Risk Management Report

42nd Board Meeting

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Board Information

Purpose of the paper: To provide the Board with an updated report on risk management.

The Global Fund

Executive Summary

Introduction and context

1. The Global Fund's focus in 2019 has been on grant implementation alongside preparations for the sixth replenishment and the next allocation.

2. More than 350 grants are being implemented across more than 100 countries. The majority of these grants have now reached their mid-point, prompting reflection on results to date, identification of opportunities for course correction and the reallocation of funding through portfolio optimization. At the same time preparations are in-hand to lay the foundations for the next allocation cycle, with agreement reached on the new allocation model, the introduction of revised application and review approaches for funding requests, and updated guidance published by technical teams.

3. The Secretariat has also continued to drive forward with strengthening its internal operations including advancing the maturity of risk management, internal controls and governance, and reaching an Embedded level of maturity by late 2019.

Key issues addressed and conclusions

4. The key issues this Report addresses are:
   - **External environment:**
     - *Donor countries:* Although the sixth replenishment campaign has been successful the volatility of the political climate and forthcoming elections in a number of donor countries represent a continuing risk in terms of future funding. The Global Fund cannot influence the root causes driving these risks. However, closely monitoring political developments and maintaining strong communication and coordination channels with donors and partner organizations is key.
     - *Implementer countries:* The Global Fund invests in several high risk challenging operating environments, characterized by significant political and economic instability and often internal conflict. However, even in countries which have not been categorized as such there is the potential for destabilization. This inevitably has a detrimental impact on national health programs and the ability to implement Global Fund grants. Therefore, it is essential that the Global Fund strikes the right balance between risk-based and responsive decision making.

   - **Evolving risk landscape:**
     - *Epidemiological context:* Evolving risks include, among others, the acceleration of antimicrobial resistance and malaria resurgence. The Global Fund is responding to the threat of drug and insecticide resistance in a number of different ways. However, it requires a responsive global public health community. There is a need for the partnership to improve the way it works together and to reflect on the extent to which it can, and should, take greater risk in order to deliver impact.
     - *Other emerging risks:* The operational risk landscape also continues to evolve as highlighted by recent cases of data and procurement fraud at the implementer level. The nature of the environments in which the Global Fund operates, in combination with its business model, inevitably give rise to an inherently high risk of fraud and this will not change. Therefore, the Secretariat must be nimble in how it responds to risk events.

- **Future Funding:**
  - *Donor pledges:* Realizing the benefits of the sixth replenishment requires converting pledges into contributions and avoiding reductions in 'pledge quality'. Moving into 2020 this requires continued and close engagement with donors.
  - *Domestic resource mobilization:* An ambitious target has been set for investment from domestic sources. Addressing the challenges to meeting this target should not be underestimated. There is a need for political will and strong leadership at country level. However, steps are being taken in the right direction, as evidenced, for example, by commitments on domestic health financing.

- **Grant-related risks and the status of the overall risk profile:** The Global Fund's risk profile remains stable to slightly improving and the risks for which risk appetite has been set continue to be within the approved risk appetite. For the three risks where the risk level is above the target level set by the Board, all risks are on track to reach the target level within the timeframe set by the Board. The three risks are: Program Quality, M&E and In-Country Supply Chain.
  - *Program Quality:* Improving program quality is complex, and dependent on addressing a range of inter-related systemic challenges, the majority of which are not wholly within the Global Fund's control. Despite this complexity and the limitations on the organization's influence, progress is being made and the Global Fund is on track to reach the target risk level of 'moderate' by June 2023.
  - *M&E:* The M&E risk is already showing a downward direction of travel. This is a result of improvements in in-country monitoring and evaluation systems: data availability, timeliness and completeness of reporting. However, quality and use continue to need improvement. Internal controls and checks will improve data quality and decrease the risk of data fraud. Based on the progress that has been made and the successful implementation of activities planned or underway, the Global Fund is currently on track to reach the target risk level of 'moderate' during the course of 2020.
  - *In-Country Supply Chain:* Over the past year, momentum to advance many of the key mitigations to drive down the risk level has increased. Based on this increased momentum and activities planned or underway, the Global Fund is on track to reach the target risk level of 'moderate' by June 2023.

- The Board's approval of the Risk Appetite Framework and its subsequent operationalization, in particular, has been a key catalyst in enabling the Secretariat to more effectively balance fiduciary risk and programmatic impact, by providing a structured framework through which the Secretariat can take informed decisions on risk trade-offs.

- Mitigating grant-facing risks for which risk appetite has not been set also continues to be a priority. Good progress continues to be made in mitigating the Human Rights & Gender Inequality and Transition risks relative to the level of influence over the root causes.

- **Progress towards reaching Embedded:** In 2017 the Secretariat set itself the target of reaching an Embedded level of maturity for risk management, internal controls and governance. Since setting this target the Secretariat has maintained a continued focus on strengthening risk management in order to advance organizational maturity, and as a result significant progress has been made. The timetable of reaching Embedded by late 2019 remains realistic and work is on track.

- *Advancing the use of risk appetite:* Significant progress has been made in advancing the use of risk appetite and embedding its usage into grant management decision-making processes. It is now routinely used as a framework for decision-making on risk trade-off decisions and risk acceptance. Inevitably the way in which the Secretariat leverages risk appetite will continue to evolve. However, this will be organic and part of continuous improvement of business as usual. In the context of reaching Embedded this outstanding action is complete.
- *Completing the build out of the internal monitoring and control environment for GMD:* Considerable progress has been made in recent years to strengthen internal controls within GMD business processes. The focus has now shifted to building out first line monitoring of performance, including generating evidence that controls are working as intended to enable corrective action to be taken. Roll out of end to end reporting and management of exceptions for all prioritized controls is on track to be complete before year-end and will ensure that this outstanding action is complete.
- *Increasing momentum behind supply chain transformations:* In-country supply chain transformations are one of the key initiatives for supply chain strengthening. Establishing momentum was initially challenging. However, progress has been made. Therefore, whilst continuing to drive forward with implementation of these activities needs to be a business as usual priority, in the context of reaching Embedded, i.e. increasing momentum behind in-country supply chain transformations, this outstanding action is largely complete.
- *Completing build out of the internal monitoring and control environment for sourcing and supply chain:* Similar to GMD, a key channel through which the internal monitoring and control environment for sourcing and supply chain is being strengthened is through the identification of process risks and key controls and the subsequent introduction of regular monitoring and exception reporting for select key controls. Work to develop and roll out of end to end reporting and dispensation handling for all prioritized controls is on track to be complete before year-end and will ensure that this outstanding action is complete.
- *Continuing to strengthen governance processes:* The key to advancing maturity for governance is to ensure continued progress in the implementation of the outstanding items in the Governance Action Plan. Discussions led by the Ethics and Governance Committee in October 2019, particularly around committee selection and culture, demonstrate the required momentum and in the context of reaching Embedded ensure that this action is complete.

