had similarly met the target risk level of Moderate. The risk appetite for these risks has therefore been revised to Moderate in line with current residual risk levels.
5. Program Quality – TB remains at High with a likelihood to achieve a Moderate risk level by June 2025, and Program Quality – Malaria remains at the upper end of High and in line with Board approved risk appetite with a timeline for reaching Moderate to be recommended in November 2025.
6. The remaining two risks, Grant-Related Fraud and Fiduciary and In-Country Supply Chain remain at High. Progress is being made but as the risks have not met the target risk level of Moderate by the Board approved timeline of June 2024 adjustments are required.

Input received

1. The SC observed that supply chains are starting to show positive signs of improvement having been significantly disrupted during COVID-19. The SC agreed that a December 2025 timeframe to achieve a Moderate risk level is achievable and there were no objections from the SC on extending the target risk timeframe.
2. The AFC noted input from the SC and discussed the Secretariat's proposed amendments to risk appetite. The AFC acknowledged that the Grant-Related Fraud & Fiduciary Risk failed to meet the target risk of Moderate by June 2024 and asked for clarification from the Secretariat on why the risk has remained High and whether the recommended timeframe of December 2024 to achieve a Moderate risk level was achievable. The AFC also noted timely reporting and disclosure of fraud incidents as key to mitigating reputational risk with donors. The AFC was supportive of the proposal to amend the risk appetite statements of both ICSC Risk and Grant-Related

Fraud & Fiduciary Risk and recommended to the Board the Decision Point GF/AFC26/DP02:
Amended Risk Appetite Statement.

Input sought

The Board is requested to consider and approve the Decision Point on page 1 based on the recommendation of the AFC.

Summary of recommendation

7. In-light of the fact that both the Grant-Related Fraud and Fiduciary and In-Country Supply Chain risks have not met the target risk level of Moderate by June 2024, the Board is requested to make a decision on the following two recommendations put forward by the AFC:
 - a. **Grant Related Fraud and Fiduciary risk (within AFC purview):** extend the target timeframe for reaching Moderate by 6 months to December 2024.
 - b. **In-country Supply Chain risk (within SC purview):** extend the target timeframe for reaching Moderate by 18 months to December 2025.
8. The Risk Report (GF/B52/03B) provides additional details on the different factors driving risk ratings as well as the mitigations in place or planned.

Grant-Related Fraud and Fiduciary Risk

Background

9. 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 or that the Global Fund incurs financial loss due to corruption (including bribery / extortion) or conflict of interest.
10. A host of external risks such as geopolitical, economic and governance risks, which are shared across in-country implementation partners, influence the inherent risk of fraud in any given context. Inflation and increases in the cost of living create economic pressures, which may create conditions for commission of fraud. The cybersecurity risk continues to be on the rise and incidents have been reported at the Secretariat, and with our implementers and suppliers.
11. The Fraud Risk Management Maturity Assessment by the Office of the Inspector General (OIG) published in 2022¹ concluded that the Fraud Risk Governance, Fraud Risk Assessment, and Fraud Control activities – based on the OIG’s Maturity Rating Level – were at a repeatable level of maturity, while fraud risk monitoring was at the initial level and fraud risk investigation and corrective actions were at a managed level. With the same OIG Maturity Rating Level as a guide, the Secretariat has defined the target maturity levels, during the current strategy cycle, as managed for fraud risk assessments and repeatable for fraud risk monitoring.
12. In line with the agreed priorities, the Secretariat has updated its fraud risk assessment guidance to think more expansively about fraud in line with the Policy to Combat Fraud and Corruption and strengthen approaches to manage programmatic data and supply operations fraud. The Secretariat has further updated its guidance on financial, programmatic and supply operations assurance to follow a risk-based targeted assurance approach, to minimize duplication across various monitoring and assurance activities, leverage national or other independent assurance reports, and ensure full scope of critical assurances during a grant life cycle. As part of the increasing maturity of risk management, the Secretariat has also rolled out an incident reporting mechanism for immediate reporting by the first line teams of all prohibitive practices for attention and follow-up by second line teams and senior management. The Secretariat has also formalized a semi-annual review of fraud risk at the Secretariat’s Portfolio Performance Committee (PPC) with participation of the OIG and Ethics.

