

<b>SUBJECT:</b>	<b>GAVI RISK POLICY, RISK MANAGEMENT &amp; FIDUCIARY OVERSIGHT</b>
<b>Report of:</b>	Seth Berkley, MD, Chief Executive Officer
<b>Authored by:</b>	Judith Kallenberg, Alex de Jonquières, Simon Lamb, Live Storehagen, Aurelia Nguyen, Robert Newman, Hind Khatib-Othman
<b>Agenda item:</b>	12
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Alliance operations

## **Section A: Overview**

### **1. Purpose of the report**

- 1.1 This report seeks Board approval of the recommendation by the Programme and Policy Committee on a Gavi Risk policy and of the recommendation by the Audit and Finance Committee on proposed changes to strengthen risk management and fiduciary oversight.
- 1.2 The two papers are presented together to facilitate a discussion of the two proposals within the broader context of Gavi's evolving risk management approach.

### **2. Recommendations**

- 2.1 The Programme and Policy Committee recommends to the Board that it:
 

**Approve** the Gavi Risk Policy attached as Annex A to Doc 02 to the PPC (attached to Doc 12).
- 2.2 The Audit and Finance Committee recommends to the Board that it:
 

**Endorse** the proposed approach to strengthen risk management and fiduciary oversight set out in Section 8 of Doc 5 to the AFC (attached to Doc 12).

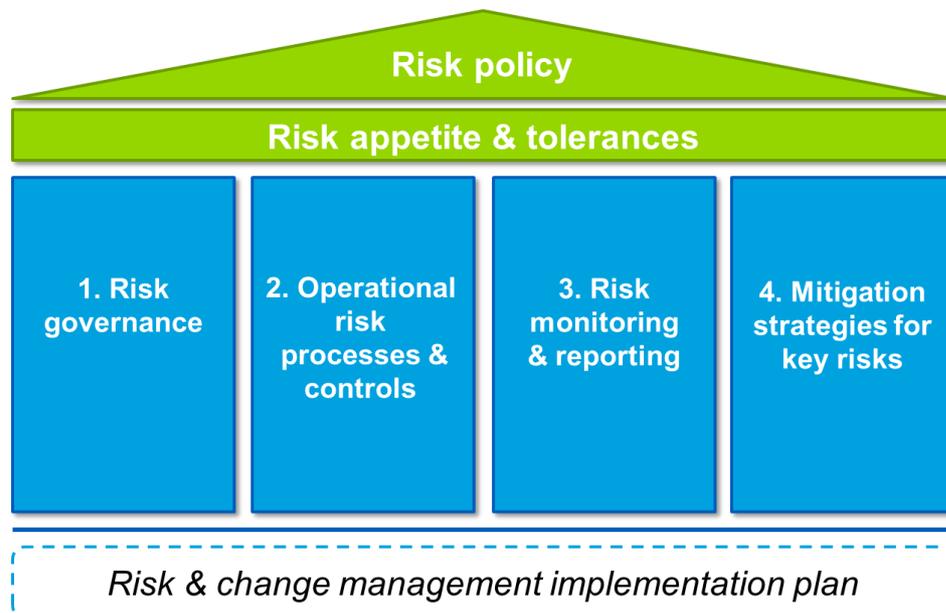
### **3. Executive summary**

- 3.1 Risk is inherent to Gavi's business, both in its mission to help achieve dramatic progress in immunisation in the world's poorest countries, and in its operating model as an Alliance with a lean Secretariat without in-country presence. Gavi is very conscious of its obligation to be an effective

steward of donors’ resources and the need to manage risks proactively, appropriate to the preferences of a diverse stakeholder base.

- 3.2 Gavi’s approach to managing risk, and especially fiduciary risk, has evolved over time. This evolution has been driven by a growing appreciation that the “light-touch” model, which was initially endorsed by the Board to align with Aid Effectiveness principles and minimise Secretariat size, may not provide sufficient assurance given increasing risk sensitivity and reduced risk tolerance among stakeholders, especially donors.
- 3.3 The development of a risk policy is part of a comprehensive set of initiatives in 2014-2015 to further strengthen Gavi’s approach to risk management. The policy forms the overarching frame for enhancing risk management across the Secretariat in various structures and processes for managing risk - including monitoring, reporting and mitigating (see figure 1 below). While a number of elements are already in place, for example the risk register in pillar 3, others will be introduced over the coming months as Gavi continues to formalise its risk management approach based on the framework in Figure 1. This will serve as a basis which can be built on and enhanced as Gavi’s risk management matures.

**Figure 1. Gavi risk management approach**



- 3.4 The risk policy included in Annex A to the attached PPC document is the first element of this enhanced framework that is being formalised. It aims to ensure a common understanding of risk concepts and of the principles of how Gavi manages risk to help embed a risk-aware culture. It provides high level guidance on risk management by articulating the Alliance’s risk appetite in key business areas.
- 3.5 Enhancing management of fiduciary risk is a particular priority given Gavi’s primary function as a financing organisation and the need to instill

confidence with stakeholders. Document 05 to the AFC (attached) therefore proposes a number of changes to the structure, processes and resourcing of the Secretariat to help strengthen risk management and fiduciary oversight. Given the interlinkage between many of the risks Gavi faces, these changes (e.g., creation of a risk function, convening of a cross-Secretariat risk Committee, re-structuring risk management functions using the 3 lines of defence model) will also contribute to improving management of other risks and lay the foundation for more comprehensive implementation of the risk framework.

- 3.6 The report submitted to the PPC in November 2014, with the updated policy, is attached to this paper. The report submitted to the PPC in October 2014 can be found on myGavi. Excerpts from that report which include additional information on the policy development process and consultation findings, are attached to this paper as Annex B.
- 3.7 Document 05 to the AFC is attached to this report and contains some minor updates (in track changes mode) to address AFC feedback.

#### **4. Financial implications: Business plan and budgets**

- 4.1 Changes in structures and processes for strengthened risk management and fiduciary oversight in the Secretariat require additional investments. Initial budgetary requirements for these investments are presented as part of the proposed 2015 Gavi Business Plan and budget.
- 4.2 As Gavi continues to strengthen its risk management approach, the Secretariat will engage in a dialogue with Alliance partners to align on the roles of partners in risk management. Necessary resources would be provided through future Business Plans.

### **Section B: Content – update from PPC and AFC discussions**

#### **5. Risk policy**

- 5.1 The PPC discussed a proposed Gavi Risk Policy at its meeting on 7-8 October and requested clarification on the intent of the policy and how it relates to other elements of Gavi's risk management approach. In addition, PPC members suggested certain revisions.
- 5.2 The PPC subsequently reviewed a revised paper in a teleconference on 10 November with additional information on the purpose of the risk policy and the broader context of Gavi's comprehensive risk management approach. The PPC welcomed the new report and endorsed the proposed risk policy. PPC members noted that further work will be carried out in 2015 in terms of defining the roles and responsibilities of partners in managing risk for the Alliance.

## **6. Strengthening risk management and fiduciary oversight**

- 6.1 The AFC reviewed the proposed changes to Gavi's risk management and fiduciary oversight at its meeting on 24 October. The Committee was supportive of the proposed approach including the recommended structures, systems and resourcing. The AFC suggested that the paper could include additional proposals for how Gavi could work with partners to strengthen risk and grant management. The paper has been updated to reflect this proposal, especially in paragraphs 8.3 (c) and 8.4 (c).

<b>SUBJECT:</b>	<b>RISK POLICY</b>
<b>Report of:</b>	Robert Newman, Managing Director, Policy and Performance
<b>Authored by:</b>	Judith Kallenberg, Live Storehagen, Aurelia Nguyen
<b>Agenda item:</b>	02
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Affects all strategic goals

## **Section A: Overview**

### **1. Purpose of the report**

- 1.1 As requested by the Programme and Policy Committee (PPC) this report presents additional information on Gavi's comprehensive risk management approach and seeks endorsement of a Gavi Risk Policy as outlined in Annex A. The proposed risk policy incorporates feedback provided by the PPC at its meeting on 7-8 October 2014.
- 1.2 The initial PPC paper on the Risk Policy that was discussed by the PPC at its meeting on 7-8 October, which included details on the policy development process and findings from consultations, is attached as Annex B.

### **2. Recommendations**

- 2.1 The PPC is requested to:

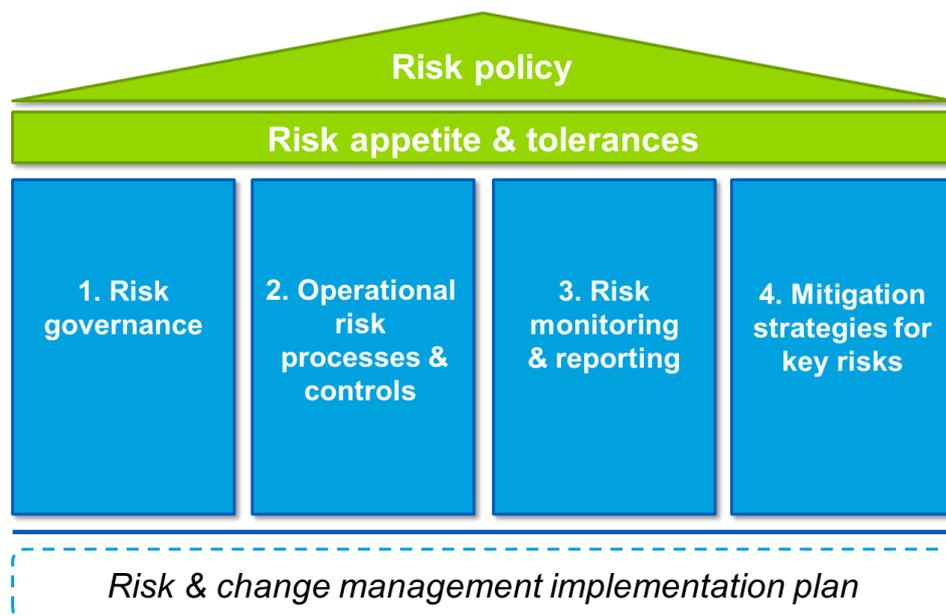
**Recommend** to the Board that it approve the Gavi Risk Policy attached as Annex A to Doc 01.

### **3. Executive summary – Update since 7-8 October PPC meeting**

- 3.1 The PPC discussed the proposed Gavi Risk Policy at its meeting on 7-8 October and requested clarification on the intent of the policy and how it relates to other elements of Gavi's risk management approach. In addition, PPC members suggested changes in the wording and formatting of the policy document. The PPC agreed to review an updated version of the risk policy in a teleconference on 10 November.
- 3.2 The purpose of the risk policy is to create a consistent risk language and a shared understanding of risk concepts; to promote a culture of risk awareness; to provide high level guidance on risk management; and to guide strategic and operational decision-making within the Alliance .

- 3.3 The risk policy forms the overarching framework for Gavi’s risk management approach, which will be embedded across the Secretariat in various structures and processes for risk controls, monitoring, reporting and mitigation (see Figure 1 below). While several of these structures and processes are already in place, for example the risk register, others will be developed over the coming months and years as Gavi continues to formalise its risk management approach based on the framework in Figure 1. A range of structural and process changes specifically related to fiduciary risk management have recently been reviewed and endorsed for Board approval by the Audit and Finance Committee on 24 October. This first set of proposed changes will come to the Board for decision in December 2014.
- 3.4 The risk policy includes an annexed *risk appetite statement* which gives an indication of appetite for risk in different business areas as well as tolerance levels for certain specified risks. The risk appetite statement will serve as a basis for a dialogue on risk to inform decision-making.