Input Sought

5. This Report constitutes the Secretariat's mid-year update on risk management and the risk profile of the Global Fund.

Input Received

6. The Report has been shared with all three committees before being submitted to the Board. Discussion by the committees focused on progress towards reaching Embedded and how best to ensure effective committee oversight of the individual risks within the respective committees' purviews.

Report

I. Introduction

7. The Global Fund's focus in 2019 has been on grant implementation alongside preparations for the sixth replenishment and the next allocation.

8. More than 350 grants are being implemented across more than 100 countries. The majority of these grants have now reached their mid-point, prompting reflection on results to date, identification of opportunities for course correction and the reallocation of funding through portfolio optimization. At the same time preparations are in-hand to lay the foundations for the next allocation cycle, with agreement reached on the new allocation model, the introduction of revised application and review approaches for funding requests, and updated guidance published by technical teams.

9. As highlighted in the recently published Results Report, through its grants the Global Fund continues to play a critical role in the fight against the three diseases. Coverage rates continue to increase and as at the end of 2018 32 million lives have been saved through health programs supported by the Global Fund.

10. In the context of laying the foundations for the next cycle the Secretariat's focus on preparing for the sixth replenishment has delivered results, with the Step Up the Fight campaign positively received, and a very successful Replenishment Conference in Lyon in October.

11. The Secretariat has continued to drive forward with strengthening its internal operations. The Performance & Accountability initiative has laid the foundations for the Global Fund to become a process driven organization with an increased focus on efficiency, effectiveness and accountability for results. At the same time advancing the maturity of risk management, internal controls and governance and reaching an Embedded level of maturity by late 2019 has continued to be a priority.

12. Despite all the progress made challenges continue to remain, some of which can be influenced by the Global Fund and others which are beyond the organization's control. Nevertheless, they all have a bearing on the ability of the Global Fund to deliver on the mission and need to be taken into account in reflecting on 2019 and planning for 2020 and beyond.

II. The external environment

13. It continues to be a period of relative volatility across the global political and economic landscape. This is driven by a range of different factors. Many of these are outside the Global Fund's influence but they nevertheless impact on its risk profile and ability to effectively implement grants and deliver on the mission. It is, therefore, essential to acknowledge, plan for, and be ready to respond to, specific risk events if and when they materialize.

Donor countries

14. Although the sixth replenishment campaign has been successful, with strong foundations laid for the Replenishment Conference in October, the volatility of the political climate and forthcoming elections in a number of donor countries represent a continuing risk in terms of future funding.

15. The Global Fund has a critical role to play in the fight against the three diseases but it requires a global and cross-partnership effort. Any decrease in the ability of donors and partner organizations to pursue the 2030 Agenda for Sustainable Development has the potential for a significant knock-on effect on the momentum that has been achieved to date and continued progress moving forward.

16. Forthcoming national elections, the continued rise of populism and isolationist rhetoric in policy-making in certain countries can be expected to drive global public health issues down national political agendas and increase the focus on domestic and economic issues. Political volatility in a number of contexts also has the potential to affect economic growth.

17. The Global Fund cannot influence the root causes driving these risks. However, it is essential to be prepared. Closely monitoring political developments and maintaining strong communication and coordination channels with donors and partner organizations is key. Early identification of emerging issues will enable the Global Fund to be a more agile and responsive organization.

Implementer countries

18. The Global Fund invests in several high risk challenging operating environments, characterized by significant political and economic instability and often internal conflict. However, even in countries which have not been categorized as such there is the potential for destabilization. This inevitably has a detrimental impact on national health programs and the ability to implement Global Fund grants. Recent examples include Sudan and Zimbabwe, but these do not exist in isolation and new examples will continue to emerge. It is, therefore, essential that the Global Fund strikes the right balance between risk-based and responsive decision making.

III. The evolving risk landscape

19. It is inevitable that the risk landscape will evolve. This cannot be avoided. However, it correspondingly requires that the Global Fund evolves its risk management at a similar pace, and looks for opportunities to continuously improve risk identification and mitigation, in a way which is proportionate to the size of the risk but also competing operational priorities.

Epidemiological context

20. The acceleration of antimicrobial resistance and the resurgence of malaria represent key global health concerns and significant threats in the fight against the three diseases. Deaths from TB now account for approximately one third of all anti-microbial deaths worldwide and drug resistance is also impacting the fight against HIV and malaria. Although HIV resistance is not on the same scale as MDR-TB it nevertheless has the potential to significantly undermine efforts to treat and prevent the spread of HIV. Similar to HIV, antimalarial drug-resistance also needs to be continually monitored and managed to prevent it from spreading.

21. In the context of malaria, insecticide resistance is also a significant threat which needs to be addressed to avoid reversing the gains made to date in reducing malaria transmission. After gains in malaria control over the past decade progress has stalled, with the number of malaria cases actually increasing in a number of high burden countries, albeit that the number of deaths are decreasing. The view of the Global Fund, and many partners, is that insecticide resistance is a potentially significant contributor to this resurgence. Other key areas of concern include HIV incidence rates amongst adolescent girls and young women, which remain concerningly high in East and Southern Africa and amongst key populations globally.

22. The Global Fund is responding to the threat of drug and insecticide resistance in a number of different ways. Priorities for the next cycle will focus on continued catalytic funding to find

additional missing people with TB, strengthening laboratory capacity and routine surveillance in HIV fast-track countries, and innovation of new tools to address insecticide resistance. However, effectively tackling the threat requires a responsive global public health community, and the partnership is not always sufficiently nimble. There is a need to change and improve the way organizations work together and collaborate, questioning historical roles and identifying opportunities to become more agile. In parallel there needs to be greater reflection on whether more risk can and should be collectively taken in order to deliver greater impact.

Other emerging risks

23. The operational risk landscape also continues to evolve as highlighted by recent cases of data and procurement fraud at the implementer level. The procurement fraud in the Democratic Republic of Congo, which whilst now repaid in full, exposed the potential for fraud within INGOs and the need for the Secretariat to review and evolve its risk management and oversight approach in relation to this category of implementer.

24. The nature of the environments in which the Global Fund operates, in combination with its business model, inevitably gives rise to an inherently high risk of fraud and this will not change. Therefore, whilst the Secretariat has a framework in place to identify and mitigate different types of fraud risk it is important for it to be further strengthened and for the Secretariat to be nimble in how it responds. The organization is more advanced in how it manages financial fraud risks. As part of implementing the Policy to Combat Fraud and Corruption, amongst other initiatives, this experience and insight in managing financial fraud risks will be leveraged to advance the maturity of risk management of other types of fraud.

