

SUBJECT: REVIEW OF RISK APPETITE STATEMENT AND RISK MANAGEMENT UPDATE

Agenda item: 11

Category: For Decision

Section A: Introduction

- Gavi's Risk & Assurance Report¹, approved by the Board in December 2016, prioritised 15 top risks. It provided an initial view of Gavi's inherent exposure to each of those risks and primary mitigation strategies. This paper provides a high-level **update on major changes in Gavi's risk profile** since then. A new comprehensive Risk & Assurance Report will be prepared for the November 2017 Board meeting.
- This paper also presents an **updated Risk Appetite Statement** (Annex A) **for approval by the Board**. "Risk appetite" defines on a broad level the amount of risk the Alliance is willing to accept to achieve its mission and goals. The Audit and Finance Committee (AFC) has reviewed the updated statement and recommended it for approval. Guidance from both the AFC and the Programme and Policy Committee (PPC) is summarised in this paper and has been incorporated in the final version.
- This paper also provides an update on **progress in strengthening risk management** across the Alliance.

Section B: Content

1. Changes in Gavi's risk profile since December

1.1 Gavi's last Risk & Assurance report prioritised 15 top risks (4 very high and 11 high risks) and 15 medium risks (Annex B). Risks are dynamic in nature (due to changing risk factors and progress in mitigation) and may emerge, increase, decrease, or disappear. The Secretariat closely monitors these risks for changes in exposure. No substantial new risks have emerged since December 2016. However, the following top and medium risks have been impacted by recent trends and events:

- (a) **HIGHER: Vaccine confidence (risk f²)** – This risk has increased, with growth in anti-vaccine campaigning most notably in the United States, the European Union and India. Campaigners are explicitly seeking to target other countries in Europe and elsewhere. While policymakers

¹ <http://www.gavi.org/about/governance/gavi-board/minutes/2016/7-dec/minutes/11--risk-management-update/>

² Refers to numbering of risks in Risk & Assurance report (see Annex B).

and mainstream media have so far responded robustly in the US and Europe, the risk may be higher in some Gavi-eligible countries where institutions or the media may not be as well-equipped to manage a concerted anti-vaccine campaign. These developments were discussed by the Programme and Policy Committee (PPC) who were supportive of the Alliance's current approach to managing the risk.

- (b) **HIGHER: Donor support (risk h)** – This risk has increased with growing support for populist political leaders and increasing nationalism although it has been somewhat moderated by the recent election of centrist candidates in France and the Netherlands. In the US, the Trump administration has proposed a cut of more than 30% to funding for the State Department and USAID for fiscal year 2018, as well as significant reductions for United Nations agencies. Although the government has shown continued support for Gavi in the 2017 budget and 2018 budget outline, the proposed cuts could have a significant impact on Alliance partners. This risk remains elevated with uncertainty over priorities of newly elected leaders and the coalitions that support them and upcoming elections in other major donor countries including Germany, Italy, Norway and the UK as well as uncertainty over the long-term implications of the UK's decision to leave the European Union. This is discussed further in the *Resource Mobilisation update*.
- (c) **MODERATELY HIGHER: Supply shortages (risk k)** – Recent developments may increase the risk of supply shortages in some markets. Outbreaks of yellow fever in Latin America increase the risk of increases in vaccine demand for outbreak response. If such demand were to materialise it could further delay preventative campaigns or routine vaccine introductions planned as part of the Eliminate Yellow fever Epidemics (EYE) strategy. IPV supply continues to be constrained through 2019 at best. There is also some risk that the rapid acceleration in human papillomavirus (HPV) vaccine programmes could create challenges in scaling up supply capacity. This will require careful planning and close engagement with manufacturers. Further details of recent developments are available in the *Market Shaping Update* provided to the PPC which is available on *BoardEffect*.
- (d) **HIGHER: Secretariat disruption (risk n)** – This risk will temporarily increase as the Secretariat prepares to move to the Health Campus in the summer of 2018. The fact that Gavi expects to move 6 months after the planned completion date in February 2018, and has some flexibility in its timing, should help mitigate the risk. There is also a risk that the change of location could affect productivity and staff engagement due to a change in work environment, reduced accessibility or dilution of culture given the colocation with other organisations. The CEO will present an update on plans for the Health Campus move at this Board meeting.

- (e) **HIGHER: Leadership succession (risk v)** – This risk is temporarily elevated due to the turnover of key leadership at Alliance partners. This includes a new Director General and changes in immunisation leadership at WHO and Tony Lake approaching the end of his team at UNICEF. In addition, the current term of both the Alliance’s Board Chair and CEO are due to expire by mid-2018, although this situation is already being actively discussed by the Board.