**Figure 1. Gavi risk management approach**



**4. Background**

- 4.1 The PPC reviewed a draft risk policy at its meeting on 7-8 October 2014. It requested the Secretariat to clarify the intent of the policy and how the risk policy relates to Gavi’s overall risk management approach. The following paragraphs aim to describe the purpose of the policy and the context of Gavi’s risk management approach in more detail.
- 4.2 Risk is inherent to Gavi’s business, both in its mission to help achieve dramatic progress in immunisation in the world’s poorest countries, and in its operating model as an Alliance with a lean Secretariat without in-country presence. Gavi is very conscious of this risk and of its obligation to

be effective stewards of donors' resources. Key risks that GAVI faces can be categorised into the following major areas:

- (a) Fiduciary risks
- (b) Financial risks
- (c) Programmatic risks (including risks associated with quality and supply of vaccines, local implementation capacities, etc., all of which have bearing on programmatic performance and sustainability)
- (d) Governance risks

4.3 Gavi's approach to managing risk, and especially fiduciary risk, has evolved over time. This evolution has been driven both by a realisation that an overly "light-touch" model may not provide sufficient risk controls, and also by an increasing risk awareness and reduced risk tolerance among key stakeholders, and especially donors. Over recent years, the Board has approved a number of policy changes and increase in resourcing to strengthen risk management, particularly in the Secretariat.

4.4 The development of a risk policy is part of a comprehensive set of efforts to further strengthen Gavi's approach to risk management. In December 2014 the Gavi Board will review a range of proposed changes to strengthen Gavi's grant management and fiduciary oversight, primarily within the Secretariat. The proposal was endorsed by the Audit and Finance Committee (AFC) at its meeting on 24 October. These changes can be summarised as follows:

- (a) Ensuring key functions are appropriately structured in line with best practice. The Secretariat is proposing to structure its risk management and fiduciary oversight functions using the three lines of defence model<sup>1</sup> recommended by the Institute of Internal Auditors. The Secretariat has used this model to clarify and delineate roles and responsibilities between teams, ensure effective checks and balances are in place and ensure all key risk-related functions are appropriately managed.
- (b) Enhancing Gavi's processes and capabilities to manage risk, especially fiduciary risk, including:
  - (a) Ensuring grant management processes are rigorous, appropriately codified, and mindful of risk, including fiduciary risk

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<sup>1</sup> The 1st line of defence is the controls within the core business. In Gavi's case, this is the Country Programmes department who have responsibility for day-to-day management of Gavi's grants, working with countries and partners. The 2nd line of defence includes a number of functions which both support the 1st line and provide checks and controls over it. Currently, the key 2nd line functions in Gavi include Programme Financial Assessment (PFA) team, the Monitoring and Evaluation (M&E) team, the Finance department, the Legal Team and the Operations team. The 3rd line of defence is Internal Audit, which independently assesses performance of both the first and 2nd lines. Importantly, the 3rd line has an independent reporting line to the Board – as well as senior management – to ensure its independence.

(b) Ensuring all staff understand their responsibilities related to fiduciary risk and have the capabilities, systems and tools they require to manage risk

(c) Ensuring key functions are adequately resourced

4.5 The AFC welcomed the proposed changes and has recommended the proposed approach for Board approval.

## 5. Gavi's risk management approach

5.1 Gavi's comprehensive risk management approach is illustrated in Figure 1. The following paragraphs describe the different elements of this approach. The risk policy is the first element of this framework that is being formalised. Additional work will be done over the coming months and years through a risk and change management implementation plan to operationalise the pillars in the framework. A number of structures and mechanisms already exist and these are described below.

5.2 The **Risk Policy** forms a cornerstone for Gavi's risk management approach. The policy aims to ensure a common understanding of risk concepts and of the principles of how Gavi thinks about risk to inspire a risk-aware culture. It provides high level guidance on risk management by articulating the Alliance's appetite in key business areas. In line with expert guidance and a benchmarking review, the policy contains:

(a) *Definitions*: to create a consistent risk 'language'

(b) *Roles and responsibilities*: to create a shared understanding within the Alliance of roles and responsibilities with regard to risk

(c) *Principles*: to inspire a risk-aware culture

(d) *Risk appetite statement*: to give a high-level indication of risk appetite in different business areas and facilitate a dialogue on risk in decision-making

5.3 The risk appetite statement was developed based on interviews with Board members. It reflects Board member views on areas of importance for the Alliance and gives an indication of *appetite* for risk in these areas in relative terms<sup>2</sup>. It also reflects Board member views on *tolerance* levels for certain specified risks.

5.4 The risk appetite statement will serve as a basis for a dialogue on risk. This dialogue will first of all inform *decision-making*. For example, an agreed higher risk appetite for achieving equity in immunisation coverage will inform Board discussions on the types of strategies to be developed in this area and the degree of uncertainty it is willing to accept regarding the

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<sup>2</sup> The literature indicates that risk appetite statements at the organisational level are usually broad and become more precise as they cascade into departments and operations across the organisation.

outcomes. Thus, with a higher risk appetite, the Board may wish to consider a higher-risk approach with the potential to catalyse dramatic progress in equity while accepting a degree of uncertainty about the probability of success. Secondly, a dialogue around risk appetite will serve to inform *risk management*. For example, an agreed low tolerance for fiduciary risk is driving the current strengthening of risk management capabilities in the Secretariat as well as the development of dedicated monitoring and reporting mechanisms and prioritised mitigation strategies for fiduciary risk (pillars 2, 3 and 4 in Figure 1).

5.5 A risk appetite statement is not intended to be a detailed guideline for decision-making. In some areas, stated risk appetite levels could be seen as contradictory. For example, a high risk appetite for health systems strengthening support in Gavi implementing countries is not compatible with zero tolerance on fiduciary risk. Similarly, there is a tension between a high risk appetite for accelerating vaccine introductions on the one hand, and low tolerance for unsustainable investments on the other. Consultations showed it is challenging to pre-define positions on some of the trade-offs involved with different areas of Gavi's work. While many Board members expressed concerns about the sustainability of introducing additional new vaccines in low-income countries, they also acknowledged it is challenging to specify at what point this concern begins to outweigh Gavi's ambition to increase access to life-saving vaccines. An assessment of trade-offs involved with decisions will ultimately depend on the specific circumstances. The purpose of the risk appetite statement is to make such tensions explicit and increase awareness of the trade-offs involved. It 'sets the tone' for how much risk the organisation is willing to accept and is meant to provide a platform for discussion to inform decisions on strategies and investments.

5.6 The risk appetite statement will be updated regularly as the risk dialogue evolves and appetite changes over time. To facilitate these updates, the statement is attached to the policy in an annex rather than being embedded within the policy.

5.7 **Risk governance:**

The **Gavi Board** provides leadership on risk management and is ultimately responsible for determining Gavi's risk philosophy, including risk appetite; validating that the Secretariat has established effective risk management processes; being appraised of the most significant risks and whether Alliance partners are responding appropriately; and reviewing Gavi's portfolio of risks and ensuring that these risks are within Gavi's risk appetite.

The Gavi Secretariat is responsible for leading discussions with partners to translate risk appetite, as endorsed by the Board, into appropriate strategies and processes. It promotes a risk-aware culture, implements risk management processes, and communicates risks to the Gavi Board in a timely fashion. Secretariat staff members are responsible for identifying, assessing, and managing risks in their daily work and for escalating risk management to appropriate levels when needed. As part of the changes in risk management implemented in 2014, the Secretariat is convening a **Risk Committee** chaired by the CEO and comprised of senior leadership from across the organisation. This committee will meet regularly to review key risks, oversee risk management processes and controls and follow-up on agreed risk mitigation actions. Collectively, this group will also lead efforts to reinforce a culture of risk awareness in the Secretariat. It will be supported by the newly formed Risk function (see 5.11) and include senior leaders from across the Secretariat.

- 5.8 **Mitigation strategies for key risks.** The Secretariat is putting in place a dedicated process around mitigation of key risks. The role of the Risk Committee is to review indicators showing the evolution of critical risks, discuss risk exposure in the context of risk appetite as articulated in the risk policy, and monitor the implementation of mitigation strategies. For example, current key risks identified include: vaccine supply shortages; vaccine wastage in country; non-compliance with co-financing requirements; country graduation; data quality; and misuse of 'cash'based' support.
- 5.9 **Operational risk processes and controls.** Risk management and controls are embedded in processes and functions throughout the Secretariat and all operational processes will have elements of risk control within them so that operational risk management occurs each day as a matter of routine. Alliance partners also play an important role in risk management. The Business Plan process facilitates reporting on goals and objectives and a dialogue on related risks. The Secretariat and partners are looking to continually strengthen this process. Well-defined relationships with partners are key for better risk management, especially with regard to country-level risks. Work is underway in 2015 to clarify and better define the roles and responsibilities of partners generally and specifically with regard to risk management.
- 5.10 **Risk monitoring & reporting.** In addition to on-going monitoring and reporting of risks by Gavi Secretariat staff and by Alliance partners (for example through the Joint Appraisal process) Gavi uses the Risk Register to identify, track and ensure that mitigation strategies are in place and being monitored for key risks on a regular basis. The identification and reporting of risks after mitigation (residual risk) is a key element in the risk management process so that management and the Board are aware of both initial and residual exposures that the organisation faces.
- 5.11 **Risk and change management implementation plan.** The Secretariat is proposing various changes to strengthen the organisation generally and to

enhance capabilities for (fiduciary) risk management across teams and at the country level specifically as detailed in the recent AFC paper endorsed for Board decision in December 2014. This includes a proposal to institute a *dedicated risk function* that will be responsible for coordinating risk management processes and for implementation of the Risk Policy. The risk function will report to senior management on the effectiveness of risk management practices, ensure alignment with Gavi's risk policy and facilitate discussions on risk appetite in line with the policy. In addition, the risk function will follow-up on agreed risk mitigation activities, facilitate cross-team collaboration on risk and foster a culture of risk awareness and risk-aware behaviours in line with principles articulated in the policy. This unit - to be situated in the Policy & Performance department - will also manage the Gavi Risk Register.

**Annex A: Gavi Risk Policy**

DOCUMENT ADMINISTRATION

VERSION NUMBER	APPROVAL PROCESS	DATE
1.0	Robert Newman, Managing Director, Policy & Performance	
	Reviewed by: Programme and Policy Committee, Audit and Finance Committee	[FULL DATE]
	Approved by: Gavi Board	[FULL DATE]
		Effective from: 1 January 2015
		Review: in accordance with changes in objectives or major alterations in the business model, as requested by the Board

## Gavi Risk Policy

### 1. Goal and scope of the policy

- 1.1. The purpose of the Gavi Risk Policy is to
  - 1.1.1. create a consistent risk language and a shared understanding of risk concepts
  - 1.1.2. promote a culture of risk awareness, which encourages careful assessment of risks and benefits involved with Gavi operations and decision-making
  - 1.1.3. provide high level guidance on risk management
  - 1.1.4. guide strategic and operational decision-making within the Alliance
- 1.2. The risk policy forms the overarching framework for Gavi's risk management approach, which is embedded across the Secretariat in various structures and processes for risk monitoring, reporting and mitigation.

### 2. Principles

- 2.1. **Risk is integrally linked to ambition:** Gavi recognises that objectives can only be achieved by taking calculated and carefully managed risks. Some high-impact opportunities may require taking greater risks. Sometimes the greatest risk is inaction.
- 2.2. **Risk is everyone's responsibility:** risk management is an integral part of Gavi operations. Everyone working towards the Gavi mission is expected to pro-actively identify, assess, and manage risks.
- 2.3. **Gavi encourages a culture of learning:** Gavi aims to nurture a culture that encourages staff and stakeholders to be risk-aware in delivering on Gavi's mission, while also recognising and accepting that success will not always be achieved. It ensures that processes are in place to learn from both positive and negative results.

### 3 Roles and responsibilities

- 3.1 The **Gavi Board** provides leadership on risk management and is ultimately responsible for:
  - 3.1.1 Determining Gavi's risk philosophy, including risk appetite;
  - 3.1.2 Validating that the Secretariat has established effective risk management processes;
  - 3.1.3 Being apprised of the most significant risks and whether Alliance partners are responding appropriately;
  - 3.1.4 Reviewing Gavi's portfolio of risks and ensuring that these risks are within Gavi's risk appetite.
- 3.2 The **Gavi Secretariat** is responsible for leading discussions with partners to translate risk appetite, as endorsed by the Board, into appropriate strategies and processes. In addition it promotes a risk-aware culture, implements risk

management processes, and communicates risks to the Gavi Board in a timely fashion. Secretariat staff members are responsible for identifying, assessing, and managing risks in their daily work and for escalating risk management to appropriate levels when needed.

