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of the Global Fund

## Global Fund Board sets risk appetite levels for nine key organizational risks, along with target risk levels and timeframes for achieving the targets

The Board has decided that the risk appetite levels for nine key organizational risks are equal to the current risk levels for these risks. The rationale for this is that since the Global Fund has accepted these levels of risks as being necessary to deliver on its mission, then that should define its risk appetite.

The Risk Appetite Framework was approved by the Board at its meeting on 9–10 May. In addition to setting risk appetite levels for nine organizational risks, the Framework sets target risk levels for these risks, and indicative timeframes for achieving the targets.

“Defining a Risk Appetite will help align key stakeholders around the defined risks, what is acceptable or not, and will drive consistent behaviors and responses to those risks,” said Rahul Singhal, the Global Fund’s Chief Risk Officer. “Equally importantly, it will allow the Global Fund to explicitly consider trade-offs across a range of risk choices in order to achieve a desired level of impact.”

According to a paper on this topic prepared for the Board meeting on 9–10 May, “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, which, in turn, influences its risk culture, operating style and decision-making.

The paper states that the Global Fund Secretariat has been making risk-reward trade-off decisions all along based on management judgment. Board-approved risk appetite levels, it says, will lead the organization to be more informed and confident in taking appropriate (higher or lower) levels of risks in the pursuit of its strategic objectives.

Over the past few years, the Global Fund has established the necessary risk management architecture and business processes and is therefore ready to operationalize risk appetite, the paper says.

Development of the Risk Appetite Framework has involved discussions with key stakeholders, including implementing and technical partners, donors and the Global Fund's governance committees, under the overall guidance of the AFC.

The paper explains that the greatest risks that the Global Fund faces in mission-critical countries often tend to be systemic in nature and require significant investment and time to mitigate. Given the trade-off with mission risk — i.e. the risk of not delivering on mission and strategic objectives — these risks often have to be accepted. The paper uses the example of a mission-critical country where grants are focused on HIV treatment. The country has a high supply chain-related risk caused by poor physical infrastructure. Since building supply chain capacity is a long-term endeavor requiring cooperation across a number of partners (including the national government) and significant funding, the trade-off decision typically made by the Global Fund is to “accept the risk” given that, otherwise, it will not be meeting its mission objectives, particularly the objective of saving lives.

While this is the right decision and the organization's risk appetite should allow for it, the Global Fund argues, continuing to accept the consequences of a weak supply chain over the long term is not a good outcome. Hence, a unidimensional approach to setting risk appetite would not work and has to be adapted for the Global Fund context. As a result, the Risk Appetite Framework defines not only risk appetite, but also the added dimensions of a target risk level, which is the level of risk that the Global Fund would like to drive towards over time, and the time required to meet the target level.

The Global Fund faces numerous strategic, financial and operational risks in delivering on its objectives. Some of these risks are internal to the Secretariat while others are external risks that the organization accepts to deliver on its mission. These risks have been prioritized by the Global Fund's senior management and are catalogued and reported under the Organizational Risk Register (ORR). The Fund has selected nine of these risks (eight of them grant-facing) for risk appetite setting. Several criteria were used to guide the selection of risks, including the following: (a) the underlying task is important to achieving the Global Fund's mission; (b) the risk is measurable; and (c) the risk can at least be partially mitigated by the Fund and its partners. Table 1 lists the nine risks that were chosen and defines each of them.

#### Table 1: Definitions of organizational risks

(The definitions are not part of the Framework per se. They have been used previously, including in the ORR.)

For each of the eight grant-facing risks, the current risk level had to be determined. As countries have multiple grants, which are rated independently, individual grant risk ratings were weighted by the grant signed amounts to yield an aggregate current risk level for a country portfolio. Similarly, each country risk rating was weighted by the country allocation amount in order to arrive at an aggregate risk level for the Global Fund. (See examples of the calculations at the end of this article.)

The time to reach target was based on a bottom-up analysis that was undertaken for the relevant cohort (i.e. the 20–25 countries that were selected to determine risk appetites).

Table 2 shows the risk levels and the timeframes for reaching the target risk levels for each of the nine organizational risks selected for risk appetite setting.

Table 2: Organizational risks selected for risk appetite setting

The down arrows next to some of proposed target risk levels reflect the current trajectory of the risks and indicate that the Fund expects the level of risk to decrease from the current level (but remain within the “band” of the current risk level).

The information in Table 2 constitutes the Risk Appetite Framework. For additional guidance, the Board paper also provides risk appetite “statements” for each of the nine organizational risks. Each statement contains some or all of the following sections:

- Description
- Impact
- Key root causes
- Current controls and mitigations
- Current risk
- Risk appetite statement
- Ability to mitigate
- Resources required & risks to achieve target
- Approach to mitigation
- Planned mitigations to reach target level
- Time to reach target

To illustrate, Tables 3 and 4 show the risk appetite statement for “In-country supply chain.” (We have split this into two tables because of the length of the statement.)

The risk appetite statements will evolve over time to reflect developments (such as changes to the actions taken to mitigate the risks).

Table 3: Risk appetite statement for “In-country supply chain” (Part 1)

Table 4: Risk appetite statement for “In-country supply chain” (Part 2)

The risk levels and risk appetite statements described above apply to the entire Global Fund portfolio. However, risk levels in individual countries will (and should) vary depending on the context and trade-offs involved. Trade-off decisions are made in the context of a country and a grant, the Global Fund’s strategic objectives and the entire set of risks in that country that may prevent their achievement.

While the Secretariat may have direct ability to control some of the mitigating actions, achieving others can only be accomplished indirectly through influence. Therefore, the success in reaching the target risk level will be contingent on (a) strong level of both political will and financial commitment from host countries that own the underlying systems for health; and (b) effective support from a large number of in-

country partners.

Risk Appetite will be integrated into the existing Global Fund risk management architecture and business processes. Monitoring and reporting on the progress made towards reaching Target Risk levels will be accomplished via quarterly ORR updates.

The Strategy Committee will further discuss the human rights and gender inequality risks, transition risks, and drug and insecticide resistance risks at its meeting in July 2018. The committee will discuss the risk management strategy for these risks, including mitigation measures in place or planned, and whether it is appropriate to set risk appetite statements for these risks.

#### Examples of how risks were consolidated

The paper prepared for the Board provided examples of how a risk was consolidated from grant level to country level, and from country level to organization aggregate level. We repeat these examples here.

#### Consolidation from grant level to country level

Table 5: Example of Procurement risk calculation for Country X

Grant	Signed amount (\$ million)	Current risk level	Contribution
Grant #1	20	Very High (Value = 4)	$20 \times 4 / 110 = 0.73$
Grant #2	50	Moderate (Value = 2)	$50 \times 2 / 110 = 0.91$
Grant #3	40	Low (Value = 1)	$40 \times 1 / 110 = 0.36$
Total	110		Moderate (Value = 2.00)

#### Explanation:

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

#### Consolidation from country level to organization aggregate level

Table 6: Example of Procurement risk calculation at the organization aggregate level

Country	Allocation amount (\$ million)	Current risk level	Contribution
Country X	110	Moderate (Value = 2)	$110 \times 2 / 160 = 1.38$
Country Y	50	Low (Value = 1)	$50 \times 1 / 160 = 0.31$
Total	160		Moderate/Low (Value = 1.69)

#### Explanation:

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

Board Document GF-B39-07 (Risk Appetite Framework: Progress Update and Steps for Advancement) should be available within a few weeks at

[Read More](#)

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