2. Risk Appetite Statement

- 2.1 At its meeting in December 2014, the Board approved a Risk Policy, which included a Risk Appetite Statement³. The statement defines the maximum acceptable level of risk exposure which Gavi is willing to accept in each area of its strategy. It serves to align stakeholders across the Alliance and guide decision-makers in taking the right amount of the right type of risks to deliver on Gavi’s mission. A high risk appetite represents a **willingness to be exposed** to a high likelihood and/or potential impact of a risk. This can be because the downside of the risk, if it were to materialise, is manageable or acceptable in light of the rewards being pursued, because exposure to the risk is required to achieve Gavi’s mission, or because the costs of mitigation or trade-offs with other risks are deemed too high. **Having a high appetite for a risk does not mean actual occurrence⁴ of the risk is desirable** or the event should be tolerated once it actually occurs. Where Gavi’s exposure to a risk is outside of its risk appetite, further mitigation may be required to reduce its exposure (e.g. by enhancing existing or introducing new controls, or by ending certain activities).
- 2.2 The Board agreed to review the Risk Appetite Statement after two years, and hence an updated version is due to be approved at this meeting. There is no accepted best practice in how to define a corporate risk appetite statement. However, both the Audit and Finance Committee (AFC) and the Programme and Policy Committee (PPC) provided feedback to keep the statement high-level and not try to account for every situation, while having systems and processes to ensure that risk owners manage the risks in their specific context within the overall risk appetite. The revised statement seeks to balance being clear and understandable with providing sufficient granularity to guide decision-makers in making complex business decisions⁵. In particular, it seeks to be clearer in areas where the 2016 Risk & Assurance Report highlighted a lack of clarity with regards to some of the Alliance’s top risks.

³ <http://www.gavi.org/library/gavi-documents/policies/risk-appetite-statement/>

⁴ Risks are not current issues or certain challenges, but potential future uncertain events, that may happen or not, but if they were to happen would have an impact that should be anticipated and potentially mitigated.

⁵ Once the updated statement is approved, the Secretariat will translate the high-level statement into a more concrete specific appetite for each of the Alliance’s top risks. An early version was shared with the AFC and PPC and is available on BoardEffect as an annex to the AFC paper (Appendix B).

2.3 Like the existing statement, the updated statement (summarised in the chart below and provided in full in Annex A) is structured around Gavi’s strategic framework and is broadly consistent in terms of the level of risk appetite. It defines risk appetite on a five-point scale between low and high. It has been updated to align with the 2016-2020 strategy and has been expanded to define risk appetite at the mission, organisation and strategic enabler level,

Gavi’s Risk Appetite Statement

The amount of risk the Alliance is willing to take, accept, or tolerate to achieve its goals

Mission & Organisation	The Alliance embraces the need to take programmatic risk given its ambitious mission and operating model, but has a lower appetite for organisational risks impacting Alliance processes, systems and management; fiduciary oversight and control; and brand and stakeholder confidence.			
Strategic Goals	1 Accelerate equitable uptake and coverage of vaccines High <ul style="list-style-type: none"> Risks required to increase C&E and to accelerate introductions Risks required to respond to fragility and emergencies Low <ul style="list-style-type: none"> Vaccine introductions adversely impact routine immunisation 	2 Increase effectiveness and efficiency of immunisation delivery as an integrated part of strengthened health systems High <ul style="list-style-type: none"> Risks required to strengthen health systems Low <ul style="list-style-type: none"> Misuse of Gavi support Weak systems jeopardise vaccine / immunisation safety 	3 Improve sustainability of national immunisation programmes Moderately low <ul style="list-style-type: none"> Significant reduction in performance post-transition Low <ul style="list-style-type: none"> Countries transition with low coverage and / or capacity Countries default on co-financing 	4 Shape markets for vaccines and other immunisation products High <ul style="list-style-type: none"> Risks required to create and sustain healthy markets Moderately low <ul style="list-style-type: none"> Supply shortages
Strategic enablers	Country leadership, management & coordination High <ul style="list-style-type: none"> Risks required to strengthen country capacity Moderately high <ul style="list-style-type: none"> Risks of operating in countries with limited capacity 	Resource mobilisation High <ul style="list-style-type: none"> Risks required for innovative financing and private sector partnerships Moderate <ul style="list-style-type: none"> Risks required to attract new donors Low <ul style="list-style-type: none"> Reduction in donor support Reputational risks or potential conflicts of interest 	Advocacy High <ul style="list-style-type: none"> Risks required to ensure recognition of value of vaccines Low <ul style="list-style-type: none"> Immunisation becoming lower priority on policy agendas Reputational risks 	Monitoring & evaluation Moderately high <ul style="list-style-type: none"> Risks of working in settings with weak data systems Moderate <ul style="list-style-type: none"> Risks to grant monitoring and oversight at country level Low <ul style="list-style-type: none"> Risks impacting accountability and transparency in Alliance

as well as for each strategic goal⁶. It provides more granularity on risks associated with Coverage & Equity and Sustainability in particular and also reflects the Board’s most recent decisions and discussions (e.g. the recent Board Retreat discussion on Sustainability).

