

**SUBJECT:** RISK MANAGEMENT UPDATE

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**Agenda item:** 14

**Category:** For Guidance

**Strategic goal:** Alliance operations

## **Section A: Overview**

### **1. Executive Summary**

- 1.1 Building on already existing risk management and assurance practices, a year ago, the Board reviewed proposed further changes to Gavi's risk management and assurance practices at its meeting on 10-11 December 2014. The Board approved the proposed Risk Policy, including a risk appetite statement, and endorsed the proposed approach to strengthen risk management and fiduciary oversight, including the recommended structures, systems and resourcing.
- 1.2 This report provides an update on progress made in implementing the changes to enhance Gavi's management of risk, including but not limited to fiduciary risk. It firstly reiterates Gavi's risk management philosophy, as laid out in the Risk Policy approved last year, which establishes the foundation for Gavi's risk management approach; it then provides an update on progress made to date on the implementation of the new risk management and assurance approach as approved last year, and priorities going forward; and lastly, it requests guidance on how to best engage the Board on risk going forward.

#### Risk management philosophy

- 1.3 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. Taking calculated and carefully managed risks will help to deliver on this ambitious mission. Gavi is furthermore very conscious of its obligation to be an effective steward of donors' resources and the need to manage associated risks proactively, appropriate to the preferences of a diverse stakeholder base.

- 1.4 Gavi's comprehensive approach to risk management will create a shared understanding of, and promote a consistent approach to, risk and risk management within Gavi. As such it will contribute to more informed decision-making and conscious risk-taking, a higher likelihood of achieving objectives, and serve as the basis for allocation of resources and focus of control and assurance efforts. We believe that a comprehensive and systematic approach to risk management will enable Gavi to take the right level of the right type of risks needed to deliver on our ambitious mission and maximise our impact.
- 1.5 A risk appetite statement has been endorsed by the Board. High-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.

#### Update on progress in strengthening risk and assurance practices

- 1.6 Gavi has made very substantial progress in implementing the ambitious plan to strengthen its risk and assurance practices, and made fundamental changes to the organisational structure to enhance its risk management and assurance capacity: introduction of the Risk Policy; launching and recruiting for a new organisational structure based on the three lines of defence model; and institutionalising a standing Risk Committee. Our primary emphasis to date has been on rapidly implementing the changes in key teams across the three lines of defence at the Secretariat, including development and/or redesign of critical tools, systems and processes for enhanced risk assessment, control, and assurance.
- 1.7 By mid-2016, we intend that the plan will be fully implemented with all key changes institutionalised into our core processes and working practices. At that point, the Secretariat is planning to launch an internal review to assess the impact of the changes made, evaluate the functioning of the new risk management, control and assurance practices across the lines of defence, and review whether further changes may be required.
- 1.8 Going forward, as we institutionalise these changes, we will be increasingly focused on broadening implementation across the Alliance and beyond the Secretariat, including developing a broader change management plan to embed risk more centrally in the culture of the full organisation; intensifying work with partners to enhance risk management practices at country level; and planning to more systematically engage the Board on risk, including a conversation at the April Retreat on the best modalities to do this.

#### Board engagement on risk

- 1.9 Risk oversight is a key responsibility for a Board in all organisations. As stated in Gavi's Risk Policy, the Gavi Board determines Gavi's risk appetite, validates that effective risk management processes are established, and oversees that the most significant risks are being managed within Gavi's risk appetite.

- 1.10 With a new comprehensive risk management approach being implemented, and with some Board members explicitly requesting to be more engaged on risk, the need manifests itself to reconsider how to best engage the Board on the ongoing risk management developments and the progressively improving understanding of key risk exposures.
- 1.11 In preparation for a planned conversation at the April Board Retreat on this topic, the Board is requested to share their initial thinking on what role the Board sees for itself and its Committees regarding their risk oversight duties, and their guidance on how to structure the discussion on this topic at the upcoming Board Retreat, as set out below:
- (a) Naturally, the early and current focus of Board engagement has been on overseeing the process of implementing changes to strengthen risk management and assurance practices. As the implementation progresses and new practices get institutionalised to the degree that they generate an improved understanding of Gavi's key risk exposures, the focus of Board engagement should shift more towards content moving forward. This means that key strategic risk exposures within thematic risk areas could be brought to the Board to review against Gavi's risk appetite and to debate whether the aggregate level of risk is acceptable or mitigated appropriately.
  - (b) The upcoming Board Retreat could serve as an opportunity to discuss how the Board would like to engage in future content-focussed discussions on Gavi's risk exposures; to share early lessons on Gavi's risk approach; to ensure a common view on how the Board thinks about risk, building on the risk policy discussion; and to begin more content-focused discussions on one or two specific risks to test potential engagement models, while acknowledging that as we are still in the process of progressively strengthening risk practices, early stage content discussions may be rough and ready at this stage, but will become richer over time as processes and tools mature.

## **2. Recommendations**

- 2.1 This report is for guidance.