- 3.3 The Alliance model leverages the strengths of the **Alliance partners** through shared responsibility and mutual accountability for risks. Each Gavi partner is responsible for managing risks involved with Gavi activities and alerting the Secretariat in a timely manner to risks that may affect the Gavi mission, including risks to the responsible use of Gavi resources in countries and to the effective implementation and sustainability of Gavi programmes.
- 3.4 **Implementing countries** are responsible for delivering programmatic results with the vaccines and funds provided, and for meeting co-financing requirements. They have primary responsibility for managing risks to the results being pursued with Gavi-funded programmes and for reporting risks encountered in the implementation of these programmes in a timely manner.

#### 4 Definitions

- 4.1 **Risk:** the probability of an event that could negatively affect the achievement of objectives if it were to occur.
- 4.2 **Opportunity:** the probability of a (positive) event that could bring benefits if it were to occur.
- 4.3 **Inherent risk:** risk prior to the application of mitigation efforts or controls.
- 4.4 **Residual risk:** risk remaining after relevant controls or reasonable mitigation efforts have been applied.
- 4.5 **Risk management:** the process of identifying, assessing and prioritising risk followed by the application of resources to treat the risk:
- 4.5.1 **Risk treatment:** to avoid, accept, mitigate or transfer the risk in order to minimise the probability and/or the impact of adverse events and to maximise the realisation of benefits.
- 4.5.2 **Risk mitigation:** a reduction in the probability and/or impact of a risk, also called risk reduction. Risk mitigation will reduce the risk, but rarely eliminates it completely.
- 4.6 **Risk appetite** is the amount of risk, on a broad level, that an organisation is willing to accept in pursuit of objectives. It reflects the risk philosophy of the organisation and is at the heart of its business model; it guides strategy development and related investments in risk mitigation processes. A defined risk appetite statement helps to align people and processes in pursuing organisational goals within acceptable ranges of risk.
- 4.7 **Risk tolerance** is the specific, maximum amount of risk that an organisation is willing to accept in relation to a specific outcome. While risk appetite is broad, risk tolerance is specific and operational.

## Risk categories

4.8 The following **risk categories** can be distinguished in relation to Gavi operations and objectives. The list is not exhaustive and the categories are not mutually exclusive; in practice, some risks will fit more than one category.

4.9 The following categories highlight the *source* of the risk:

4.9.1 **Operational** risks are related to inadequate or failed internal processes, people and systems.

4.9.2 **Financial** risks are related to the management and control of Gavi resources.

4.9.3 **Fiduciary** risks are related to funds not being used for the intended purposes, not being used to achieve value for money, and/or not being properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or corruption.

4.9.4 **Governance and stakeholder relationship** risks are related to the management of decision-making structures of the Alliance and operational relationships between Gavi partners.

4.9.5 **Programmatic** risks are related to the implementation of Gavi programs at country level. The following sub-categories can be distinguished for programmatic risks at the country level:

- a) Social, political and environmental
- b) Financing and sustainability
- c) Fiduciary
- d) Technical and institutional capacity including programme governance

4.10 Risks across all categories can also be described according to the potential *effect* of the risk:

4.10.1 **Strategic** risks threaten the achievement of Gavi's strategic objectives.

4.10.2 **Reputational** risks threaten Gavi's reputation.

## 5 Effective date and review of the policy

5.1 This policy comes into effect 1 January 2015.

5.2 The risk appetite statement (annex 1) is to be reviewed every two years.

5.3 The risk policy is to be updated in accordance with changes in objectives or major alternations in the business model, as requested by the Gavi Board.

## Annex 1: Risk appetite statement – Version 1 – November 2014

### Introduction

Gavi, the Vaccine Alliance, recognises that its ambitious mission, its focus on lower-income countries, its operating principles – including a commitment to aid effectiveness principles – and its business model – with a small-sized secretariat without country presence – come with inherent risks.

While the risk appetite of individual Alliance members may vary, consensus in decision-making is reached through the Gavi Board and guided by the Gavi Strategy, which includes an overall mission, operating principles and goals. Within this strategic framework, Gavi engages in a portfolio of activities, some of which are lower risk and others higher risk. Higher-risk activities will be undertaken only where they offer benefits commensurate with the level of residual risk involved and do not increase risk to an unacceptable level; that is, where an adverse outcome would seriously jeopardise the achievement of the Gavi mission.

### Risk appetite

The following paragraphs articulate risk appetite in relation to Gavi's four strategic goals (SG1-4) and to key functional areas. In addition, tolerance for certain critical risks is expressed. This list is not comprehensive in describing all areas of Gavi's work nor every type of risk; it is intended to give an indication of willingness to accept risk in certain key areas.

- With regard to **accelerating the equitable uptake of vaccines** in lower-income countries (SG1) Gavi has a *higher risk appetite*<sup>3</sup> relative to other areas of work. Achieving rapid access to new, life-saving vaccines is at the heart of Gavi's mission. The Alliance is willing to be bold and take some risk in pursuing this important goal.
  - The Alliance has a *lower risk appetite* in the operational area of **procurement** of adequate quantities of vaccines for national immunisation programmes; it is committed to avoid shortfalls and ensure predictable country supply.
  - The Alliance has a *higher risk appetite* for achieving its **equity** goals, as this implies working in complex settings where it is necessary to take risks in order to reach the most disadvantaged populations.
  - The Alliance has *low tolerance* for risks to vaccine and immunisation **safety** that could negatively affect the health of children in implementing countries; it follows the guidance of the World Health Organization on safe and appropriate vaccines.
- The Alliance recognises that working in settings with relatively weak data systems comes with certain risks. It has a *moderate tolerance* for risks related

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<sup>3</sup> A higher risk appetite signals a willingness to accept more risk to achieve certain end goals or benefits with the belief that if risks were to crystallise, the downside is moderate or acceptable in light of the benefits that will accrue.

to **data quality** while actively pursuing strategies to assess and improve data systems.

- Gavi has a *higher risk appetite* in relation to **strengthening health systems** (SG2) for better immunisation outcomes; strong health systems are essential for realising the full potential of immunisation and for the sustainability of programmes; the Alliance is willing to pursue ambitious and innovative strategies towards this end, which will come with certain risks.
  - However, the Alliance will *not tolerate* misuse of funds, and it will always seek reimbursement for any identified cases. It will manage **fiduciary risks** through an effective system of controls.
- The Alliance has a *lower appetite* for strategies that put the sustainability of national immunisation programmes at risk (SG3). This is an important limitation to the ambition of achieving SG1.
- Gavi has a *higher risk appetite* when it comes to strategies for **shaping markets** (SG4), for example to reduce vaccine prices, recognizing that in some cases bold steps are needed to fundamentally change market dynamics and sustainably increase access to vaccines in lower income countries.
- Gavi has a *lower risk appetite* with regard to its core function of **raising donor funds** in order to safe-guard predictable financing of vaccines; it has a *higher risk appetite* in relation to pursuing **innovative financing** models in order to lead innovation in sustainable development financing.

## Annex 2 - Results Framework and Theory of Change

### 1. Purpose of this framework

This framework articulates the theory of change and intended outcomes and impact from the Gavi Risk Policy.

### 2. Policy goal

The overall goal of the Gavi Risk Policy is to create a shared understanding of, and promote a consistent approach to, risk and risk management within Gavi, the Vaccine Alliance. It guides strategic and operational decision-making and facilitates a systematic approach to risk management of the Alliance.

The Gavi Risk Policy further aims to promote a culture of risk awareness, which encourages careful assessment of risks and benefits involved with Gavi operations and decision-making.

### 3. Theory of change

The *development* of the Risk Policy has facilitated a discussion with Gavi Board constituencies, which has led to the expression of explicit and well reasoned views on Gavi's risk appetite. The *implementation* of the Risk Policy will help Gavi to take into consideration different types of risks involved in decisions and operations, and increase awareness of risk, including that associated with inaction. It will facilitate a consistent approach to risk management and ensure that the decisions and actions taken by the Gavi Board, the Secretariat and Gavi partners are in line with Gavi's risk appetite in different strategic and functional areas. This will help guide the Alliance in setting priorities, choosing implementation strategies, and deciding on investments to mitigate risk.

This theory of change will be achieved through:

- Creating a common language around risk
- Raising awareness and encouraging discussion around risk
- Strengthening Gavi staff capacity to make risk assessments
- Setting expectations for mutual accountability between Gavi partners through high level definition of accountability structures for risk management
- Providing guidance on risk appetite to ensure that decisions are in line with the Alliance's risk appetite

### 4. Key assumptions underpinning the results framework and theory of change

The Gavi Secretariat and Alliance partners have sufficient resources, capacity and willingness to support the Risk Policy implementation

- It is possible to define risk appetite levels and the risk appetite levels for the strategic objectives and key functional areas as articulated in the Risk Policy will stay relatively stable over a two year period<sup>4</sup>
- All Alliance partners strive to reflect risk appetite levels and follow this in their individual support and implementation of Gavi activities.
- All Gavi partners are willing to take on their roles and responsibilities with regards

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<sup>4</sup> The risk appetite statement in the policy is to be reviewed every second year.

to risk in the Alliance, including to report on risk identified at various levels as and when these occur.

- There will be consistency in implementation of the risk policy across the Board, its committees, the Secretariat and Alliance partners

### 5. Monitoring and evaluation of risk policy implementation

Implementation of the policy will be monitored by the Secretariat as outlined in the framework below.

The monitoring will be regular, and mainly qualitative rather than quantitative, based on;

- Qualitative assessments of changes in reports prepared to the Gavi Board with regards to risk, the risk section in Board papers, reports from the Risk Register and presentations to the Board on risk
- A staff survey on risk, where the staff survey undertaken as part of the development of the Risk Policy will serve as the baseline
- A follow-up, after 2 years of implementation of the Risk Policy, to re-assess staff, Board members and constituency views on risk appetite to inform an update of the risk appetite statement, as well as to assess knowledge and attitudes towards the policy
- Assessment of Board decisions and their degree of consistency with the risk appetite statement.

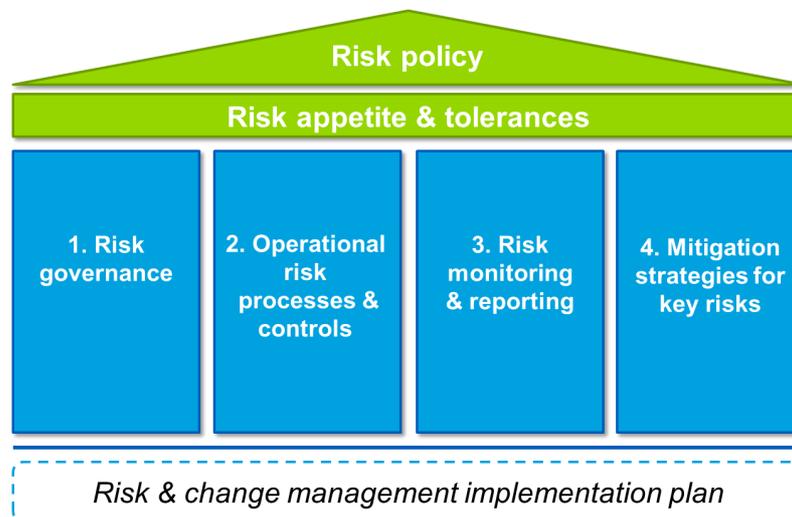
#### Gavi Risk Policy Results Framework

Inputs	Process	Outputs	Outcomes	Impact
<p>Oversight and coordination of risk management activities by dedicated risk management function</p> <p>Regular meetings of cross-Secretariat Risk Management Committee chaired by CEO</p> <p>Risk Register review and reports on myGAVI (quarterly)</p> <p>Corporate KPIs</p> <p>Secretariat reports to the Board on risk (2/year)</p> <p>Risk assessment in proposed Board decisions</p>	<p>On-going assessment and management of risks by Secretariat and partners based on 'three lines of defence' model (1: Country Programmes and Alliance partners, 2: Programme Financial Assessment, M&amp;E, Risk Management, 3: Internal Audit) and through various established operating processes, e.g. GAMR, Annual risk assessments by Country Programmes Team, etc.</p> <p>Regular Board discussions regarding Gavi's overall risk portfolio</p> <p>Board decisions taken on the basis of a thorough risk assessment and its alignment with the agreed Gavi risk appetite for that particular objective or functional area</p>	<p>Clarity among Alliance Partners and Gavi Secretariat staff on risk concepts, risk principles and risk appetite</p> <p>Clarity among Gavi partners on the roles and responsibilities for risk management within the Alliance.</p> <p>Careful assessment of risks and benefits in Gavi Alliance operations and decision-making</p>	<p>A shared understanding of risk in Gavi</p> <p>A consistent approach to risk and risk management within Gavi.</p> <p>Improved risk awareness within Gavi</p> <p>Mutual accountability for risk among Alliance partners</p> <p>Improved decision-making (quality of risk assessments in decisions)</p>	<p>Gavi's overall risk portfolio is aligned with the Alliance's risk appetite</p>

### Annex 3 – Operational framework - Version 1 – November 2014

- 1.1 The risk policy will be operationalised through the development of a comprehensive risk management approach which will include a range of mechanisms, organisational structures and tools embedded across the Secretariat in the areas of 1) risk governance, 2) operational risk processes and controls, 3) risk monitoring and reporting, and 4) mitigation strategies for key risks, as illustrated in figure 1 below.
- 1.2 While several of these structures and processes are already in place, for example the risk register, others will be developed over the coming months and years as Gavi continues to formalise its risk management approach based on this framework.