Rationale behind recommendation

13. While substantive progress has been made to reduce the trajectory of the Grant-Related Fraud and Fiduciary risk, and the risk has a downward direction of travel, the timelines for execution of prioritized mitigations including recommendations of the fraud risk assessments in several of the high-risk portfolios has taken longer than anticipated particularly to ensure in-country ownership and reinforcement of national systems. Use of softer, inclusive approaches towards securing the buy-in of implementing partners and accountability of Fraud Risk Assessment recommendations has ensured long-term

¹ https://www.theglobalfund.org/media/12141/oig_gf-oig-22-010_report_en.pdf

sustainable reforms in the in-country fraud risk management. Through a concerted focus on grant investments, regular monitoring on grant and corporate level mitigations and targeted risk-based assurances across some high-risk high investment portfolios such as Mozambique, Nigeria, and the Democratic Republic of Congo, the residual risk has gradually moved to the upper end of Moderate and the Secretariat remains confident of the risk stabilizing at Moderate by December 2024.

Recommendation:

14. Considering the current risk level and risk trajectory, the Secretariat recommends an extension of time to reach the target risk of Moderate by 6 months to December 2024.

Risk Name	Purview	Residual Risk	Risk Appetite	Target Risk	Previous Board-Approved Target Risk Timeframe	Recommended Risk Timeframe
Grant Related Fraud & Fiduciary	AFC	High	High	Moderate	June 2024	December 2024

In Country Supply Chain

Background

15. The In-Country Supply Chain (ICSC) risk is the risk of disruption or underperformance of in-country health product supply chains, from central warehouse to the point of service delivery, which can result in treatment disruptions, inferior service quality, product wastage, and reduced value for money. This risk includes three main sub-risks: (i) warehousing, (ii) in-country distribution; and (iii) logistics management information systems. The key drivers are fragility and poor governance of in-country supply chains particularly in Challenging Operating Environments (COE) contexts, which result in gaps in product availability, data management, logistics, and financing.
16. A deep dive analysis on the evolution of the ICSC risk and drivers across High Impact and Core portfolios indicates that 83% of COE countries (n=24) have an ICSC residual risk of High/Very High relative to only 29% of non-COE countries. Furthermore, the pace of change is slow with less than a third of COE countries showing any improvement in risk levels over the last five years.
17. The Global Fund and its partners have invested significant amounts over the years in building stronger supply chain systems including investing in national and sub-national warehousing infrastructure, systems and capacity, strengthening fleet capacity and optimization of last mile delivery. More recently this has extended to strengthening logistics management information systems. Examples of countries where notable progress has been observed include Tanzania, Uganda, Zimbabwe, where there has been a focus on strengthening national systems, and Nigeria, Ghana and Malawi, where warehousing and distribution risks have been mitigated through active engagement of the private sector. These options are often limited in COE contexts, and partnership with UN entities, including the World Food Programme, have been used as interim, gap-filling measures to mitigate the risk.
18. Over the years, systematic investments and a heightened focus on supply chains have ensured no large-scale or systematic stock-out of health products leading to disruptions in HIV, TB or malaria services. Despite the high residual risk, supply chains have enabled programmatic growth of 22-45% in the last five years, supporting the scale up of people on ART, TB notifications, and malaria cases diagnosed and treated. The enhanced capacity is further demonstrated by the fact that most country supply chains were able to withstand shocks during COVID-19 and absorb and deliver a higher volume of COVID-19 products, all while maintaining routine delivery of essential medicines and supporting the scale-up of multi-month dispensing for HIV and TB. On-shelf availability has consistently been above 80% since 2018, briefly declining to under 80% during COVID-19 (70-75%) and is now well over the 80% target level for the various product categories.
19. The challenges are linked to institutional capacity constraints, impacting functionality of information systems, and the design of supply chain and governance systems. These constraints are often exacerbated by limited, inadequate and fragmented investments that perpetuate gaps in national governance, accountability, and oversight and heighten financial risk and threaten the long-term sustainability of system related investments. Efforts to improve the efficiency, effectiveness and maturity of national systems are ongoing, but

the complexity of in-country supply chains demands the need for tailored ambitions in system maturity.

20. In response to the increase in inherent risk levels and disruptions during COVID-19, in November 2021 the Board approved an extension of the target risk timeframe for the ICSC risk to reach a Moderate risk level to June 2024, a 12-month extension. The Secretariat highlighted at the 51st Board meeting that the ICSC risk has plateaued at High in recent years and is unlikely to reach the target risk of Moderate by June 2024.

Rationale behind recommendation

21. The Secretariat undertook an in-depth review of the ICSC risk across the 56 High Impact and Core Portfolios to assess the current state of ICSC systems in these countries and to review progress to date using quantitative supply chain metrics and qualitative insights on past and current investments (both from GC7 and C19RM). The exercise contributed to a systematic and objective assessment of residual risks, the prioritization of Key Mitigating Actions (KMAs), and the refinement of assurance plans to systematically monitor and assess progress through GC7. The portfolio review also assessed and defined their country specific target risk ambition based on measurable milestones around KMAs.