IV. Future funding

25. As already highlighted, strong foundations were laid for the sixth replenishment, which resulted in a very successful Replenishment Conference in Lyon in October., with USD 14 billion pledged over the next three years. However, securing a successful replenishment is not the end of journey and it is essential to recognise the risks that will continue to need to be managed moving into 2020 and beyond.

Donor pledges

26. Realizing the benefits of the work that has gone into ensuring a successful sixth replenishment requires that pledges are fully converted into contributions. The Secretariat will ensure continued and close engagement with donors to ensure timely disbursement, underpinned by multi-year agreements wherever possible.

27. The Secretariat is also actively working with donors to ensure that the set-asides and other conditionalities attached to pledges have a low impact on grant allocations, thereby maximizing programmatic resources. By the same token, the Secretariat will also explore avenues to better coordinate technical assistance among different actors to bring about efficiencies and more harmonized ways of working.

28. While the Replenishment Conference is clearly a critical milestone it is imperative to continue to build on the achievements of the sixth replenishment campaign and to nurture relationships and partnerships (public and private, traditional and new) in order to pave the way for additional resource mobilisation.

Domestic resource mobilization

29. As articulated in the Global Fund's investment case for the sixth replenishment, USD 101 billion is required over the next three years to end the epidemics, of which USD 46 billion is anticipated to come from domestic sources. Despite the widespread support from the global health community for the investment case and recognition of the importance of domestic financing, this is an ambitious target, representing a 48% increase compared with the previous allocation period.

30. The key challenges to achieving this goal include limited fiscal space, competing budgetary priorities, and macro-economic factors which limits the ability of countries to increase their contributions to the health agenda.

31. Addressing these challenges is difficult and requires political will and strong leadership at country level. However, steps are being taken in the right direction, as evidenced, for example, by the commitments on domestic health financing made earlier in the year by the African Union. A structured approach has also been agreed by the Secretariat to promote domestic investment comprising of a series of levers, including the co-financing policy and a country support approach, and progress is being closely monitored.

V. Grant-related risks and the status of the overall risk profile

Status of the overall risk profile

32. The Global Fund's overall risk profile remains stable to slightly improving. Progress continues to be made in implementing mitigating actions. However, the nature of the risks that need to be managed, particularly those risks which are grant facing, means that reducing risk levels is a medium to long term endeavor requiring ongoing action and investment of resources. In this context it is also important to recognize the overarching risk in scaling-up investments. Ensuring increased investments are effective requires a parallel increase in country capacity and continued improvements in the organizational efficiency of the Secretariat. Therefore, continuing to mature robust risk management of grants, to keep pace with this increased investment, is critical.

Risk levels relative to risk appetite

33. 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 eight grant facing risks continue to be within the approved risk appetite.

Risk	Residual risk level Q2 2019	Risk appetite	Target	Comments
1. Program Quality	High	High	Moderate	The Program Quality risk is high. However, the risk level is trending downwards and close to moderate.
2. M&E	High	High	Moderate	The M&E risk is high, based on a qualitative adjustment, but again has been trending downward and is expected to reach moderate by mid 2020.
3. Procurement	Moderate	Moderate	Moderate	The Procurement risk is moderate.
4. In-Country Supply Chain	High	High	Moderate	The In-Country Supply Chain risk is high.
5. Grant-Related Fraud & Fiduciary	Moderate	Moderate	Moderate	The Grant-Related Fraud & Fiduciary risk is moderate.
6. Accounting & Financial Reporting by Countries	Moderate	Moderate	Moderate	The Accounting & Financial Reporting by Countries risk is moderate.
7. National Program Governance & Grant Oversight	Moderate	Moderate	Moderate	The National Program Governance & Grant Oversight risk is moderate but is at the high end of this risk level.
8. Quality of Health Products	Moderate-low	Moderate	Moderate	The Quality of Health Products risk is moderate-low.

34. Please see annex A for additional detail on risk levels relative to risk appetite, including the methodology for determining when a risk level has reduced or increased.

Progress in mitigating risks levels for those risks currently above target

35. Target risk levels were also set by the Board for the nine risks. For all the risks, with three exceptions, the current risk levels are equal to the target levels.

36. For the six risks within target, mitigating actions will continue to be implemented and trade-off decisions made in order to maintain or reduce the risk levels within or below the agreed risk appetite level of 'moderate'.

37. For the three risks above target, Program Quality, Monitoring & Evaluation (M&E), and In-Country Supply Chain, the Secretariat continues to prioritize reducing risk levels and progress is consequently being made.

VI. Program Quality: target risk level of moderate to be reached by June 2023

38. Improving program quality[1] is complex, and dependent on addressing a range of inter-related systemic challenges, including in relation to monitoring and evaluation, quality of health products, in-country supply chains and human resources for health, the majority of which are not wholly within the Global Fund's control. Despite this complexity and the limitations on the organization's influence, progress is being made and the Global Fund is on track to reach the target risk level of 'moderate' by June 2023.

39. Key progress that has been made to strengthen the mitigation of the Program Quality risk in 2019 includes:
    - Support for countries to deliver quality services through efficient modalities, for example through community systems, by integrating services, or by scaling up patient-centered, differentiated service delivery (DSD[2]) models along the HIV cascade.
    - Implementation of the new Global Action Plan on HIV Drug Resistance (2017-2021) developed under the leadership of WHO.
    - Support for countries in the implementation of viral load testing as the preferred method of treatment monitoring and to guide, where necessary, the switch from failing drug regimens.
    - Implementation of quality improvement approaches in selected high-TB burden African countries to boost TB case notification.
    - Continued successful investment of catalytic funding in 13 priority countries to find TB missing cases, with over 900,000 additional cases found (compared to the baseline) and linked to care in 2018 and promising early results for Q1 and Q2 2019.
    - Support for countries to make the transition to new MDR-TB regimens including the approval of USD 54 million through portfolio optimization. Advocacy work has also been initiated, working with the Sourcing team, on market-shaping to help bring down the costs of the new drugs.
    - Catalyzing market entry of new LLINs through pilots in selected high burden countries in West Africa.