**Figure 1. Gavi risk management approach**



- 1.3 **Risk governance:** The *Gavi Board* provides leadership on risk management and is ultimately responsible for determining Gavi's risk philosophy, including risk appetite; validating that the Secretariat has established effective risk management processes; being apprised of the most significant risks and whether Alliance partners are responding appropriately; and reviewing Gavi's portfolio of risks and ensuring that these risks are within Gavi's risk appetite. The Gavi Secretariat is responsible for leading discussions with partners to translate risk appetite, as endorsed by the Board, into appropriate strategies and processes. It promotes a risk-aware culture, implements risk management processes, and communicates risks to the Gavi Board in a timely fashion. Secretariat staff members are responsible for identifying, assessing, and managing risks in their daily work and for escalating risk management to appropriate levels when needed. As part of the changes in risk management implemented in 2014, the Secretariat is convening a *Risk Committee* chaired by the CEO and comprised of senior leadership from across the organisation. This committee will meet regularly to review key risks, oversee risk management processes and controls and follow-up on agreed risk mitigation actions. Collectively, this group will also

lead efforts to reinforce a culture of risk awareness in the Secretariat. It will be supported by the newly formed Risk function (see below) and include senior leaders from across the Secretariat.

- 1.4 **Mitigation strategies for key risks.** The Secretariat is putting in place a dedicated process around mitigation of key risks. The role of the Risk Committee is to review indicators showing the evolution of critical risks, discuss risk exposure in the context of risk appetite as articulated in the risk policy, and monitor the implementation of mitigation strategies. For example, current key risks identified include: vaccine supply shortages; vaccine wastage in country; non-compliance with co-financing requirements; country graduation; data quality; and misuse of 'cash-based' support.
- 1.5 **Operational risk processes and controls.** Risk management and controls are embedded in processes and functions throughout the Secretariat and all operational processes will have elements of risk control within them so that operational risk management occurs each day as a matter of routine. Alliance partners also play an important role in risk management. The Business Plan process facilitates reporting on goals and objectives and a dialogue on related risks. The Secretariat and partners are looking to continually strengthen this process. Well-defined relationships with partners are key for better risk management, especially with regard to country-level risks. Work is underway in 2015 to clarify and better define the roles and responsibilities of partners generally and specifically with regard to risk management.
- 1.6 **Risk monitoring & reporting.** In addition to on-going monitoring and reporting of risks by Gavi Secretariat staff and by Alliance partners (for example through the Joint Appraisal process) Gavi uses the Risk Register to identify, track and ensure that mitigation strategies are in place and being monitored for key risks on a regular basis. The identification and reporting of risks after mitigation (residual risk) is a key element in the risk management process so that management and the Board are aware of both initial and residual exposures that the organisation faces.
- 1.7 **Risk and change management implementation plan.** The Secretariat is proposing various changes to strengthen organisation-wide capacity to manage risk and to enhance capabilities for risk management across teams, particularly at the country level as detailed in the recent AFC paper endorsed for Board decision in December 2014. These changes can be summarised as follows:

- (a) Ensuring key functions are appropriately structured in line with best practice. The Secretariat is proposing to structure its risk management and fiduciary oversight functions using the three lines of defence model<sup>5</sup> recommended by the Institute of Internal Auditors. The Secretariat has used this model to clarify and delineate roles and responsibilities between teams, ensure effective checks and balances are in place and ensure all key risk-related functions are appropriately managed.
- (b) Enhancing Gavi's processes and capabilities to manage risk, especially fiduciary risk, including:
  - (a) Ensuring grant management processes are rigorous, appropriately codified, and mindful of risk, including fiduciary risk
  - (b) Ensuring all staff understand their responsibilities related to fiduciary risk and have the capabilities, systems and tools they require to manage risk
  - (c) Ensuring key functions are adequately resourced

1.8 The changes also include a proposal to institute a dedicated risk function that will be responsible for coordinating risk management processes and for implementation of the Risk Policy. The risk function will report to senior management on the effectiveness of risk management practices, ensure alignment with Gavi's risk policy and facilitate discussions on risk appetite in line with the policy. In addition, the risk function will follow-up on agreed risk mitigation activities, facilitate cross-team collaboration on risk and foster a culture of risk awareness and risk-aware behaviours in line with principles articulated in the policy. This unit – to be situated in the Policy & Performance department – will also manage the Gavi Risk Register.

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<sup>5</sup> The 1st line of defence is the controls within the core business. In Gavi's case, this is the Country Programmes department who have responsibility for day-to-day management of Gavi's grants, working with countries and partners. The 2nd line of defence includes a number of functions which both support the 1st line and provide checks and controls over it. Currently, the key 2nd line functions in Gavi include Programme Financial Assessment (PFA) team, the Monitoring and Evaluation (M&E) team, the Finance department, the Legal Team and the Operations team. The 3rd line of defence is Internal Audit, which independently assesses performance of both the first and 2nd lines. Importantly, the 3rd line has an independent reporting line to the Board – as well as senior management – to ensure its independence.

## **Annex B: Background on Risk Policy development process and consultation findings**

*This annex consists of excerpts from the original PPC paper discussed by the PPC at its meeting on 7-8 October 2014. The complete paper can be found on myGavi.*

### **1. Policy development process**

- 1.1 The Gavi Risk Policy was developed in 2014, guided by the findings of the Gavi Internal Auditor's enterprise risk management (ERM) audit undertaken in 2013. This audit concluded that Gavi has a solid core of mechanisms for managing risk<sup>1</sup> but identified a few critical areas for improvement, including the need for a Gavi Risk Policy.
- 1.2 The Secretariat led the policy development process with the objective to develop and find agreement among Alliance partners on:
  - (a) Risk appetite
  - (b) Principles with regard to risk
  - (c) Definitions of risk and risk categories
  - (d) Roles and responsibilities for managing risk
- 1.3 The Risk Policy is primarily informed by extensive internal and external consultations including with Board members, Secretariat staff, external experts, risk officers in other organisations, a review of relevant literature and of other organisations' risk policies, a review of how risks were identified and considered in selected Board papers and in reports from the Risk Register. Documents summarising the findings from internal and external consultations as well as the literature review can be found on MyGavi.
- 1.4 The scope of the Risk Policy is restricted to activities related to the Gavi mission and does not set the risk appetite for other activities implemented by individual Alliance members. Details related to risk management with regards to different Gavi support windows are not included in this policy.
- 1.5 The Risk Policy has not been developed in order to set or change Gavi's existing risk appetite, but rather to make it explicit by identifying and articulating risk appetite levels related to the Gavi strategy.

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<sup>1</sup> An overview of Gavi risk management processes as presented by the Internal Auditor to the Gavi Board in November 2013 is shown in Figure 1 at the end of this document

## 2. Key findings

### Expert consultations and literature review

- 2.1 The Secretariat reviewed recent literature on risk as well as publicly available risk management policies of similar organisations working in global health and development. The review found that much of the literature regarding risk and risk management concerns the private sector and in particular companies with primary exposure to financial risk such as banks and other financial institutions.
- 2.2 In the (non-profit) global health and development sector, many organisations have a defined enterprise risk management system, but few appear to have an overarching risk policy that includes a risk appetite statement. Some of the organisations reviewed were in the process of developing a new - or reviewing an existing - risk policy, including developing risk appetite statements and risk tolerance levels related to organisational objectives.
- 2.3 Organisations with extensive field operations and diverse portfolios of activities indicated that less detailed and less prescriptive policies are necessary to allow for flexible risk approaches adjustable to different environments. The types of risk that can be tolerated may differ between headquarters and a field office in, for example, a fragile or conflict affected country. Some organisations noted that they previously had too 'academic' and complex risk policies that were unhelpful in practically guiding their board, management or staff. Experts consulted encouraged Gavi to focus on defining categories, risk principles, and a risk appetite statement with practical applicability for management and for the Board and tailored to Gavi's specific mandate and business model.
- 2.4 Consultations further highlighted that staff in many organisations tend to be risk averse and not always equipped with good knowledge of risk and risk concepts. In particular, the concept of residual risk seems often misunderstood. Several organisations indicated that they endeavour to have a higher risk appetite than at present, with improved structures to support staff to identify, assess and manage risk.
- 2.5 An early draft of the Risk Policy was reviewed by experts in an External Review Meeting. The group advised Gavi to focus the Risk Policy on principles and risk appetite. If deemed relevant, *risk tolerance* levels<sup>2</sup> for individual objectives should be defined separately, as part of the development of an implementation plan and indicators for the new Gavi Strategy 2016-2020. The experts further recommended keeping the policy brief and excluding any implementation aspects. The experts also confirmed that findings from Gavi stakeholder consultations were in line

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<sup>2</sup> 'Risk tolerance' is the specific, maximum amount of risk that an organisation is willing to accept in relation to a specific outcome. While risk appetite is broad, risk tolerance is specific and operational.

with their experiences and/or observed patterns of risk appetite among different constituencies (Board, senior management, staff, etc.)

### Consultations with Board members and Board constituencies

- 2.6 The most frequently mentioned risk facing Gavi was the risk to sustainability of Gavi's investments and successful graduation of countries. Other risks mentioned were those relating to failure to deliver on ambitious targets, misuse of funds and challenges in vaccine management at country level.
- 2.7 Board members and Board constituencies highlighted that the donor constituency has a lower risk appetite than most other Alliance constituencies. Most donors expressed that Gavi's overall risk appetite has decreased relative to the early years when Gavi was comparable to a 'start-up' organisation; they feel that today's more moderate risk appetite is appropriate as Gavi has matured. At the same time, donors also recognised that Gavi may need to take greater risks in order to achieve certain objectives under the new strategy (e.g. reaching marginalised populations). However, the group was clear that Gavi should have a very low appetite when it comes to fiduciary risk, as this could greatly damage Gavi's reputation and trust in the organisation, especially from donors. Civil Society Organisations (CSOs) appear to have a relatively higher risk appetite than other constituencies, especially with regard to vaccine market shaping. Vaccine manufacturer representatives highlighted the need for greater sharing of risks between industry and the rest of the Alliance. Most stakeholders felt that these differences between constituencies are normal and that the diversity helps to balance the overall risk appetite of the Alliance.
- 2.8 When asked to rank risks in different given areas<sup>3</sup> there was broad agreement among Board members that the 'health and well-being of children in Gavi-eligible countries' should always be given first priority, i.e. that we should be least willing to tolerate risks in this area. The 'reputation of the Gavi Alliance' was frequently listed as a high priority. Some argued that Gavi's reputation is derived from the other areas and that mitigating risks in those areas would safeguard Gavi's reputation. The two areas that most often were given the lowest priority in this trade-off exercise were 'preventing financial loss' and 'staff workload and wellbeing'.
- 2.9 A majority of interviewees indicated that the Board is made sufficiently aware of risks related to individual decisions through the mandatory risk section in Board papers.
- 2.10 There was broad consensus among consulted stakeholders that Gavi's overall risk appetite was higher in the early years of Gavi's existence and has decreased in recent years. Some felt it should become even lower as

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<sup>3</sup> Respondents were asked to rank the following five areas of potential risk: health and well-being of children in Gavi countries, sustainability of immunisation programmes, preventing financial loss, reputation of the Gavi Alliance, staff workload and well-being

Gavi adapts its model to higher volumes of transactions, while others felt Gavi has become overly risk-averse and conservative in its approaches.