### **Section B: Content**

## **3. Background**

- 3.1 Gavi's approach to managing risk, including but not limited to fiduciary risk, has evolved over time. This evolution has been driven initially by a realisation that an overly "light-touch" model may not provide sufficient assurance and accountability, and by an increasing risk awareness and reduced risk tolerance among key stakeholders, and especially donors. Additionally, Gavi's programmes have grown substantially during the 2011-2015 strategy period, increasing the complexity of grant and risk management. Gavi's next 2016-2020 strategy prioritises efforts to improve sustainable coverage and equity of immunisation. This will require more

intensive engagement with countries including focus on low coverage and inequities sub-nationally, greater country capacity-building (including financial capacity) and a deeper focus on weaker and fragile states, poorer urban areas and remote rural locations. Therefore, Gavi inherently faces a greater exposure to uncertain factors and potential risks to achieving programme outcomes. We believe that a comprehensive and systematic approach to risk management will enable Gavi to take the right level of the right type of risks needed to deliver on this ambitious mission and maximise our impact.

- 3.2 Over recent years, the Board has approved a number of policy changes and increase in resourcing to strengthen risk management and assurance, particularly in the Secretariat, such as: approval of the Transparency and Accountability Policy (2009) with subsequent extension to also cover management of vaccines (2013); creation of the Internal Audit function (2009); development of a Gavi Risk Register (2011); re-orientation of the Country Programmes department towards a stewardship role with a greater focus on results, and programme and financial accountability (2011); and clearer separation of programme management and review/approval mechanisms, e.g. by enhancing the capacity of the Independent Review Committee which reviews new applications for support, and approval of a new grant management approach ("GAMR" – grant application, monitoring, and review).
- 3.3 Building on these already existing risk management and assurance practices, a year ago, the Board reviewed proposed further changes to Gavi's risk management and assurance practices at its meeting on 10-11 December 2014. The Board approved the proposed Risk Policy, including a risk appetite statement, and endorsed the proposed approach to strengthen risk management and fiduciary oversight, including the recommended structures, systems and resourcing. This included appointing a Head of Risk who joined on 29 June. Gavi has made very substantial progress in implementing this plan and the Head of Risk has been coordinating this, as well as more broadly taking stock of existing risk management and assurance practices, processes and controls.
- 3.4 This report provides an update on progress made in implementing the changes to enhance Gavi's management of risk, including but not limited to fiduciary risk. It firstly reiterates Gavi's risk management philosophy, as laid out in the Risk Policy approved last year, which establishes the foundation for Gavi's risk management approach; it then provides an update on progress made to date on the implementation of the new risk management and assurance approach as approved last year, and priorities going forward; and lastly, it requests guidance on how to best engage the Board on risk going forward.

#### **4. Risk management philosophy**

- 4.1 Risk is inherent to Gavi's business, both in its mission to help achieve dramatic progress in immunisation in the world's poorest countries often

with very poor infrastructure, and in its operating model as an Alliance with a lean Secretariat without in-country presence. Taking calculated and carefully managed risks will help to deliver on this ambitious mission. Gavi is furthermore very conscious of its obligation to be an effective steward of donors' resources and the need to manage associated risks proactively, appropriate to the preferences of a diverse stakeholder base.

- 4.2 Gavi defines risk in its Risk Policy as the probability of an event that could negatively affect the achievement of objectives if it were to occur. Risks that exist prior to the application of controls or mitigation are 'inherent risks'; those that remain subsequent to application of controls or mitigation are 'residual risks'. On the flipside, an opportunity is the probability of an event that could bring benefits if it were to occur. Some risks can be turned into opportunities when recognised and acted upon early on.
- 4.3 Gavi's comprehensive approach to risk management includes the management of all types of risks, strategic as well as operational and programmatic. It will create a shared understanding of, and promote a consistent approach to, risk and risk management within Gavi. It thereby contributes to:
- (a) More informed decision-making and conscious risk-taking;
  - (b) Achievement of objectives by better planning and proactive management to anticipate problems before they arise and better positioning to take advantage of opportunities;
  - (c) Setting priorities and being the basis for allocation of resources to key risk areas and for the focus of control and assurance efforts;
  - (d) Improving organisational learning and resilience to changes in a volatile environment.
- 4.4 As per its Risk Policy, Gavi adheres to the following principles in its risk management approach:
- (a) 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.
  - (b) 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.
  - (c) 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.

- 4.5 Risk appetite is the amount of risk, on a broad level, that an organisation is willing to accept in pursuit of objectives. While the risk appetite of individual Alliance members may vary, consensus in decision-making is reached through Gavi Board discussions and by endorsing Gavi's risk appetite statement every two years. Within its strategic framework, Gavi engages in a portfolio of activities, some of which are low risk and others high risk. High-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.
- 4.6 The current risk appetite statement as approved by the Gavi Board last year, articulates Gavi's risk appetite in relation to Gavi's four Strategic Goals (SG1-4), as follows:
- (a) Accelerate the uptake and use of underused and new vaccines by strengthening country decision-making and introduction (SG1)
- High<sup>1</sup> appetite for risks related to achieving the equity goals, as it is necessary to be bold and take risks in order to reach the most disadvantaged populations, which is at the heart of Gavi's mission.
  - Moderate appetite for risks related to data quality, recognising the need for working in settings with relatively weak data systems.
  - Low appetite for risks related to vaccine procurement and supply security, avoiding shortfalls and ensuring predictable country supply.
  - Low appetite for risks to vaccine and immunisation safety that could negatively affect the health of children in implementing countries.
- (b) Contribute to strengthening the capacity of integrated health systems to deliver immunisation (SG2)
- High appetite for risks related to pursuing ambitious and innovative strategies to strengthen health systems, which are essential for realising the full potential of immunisation and for sustainability.
  - Low appetite for risks related to misuse of funds. Fiduciary risks are managed through an effective system of controls and reimbursement is always sought for any identified cases.
- (c) Increase the predictability of global financing and improve the sustainability of national financing for immunisation (SG3)
- High appetite for risks related to pursuing innovative financing models to lead innovation in sustainable development financing.