40. Although good progress is being made a number of challenges remain. These are not new and include retention on treatment, ensuring programs are appropriately targeted to meet the specific needs of different population groups including adolescent girls and young women and key and vulnerable populations, and ensuring timely transition to new treatment regimens. All of these

[1] Improving quality in programs is about improving the delivery of services in order to increase patient and program outcomes by focusing on processes that bring more value to the patient, whilst simultaneously removing or redesigning processes which add little or no value and unnecessarily increase delivery costs.
[2] DSD is a client-centered approach to provide tailored services by population, clinical characteristics and context. It aims to address the needs of identified populations through ongoing, real-time use of data for decision making, driving efficiencies in programming.

factors not only contribute to a risk of reduced program quality but also an increased risk of drug and insecticide resistance.

41. Whilst recognizing there is no quick fix or easy answers, the Global Fund continues to take steps to respond to these challenges. Initiatives underway or planned include community-based programs to reach, connect and retain people along the HIV prevention and treatment continuum, especially marginalized population groups; intensifying support aimed at finding TB missing cases; and leveraging the new funding cycle to promote transition to new drug-resistant TB treatment regimens. In addition, as a way of improving quality of care, increased use and application of health facility assessments and a move towards integrated supervision will be prioritized. An overarching priority as the Global Fund prepares for, and moves into, the next funding cycle is working with countries to ensure future grants are aligned to global, regional and country programmatic priorities and that they adhere to normative guidance.

M&E: *target risk level of moderate to be reached by June 2021*

42. The M&E risk is already showing a downward direction of travel. This is a result of improvements in in-country monitoring and evaluation systems: data availability, timeliness and completeness of reporting. This has in large part been achieved through significant investment through M&E grant budgets. In the current allocation cycle investment in the Health Management Information Systems (HMIS) and M&E module has totaled more than USD 450 million. The engagement of countries and partners, together with the Strategic Initiative for Data Systems funding, has enabled a move from fragmented and siloed disease reporting systems to a single national platform in many countries. M&E systems improvements and performance are now systematically tracked in High Impact and Core countries through standardized indicators in the Global Fund M&E profile. This enables system performance to be monitored and the identification of areas for prioritization and investment.

43. Based on the progress that has been made and the successful implementation of activities planned or underway, the Global Fund is currently on track to reach the target risk level of 'moderate' during the course of 2020.[3]

44. While the timeliness, availability and completeness of data has improved, its quality and use continues to need improvement. Internal controls and checks will improve data quality and decrease the risk of data fraud. In order to maintain momentum in managing the M&E risk these are, therefore, areas of focus.[4] The activities planned or underway in this context include:

- Ensuring standard tools and guidance for data quality and data use are being disseminated to countries and used systematically.
- Continued focus on the deployment, strengthening and maintenance of HMIS and DHIS. HMIS is already fully deployed and functional in a significant number of high impact and core countries.
- Management of a pool of technical M&E experts with a focus is on establishing processes to facilitate the routine use of data quality assurance tools and the standardization of indicators in systems.

[3] The M&E risk rating is currently being qualitatively adjusted to account for the need for more rigor in assessing data accuracy and a current lack of data on accuracy. Data accuracy is assessed through National Data Quality Results (DQRs), which are not yet complete for all countries. majority of the DQR's will be complete by the end of 2019 and the M&E risk will be reassessed based on this new data in Q1, 2020. At present, based on the adjusted ratings the M&E risk level remains 'High'.
[4] See the Global Fund Data Use for Action and Improvement Framework for details of the GF strategy for strengthening country M&E systems, data quality and use.

- Support for implementation of National Data Quality Review and quality assurance of specific disease and community based or health facility surveys.
- Development of a network of universities and local academic and professional institutions to strengthen analytical capacity and data use at sub-national and community levels.
- Continued focus on improving community reporting including increased systematization, improvements in quality, and integration with facility reporting.

In-Country Supply Chain: *target risk level of moderate to be reached by June 2023*

45. The scale of the challenge inherent in strengthening in-country supply chains means that multiple years of investment and cross-partner collaboration are required. Over the past year, momentum to advance many of the key mitigations to drive down the risk level has increased. Based on this increased momentum and activities planned or underway, the Global Fund is on track to reach the target risk level of 'moderate' by June 2023.

46. Increased activity to implement supply chain transformations at country level represents the most notable progress during 2019. Sixteen countries have been prioritized to better differentiate country engagement and prioritize resources. The majority of the Key Priority and Support[5] countries have progressed from the diagnostics to transformation phase, though countries are at different stages in terms of on-the-ground implementation of transformation activities. This progress has been driven in part by improved internal alignment within the Secretariat, namely redesigning the interface between the SSC Department and Grant Management Division (GMD), and establishing shared performance targets for Key Priority and Support countries. Detailed improvement plan road maps have been developed to guide efforts in Key Priority and Support countries and enhanced internal monitoring of these plans through exception reporting is being prioritized to help drive progress. Intensified monitoring and guidance by the internal Supply Chain Steering Committee has also served to drive shared accountability and help speed progress.

47. Although momentum has increased significantly, the pace and impact of transformation activities remains a challenge. Progress depends not only on implementing supply chain transformations in all sixteen countries but also on driving all countries to a stage where activities result in improved health outcomes.

48. Ongoing supply chain systems strengthening in countries beyond those defined as Key Priority and Support is also a critical element of risk mitigation. Efforts include improving data systems and infrastructure, optimizing distribution, commodity tracking, inventory management and national capacity building to improve the accuracy of commodity forecasts. This is all often in collaboration with partners including the private sector.

49. Additional priorities that will support cross-cutting mitigation include:
    - Enhancing and deepening partnerships such as the Interagency Supply Chain Group (ISG) and data sharing with USAID; engaging external stakeholders; and rallying national investments to drive both transformations and grant-funded supply chain strengthening.
    - Demonstrating the potential of technology-driven solutions such as drones or product tracking systems (e.g.: Madagascar pilot) to enhance last mile distribution.

Balancing fiduciary risk and programmatic impact

50. As highlighted in the Risk Report and CRO's Annual Opinion, submitted to the Board in May 2019, the maturation of the Global Fund's risk management and assurance approaches has provided an

[5] A group of six "Key Priority" and ten "Support" countries have been identified to better differentiate country engagement and prioritize resources.

opportunity to more effectively balance fiduciary risk and programmatic impact. The Board's approval of the Risk Appetite Framework and its subsequent operationalization, in particular, has been a key catalyst by providing a structured framework through which the Secretariat can take informed decisions on risk trade-offs.

51. Examples of how the Risk Appetite Framework has enabled risk trade-off decisions to be taken to drive greater programmatic impact include:
    - Acceptance of increased flexibility in the Central African Republic in contracting sub-recipients or humanitarian partners in order to facilitate delivery services in poorly accessible and unsafe areas; and
    - Acceptance of adaptive and alternative service delivery modalities and verification mechanisms again in poorly accessible and unsafe areas in South Sudan and Afghanistan.