### Consultations with Gavi Secretariat staff

- 2.11 In line with Board member feedback, staff members also expressed concerns about the risk that vaccine programmes are not sustained after countries graduate. On the other hand, many staff members also emphasised the fact that accelerating vaccine introduction is at the heart of Gavi's mission and ambition in this area should remain high. Congruent with the Board consultations, staff highlighted health systems strengthening as an area where risks are recognised and tolerated to some extent in order to find solutions - in particular to address equity challenges - but where fiduciary risks linked to the direct funding modality constitute a concern. In addition, concerns were expressed over fiduciary risks related to other non-vaccine support modalities, being Vaccine Introduction Grants (VIGs) and Operational Support for Campaigns. Other frequently mentioned risks include those related to vaccine safety; integrity of the Alliance model; and delivering on ambitious targets.
- 2.12 Several senior managers in the Secretariat feel that a somewhat higher risk appetite would better equip Gavi to reach its potential achieve its strategic goals<sup>4</sup>.
- 2.13 When asked to rank risks in different areas<sup>3</sup> in order of importance, staff agreed with Board members in that the health of children in Gavi-eligible countries should always be the first priority. In addition, findings from the staff survey highlighted staff capacity and burnout as important areas of risk. Staff also indicated that a common understanding on how much risk they should take or accept in their daily work was lacking.
- 2.14 Staff believe that although the Board is made aware of risks of individual decisions through the Board papers, more could be done to increase new Board members' awareness of risk and to encourage a broader dialogue on Gavi's overall risk portfolio at the Board level.
- 2.15 Several interviewees noted the importance of embracing diverse risk appetite levels within the Alliance and that the risk policy should not drive risk appetite down to the 'lowest common denominator'.

## 3. Consultation process

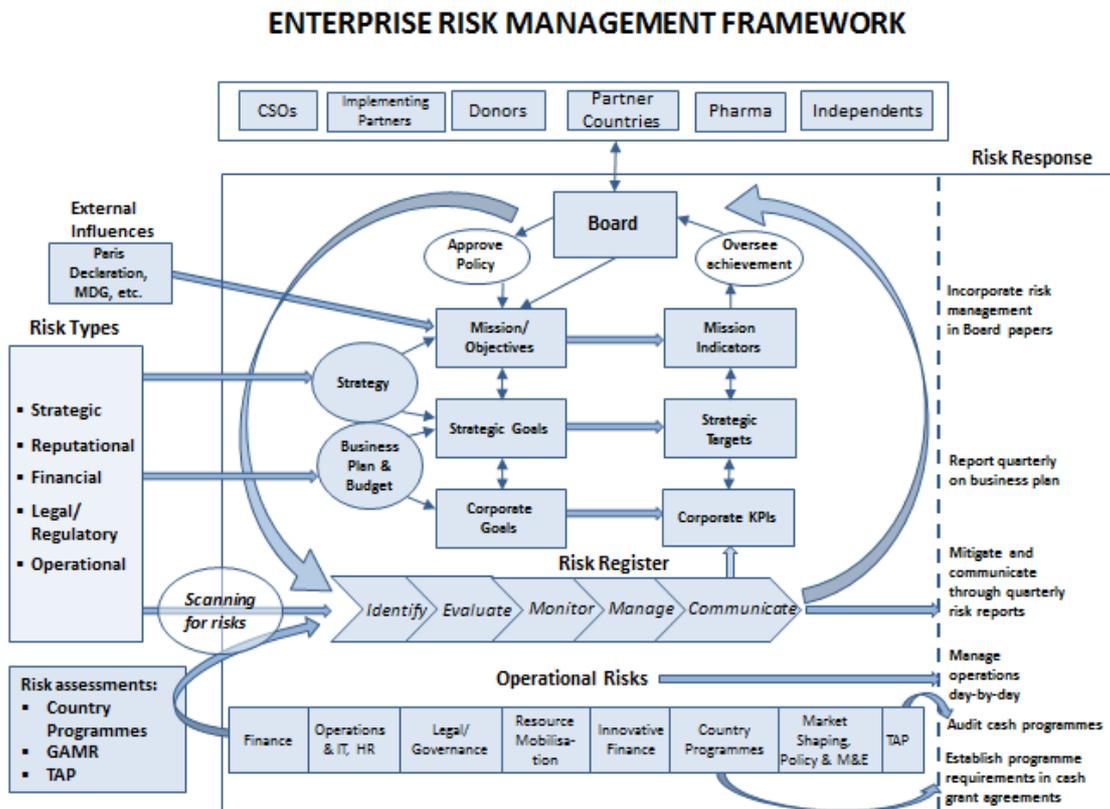
- 3.1 The Gavi Risk Policy is the result of extensive internal and external consultations:

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<sup>4</sup> According to risk experts consulted, it is common that management has a higher risk appetite in comparison with the Board

- (a) The Secretariat identified and consulted the following organisations in the area of global health and development with risk policies, relevant risk management frameworks and/or risk appetite statements: the Global Fund to fight Aids, TB and Malaria, UNICEF, the Department For International Development (DFID) of the UK government, the World Bank (WB) and the Global Partnership for Education (GPE).
- (b) The Secretariat consulted relevant publications of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), the National Association of Corporate Directors and the International Organization for Standardization (ISO) for standardized guidance on enterprise risk management approaches, risk categorisation, risk appetite statements and risk tolerance.
- (c) The Secretariat organised a consultative meeting with risk experts from the identified organisations as well as independent risk experts, at which participants gave their views on a first outline of a Gavi Risk Policy.
- (d) The Secretariat conducted interviews with individual Board members representing each constituency, with wider constituency groups including donors and civil society, and with individual manufacturers. Consultations were conducted by telephone using a semi-structured questionnaire to collect views on risks, risk appetite, risk management processes and risk prioritisation.
- (e) Senior managers in the Gavi Secretariat were interviewed in face-to-face meetings and all Secretariat staff were invited to complete a survey resulting in 133 responses.

Figure 1: Gavi risk management structure<sup>5</sup>



<sup>5</sup> From Internal Auditor's Enterprise Risk Management Audit report to the Board, November 2013

<b>SUBJECT:</b>	<b>Strengthening risk management and fiduciary oversight</b>
<b>Report of:</b>	Seth Berkley, MD, Chief Executive Officer
<b>Authored by:</b>	Simon Lamb, Managing Director, Internal Audit Hind Khatib-Othman, Managing Director, Country Programmes Robert Newman, Managing Director, Policy & Performance Alex de Jonquières, Chief of Staff
<b>Agenda item:</b>	05
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Alliance operations

## **Section A: Overview**

### **1. Purpose of the report**

- 1.1 This report proposes a number of changes to enhance Gavi's management of risk, and particularly fiduciary risk. It describes the rationale for strengthening Gavi's approach at this time and a high-level plan for how the proposed changes will be implemented.
- 1.2 The Secretariat is currently developing an Alliance Risk Policy, for discussion by the Gavi Board. The Risk Policy will help to ensure a common understanding of risk, the principles of how Gavi thinks about risk and the Alliance's risk appetite in each area of its business. This policy will be operationalised through a comprehensive risk management framework, as illustrated in Exhibit 1 below.
- 1.3 Fiduciary risk is a particular priority given Gavi's primary function as a financing organisation. This report proposes a number of changes to the structure, processes and resourcing of the Secretariat to help strengthen grant management and fiduciary oversight. Given the interlinkage between many of the risks Gavi faces, these changes (e.g., creation of a risk function, convening of a cross-Secretariat risk Committee, re-structuring risk management functions using the 3 lines of defence model) will also contribute to improving management of other risks and lay the foundation for comprehensive implementation of the risk framework.
- 1.4 The proposed changes were discussed at a high level by the Executive Committee (EC) at its meeting on September 23. While the EC was largely supportive of the approach, they asked for more information on the need to make changes now and on the trade-offs of investing in strengthening

risk management (i.e., what will Gavi *not* do as a result). The EC agreed that the Audit and Finance Committee (AFC) should review details of the proposed approach and make a recommendation to the Board. At its meeting on October 24, the AFC endorsed the proposed approach and requested further detail on how Gavi can work with partners to strengthen risk and grant management. These have been integrated into this paper.

**Figure 1: Gavi risk management framework**



**2. Recommendations**

2.1 The Audit and Finance Committee is requested to

**Recommend** to the Board that it endorse the proposed approach to strengthen risk management and fiduciary oversight set out in Section 8 of Doc 5.

**3. Executive summary**

3.1 Risk is inherent to Gavi’s business, both in its mission to help achieve dramatic advances in immunisation in the world’s poorest countries, and in its operating model as an Alliance with a lean Secretariat and low overhead. Gavi is very conscious of this risk and of its obligation to be an effective steward of donors’ resources. Gavi has therefore taken a very deliberate approach to managing risk, with a particular emphasis on fiduciary risk (defined holistically as the risk that any Gavi resources, including Gavi-funded vaccines and cash support, are used inappropriately). This risk is concentrated particularly in Gavi’s cash programmes and that is therefore a primary focus of our risk management efforts.

- 3.2 Gavi's approach to managing risk, and especially fiduciary risk, has evolved over time. Over recent years, the Board has approved a number of changes in policy and resourcing to strengthen risk management, particularly in the Secretariat. This evolution has been driven both by a realisation that an overly light-touch model may not provide sufficient risk controls, and also by increasing risk awareness and reduced risk tolerance among key stakeholders, and especially donors.
- 3.3 While recent changes have significantly enhanced Gavi's grant and risk management, this is an appropriate moment to review whether the current structures, resources and controls are sufficient given the expectations of the Board and of donors. The Secretariat is currently developing an Alliance Risk Policy to help ensure alignment within the Alliance on risk understanding, principles and appetite in each area of Gavi's business. The consultations conducted for that policy – as well as conversations with donors in the run up to Replenishment – indicate a very low tolerance for fiduciary risk and, consequently, an appetite for strengthening risk management controls. This will become even more relevant in our next strategy period as Gavi seeks to deepen engagement in the poorest and most fragile countries to help drive improvements in coverage and equity.
- 3.4 This paper proposes a number of changes to strengthen Gavi's grant management and fiduciary oversight, primarily within the Secretariat with three major components:
- (a) Ensuring key functions are appropriately structured in line with best practice. The Secretariat is proposing to structure its risk management and fiduciary oversight functions using the three lines of defence model recommended by the Institute of Internal Auditors. This model has helped the Secretariat to clarify and delineate roles and responsibilities between teams, ensure effective checks and balances are in place and ensure all key risk-related functions are appropriately managed.
  - (b) Enhancing Gavi's processes and capabilities to manage risk, especially fiduciary risk, including:
    - (i) Ensuring grant management processes are appropriately codified, rigorous and focused on fiduciary risk
    - (ii) Ensuring all staff understand their responsibilities related to fiduciary risk and have the capabilities, systems and tools they require to manage risk
  - (c) Ensuring key functions are adequately resourced
- 3.5 These changes are part of a broader effort to operationalise Gavi's risk policy and through implementation of a comprehensive risk framework. While this paper is focused on enhancing fiduciary oversight in particular, the proposed changes will help strengthen Gavi's grant and risk management more broadly and serve as a foundation for full implementation of the risk framework.