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<sup>1</sup> A high 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.

- Low appetite for risks related to raising donor funds in order to safeguard predictable financing of vaccines.
  - Low appetite for risks related to sustainability of national immunisation programmes, limiting the ambition of achieving SG1.
- (d) Shape vaccine markets to ensure adequate supply of appropriate quality vaccines at low and sustainable prices for developing countries (SG4)
- High appetite for risks related to pursuing bold strategies for shaping markets to fundamentally change market dynamics and sustainably increase access to vaccines in lower income countries.

## 5. Update on progress in strengthening risk and assurance practices

5.1 A year ago, the Board reviewed and approved proposed changes to Gavi's risk management and assurance practices at its meeting on 10-11 December 2014. Since then, in line with the approved approach, Gavi has made very substantial progress in implementing this ambitious plan, and made fundamental changes to the organisational structure to enhance its risk management and assurance capacity, as presented below:

- (a) Introduction of the Risk Policy, setting out guiding principles for risk management, definitions of key risk concepts, high-level roles and responsibilities across the Alliance, and a risk appetite statement. It has a dedicated place on Gavi's website, which includes answers to frequently asked questions, and is the reference guide for all teams to guide their thinking about risk and shape the development of their own risk practices.
- (b) Launch of a new organisational structure in which Gavi's risk management, control and assurance functions are structured according to the Three Lines of Defence model<sup>2</sup>, ensuring clear and distinct roles across teams and objective checks, balances and controls. As a result, existing teams have been strengthened and new teams have been created.
- (c) Accelerated recruitment campaign to fill a total of 37 positions to fully staff all new and strengthened teams constituting the three lines of defence. Of these, 24 were new positions as approved by the Board in December 2014, 6 were previously-agreed positions in the Grant Performance Monitoring team, and 7 were existing (of which some vacant) positions (in the former TAP and Internal Audit teams) which were transferred into the Programme Financial Assessment team and Audit & Investigations.

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<sup>2</sup> See Exhibit 1 for an explanation of the Three Lines of Defence model at Gavi.

**Exhibit 1: Gavi's Risk Governance model**

Risk is everyone's responsibility and 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. As stated in Gavi's Risk Policy:

- The Gavi Board determines Gavi's risk appetite, validates that effective risk management processes are established, and oversees that the most significant risks are being managed within Gavi's risk appetite.
- The Secretariat translates the risk appetite into appropriate strategies and processes intended to anticipate and respond to risk, and implements these processes. Secretariat staff are responsible for identifying and managing risk in their daily work.
- Alliance partners are responsible for managing risks involved with Gavi activities and for alerting the Secretariat of risks that could affect Gavi's mission.
- Implementing countries manage risks to the results being pursued with Gavi-funded programmes, and report these risks encountered in implementation.

Gavi has structured its risk management, control and assurance functions according to the Three Lines of Defence model, ensuring clear and distinct roles and objective checks, balances and controls. Its underlying premise is that, under the oversight and direction of senior management and the Board, three separate groups (or lines of defence) within the organisation are necessary for effective management of risk and control.



The responsibilities of each of the groups (or "lines") are:

- **First line: owning and managing risk**  
Primary ownership sits with the business and process owners whose activities create and/or manage the risks that can facilitate or prevent an organisation's objectives from being achieved. This includes taking the right risks. The first line owns the risk, and the design and execution of the organisation's controls to respond to those risks.  
*Constituted by Country Programmes working with Alliance partners and implementing countries*
- **Second line: overseeing risk in support of management**  
The second line is put in place to support management by bringing specialised expertise, and coordinating, monitoring and overseeing risk management alongside the first line to help ensure that risk and control are effectively managed. While separate from the first line, they are still under the control and direction of senior management.  
*Constituted by the Risk function, Programme Financial Assessment, Grant Performance Monitoring (M&E), Finance, Operations, and Legal*
- **Third line: providing independent assurance**  
An independent third line is providing objective assurance to the Board and senior management on the effectiveness of risk management and control by both the first and second line. Importantly, the third line has an independent reporting line to the Board – as well as senior management – to ensure its independence and objectivity.  
*Constituted by Audit & Investigations (Internal Audit, Programme Audit, Investigations & Counter-Fraud)*



We have currently largely met this ambitious recruitment target, by having filled 33 out of the 37 new risk-related positions against the Board-approved plan. Six<sup>3</sup> positions have been reopened and search is still ongoing (4 SCM's, 1 Head of PFA, 1 Head of Programme Audit).