52. This is an ongoing journey that requires a focus on continuous improvement to ensure risk appetite as a tool is being fully leveraged and that programmatic impact is, wherever possible, being maximized. At the same time it is also important to acknowledge the realities of this approach. Achieving greater balance and taking higher risks in certain circumstances inevitably means that some risks will materialize. This cannot be avoided. However, as a result of the continued focus on advancing the maturity of risk management, the Secretariat is now more agile and better positioned to respond.

Progress in relation to other key thematic risks

Human Rights & Gender Inequality

53. Key and vulnerable populations continue to face significant human rights and gender-related barriers in accessing health services, with many interventions less effective due to inadequate attention to gender and age-related inequities, an issue also highlighted in the OIG Advisory Review on removing human rights-related barriers. Addressing these barriers is inherently complex, with many of the root causes outside the influence and control of the Global Fund. Nevertheless, tackling human rights and gender related barrier is a strategic priority.

54. Key actions that have been taken to mitigate the Human Rights & Gender Inequality risk in 2019 include:
    - A review, through the *CRG Accelerate* initiative, of how to better utilize Secretariat resources to more effectively respond to critical rights and gender-related barriers to impact. Key outputs of this review include a reorganization of the CRG department and a new model for engaging with and supporting Country Teams.
    - Updated information notes, technical briefs, modular frameworks and other application tools to ensure greater attention to human rights and gender related barriers, particularly for at-risk populations.
    - Increased investment in programs to reduce human rights related barriers to services, with a particular focus on Middle Income Countries (MICs), leading to a more than four-fold and more than ten-fold increase in investment in the context of HIV and TB respectively since the last allocation period;
    - Continued differentiated support provided to the countries in the twenty-country 'Breaking down Barriers' initiative, to comprehensively address human rights-related barriers and increase country ownership and commitment to long-term action;
    - Launch of the Global Fund and Roll Back Malaria Malaria Matchbox tool to support countries to document and analyse the human rights, gender and community related barriers to key malaria services and develop program targets accordingly.

55. Although positive steps continue to be taken significant challenges remain, and there is a ongoing need for grants to better address increased risk and decreased access to services for key and vulnerable populations. Maintaining organizational focus and building capabilities across the Secretariat on these issues in combination with continued collaboration with partners is critical. This includes developing organizational alignment on how best to make the transition from a project-based approach to addressing human rights and gender related barriers, to a mainstreamed focus on human rights and gender responsive programming that is integrated into core business processes.

Transition

56. There is an ongoing risk that countries may struggle to successfully sustain current or required coverage levels as they transition to full domestic financing and program implementation. This again reflects the fact that the Global Fund has limited influence on certain factors critical to the transition process including, for example, political will. However, the Global Fund recognizes that despite these limitations it is essential to work with countries to plan for a successful transition, and significant organizational effort has been directed towards embedding key aspects of the Sustainability, Transition and Co-Financing (STC) Policy into business processes, as evidenced in both the 2018 OIG Transition Management Audit and the 2019 TERG STC Review.

57. Key progress that has been made to strengthen the mitigation of the Transition risk in 2019 includes:

- Preparations for the 2020-2022 allocation period to ensure the continued systematic inclusion of transition considerations in the funding request and grant development / grant-making stages of the grant life cycle, including the maintenance of the Tailored for Transition Application modality.
- Ongoing expansion of the portfolio focus of Transition Readiness Assessments (TRA) or equivalents and overall transition / sustainability planning. While much of the early focus of TRAs in the first years of STC policy implementation was on transition components or those closer to transition, both the Secretariat and partners are increasingly broadening the scope of these assessments and overall transition / sustainability planning, helping to foster early analysis and country planning to address longer transition challenges (even multiple allocation cycles prior to transition).
- Implementation of the Sustainability, Transition and Efficiency Strategic Initiative (STE SI), which includes approximately USD 4.3 million in specific activities to support countries with transition planning and technical assistance for specific transition challenges (including public financing of Civil Society Organizations (CSOs), ie, “social contracting”). The STE SI also includes activities essential to supporting longer term sustainability and transition challenges, including work on National Health Accounts, support for health financing strategies, and allocative, technical, and cross-programmatic efficiency analysis.
  Leveraging lessons learned from the 2017-2019 allocation cycle to further enhance the GF’s approach to co-financing in 2020-2022.

58. Despite the significant attention to this risk and positive steps being taken, there remains opportunities to continue to strengthen its mitigation, including building on lessons learned from OIG and TERG reviews and joint recommendations developed for the Strategy Committee Deep Dive on STC. This includes enhancing focus on longer term sustainability challenges in portfolios with larger Global Fund allocations and disease burdens. Areas of focus moving forward include working to negotiate targeted, specific, ambitious co-financing commitments for the new allocation cycle (including in transition contexts), and ensuring the Secretariat continues to foster early planning across the portfolio. There is also a need to proactively continue to address a

number of specific transition challenges. Addressing risks related to domestic procurement of quality-assured health products requires encouraging and supporting early planning for strengthened domestic procurement, particularly in portfolios that are making significant commitments to financing health products. Upcoming proposals to the Board to allow the Secretariat to further expand the use of Wambo.org will also be important and positively impact the Global Fund's ability to provide tools to support efficient, domestic procurement of quality health products, including in transition contexts.

VII. Progress towards reaching Embedded

59. In 2017 the Secretariat set itself the target of reaching an Embedded[6] level of maturity for risk management, internal controls and governance. Since setting this target the Secretariat has maintained a continued focus on strengthening risk management in order to advance organizational maturity, and as a result significant progress has been made, including:
    - Embedding risk management into grant processes;
    - Implementation of systems and tools;
    - Establishing a comprehensive and structured governance and oversight architecture; and
    - Strengthened management and oversight of non-grant facing risks.

60. In May 2019, in his Annual Opinion to the Board the Chief Risk Officer highlighted that the Global Fund was on track to reach an Embedded level of maturity, at an aggregate, by late 2019. This reflected the fact that a number of key business units had already reached this level of maturity, including Finance and External Relations, and that other key business units and functions, whilst not quite at an Embedded level of maturity had made significant progress. The Report and a subsequent update to the Audit and Finance Committee in July 2019 identified a set of specific actions that would need to be completed in order to reach Embedded within the year.
    - Advancing the use of risk appetite;
    - Completing the build out of the internal monitoring and control environment for GMD;
    - Increasing momentum behind in-country supply chain transformations;
    - Completing build out of the internal monitoring and control environment for sourcing and supply chain; and
    - Continuing to strengthen governance processes.