3.6 The Secretariat is proposing to implement the new approach by the end of 2015 and has requested an additional \$4 million in the 2015 Business Plan for this purpose.

#### **4. Risk implication and mitigation**

4.1 There is a risk that some stakeholders perceive that these changes will remove all fiduciary risk from Gavi's programmes. While these changes will reduce Gavi's risk exposure, some level of risk will always be inherent in Gavi's ambitious mission – enabling dramatic progress in immunisation in poor countries, many of which have weak systems. The Board will explicitly discuss their risk appetite in each area of Gavi's business as part of the upcoming review of the proposed Alliance risk policy. This should help to set the right expectations about the level of residual fiduciary risk in Gavi's programmes.

4.2 There is a risk that the enhanced risk management practices being proposed may slow down implementation of some Gavi grants, move the Alliance's focus too heavily towards risk management at the expense of delivering results or reduce Gavi's ability to respond flexibly to country needs. To mitigate this risk, the Secretariat will ensure that implementation of the proposed changes reflects the Board's decision on risk principles and risk appetite as part of the Risk Policy, balancing impact and risk accordingly. The Secretariat is also proposing to provide additional resources within the Country Programmes department to enhance capacity to manage grants and risk. Lastly, the Secretariat will take a learning approach to implementing these changes, regularly monitor progress (through the newly formed Risk Committee) and conduct a review in 2015 to assess the impact of the changes, identify lessons learned and course correct as needed.

4.3 There are risks related to how rapidly the proposed changes are implemented. This will need to balance ensuring rapid progress, with ensuring all elements of implementation are rigorously thought through as well as minimising the disruption for affected teams. To mitigate this risk, the Secretariat will develop a robust, detailed implementation plan. Implementation of this plan will be coordinated by the Head of Risk, who is currently being recruited, and overseen and monitored by the newly created Secretariat Risk Committee, led by the CEO.

4.4 There is a risk that the proposed changes could create tensions with Gavi partners and countries. The enhanced controls and focus on risk will place additional demands on partners and countries, subject all stakeholders to additional scrutiny and may identify new issues that need to be addressed. To mitigate this, the Secretariat will work closely with partners to jointly agree on roles and responsibilities, especially at country level. The Secretariat will also ensure that risk-related reviews and audits help build countries' financial and programme management capacity, as opposed to simply placing an additional burden on their systems. Therefore, the increased frequency of such reviews and audits will provide more

opportunity to support countries in strengthening their systems, and identify weaknesses that can be addressed through additional technical support (and, where necessary, financing).

- 4.5 The Secretariat is proposing to de-prioritise investment in other areas of work in order to fund increased investment in fiduciary risk management. Given that Gavi is already operating with a very low overhead (under 2.5% in 2013), there is a risk that this puts additional strain on the Secretariat which is already very stretched, or impedes progress in important areas. To mitigate this risk, the Secretariat has sought to identify sufficient activities which can be de-prioritised without critically impacting Gavi's mission (as described in section 11 below), and – as far as possible – has sought to delay or re-design activities rather than cancel them altogether.

## **5. Financial implications: Business plan and budgets**

- 5.1 The Secretariat is proposing to increase its risk management capacity by adding a number of positions, especially in Country Programmes and Audit & Investigations (see section 11 for details). This will require an increase in the Secretariat's 2015 budget of \$4 million (equivalent to an increase of 4.6% over the 2014 Secretariat budget), as well as some re-allocation of the 2014 budget. The incremental 2015 costs are already reflected in the 2015 Business Plan paper, which will be discussed by the AFC / PPC joint session immediately before the AFC on October 24<sup>th</sup>. This investment will enhance not only the Secretariat's ability to manage fiduciary risk, but also our broader risk and grant management capacity.

## **Section B: Content**

### **6. Context and evolution of Gavi's management of risk management and fiduciary oversight**

- 6.1 The proposed Gavi risk policy defines risk as "the probability of an event that could negatively affect the achievement of objectives if it were to occur." Given Gavi's ambitious objectives, supporting countries to immunise tens of millions of children each year in countries which are poor, often fragile and typically have weak management systems and capacity, risk (and in particular fiduciary risk) is inherent to our mission. This is particularly true given our business model which emphasises country ownership, aid effectiveness principles and efficiency (including a low overhead rate). Gavi would not have been able to immunise 440 million children and avert 6 million future deaths, without taking on risk.
- 6.2 Gavi fully recognises this risk and our fiduciary responsibility to be a prudent steward of donor resources. Risk management and strong fiduciary oversight are therefore high priorities. Gavi takes a holistic perspective on fiduciary risk across Gavi's programmes including:

- (a) Vaccine programmes: These represent over 75% of our programmatic expenditure and are in general lower risk given that vaccine procurement is managed centrally and there is limited secondary market for most vaccines. However, there remains a risk of mismanagement of vaccines, and this was explicitly recognised with the extension of the transparency and accountability policy (TAP) in November 2013 to include vaccine support.
  - (b) Cash programmes: While they represent less than 25% of Gavi's programmatic expenditure, cash programmes entail the majority of our fiduciary risk given weak financial management and control systems in many Gavi countries. These are therefore the primary focus of our work to manage fiduciary risk.
- 6.3 Gavi's approach to managing risk has always relied on a shared responsibility between multiple members of the Alliance. This includes the Gavi Board (which determines Gavi's risk tolerance and policies, and reviews Gavi's risk management approach), the Secretariat, partners (including through Inter-Agency Coordinating Committees (ICCs) and Health Sector Coordinating Committees (HSCCs)) and independent experts (particularly through the Independent Review Committee (IRC)). The roles and expectations of each of these stakeholders have evolved over time, in line with changes in the organisation's strategy and structure, and in the external environment. This evolution has reflected the inherent trade-off between five factors: maximising our impact, minimising risk exposure, ensuring sustainability and ownership by channelling support through country systems, respecting the institutional autonomy and mandates of each Alliance partner, and limiting the size of the Secretariat.
- 6.4 In Gavi's early years, the Board mandated a relatively light-touch approach, relying heavily on country systems and partner oversight. By design, the Secretariat was kept small and therefore had little risk management capability. The primary purpose of Secretariat engagement with countries was to advocate for immunisation and help facilitate provision of Gavi support. This approach was largely maintained in 2006 when Gavi began providing health systems strengthening (HSS) support. In line with the Paris Declaration principles, the Board felt it was important that programmes should be country-owned and use country systems to ensure they were sustainable, that there should be little restriction on how the funds were used and a very light reporting burden on countries.
- 6.5 Over time, and particularly in the last few years, the Board has placed an increasing emphasis on strengthening the Alliance's risk management. In particular, the Board has emphasised the accountability of the Secretariat to act as a steward of Gavi's resources, and approved increases in its capabilities to support this. This was due in part to the discovery of certain cases of misuse of cash support at country level (Gavi has identified ~~nineteen~~ proven cases of misuse since its creation totalling ~~\$8.4~~\$10.3 million – or ~~less than~~approximately 0.1% of Gavi's expenditure to date – of which

70over 60% has already been repaid), as well as a changing economic environment and a reduction in risk tolerance among donors.

6.6 In response to this evolution, Gavi has significantly strengthened its risk management practices over the past five years. Key elements of this stronger approach include the following:

- (a) Approval of the transparency and accountability policy (TAP) and creation of the TAP team<sup>1</sup> (2009); and subsequent extension of the TAP policy to cover management of vaccines (2013)
- (b) Creation of the Internal Audit function, with dual reporting to the Gavi CEO and Board (2009)
- (c) Separation of the TAP team from the Country Programmes (CP) department to enhance its independence and provide stronger controls (2011)
- (d) Development of a Risk Register to identify, track and ensure mitigation strategies are in place and being monitored for key risks (2011)
- (e) Re-orientation of the Country Programmes department towards a stewardship role from 2011, with a greater focus on results, and programme and financial accountability. This included a significant increase in resources and embedded technical expertise
- (f) Clearer separation of programme management and review / approval mechanisms including:
  - (i) Transferring responsibility for the Independent Review Committee, which reviews new applications for support, from the CP department to Policy & Performance (P&P), and enhancing the capacity of the IRC by including more panel members with specific technical expertise (e.g., financial, gender-related).
  - (ii) Board approval of a new grant management approach (called “GAMR” – grant application, monitoring, and review – during the first implementation phase) with increased focus on grant performance, impact and risk management at country level, greater engagement of partners and in-country stakeholders and increased Alliance accountability for grant management.

## 7. Rationale for further strengthening risk management and fiduciary oversight

7.1 While the changes described above have significantly strengthened Gavi’s management of risk, including fiduciary risk, it is an appropriate moment to review our current approach and consider whether additional changes are appropriate for four reasons.

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<sup>1</sup> The TAP team was renamed Programme Fiduciary Oversight (PFO) in 2013

- (a) Development of Gavi risk policy: At the request of the Board, the Secretariat is developing a risk policy for the Alliance which is due to be discussed at the upcoming December Board meeting. This policy seeks to calibrate and align the Alliance's understanding of risk, risk appetite in each area of its business and risk management approach. The Secretariat conducted extensive consultations to inform this policy, which identified a broad spectrum of risk perception and appetite among different stakeholder groups, and in particular increasingly limited tolerance for fiduciary risk among some Board members, especially donors.
- (b) Replenishment: Fiduciary risk is a particularly high priority for many donors in the context of Gavi's upcoming Replenishment. Gavi is asking donors to contribute an additional \$7.5 billion to meet country demand between 2016 and 2020. Given the magnitude of funds that donors are being asked to commit, there is a particular focus on minimising the risk of those funds being misused. Certain donors have explicitly linked their Replenishment decisions to a review of fiduciary risk management practices.
- (c) Growth in Gavi programmes: Gavi's programmes have grown substantially during the 2011-15 strategy period, increasing the complexity of grant and risk management. In less than four years, the number of open programmes has nearly doubled, increasing from ~140 in 2010 to over 250 by the end of this year. In particular, cash disbursements have grown in volume and complexity as health system strengthening support has scaled up; the acceleration of vaccine introductions has resulted in a higher volume of vaccine introduction grants; and Gavi has supported more campaigns with associated operational costs. Gavi currently projects to disburse nearly \$300 million in cash support by the end of 2014 compared to under \$100 million in 2010.
- (d) Gavi strategy 2016-20: Gavi's next strategy prioritises efforts to improve coverage and equity of immunisation. This will require more intensive engagement with countries, greater country capacity-building (including financial capacity) and a deeper focus on weaker and fragile states. Consultations for the Risk Policy suggested a higher risk appetite related to efforts to strengthen countries' health systems in order to achieve sustained improvements in coverage and equity. The combination of a greater focus on countries with weaker systems, a higher risk appetite for health system strengthening work and low tolerance for fiduciary risk underlines the importance of reinforcing Gavi's capacity to manage fiduciary risk (as well as supporting countries to strengthen their financial and programme management capacity).

7.2 Having reviewed Gavi's current approach to managing fiduciary risk, the Secretariat is proposing certain targeted changes to strengthen our capabilities, processes and resources by:

- (a) Ensuring risk management functions are appropriately structured in line with best practice, with clearly delineated roles, responsibilities and accountability, and effective checks and balances
- (b) Enhance Gavi’s processes and capabilities to manage fiduciary risk including:
  - (i) Ensuring processes to manage risk (and grants more broadly) are appropriately codified and rigorous
  - (ii) Ensuring all staff understand their risk management responsibilities and have the capabilities, systems and tools they require to perform risk-related functions
- (c) Ensure key functions are adequately resourced

**8. Proposed approach to further strengthen risk management and fiduciary oversight**

8.1 We propose to structure Gavi’s approach to managing fiduciary risk using the “3 lines of defence” model. This model is recommended by the Institute of Internal Auditors as an effective means to clarify roles and responsibilities, and ensure independent checks, balances and controls.