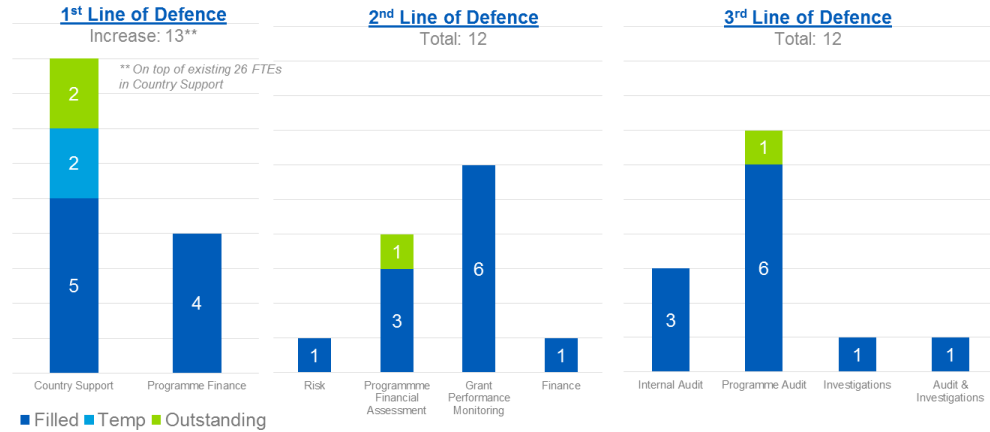


Figure 1 – Status of recruitment across three lines of defence

(d) Institutionalisation of a Risk Committee, chaired by the CEO and comprised of senior leadership from across the organisation. It has been meeting regularly (every six weeks) and oversees Gavi’s risk management approach and the implementation of the new risk and assurance practices across the three lines of defence. As this matures, it will furthermore discuss key strategic risks and validate agreed risk responses and mitigation strategies.

5.2 Our primary emphasis to date has been on rapidly implementing the changes in key teams across the three lines of defence at the Secretariat, including development and/or redesign of critical tools, systems and processes for enhanced risk assessment, control, and assurance, as presented below:

First line of defence

(a) Country Support team

- As the first line is primarily responsible for the risks they take by implementing, supporting and overseeing immunisation programmes, the existing Country Support team (within the Country Programmes department) is responsible for risk management and control in day-to-day management of Gavi’s grants, working with countries and partners. The team has been strengthened with 9 additional Senior Country Manager (SCM) positions (on top of existing 26 FTE in Country Support) to get to an appropriate level of coverage for enhanced risk and grant management. Since high-risk countries require more time and focus for grant and risk management, the country portfolio of SCMs and other Country Team

<sup>3</sup> Two SCM posts are currently filled with temporary staff. Additionally two replacements were recruited for existing SCM posts.

staff have been reallocated in line with levels of country risk. Dedicated SCMs have been put in place for high-risk countries (currently in place for Nigeria, DRC and Pakistan; in progress for Ethiopia and India). For now, an initial country segmentation in risk categories has been performed based on a few preliminary dimensions (total investment, political or economic complexity/instability, fiduciary weaknesses, health system weaknesses, and partner capacity), but eventually the allocation will be based on the output of the Country Risk Matrix, which is currently under development.

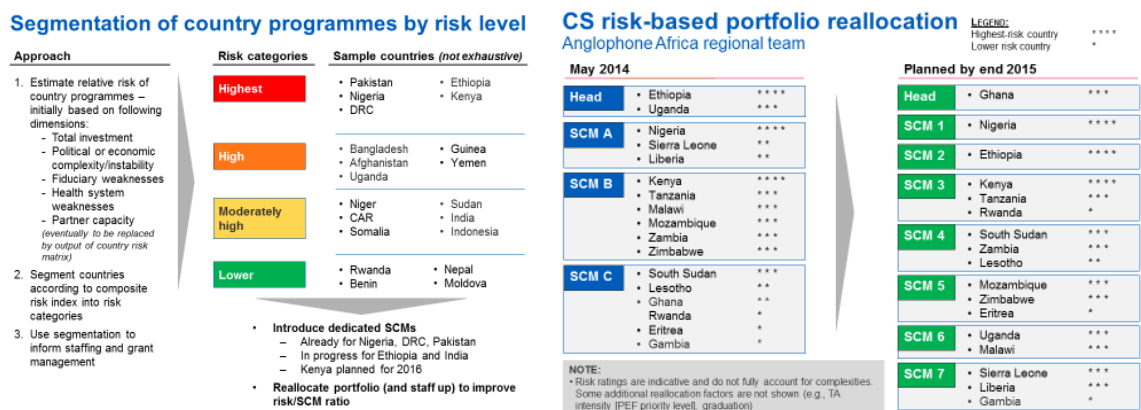


Figure 2 - Risk-based portfolio reallocation

- Cross-functional Country Teams are established per country to pool skills and resources across the Secretariat, bringing together Vaccine Implementation, Health Systems & Immunisation Strengthening, Financial Sustainability & Graduation, Programme Finance, Monitoring & Evaluation, Programme Financial Assessment, Legal, Finance, and Country Support team members with a shared country focus. This ensures that SCMs can call upon the expertise they require to support effective grant management and oversight. The Country Team Approach is currently being piloted for Nigeria, DRC, Pakistan and India.
- A Country Risk Matrix is developed to identify, assess and manage in-country risks and escalate high risks to management. It will provide an overview of the risks and controls per country, drive allocation of time and focus of oversight, and can as it matures inform decisions based on country risk, such as grant approval and renewal decisions, reprogramming and course corrections, disbursement decisions, and required support and investments. It will also feed into the Gavi corporate risk register where applicable. A draft version has been developed and piloted for 7 countries, which assesses risks that Gavi's objectives are not achieved, risks that Gavi's investments are not sustained, and risks that Gavi's resources are not used appropriately. Currently the matrix is being revised based on initial feedback, and guidance and processes are being developed. Roll-out across the portfolio will start with an initial focus on Partners' Engagement Framework (PEF) priority countries.