61. The timetable of reaching Embedded by late 2019 remains realistic and work is on track, but it requires the Secretariat to prioritize completion of outstanding actions in order to maintain momentum, as well as alignment with the OIG.

Advancing the use of risk appetite

62. Operationalization of risk appetite began in mid-2018 following Board approval of the Risk Appetite Framework, and risk appetite and target risk levels for 8 grant facing risks and 1 non-grant facing risk.

63. Significant progress has been in advancing the use of risk appetite and embedding its usage into grant management decision-making processes. It is now routinely used as a framework for decision-making on risk trade-off decisions and risk acceptance through Country Portfolio

[6] The Office of the Inspector General uses a rating scale for measuring the maturity of risk management, internal controls and governance with six levels along a continuum: 1) Non-existent; 2) Ad-hoc; 3) Initiated; 4) Embedded; 5) Actively Managed and Formalized; and 6) Optimized. Embedded is defined as: Internal controls, governance and risk management processes have been defined and are embedded in everyday management practice. However, there is insufficient close supervision or active management of these processes and/or they are not consistently measurable. It is likely but uncertain that they will allow the organization's operational and strategic objectives to be met.

Reviews (CPRs) and the Country Risk Management Memorandums (CRMM) process, enabling fiduciary risk and programmatic impact to be more effectively balanced. It is also starting to be used in OIG country audits, and whilst the approach is still being refined, recent audits have incorporated risk appetite in the analysis of comparative risk levels.

64. Inevitably the way in which the Secretariat leverages risk appetite will continue to evolve. However, this will be organic and part of continuous improvement of business as usual. In the context of reaching Embedded this outstanding action is complete.

Completing the build out of the internal monitoring and control environment for GMD

65. Considerable progress has been made in recent years to strengthen internal controls within GMD business processes. GOS has been operationalized and functionality continues to be enhanced. Process risks, key controls and control weaknesses have also been identified through reviews conducted in line with the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and improvement actions are now being implemented.

66. Following the progress made to strengthen internal controls the focus has shifted to building out first line monitoring of performance, including generating evidence that controls are working as intended to enable corrective action to be taken. This is being achieved through two key channels:
    - By leveraging the comprehensive suite of dashboards that has been developed through the DnA initiative; and
    - Through exception reporting to senior management on select key controls.

67. Roll out of end to end reporting and management of exceptions for all prioritized controls is on track to be complete before year-end and will ensure that this outstanding action is complete. As exception reporting is implemented, the Secretariat will continue to look for opportunities to strengthen both reports and underpinning processes. This will be a process of continuous improvement through business as usual.

Increasing momentum behind in-country supply chain transformations

68. In-country supply chain transformations are one of the key initiatives for supply chain strengthening. Establishing momentum was initially challenging. However, progress has been made as a result of:
    - The reorganization of the SSC department with an emphasis on in-country transformation design and implementation;
    - Identification of priority countries for SSC focus: six Key Priority and ten Support countries;
    - Formalization of combined performance targets for the SSC department and GMD; and
    - A monthly review of Key Priority countries by the Supply Chain Steering Committee.

69. As highlighted earlier in this Report the pace and impact of transformation activities remains a challenge. However, this reflects the scale and complexity inherent in driving systemic change at country level rather than the level of risk management maturity, which has improved significantly over the course of the past year. Therefore, whilst continuing to drive forward with implementation of these activities needs to be a business as usual priority, in the context of reaching Embedded, i.e. increasing momentum behind in-country supply chain transformations, this outstanding action is largely complete.

Completing build out of the internal monitoring and control environment for sourcing and supply chain

70. Beyond increasing momentum behind in-country supply chain transformations strengthening the internal control environment for sourcing and supply chain has also been an organizational priority in 2019. Similar to GMD, a key channel through which this is being achieved is through the identification of process risks and key controls and the subsequent introduction of regular monitoring and exception reporting for select key controls.

71. Work to develop and roll out of end to end reporting and dispensation handling for all prioritized controls is on track to be complete before year-end and will ensure that this outstanding action is complete.

72. Again, as for GMD, as exception reporting is implemented, the Secretariat will continue to look for continuous improvement opportunities as part of business as usual.

Continuing to strengthen governance processes

73. Progress continues to be made in strengthening governance. Many action items in the Governance Action Plan have now been implemented, while a number of other initiatives are in progress. Strengthening governance is a journey and the changes required in terms of ways of working and culture will take time. The key to advancing maturity for governance is to ensure continued progress in the implementation of the outstanding items in the Governance Action Plan.

74. Discussions that led by the Ethics and Governance Committee in October 2019, in October 2019, particularly around committee selection and culture, demonstrate the required momentum and in the context of reaching Embedded ensure that this action is complete.

VIII. Conclusion

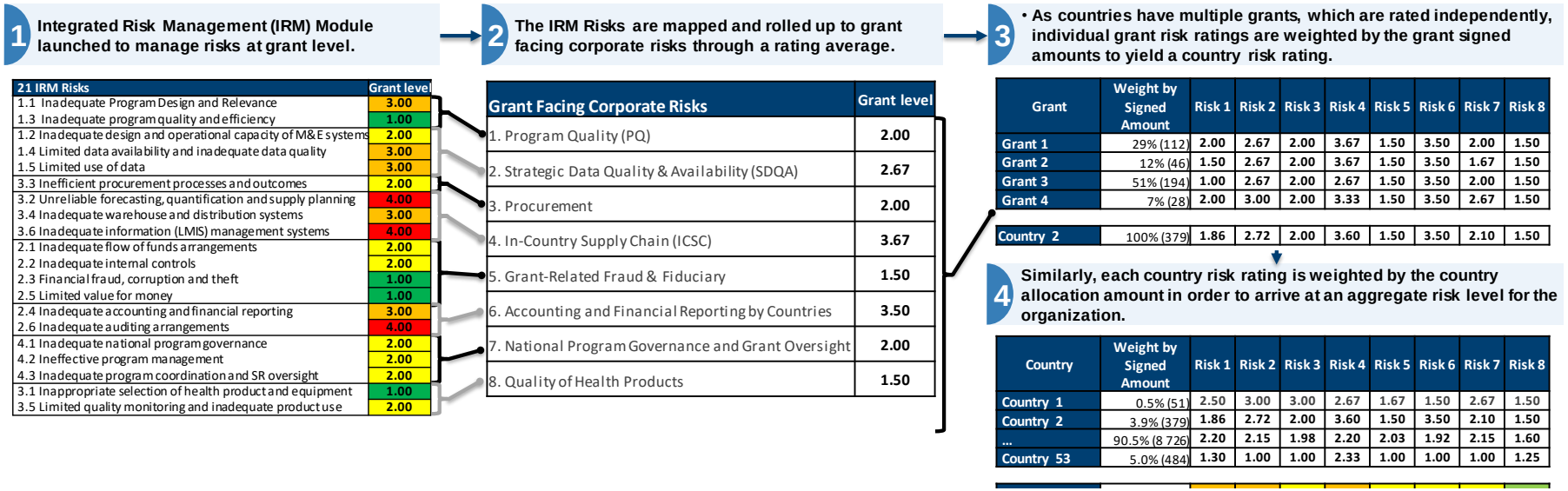
75. The Global Fund continues to face a range of complex and often inter-related risks to delivering on its mission. The risk landscape also inevitably evolves as risks change and emerge over time. Where the Global Fund has influence or control over the root causes driving specific risks, robust mitigations are in place. Where the level of influence is limited there is a focus on ensuring the Secretariat is closely monitoring and well positioned to respond to risks in the event that they materialize. As a consequence the organizational risk profile remains stable to slightly improving, and all risks for which risk appetite has been set are within Board approved levels.