22. The analysis was presented to the Secretariat's Portfolio Performance Committee outlining the strategic priorities to support progression towards a target risk of Moderate. The Secretariat identified four interconnected priorities for the next 12-24 months for risk mitigation, which include:

- a. Timely and quality delivery on targeted supply chain systems strengthening investments under GC7 and C19RM;
- b. Roll-out of expanded reporting on key supply chain metrics through regular grant reporting and enhanced maturity model to establish baseline and assess and monitor progress;
- c. Enhanced monitoring and oversight including monitoring execution of KMAs; and
- d. Focus on risk based targeted assurance.

23. In addition to the strategic actions outlined above, ongoing efforts across 15 prioritized countries, including Mozambique, the Democratic Republic of Congo, Cameroon and Liberia, are anticipated to bring down the residual risk to Moderate and enable it to stabilize. While the Secretariat is confident that these initiatives will drive risk trajectories in the right direction, it is important to acknowledge the volatility of the funding landscape, governance context and likely reductions in direct grant, strategic initiative or partner investments in this space, which may put further strain on some of the already fragile systems.

Recommendation:

24. Considering the current risk level, planned investments and mitigations, the Secretariat recommends an extension of time to reach the target risk of Moderate by 18 months to December 2025.

Risk Name	Purview	Residual Risk	Risk Appetite	Target Risk	Previous Board-Approved Target Risk Timeframe	Recommended Risk Timeframe
In-Country Supply Chain	SC	High	High	Moderate	June 2024	December 2025

Annexes

The following items can be found in the Annex:

- Annex 1: Amended risk appetite statements
- Annex 2: Relevant past Board decisions
- Annex 3: Relevant past documents & reference materials
- Annex 4: Key risk appetite concepts

Annex 1: Amended risk appetite statements

Risk Name	Purview	Residual Risk	Risk Appetite	Target Risk	Previous Board-Approved Target Risk Timeframe	Recommended Risk Timeframe
Grant Related Fraud & Fiduciary	AFC	High	High	Moderate	June 2024	December 2024
In-Country Supply Chain	SC	High	High	Moderate	June 2024	December 2025

Annex 2: Relevant past Board decisions

Relevant past Decision Point	Summary and Impact
GF/B50/DP03: Amendments to the Risk Appetite Statements (November 2023) ²	<p>Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statement, including risk appetite and timeframes to achieve target risk, as set forth in the table in Annex 1 to GF/B50/03, acknowledging that the target risk level for each risk shall become the revised risk appetite at the target due date, or when earlier achieved.</p> <p>This decision point and the amended Risk Appetite Statement approved by it shall supplement decision point GF/B49/DP04 (May 2023).</p>
GF/B49/DP04: Amended Risk Appetite Statements (May 2023) ³	<p>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/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.</p>
GF/B32/DP11: Approval of the Risk Management Policy (November 2014) ⁴	<p>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.</p>

² <https://www.theglobalfund.org/kb/board-decisions/b50/b50-dp03/>

³ <https://www.theglobalfund.org/kb/board-decisions/b49/b49-dp04/>

⁴ <https://www.theglobalfund.org/kb/board-decisions/b32/b32-dp11/>

Annex 3: Relevant past documents & reference materials

Relevant past documents:

- [Risk Management Report and Annual Chief Risk Officer Opinion \(April 2024\)](#)
- [Semi-Annual Risk Management Report \(October 2023\)](#)
- [Amendments to risk appetite statements \(October 2023\)](#)
- [Recommendation on Adjustments to Risk Appetite \(May 2023\)](#)
- [Risk Management Report and Annual Chief Risk Officer Opinion \(May 2023\)](#)
- [Risk Management Report and Annual Chief Risk Officer Opinion \(May 2022\)](#)

Reference materials:

- [The Global Fund Risk Management Policy \(November 2014\)](#)
- [Enterprise Risk Management Framework \(March 2023\)](#)
- [An overview of risk management at the Global Fund Reference Document \(March 2024\)](#)

Annex 4: Key risk appetite concepts

Risk appetite

- 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.
- 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.
- 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

- 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.
- 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

- The 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).
- 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.
- Risk appetite is measured by reference to a cohort of the top 25 countries by allocation amount.

- 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.
- 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

- 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.
- 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.)