2.4 The AFC and PPC suggested that some risk appetite levels needed to be higher to make them realistic and achievable given inherent exposure outside of Gavi’s control, and others needed to be lower to show more ambition in addressing risks which represent important obstacles to the Gavi mission. PPC and AFC members also commented on the challenge of discussing risk appetite in abstract and asked that going forward, risk appetite should be discussed within the context of a broader discussion on individual risk areas (as discussed in 3.2 below, the Secretariat is planning a more systematic approach to discussing each top risk with the Board and Committees).

2.5 Guidance from both AFC and PPC has been incorporated in the proposed Risk Appetite Statement and the AFC has recommended it for approval. The AFC and PPC particularly discussed appetite for the risk of misuse of Gavi support. Gavi is very conscious of its obligation to be an effective

⁶ <http://www.gavi.org/library/publications/gavi/gavi-the-vaccine-alliance-2016-2020-strategy/>

steward of donors' resources and it therefore has a low appetite for risks related to fiduciary oversight and control, while recognising the risks inherent to its model as an Alliance which prioritises use of country systems where these are sufficiently robust. As discussed in the Alliance Update, some PPC members recommended that the Alliance should prioritise the minimisation of fiduciary risk above other considerations. The proposed Risk Appetite Statement states that:

To build sustainable country capacity and ownership, the Alliance has a preference to channel support through government systems when these are sufficiently robust. However, the Alliance has a low appetite for the risk of misuse. When government systems are insufficiently robust it will utilise alternative mechanisms to ensure strong fiduciary oversight. At the same time, it will provide support to strengthen country systems to ensure they are fit for purpose. In case of actual misuse, the Alliance will always require reimbursement as a condition of continued support.

- 2.6 The full Board is ultimately responsible for discussing and establishing a mutual understanding of Gavi's overall appetite for risk and so **is requested to discuss and approve the updated Risk Appetite Statement**. Following approval, the Secretariat will compare its actual exposure against the agreed risk appetite, as part of the next Risk & Assurance Report to be discussed at the November 2017 Board meeting. Where current exposure is not in line with risk appetite, further mitigation – including potentially changes in Gavi strategy or policies – may be required.

3. Risk management update

- 3.1 Following the Board's endorsement of the Risk & Assurance Report in December 2016, the Secretariat has allocated each top risk to a risk "owner" in the Secretariat. Each risk owner is responsible for monitoring risk exposure, coordinating further risk analysis and developing more complete mitigation strategies, working with colleagues across the Secretariat and the Alliance. Risk owners for the highest risks will present their in-depth analysis and mitigation plans to the Secretariat Risk Committee over the course of this year. Progress in this area will be tracked as part of the Alliance KPIs (KPI 2.3: % of top risks with a Risk Committee-approved mitigation plan). The Secretariat is also working to more systematically integrate risk management and performance management processes.
- 3.2 Each top risk is also to be overseen by the Board or a Board Committee. Many of these top risk areas have already been or are due to be discussed by the Board or its relevant Committee (either as part of a broader discussion or a standalone risk review) as part of a systematic plan being developed by the Secretariat.
- 3.3 The Secretariat continues to scale up implementation of risk management and assurance tools and processes across the three lines of defence, and to further embed risk management practices in daily operations and planning and decision-making across the Alliance. In the first line, Country

Risk Matrices are now being rolled out to all countries (beyond the 34 countries prioritised last year) and cross-cutting risk issues are being discussed in team meetings and quarterly regional review meetings.

- 3.4 In the second line, the first wave of Programme Capacity Assessments (PCAs) has been completed and the findings are being integrated into grant management requirements and practices. At the end of March, 32 in-country reviews had been done and it is expected that all 52⁷ eligible countries will be covered by the end of 2018.
- 3.5 In the third line, the Audit & Investigations department has now filled the final staff position to be recruited against the original change plan and audits and investigations are being routinely executed. Regular catch-ups take place between the Audit department and the Risk function to exchange risk information and to align efforts on the remediation of cross-cutting audit findings and the management and mitigation of Gavi's top risks. Audit findings with important risk implications are presented to the Risk Committee, which discusses risk appetite, trade-offs, and prioritisation.
- 3.6 The Secretariat is reviewing progress on an ongoing basis across the three lines of defence and plans to conduct an internal review of Gavi's risk management capabilities in the summer of 2017 to identify potential areas for further improvement and inform management decisions on risk priorities going forward.

Section C: Actions requested of the Board

The Gavi Alliance Audit and Finance Committee recommends to the Gavi Alliance Board that it

Approve the updated Risk Appetite Statement attached as Annex A to Doc 11.

Annexes

Annex A: Updated Risk Appetite Statement

Annex B: Summary Risk Register from 2016 Risk & Assurance Report

Additional information available on BoardEffect

Appendix 1: Risk & Assurance Report 2016

Appendix 2: Risk manage paper to AFC April 2017 meeting

⁷ 21 countries are out of scope as they are fully self-financing or no longer eligible for Gavi support as per the transition policy.