76. Reaching an Embedded level of maturity for risk management, internal controls and governance has continued to be a priority for the Global Fund throughout 2019. Good progress has been made and the organization is on track to reach the timetable of late 2019.

77. As highlighted in previous reports the focus now, and looking forward to 2020 and beyond, is on leveraging the foundations that have been built over the past years and strengthening the risk management architecture, proportionate to risk levels and competing demands on organizational resources, through a process of continuous improvement.

Annex A: Risk levels relative to risk appetite

The Global Fund uses the Integrated Risk Management (IRM) module to record all grant related risks and their respective ratings. The individual IRM risks are rated by grant and then consolidated and aggregated to an organizational level through a bottom up approach as described in the illustrative example below:



The risk level at the Global Fund is then determined by where the risk value falls on the risk band. However, because organizational risk levels are defined based on hard boundaries, they can create cliffs i.e. the organizational risk levels can change due to minor movement in underlying components. To avoid this, a requirement has been introduced so that a risk level can move to a lower risk level only when it is at least 10 base points into the range.

- Based on the aggregation as described previously, the organizational risk levels for end of Q2, 2019 are presented below. Going forward, the trajectory will be presented for the future quarters in a similar manner.

Global Fund Risk Level End of Quarter	1. Program Quality (PQ)	2. M&E*	3. Procurement	4. In-Country Supply Chain (ICSC)	5. Grant-Related Fraud & Fiduciary	6. Accounting and Financial Reporting by Countries	7. National Program Governance and Grant Oversight	8. Quality of Health Products
May Board Meeting Q2-2018								
Q2-2019								

- While there are five (5) risk bands that are used to assess the Global Fund risk level, the above displays only '● - Moderate/Low', '● - Moderate' and '● - High'. This representation is because none of the Global Fund risks have a '● - Low' or a '● - Very High' risk rating, hence they are excluded from the visualization. The shaded area for each of the risk levels represents the '10 base point' easing into the next risk level band.

Annex B: Organizational Risk Register, 2018 Q4 update

Updates to key risks:

- Three risks continue to have downward direction of travel:

    - M&E: as a result of improvements in in-country data systems and availability, and complete reporting. – Reducing the risk level requires improvements in data quality, and use. Efforts in this context are ongoing.

    - Integrated Grant Policies, Processes, Systems & Data: as a result of the roll out of GOS and the implementation of the Performance & Accountability Framework. – Reducing the risk level requires the uptake of the newly rolled out performance dashboards (DnA) and the development of exception reports. Based on the current trajectory moderate should be reached by year end.

    - Risk Management & Internal Controls: as a result of the successful roll out of the IRM, operationalization of risk appetite and increasing maturity of country performance reviews, including risk acceptance. – Reducing the risk levels requires increased focus on key mitigating actions and assurance activities, and development of exception reporting needed to monitor key controls for select business processes. Based on the current trajectory moderate should be reached by Q1 2020.

Qualitative adjustment of M&E risk:

- The M&E risk rating is currently being qualitatively adjusted to account for the need for more rigor in assessing data accuracy and a current lack of data on accuracy. Data accuracy is assessed through National Data Quality Results (DQRs), which are not yet complete for all countries. majority of the DQR's will be complete by the end of 2019 and the M&E risk will be reassessed based on this new data in Q1, 2020. At present, based on the adjusted ratings the M&E risk level remains 'High'.

Annex C: Guide to risk management

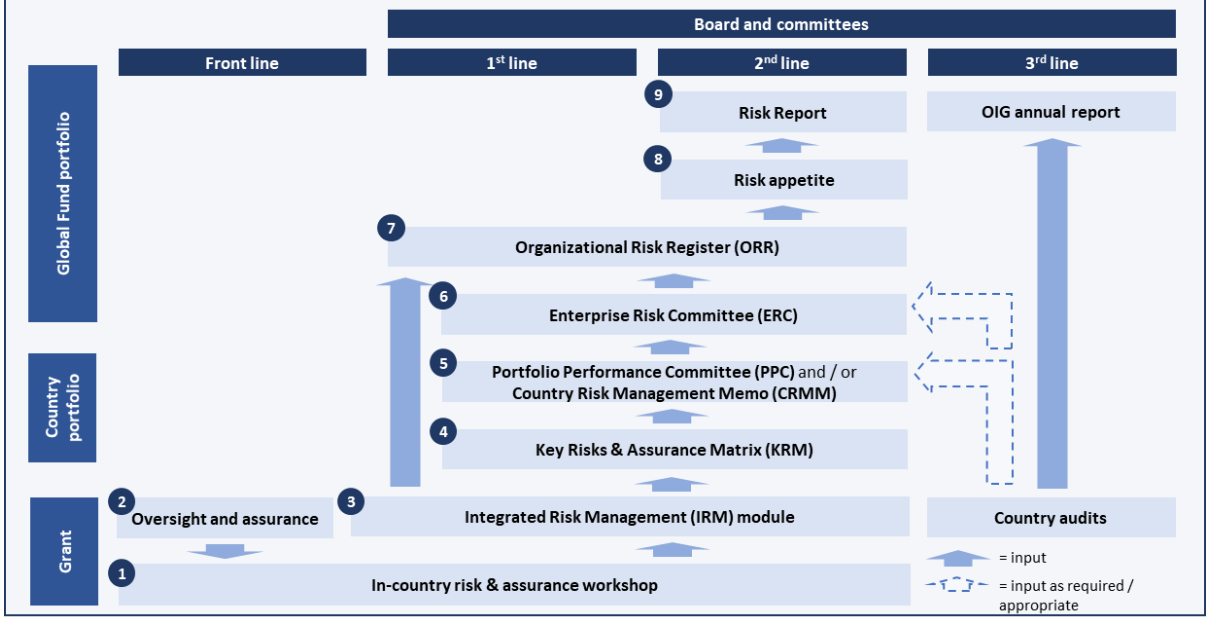
The Global Fund employs a 'three-lines of defense' risk management model.