Risk	Rating of inherent risk	Indicators/aspects to consider in the risk assessment	Comments	Current risk mitigation strategy	Rating of residual risk
<b>Risk category I: Risk that country and Gavi immunisation objectives are not achieved</b>					
<b>Programmatic risk</b>					
<b>a) Social, political and environmental - affecting coverage and equity</b>					
Risk that investments (country, Gavi and partners) fail to translate into improvements in immunisation coverage & equity	High	There are concerns related to the coverage trend in the country	Yes: 1. Data quality issues 2. Issues with vaccines availability and low cold chain equipment (CCE) coverage	1. Strengthening HMIS 2. Strengthening CCE and supply chain system 3. "Approche Amersa" (enhanced RED approach via HSS) 4. Advocacy for payment of co-financing (given link to vaccines availability)	High
		The country has under 70% DTPI coverage	MUENIC 2014 = 80% but questions about data reliability (eg. DTPI 2013 = 81%)	Strengthening RED approach by extending HSS grant to more HD	
		There is evidence of outbreaks of diseases for which vaccines are provided	Major measles outbreak currently (non-Gavi-provided vaccine)	Measles campaign application for IRC review Nov-2015, incl. intersectoral communications in hesitant regions	

Figure 3 - Country Risk Matrix

- In order to create a risk-aware culture and to enhance the broader grant management capabilities of new and existing staff, a staff capability-building programme has been designed that delivers specific training sessions once or twice per month. Eight modules have been delivered since May and about twenty others are planned until early 2017. A module on financial risk management has been delivered in October. Furthermore, Operational Guidelines are being developed to improve, streamline and ensure consistency of approach to all business processes that Country Programmes is involved in. Six have been designed and endorsed, another six are currently under development.

(b) Programme Finance team

- To support SCMs with the financial aspects of grant management and oversight, a new Programme Finance team has been established within the Country Programmes department, consisting of 4 new positions. The budgeting guidelines and the proposal template have already been improved. With the Head of Programme Finance now on board, further enhanced, systematic risk practices and financial and budgetary reviews and controls are being refined and developed throughout the grant management cycle, e.g. for management of cash disbursement, budget review and grant closure.

Second line of defence

(c) Risk function

- As part of the second line's role to support management by bringing specialised expertise, and overseeing risk management alongside the first line, a new dedicated Risk function has been created, consisting of 1 new position. Its mandate is to coordinate, facilitate and monitor the implementation of effective risk management and assurance practices across the Alliance, promote a risk-aware culture, and refine and support risk reporting throughout the organisation.

- The Head of Risk, reporting into the Executive Office, joined on 29 June. He has been coordinating the implementation of the new risk and assurance practices across the three lines of defence; has been meeting with all teams to take stock of existing risk management and assurance practices, processes and controls; and has been coordinating the quarterly update of the corporate risk register (shared with the Board on myGavi) and discussions in the Risk Committee meetings. He furthermore has been supporting teams on building their specific risk management practices (e.g. the Country Risk Matrix).
- Immediate priorities for the Risk function going forward are to define a long term vision and strategic agenda for the Risk function and risk management at Gavi, as a basis for a comprehensive risk management framework and a corresponding multi-year implementation plan. Furthermore, a comprehensive communication and change management plan will be defined to enhance Gavi-wide risk culture and awareness.
- In the medium term, the Risk function's primary focus will become to support key teams in the Secretariat in building and continuously improving effective risk management practices and facilitate cross-team collaboration on risk. It will furthermore continue to refine corporate risk management processes and tools, enabling comprehensive top-down and bottom-up identification, analysis, evaluation and treatment of key risks. As such, structured guidance and a common methodology will be developed for comprehensive risk identification and consistent self-assessment by teams, complemented with facilitated risk identification and assessment workshops for key cross-cutting risk themes with cross-team representation.

#### (d) Programme Financial Assessment team

- As another specialised second line function, the role of the Programme Financial Assessment team is to perform an independent review of the financial and programmatic management capacity of implementers. The strengths and weaknesses of an implementer to manage and account for funds received, and to effectively manage programmes and vaccines, is an important indicator for the degree of susceptibility to fiduciary and programmatic risks and associated control and assurance needs. This new team has been established within the Finance & Operations department, with 4 new positions.

- The team currently performs the existing Financial Management Assessments (FMAs), which independently assess the strength of countries' financial systems before Gavi disburses funds, and define the best modality to channel funds. They were previously performed by the no longer existing TAP team. The team also performs Monitoring Reviews (MRs) to evaluate progress in implementing the recommendations of FMAs.
- The team is now developing a new Programme Capacity Assessment (PCA) tool, which will be replacing the FMA tool and expanding its scope. The PCA will also identify programme management capacity gaps in the country structures to oversee the use of all Gavi support, whether provided in the form of cash, vaccines or vaccine related devices. This is in line with the revised Transparency and Accountability (TAP) policy. A PCA will be undertaken every 3 years at least, and upon any significant changes that require a new assessment. MR's continue to validate remediation of issues.