Figure 2: 3 lines of defence model



Source: Institute of Internal Auditors

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8.2 As illustrated in Figure 2, the 1st line of defence is the controls within the core business. In Gavi's case, this is the Country Programmes department who have responsibility for day-to-day management of Gavi's grants, working with countries and partners. The 2nd line of defence includes a number of functions which both support the 1st line and provide checks and controls over it. 2nd line functions should have separate reporting lines from the 1st line of defence to ensure they provide rigorous and objective oversight. Currently, the key 2nd line functions in Gavi include:

- (a) Programme Financial Assessment (PFA) team, which independently assesses the strength of countries' financial systems before Gavi disburses funds (a function previously undertaken by the TAP / PFO team).
- (b) Monitoring and Evaluation (M&E) team within the Policy & Performance Department, which evaluates the quality, performance and outcomes of individual programmes independently from the CP department. It also manages the process of reviewing, approving and renewing grants through support to the IRC and HLRP.
- (c) Finance department, which reviews all disbursements to ensure they comply with the Board-approved programme budget
- (d) Legal team which reviews and approves all agreements and other documents with legal implications
- (e) Operations team which reviews (non-vaccine) procurement and travel requests

The 3rd line of defence is Internal Audit, which independently assesses performance of both the first and 2nd lines. Importantly, the 3rd line has an independent reporting line to the Board – as well as senior management – to ensure its independence (as is the case with Gavi's Internal Auditor).

8.3 While the above functions were already in existence before this review was conducted, the 3 lines of defence model provides greater clarity on the roles, responsibilities and inter-relationships between each function. Moreover, the review has also identified some gaps in our current structure. To address these issues, the Secretariat is proposing 6 key structural changes (with the resulting model illustrated in Exhibit 3 below):

- (a) Changes to the Country Programmes department to improve its capacity to manage fiduciary risk:

- (i) Re-organising the Country Support team: Currently, all Senior Country Managers (SCMs; formerly called Country Responsible Officers (CROs)) are responsible for multiple countries, and some cover several countries with weak financial or programme management capacity, or other risks. Going forward, Gavi will systematically categorise programmes based on their inherent risk level and re-allocate the capacity of Country Support staff accordingly. This will ensure that no SCM manages more than one of the highest risk countries. The Secretariat is also proposing to deploy country-dedicated SCMs for a few particularly high-risk and complex countries (e.g., low performing countries with federal systems requiring deeper engagement). Lastly, the workload of the four Regional Heads will be re-allocated to spend less time managing grants and focus more intensively on strategic leadership, cross-cutting issues, risk management and the performance of their teams.
  - (ii) Embedding financial capabilities in the Country Programmes department: Rigorous financial and budgetary review and control are a key component of Gavi's 1<sup>st</sup> line of defence. Currently, there is limited financial expertise within CP and the team relies heavily on the PFA team to support these financial reviews. This is sub-optimal, both because there is no dedicated financial support for SCMs and Programme Officers (POs) and because it diverts PFA team capacity from their core function. It also blurs the 1<sup>st</sup> and 2<sup>nd</sup> lines of defence. The proposed solution is to create a Programme Finance team in CP to support SCMs and POs with the financial aspects of grant oversight and management.
- (b) Country Team approach: SCMs rely heavily on a range of other functions in the Secretariat to support their management of grants broadly, and fiduciary risk specifically. In order to ensure they can call upon the expertise they require when they need it, the Secretariat is implementing a "Country Team Approach". This will ensure that every country has an assigned focal point within the key support functions<sup>2</sup>, upon whom the SCM or PO can call as required for support with programme and risk management issues.

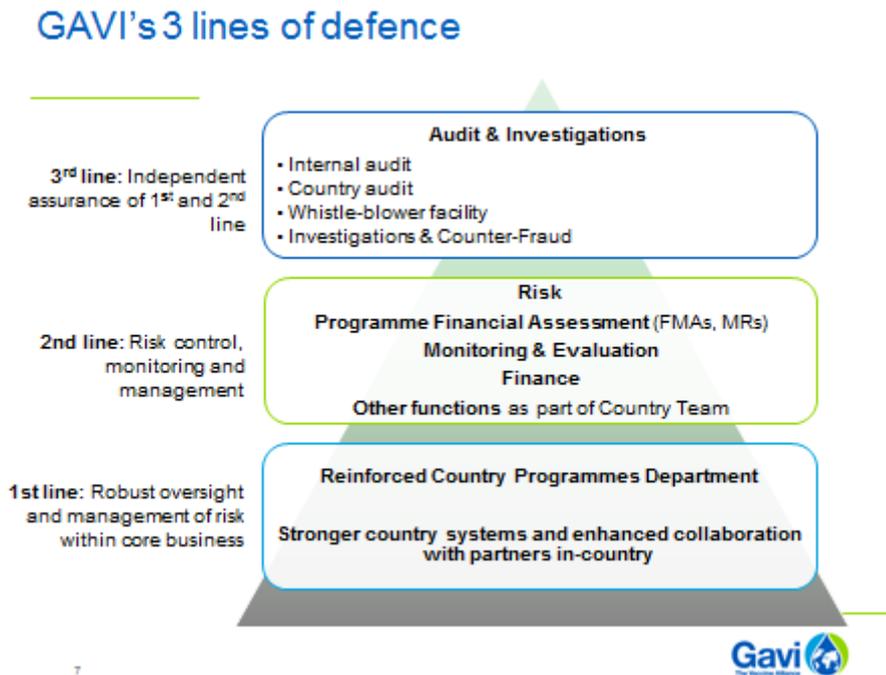
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<sup>2</sup> Key support functions in the Country Team include the technical teams within the CP department (Vaccine Implementation, Health Systems and Immunisation Strengthening, Financial Sustainability and Graduation, the newly created Programme Finance team) as well as Monitoring and Evaluation, Programme Financial Assessment, Finance and Legal.

- (c) More formalised risk management responsibilities ~~and~~, processes and partner collaboration at country level: The Secretariat will work with partners to jointly agree on their role and responsibilities in identifying and monitoring risk in Gavi-supported programmes, and to ensure more collaborative and systematic efforts to manage risk at country level (including through joint usage of the country risk register). ~~To enhance engagement of~~ This will include more systematically leveraging the capabilities of multilateral and bilateral partners to monitor grant implementation and manage risk, where such partners have the requisite capabilities and willingness. To enhance engagement and collaboration among all partners (including bilateral donors, the World Bank and CSOs) in improving stewardship at country level, the Secretariat will work with national governments and implementing partners to strengthen the Inter-Agency Coordinating Committee (ICC) and Health Sector Coordinating Committee (HSCC). ~~Key to this Gavi will be ensuring~~ ensure that risk management becomes more central in the discussions of ICCs and HSCCs, by, for example, making risk a standing item on the agenda or by creating specific sub-committees to review risk management issues. Going forward, the annual ICC-owned Joint Appraisals, which have recently been introduced as the primary basis for grant renewal, will also include a risk assessment component.
- (d) Dedicated risk function: The Secretariat is proposing to create a dedicated risk function within the 2<sup>nd</sup> line of defence. It would be responsible for coordinating risk management processes and controls, ensuring follow-up on agreed risk mitigation activities, facilitating cross-team collaboration on risk and cultivating a more embedded risk culture and behaviours. This unit – to be situated in the P&P department which manages the Gavi Risk Register – will also lead implementation of the Risk Policy once approved by the Board and the associated risk framework, and report to senior management on the effectiveness of risk management practices.
- (e) Creation of a Grant Performance Monitoring team: This team, which already has Board approval, will be an important element of the 2<sup>nd</sup> line of defence. It will be responsible for improving performance monitoring of grants, policies and initiatives, working closely with other teams especially Country Support. Sitting in the monitoring and evaluation (M&E) team in the P&P department, its key functions will include:
- (i) Supporting SCMs to ensure that each country has a rigorous and robust performance framework in place from the start of the grant cycle, make sure these frameworks are monitored over time to inform day-to-day grant management, and to conduct periodic review and portfolio wide analyses and identify strengthening actions.

- (ii) Providing checks and balances by maintaining oversight on the completeness of country reporting, data quality and progress in grant implementation. This will draw on disease surveillance, independent surveys, data quality assessments and end of grant evaluations in order to strengthen grant management and results measurement. The team will also provide independent input into Joint Appraisals and the High Level Review Panel on the performance of country grants.
- (iii) Conducting cross-cutting analyses of the performance of Gavi's portfolio of grants, and using intelligence generated through such analyses to identify course corrections.
- (f) Separation of PFA and Audit functions: Currently, the PFA team is responsible for performing financial management assessments (FMAs) to assess the strength of countries' financial systems, monitoring reviews (MRs) to evaluate progress in implementing the recommendations of FMAs, and Country Programme Audits (CPAs) to ensure financial systems are operating effectively. This means it is responsible for both assessing the strength of country financial management systems before disbursements are made, and for auditing the performance of those systems once funds have been disbursed. This mixes the lines of defence and could undermine the independence of such audits, especially since the team currently reports to the Internal Auditor. The current structure was discussed and approved by the Board when the team was created (primarily due to the small size of the Secretariat), and the Internal Auditor disclosed at the time that it meant he was unable to independently evaluate the performance of the TAP team. Given subsequent growth in the Secretariat and Gavi's programmes, it is now more appropriate for the PFA team to report into another 2nd line function (likely the CFO) and focus solely on FMAs and MRs (including working with CP to build countries' capacity in light of these reviews). Responsibility for CPAs will be transferred to Internal Audit (which will be renamed Audit & Investigations to reflect its broader mandate) since these are effectively a third line activity.

Figure 3: Gavi's new risk management model



8.4 A number of alternative structures were considered in developing the proposed model. Three design choices were debated in particular:

- (a) Embedding M&E team within 1<sup>st</sup> line of defence: According to a strict interpretation of the 3 lines of defence model, the Country Programmes department should have in-built technical capacity to conduct M&E. Under this model, the 2<sup>nd</sup> line M&E function would set standards and guidelines, and evaluate the performance of the 1<sup>st</sup> line function against those standards. Ultimately this approach seemed overly cumbersome given the limited size of the Secretariat. Therefore, the Secretariat is proposing that SCMs retain primary responsibility for ensuring performance frameworks are in place and for tracking grant implementation while the M&E team will provide dedicated capacity and technical support. M&E will also provide independent oversight on the completeness of country reporting, data quality and progress in implementing grants.
- (b) Responsibility for conducting financial management assessments (FMAs) and monitoring reviews (MRs): Similarly to the above, there is a case that FMAs and MRs should be conducted by the Country Programmes department overseen by a separate 2<sup>nd</sup> line function. However, the proposed model is to keep the PFA team in the 2<sup>nd</sup> line. This is partly due to the same concerns cited for the M&E team above, but further because this provides stronger checks and balances by ensuring decision-making on whether country systems are sufficiently robust to receive Gavi funds (and subsequent review of these systems) is independent of day-to-day grant management.