- The 1st line, which is made up of business functions such as Grant Management, owns and manages risks on a day to day basis.
- The 2nd line, which is made up of monitoring and control functions such as the Risk Department, defines the risk management framework and provides oversight and guidance.
- The 3rd line, e.g. OIG, provides independent audit and assurance for of the 1st and 2nd line.

At an organizational level the Global Fund is currently managing 22 risks, which are divided into three categories: external grant-facing risks (11), external non-grant-facing risks (2), and corporate risks (9). (See annex A for a list of the 22 organizational risks.) This guide focuses on external grant-facing risks.

In addition to the three lines of defense, in-country actors also play a critical role in managing the 11 grant-facing risks. Implementers, in-country partners, Country Coordinating Mechanisms (CCMs), Local Fund Agents (LFAs) and other actors manage risks on the ground and provide assurance that risk mitigations are in place or being implemented. Figure 1 illustrates the overarching architecture for managing the 11 external grant-facing risks.

Figure 1: Global Fund risk management architecture for grant facing risks



1. **In-country risk & assurance workshop:** are run in country, involving implementers, CCMs and Country Teams. They are used to identify risks to grants and to agree on mitigating actions and assurance activities. The risks, mitigating actions and assurance activities identified through these workshops feed into the Integrated Risk Management module.

2. **Assurance activities:** enable the Global Fund to assure the extent to which risk mitigations are being implemented and having the intended impact. Local Fund Agents (LFAs) are key assurance providers. CCMs and partners can also provide assurance.

3. **Integrated Risk Management (IRM) module:** is an online platform that is fully integrated into the Global Fund's Grant Operating System (GOS). GOS is the system used by Country Teams to manage grants across the grant life cycle. The IRM is used by Country Teams to manage risks within their country portfolio. Risks are assessed and rated in the IRM at a grant level. These individual grant risk ratings are then aggregated to generate an organizational risk rating for key

cross-cutting risks[7], i.e. the 8 organizational grant-facing risks captured and tracked in the Organizational Risk Register. Risk ratings captured in the IRM also feed into decision-making documents, e.g. the Country Risk Management Memorandum.

4. **Key Risk & Assurance Matrix (KRM):** contains a summary of key country portfolio risks, mitigating actions and assurance activities. A KRM is one of the key inputs into the Country Risk Management Memorandums (CRMM) and enables senior management to focus their attention on the key risks that could prevent program or grant objectives from being achieved. The KRM is automatically generated through the IRM.

5. **i) Country Risk Management Memorandums (CRMMs):** are an input into Country Portfolio Reviews (CPR) and are used to ensure senior management has visibility of grant risks, mitigations and trade-offs; to secure senior management acceptance of risks; and to provide approval of country risk management strategies. A CRMM is generated each year for all High Impact and Core portfolios. If a country portfolio is undergoing a CPR, the CRMM will be included in the CPR presentation materials, otherwise it is reviewed and approved by the Head of Grant Management and the Chief Risk Officer.

   ii) Portfolio Performance Committee (PPC): conducts CPRs of High Impact and Core portfolios. CPRs are one of the principal mechanisms through which the Secretariat's senior management collectively reviews progress in individual country portfolios and risks to achieving impact. CPRs play a critical role in enabling the Secretariat to balance fiduciary risk and programmatic impact. The PPC ensures there is an appropriate balance of controls and can take risk trade-off decisions, in line with Board approved risk appetite, including accepting increased risk in order to drive greater programmatic impact.

6. **Enterprise Risk Committee (ERC):** the ERC reviews progress and provides input on managing the organizational risk profile and mitigating key organizational risks. The key way in which the ERC fulfils this mandate is through 'deep dives' on specific risks. The ERC conducts deep dives on different organizational risks, taking into account residual risk levels, risk trajectories, emerging issues, and in response to points raised by the Board, committees, the MEC, the Office of the Inspector General (OIG) and / or other stakeholders.

7. **Organizational Risk Register (ORR):** catalogues the Global Fund's key organizational risks and the various controls and mitigations in place and planned to maintain or reduce the risk level. Each organizational risk catalogued and tracked through the ORR is owned by the 1st line and overseen by the 2nd line.

A. Information included in the ORR includes:
   - Residual risk level = the remaining risk level assuming current controls and mitigations are working as expected.
   - Direction of travel = the expected trajectory of the risk level over the medium term based on currently available information.

   The ORR is updated on a quarterly basis and submitted to MEC for review. The most recent ORR update is also included in the Risk Report and the Chief Risk Officer's Annual Opinion.

8. **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. It provides a framework to assist management in making trade-off decisions around key organization wide risks, including programmatic and financial risks. The Board set risk appetite for 8 grant-facing risks in line with the current risk level. This reflected the decisions that the Global Fund had been making by accepting these risks in order to deliver on the mission.

[7] Individual grant risk ratings are aggregated to generate an organizational risk rating for 8 of the 11 external grant-facing risks. These are the same 8 risks for which risk appetite has been set. For the Transition, Human Rights & Gender Inequality, and Drug & Insecticide Resistance risks, the organizational risk level is rated based on discussions between the risk owner and the Chief Risk Officer.

Risk appetite is set at an organizational level and is used to guide decision-making on risks at a grant and country portfolio level.

- Target risk: In addition to setting risk appetite for 8 grant-facing risks, the Board has also target risk level. For 3 risks the target level is lower than risk appetite. This was in recognition of the need for the Secretariat to continue to take risks in certain areas in order to deliver programmatic impact, whilst concurrently building in-country capacity over time to mitigate the risks. The Board did not set risk appetite at the same target level for all risks.
- Target risk timeframe: For each of the risks where a reduced target level has been set, the Board has also set a timeframe for reaching this target risk level. The timeframes reflect the fact that it will take time to reduce these risks given their inherent complexity.

9. **Risk Report and Chief Risk Officer's Annual Opinion:** is produced for the March committees and May Board. The Report and Annual Opinion include an update on key thematic risks, the status of the Global Fund's overall risk profile including risk levels relative to risk appetite, and the CRO's annual opinion. For the October committees and the November Board, the Secretariat produces a Risk Report. The Report follows a similar format to the Risk Report produced at the beginning of the year but does not include an Annual Opinion.