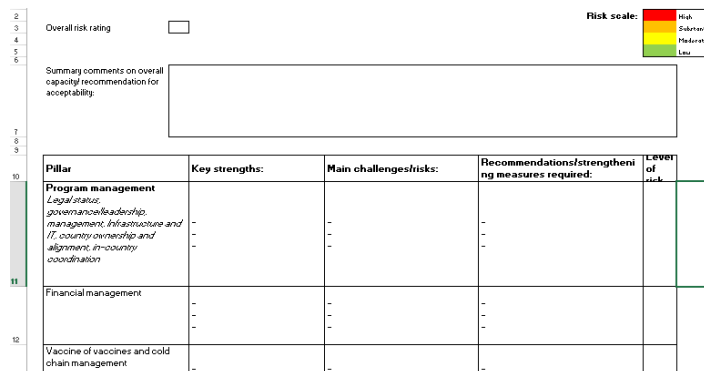


Figure 4 - Programme Capacity Assessment tool

- The new tool is currently being designed. We are selecting and contracting with firms to outsource the delivery of PCAs, which will enable a considerable ramp-up of assessments going forward. Delivery is planned to start with 6 PCAs this year and an ambitious further 36 next year. As such, we are aiming to have over 60% of applicable countries covered by PCAs by the end of 2016.

(e) Grant Performance Monitoring team

- A new Grant Performance Monitoring team has been created within Monitoring & Evaluation, consisting of 6 new positions. As part of the second line, it provides independent review of the performance of Gavi's grants, reducing the risks associated with grant under-performance. Moreover, performance-related issues can inform risk assessments and represent early-warning signals for the need of increased oversight.

- The team has been developing, piloting and rolling out a Performance Framework tool for each vaccine programme and new policy to enable results-focused management of Gavi's vaccine and health system strengthening grants. Introduction of performance frameworks is planned to be completed for the PEF Top 20 priority countries by end-2015 and for all Gavi countries by end Q1 2016.

(f) Finance, Operations, and Legal

- Existing support functions as Finance, Operations and Legal provide specialist input and checks or reviews. Finance reviews all disbursements to ensure they comply with the Board-approved programme budget; Operations reviews (non-vaccine) procurement and travel requests; and Legal reviews and approves all agreements and other documents with legal implications. As part of the Board approved plan, the existing Finance team has been strengthened with 1 additional position.

Third line of defence

(g) Audit & Investigations

- A new Audit & Investigations department has been established, consisting of 11 new positions and 1 existing FTE. This department constitutes an independent third line, providing objective assurance to the Board and senior management on the effectiveness of risk management and control by both the first and second line. As such, the department has an independent reporting line to the Board – as well as senior management – to ensure its independence and objectivity.
- The scope of audits has been expanded to cover aspects of both fiduciary and programmatic risk. Audit processes are being developed together with the remediation of the findings from the External Quality Assurance review of the Internal Audit function. A tracking tool for follow-up on open audit issues is being established, and will in the future be extended to include remediation recommendations from other sources (e.g. external audits, donor audits, Board and AFC requests, and capacity assessments).
- A strengthened Internal Audit team (3 positions) conducts audits on internal secretariat processes. Given the increasing scale and complexity of Gavi's work, audits will be conducted on a more frequent cycle, covering Gavi's internal processes over a two-four year period, weighted according to the level of risk. The Internal Audit team has undertaken a risk assessment of Gavi's internal processes and activities, and the external environment in which it operates, including input from Gavi's Executive Team, Gavi's risk register, and CEO/DCEO priorities. Audit plans have been developed and delivery is ongoing. A total of 8 audits will have been conducted in 2015, and 7 are planned for 2016, compared to 2 delivered in 2014).

- A new Programme Audit team (7 positions) has been created to conduct audits of programmes in-country to assess whether adequate controls are in place and Gavi support, including cash, vaccines and related supplies, has been used as intended to provide value-for-money, considering both financial and programmatic aspects. All relevant countries (i.e. those with substantial grants) will undergo an audit on a 5 year cycle with high risk countries to be covered twice in that period. Country Programmes' management has been consulted to identify significant risks and 'red flags' for prioritisation of audits. The team also compiled a risk assessment independently, to validate and complement Country Programmes' perspectives. Audit plans have been developed and delivery is ongoing. A total of 10 audits will have been conducted in 2015, and 10 are planned for 2016, compared to 5 delivered in 2014).
- A new Investigations & Counter-Fraud function (1 position) has been established to perform investigations into possible misuse and other misconduct within Gavi and Gavi-supported programmes in-country, and to support fraud risk assessments and build counter-fraud capacity. As such, this function is helping to identify areas in Gavi's operations which may be more susceptible to fraud, and is making recommendations for the strengthening of controls.
- Moreover, Gavi has launched a (confidential) whistle-blower reporting facility, the Ethics Hotline, which receives reports from internal and external sources on potential misuse or other misconduct. It now caters for six languages (English, French, Spanish, Portuguese, Russian and Arabic) to increase the accessibility of reporting across the Gavi-supported countries.

5.3 We expect most of the key changes to have been fully rolled out by the end of 2015, though implementation in some areas will extend into 2016. By mid-2016, we intend that the plan will be fully implemented with all key changes institutionalised into our core processes and working practices. At that point, the Secretariat is planning to launch an internal review to assess the impact of the changes made, evaluate the functioning of the new risk management, control and assurance practices across the lines of defence, and review whether further changes may be required.

5.4 Going forward, as we institutionalise these changes, we will be increasingly focused on broadening implementation across the Alliance and beyond the Secretariat, including in particular:

- (a) As described above as one of the priorities for the Risk function, we will be developing a broader change management plan to embed risk more centrally in the culture of the full organisation.