~~(c) More sharing of partner and peer organisation resources: The Secretariat has explored how Gavi can better leverage specialist expertise and additional capacity from Alliance partners and other peer organisations (e.g., the Global Fund) for risk management and audit activities. Gavi already works with the Global Fund to draw on their expertise and resources, including joint investigation work and shared funding of fiduciary agents in certain countries. The Secretariat is also exploring conducting joint audit missions to countries. However, the Secretariat believes that it is important that it have in-house capacity for most of its needs for 2 reasons:~~

~~(i) Limited synergies or ability of other organisations to support Gavi's work in this area: In the case of the Global Fund, there is often little overlap of recipient entities in-country, hindering common audit. Equally, Alliance partners have been clear that unless they manage Gavi grants directly, they cannot provide systematic in-country oversight of those resources (Gavi will, however, fund partners to help strengthen country procurement systems and financial management systems as part of the 2015 business plan).~~

(c) Relying on partners to conduct selected risk functions, especially at country level: Harnessing the capabilities of partners and ensuring non-duplication of resources is intrinsic to the Alliance model. Gavi works closely with a number of partners through the business plan to implement its strategy and programmes and in recent years, the Secretariat has sought closer collaboration with peer organisations to enhance our grant and risk management, especially at country level. Recent examples include joint missions to countries, especially for high-level advocacy (e.g., DRC, Pakistan, Nigeria, Benin); coordinated health systems strengthening investments (e.g., partnering with the Global Fund and the World Bank on HSS in Burundi; coordination of supply chain work); working closely with the Global Fund, WHO, UNICEF, the World Bank and other partners to strengthen data and reporting (e.g., developing a set of standardised summary measures of data quality, commissioning joint data quality activities such as a recently completed assessment in DRC); joint audit work and sharing a fiduciary agent with the Global Fund in Democratic Republic of Congo; and reviews of country audit plans with the Global Fund to identify opportunities for joint work. As described in paragraph 8.3 (c) above, the Secretariat is seeking to make collaboration on grant and risk management more systematic going forward. One potential extension of this would be to rely completely on other organisations with specialist expertise or spare capacity to conduct certain risk functions on Gavi's behalf. On balance, the Secretariat believes that while it should leverage partner capabilities as extensively as possible, it is important to have in-house capacity in key functions for 2 reasons:

(iii)(i) Direct Secretariat accountability: As Gavi has evolved and its programmes have become more complex, the Board has made it clear that it holds the Secretariat accountable for stewardship of Gavi's resources. It is therefore critical that the Secretariat has adequate capabilities and resources to perform this function effectively.

(iii)(ii) Limited synergies with other organisations: In general, Alliance partners have indicated that unless they manage Gavi grants directly, they cannot provide in-country oversight of those resources (although they can support specific risk mitigation strategies such as strengthening country procurement and financial management systems, both of which are being funded under the 2015 business plan). Meanwhile, other financing organisations – such as the Global Fund – often have little overlap of recipient agencies in-country, limiting the opportunities for common oversight and audit. Capacity in most organisations is also typically highly utilised so they would need to hire additional staff to service Gavi's needs.

8.5 The proposed 3 lines of defence structure will greatly enhance our ability to manage fiduciary risk and increase role clarity and accountability within the Secretariat. To complement this restructuring, the Secretariat also plans to enhance key processes and capabilities relevant to fiduciary risk management. The key changes across the three lines of defence include:

(a) 1<sup>st</sup> line of defence

(i) Enhanced grant management cycle: The Secretariat will institutionalise more systematic risk management throughout the grant cycle. This will include strengthening and codifying key milestones, checks and processes to be conducted over the lifetime of each grant, and ensuring there is clear accountability and strong performance management of these processes.

(ii) Reinforced tools and capabilities in Country Support team: The Secretariat will roll out new tools, systems and training to support consistent, effective and efficient grant and risk management (while allowing flexibility appropriate to country situations). This includes new, more robust guidelines, tools and information systems, and in particular a Country Risk Register to increase Gavi's focus on risks related to country grants. A holistic capability-building programme is also being developed for CP staff to ensure that they fully understand and are making systematic use of the processes, tools and skills needed to effectively manage risk. This will include ensuring they are equipped with all the necessary technical skills (e.g., cold chain performance, logistics, data quality) and functional skills (e.g., financial management, risk management) for effective grant and risk management.

(iii) Strengthened processes and functions at country level: Gavi already requires that every country programme receiving Gavi cash support undergo an annual external audit. Going forward, Gavi will also require that the recipient of Gavi funds (usually the Ministry of Health) fulfil a set of grant-specific conditions and management actions to be included in the Partnership Framework Agreement prior to disbursing funds; link disbursement of any new grant in a high-risk country to completion of a recent financial management assessment (FMA) or FMA refresh; increase the frequency of reporting in high risk countries (e.g., quarterly reporting on expenditure); and pro-actively work with countries to strengthen financial management systems (especially to address issues raised in FMAs), including through dedicated technical support and HSS grants if required. Gavi will also explore other innovative approaches to minimise the risk of misuse, such as requiring mandatory public disclosure of procurement processes and contracts financed through HSS. Where country systems are not sufficiently robust, Gavi will continue to require that funds be disbursed to, and managed by, an Alliance partner and / or contract with a local fiduciary agent, while it works with the country to build its capacity.

(b) 2<sup>nd</sup> line of defence

(i) Creation of a standing Risk committee: The Secretariat is convening a Risk Committee chaired by the CEO and comprised of senior leadership from across the organisation. This will meet regularly to review key risks, oversee risk management processes and controls and follow-up on agreed risk mitigation actions. Collectively, this group will also lead efforts to reinforce a risk culture in the Secretariat. It will be supported by the newly formed Risk function and include senior leaders from across the Secretariat.

(ii) Enhanced PFA coverage: Going forward, the frequency of financial management assessments and monitoring reviews will be increased substantially. This will ensure that Gavi has a recent and robust evaluation of financial management systems in countries receiving financial support, and a regular update on progress in implementing recommended changes to strengthen those systems. The aim is for every country to undergo a FMA or FMA refresh every three years, and that most countries should be subject to a MR in each interim year. Monitoring reviews will be enhanced and expanded to provide a coordinated assessment of both financial management systems (led by PFA) and programmes (led by the SCM and supported by the Programme Finance team). Going forward, Alliance partners, bilateral donors, CSOs and other stakeholders will be engaged more systematically in these reviews.

(iii) More robust knowledge management: The Secretariat is reviewing how to improve its IT systems and tools to support improved grant management and specifically improved risk management practices and capabilities. This is a priority for Gavi's new Chief Knowledge Officer who joined in July 2014.

(c) 3<sup>rd</sup> line of defence

(i) Expanded audit cycle: Given the increasing scale and complexity of Gavi's work, it is appropriate to consider a more frequent cycle of audits, both internal audits and country programme audits. In terms of internal audit, the Internal Auditor has identified 43 key operational processes within Gavi. The Secretariat proposes that these should be reviewed on a two-to-four year cycle, with the highest risk processes reviewed more regularly to ensure they are fit for purpose. Similarly, the frequency of country programme audits will be increased, especially in high-risk countries where the frequency of audits will double to twice every five years. The scope of these audits will be expanded to cover all aspects of fiduciary risk and programmatic risk.

(ii) Whistle-blower reporting: Gavi ~~is launching~~has recently launched a new whistle-blower reporting facility ~~(, which will be~~became operational ~~by the end of October) and will expand the on 3<sup>rd</sup> November. The~~ capacity of the Audit ~~&and~~ Investigations ~~department~~function is being expanded which will allow, amongst other benefits, additional capability to ~~evaluate and prioritise whistle-blower~~investigate any such reports ~~for investigation. received which require follow-through.~~

(iii) Dedicated capacity to conduct investigations and conduct systematic counter-fraud work such as undertaking reviews relating to fraud, helping to identify areas in Gavi's operations which may be more susceptible to fraud, and making recommendations for the strengthening of controls.

8.6 In order to implement the above changes, the Secretariat is proposing to invest in targeted increases in resources in key areas. These will significantly enhance capacity to manage fiduciary risk and to strengthen grant management more broadly. The proposed investments include:

(a) 1<sup>st</sup> line of defence

(i) 9 additional SCMs in the Country Support team. This will enable higher coverage of high-risk countries, ensure no SCM manages more than one of the highest risk countries and provide dedicated SCMs for 3 countries (likely Nigeria, Pakistan and DRC). It will also enable Regional Heads to spend the majority of their time on strategic leadership and cross-cutting issues (including overseeing management of fiduciary risk), as opposed to grant management.

- (ii) 4-person Programme Finance team embedded in Country Programmes department to provide dedicated financial expertise and grant review.
- (b) 2<sup>nd</sup> line of defence
  - (i) 2 additional FTEs in Programme Financial Assessment (PFA) team to enable the target coverage of FMAs and MRs (increasing capacity from 2 FTEs to 4 FTEs)
  - (ii) A new Head of Risk position
  - (iii) 1 new FTE in Finance to ensure sufficient capacity to support CP in line with the Country Team approach
- (c) 3<sup>rd</sup> line of defence
  - (i) 3 additional FTEs in Internal Audit to achieve the target coverage level (increasing dedicated internal audit capacity to 3 FTEs)
  - (ii) 3 additional FTEs in Country Audit to achieve the target coverage level (increasing capacity from 4 FTEs to 7 FTEs)
  - (iii) 1 additional FTE to provide dedicated capacity for Investigations and Counter-Fraud

## **Section C: Implications**

### **9. Impact on countries**

- 9.1 The proposed changes will help strengthen Alliance support to countries to assess their financial and programme management systems, and build capacity to address identified weaknesses. This will help improve the efficiency and effectiveness of both Gavi support and countries' immunisation programmes more broadly.
- 9.2 The increased frequency of reviews and audits will place some additional burden on countries, though this will partly offset by more standardisation of Gavi systems, processes and standards which should increase predictability and reduce transaction costs for countries.

### **10. Impact on Gavi stakeholders**

- 10.1 The strengthened fiduciary controls will help to maintain donor confidence, thereby contributing to the success of Gavi's Replenishment and ensuring Gavi is able to continue to provide support in the most fragile countries, where it is most needed.
- 10.2 The proposed changes seek to increase the engagement of partners in helping to manage risk, especially at country level. They will help ensure greater clarity and alignment on the role of implementing partners in monitoring and managing risk, and provide opportunities for more

systematic discussion of fiduciary risk among the full set of partners at country level through the ICC, HSCC and joint appraisals.

## 11. Impact on Secretariat

11.1 As discussed above, the recommendations in this paper will impact the structure, working practices and resourcing of the Secretariat. Some of the structural and process changes will have limited budgetary impact, while others were included in the 2014 Board-approved budget, most notably the creation of the Grant Performance Monitoring team.

11.2 As described in section 8, the Secretariat is proposing to add a number of new positions, especially in the Country Programmes department and Audit & Investigations. These positions will strengthen the Secretariat's risk management and fiduciary oversight capacity, as well as grant management more broadly. Given the high priority attached to these changes, the Secretariat has already re-allocated some 2014 budget to begin recruiting certain critical positions (e.g., some SCMs, Head of PFA, Head of Risk). Moreover, a number of other areas of potential investment were de-prioritised in order to limit the incremental budget request for 2015. The key activities de-prioritised include:

- (a) Completion of market shaping roadmaps such as HPV will be delayed until 2016. The policy team will also delay by 6 months the planned update of Gavi's Supply & Procurement strategy (the Policy & Market Shaping team is currently particularly stretched given their role in developing options for Gavi's role related to an Ebola vaccine, as requested by the Executive Committee)
- (b) Intensified and more strategic donor engagement in newer / emerging markets
- (c) Continued engagement of current and potential Gavi champions including Heads of State and other high-profile supporters to support intensified in-country advocacy for immunisation
- (d) Additional capacity to scale-up the Secretariat's work on graduation & financial sustainability
- (e) Deeper engagement of private sector expertise and capabilities
- (f) Increased focus on generating communications content and materials to increase Gavi's profile, awareness and support among publics in donor markets
- (g) Increased capacity to scale-up evaluation of Gavi programmes

11.3 The net impact after the above re-allocations is that the Secretariat will require an additional \$4 million for risk-related activities. This equates to an increase of 4.6% over the 2014 budget.

11.4 It is possible that the proposed changes will create additional demands on other teams who are not currently receiving new resources (e.g., Legal). The Secretariat will monitor this as the proposed changes are implemented to ensure all teams are appropriately and adequately resourced.

## **12. Legal and governance implications**

12.1 The Secretariat will incorporate the enhanced fiduciary arrangements in any relevant existing and new legal agreements.

## **13. Consultation**

13.1 The proposals in this paper integrate findings from the consultations on the revised Risk policy, which will be discussed by the Board in December. The Executive Committee also discussed these proposals at a high level during their meeting on September 23, 2014 and this paper reflects their request for more specificity on the rationale for strengthening fiduciary risk management now, and on the trade-offs of investing additional resources in risk management. Lastly, these proposals have been discussed bilaterally with certain donors given their particular interest in this issue.

## **14. Gender implications**

14.1 There are no direct gender implications of these proposals.