- (b) We will be intensifying work with partners to enhance risk management practices at country level, especially as we roll-out the Partner Engagement Framework (PEF) and the alliance-wide Accountability Framework which will clarify responsibilities and strengthen oversight. A key principle of Gavi's risk management approach is that risk is everybody's responsibility, and as partners sharing the same risks to achieving our common mission, all members of the Alliance should collaborate and exchange information on key risk exposures and effectiveness of mitigation actions.
- (c) We are planning to more systematically engage the Board on risk, including a conversation at the April Retreat on the best modalities to do this. This is described in more detail in the next section.

### **Exhibit 2: Managing fiduciary and programmatic risks in DRC, a high-risk country**

Although no longer at war, DRC faces ongoing political crises, periods of violence and instability, weak governance, corruption and mismanagement of its natural resources. Before 2015, it was treated in the same way as any other country. The SCM in charge of DRC was also responsible for another country as well as managing the Francophone Africa regional team.

In December 2014, the Secretariat moved to assigning a dedicated SCM in charge solely of managing DRC, and introduced a Country Team with cross-functional representation of other Secretariat teams. The country is furthermore one of the pilot countries for which the Country Risk Matrix has been filled out.

As a result, the dedicated SCM is now able to focus on the country and go into matters more deeply. Gavi has been working with the Ministry of Health, in-country Alliance partners, donors and other partners to implement a robust framework for grant and risk management at every level:

- Gavi uses a fiduciary agent to mitigate fiduciary risks, and to simultaneously strengthen the financial and fiduciary capacity of the Ministry of Health. Following an investigation into misuse of funds, the previous fiduciary agent, contracted by the government, was replaced and a new fiduciary agent was contracted directly by Gavi to guarantee its independence. This has already improved financial oversight and reporting, and helped address irregularities in the tendering process for the production of management tools. The Secretariat requests a detailed budget and utilisation plan from the country before any disbursement, in addition to closely monitoring expenses and activities. Spot checks are used to monitor expenditures at the fiduciary agent.
- Programmatic risks are being managed as part of day-to-day grant management. Implementation of activities is closely monitored, delays better anticipated, and countries are supported to meet crucial deadlines e.g. by early implementation of procedures such as procurement.
- Due to the uncertainties around the upcoming elections, a risk plan has been developed to ensure continuity of essential services in the event of any unrests. For example, UNICEF will plan to secure the sites of the warehouses.
- The Country Team approach has helped to avoid vaccine stock-outs and overstock by regular monitoring of vaccine shipments and stocks to ensure the country has the necessary quantity. Furthermore, the hands-on assistance of Country Team members together with Alliance partners helped prevent a potential situation of large-scale wastage of vaccines. A plan was developed for using 600,000 doses of pentavalent vaccines, which the Ministry of Health previously was not willing to use because their vaccine vial monitor was showing "stage 2" (with stage 3 meaning 'discard').



## 6. Board engagement on risk

- 6.1 Risk oversight is a key responsibility for a Board in all organisations. As stated in Gavi's Risk Policy (and depicted in Exhibit 1), the Gavi Board determines Gavi's risk appetite, validates that effective risk management processes are established, and oversees that the most significant risks are being managed within Gavi's risk appetite, as set out below.
- (a) Understanding Gavi's risk philosophy and concurring with Gavi's risk appetite. Because the Board represents the views and desires of Gavi's key stakeholders, management should have an active discussion with the Board to establish a mutual understanding of Gavi's overall appetite for risks.
  - (b) Validating that the Secretariat has established effective risk management processes. The Board should inquire of management about existing risk management processes and their effectiveness in identifying, assessing, and managing the most significant Alliance-wide risks.
  - (c) Being informed of Gavi's most significant risks and ensuring that these risks are within Gavi's risk appetite. Risks are constantly evolving and regular updates on key risk exposures strengthen the ability of the Board to ensure they are consistent with Gavi's overall appetite for risk.
- 6.2 Risk updates used to be a standing item on the Board agenda, but were taken off after the 2014 Board and Committee self-assessment decision that less information items would make Board discussions more efficient and strategic. At present, the corporate risk register is shared on myGavi and every Board paper contains a Risk section.
- 6.3 With a new comprehensive risk management approach being implemented, and with some Board members explicitly requesting to be more engaged on risk, the need manifests itself to reconsider how to best engage the Board on the ongoing risk management developments and the progressively improving understanding of key risk exposures – while ensuring Board discussions remain efficient and strategic as per the 2014 decision.
- 6.4 In preparation for a planned conversation at the April Board Retreat on this topic, the Board is requested to share their initial thinking on what role the Board sees for itself and its Committees regarding their risk oversight duties, and their guidance on how to structure the discussion on this topic at the upcoming Board Retreat, as set out below:

- (a) Naturally, the early and current focus of Board engagement has been on overseeing the process of implementing changes to strengthen risk management and assurance practices. As the implementation progresses and new practices get institutionalised to the degree that they generate an improved understanding of Gavi's key risk exposures, the focus of Board engagement should shift more towards content moving forward. This means that key strategic risk exposures within thematic risk areas could be brought to the Board to review against Gavi's risk appetite and to debate whether the aggregate level of risk is acceptable or mitigated appropriately.
- (b) The upcoming Board Retreat could serve as an opportunity to discuss how the Board would like to engage in future content-focussed discussions on Gavi's risk exposures; to share early lessons on Gavi's risk approach; to ensure a common view on how the Board thinks about risk, building on the risk policy discussion; and to begin more content-focused discussions on one or two specific risks to test potential engagement models, while acknowledging that as we are still in the process of progressively strengthening risk practices, early stage content discussions may be rough and ready at this stage, but will become richer over time as processes and tools mature.

The Board's input will be taken into account in the planning of the conversation at the April Board Retreat on the best modalities to more systematically engage the Board on risk.

## **Section C: Risk implication and mitigation and Financial implications**

### **7. Risks and mitigation measures**

- 7.1 There is a risk that some stakeholders might perceive that these changes will eliminate risk from Gavi's programmes. While these changes are meant to bring Gavi's risk exposure within its risk appetite, 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. Some high-impact opportunities may require taking greater risks and sometimes the greatest risk is inaction. To mitigate this risk, the Board will be engaged on risk and explicitly discuss Gavi's risk exposure in relation to the endorsed risk appetite statement and risk/reward trade-offs. Furthermore, the risk appetite statement is revisited every two years. This will ensure regular review and alignment on the level of risk – programmatic, reputational, financial or other – which is acceptable in pursuit of potential programmatic or sustainability outcomes.
- 7.2 There is a risk that the increased focus on enhanced risk management and assurance practices might slow down implementation of some Gavi grants, move the Alliance's focus too heavily towards assurance 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 changes reflects the Board's decision on risk principles and risk

appetite as part of the Risk Policy, balancing risk and reward accordingly. The Secretariat will furthermore ensure that risk management processes will be implemented as a lean and purposeful management tool to achieve objectives and inform decisions, and be embedded in day-to-day grant management and decision-making practices. If implemented well, a comprehensive and systematic approach to risk management will actually enable Gavi to deliver on its ambitious mission, achieve programme outcomes, and maximise our impact, by taking the right level of the right type of risks. The planned internal review to take place by mid-2016 will assess this explicitly.

- 7.3 There is a risk that there might be insufficient capacity, expertise or willingness among Alliance partners and implementing countries, impeding our ability to implement enhanced risk management and assurance processes. To mitigate this risk, we will ensure an open dialogue on shared risks to our common mission and support partners as needed to deliver. We will furthermore leverage the roll-out of the PEF and the Accountability Framework for existing partners, engage new partners with complementary expertise if needed, and use targeted technical assistance and HSS funding to build country capacity.
- 7.4 There is a risk that Gavi might be exposed to reputational damage due to an increase in identification of problems as risk assurance activities scale up. To mitigate this risk, the Risk function will work with the communications team on a reactive communication strategy.
- 7.5 There is a risk of reduced momentum, diluted focus or reduced coordination on risk management once the current change plan is fully integrated into Gavi's business model due to competing priorities. To mitigate this risk, the Risk function will develop a long term communications and change management plan. Furthermore, representatives of each function across the three lines of defence will continue to meet and align regularly even once the plan is fully implemented, and the Risk Committee will continue to monitor effectiveness of risk management practices proactively.
- 7.6 There is a risk that it turns out challenging to satisfy Board members' expectations on risk engagement. This could be because of impatience to have content-focused discussions at an early stage where processes and practices are still being strengthened and maturing. Or due to potentially shifting opinions as a result of changes in the Board composition, changes in the environment driving constituencies' priorities, or high turnover of Board members and a resulting lack of institutional knowledge and understanding of the historical context. To mitigate this risk, we are planning to agree with the Board on the best modalities to regularly engage the Board on risk with a view to proactively and transparently inform the Board on our current risk management capabilities, and to ensure a common view on how the Board thinks about risk. We are also defining a long term vision and strategic agenda for the Risk function and risk management at Gavi, in order to keep the focus on the bigger picture and the long term end goal, setting out priorities and realistic expectations in a multi-year implementation plan.

## **8. Financial implications**

- 8.1 This report provides an update on progress made to date on the implementation of the new risk management and assurance approach as approved by the Board in December 2014. As part of that approval, the Board had approved 24 new positions, against which recruitment has taken place to implement the changes as planned.
- 8.2 As we have reviewed and prepare for the next strategy period, which will require more intensified engagement with countries, we are planning to further reinforce the first line of defence (Country Programmes). This will primarily benefit our ability to manage programmes as part of our investments to deliver on coverage and equity, but will also further enhance our risk management capacity. As part of the Gavi engagement framework paper, a budget request is made for some additional resources.

## **Section D: Implications**

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

- 9.1 Enhanced risk management and assurance practices will help strengthen Alliance support to countries to assess their financial and programme management systems, and build capacity to address identified weaknesses. It will furthermore increase the likelihood of achieving grant objectives by anticipating problems before they arise and better positioning to take advantage of opportunities. 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 be 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 risk management, control and assurance practices will increase transparency and accountability, and therefore help to maintain donor confidence, which ensures Gavi is able to continue to provide support in the most fragile countries, where it is most needed.
- 10.2 The 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 risk among the full set of partners at country level through the ICC, HSCC and joint appraisals.

## **11. Impact on Secretariat**

- 11.1 The changes impact the structure, working practices and resourcing of the Secretariat. A new organisational structure has been launched based on the Three Lines of Defence model, and this has expanded capacity in critical teams with 33 out of 37 new risk-related positions recruited since the Board approved the new approach in December. Once the plan will be fully implemented by mid-2016, the Secretariat is planning to launch an internal review to assess the impact of the changes made, evaluate the functioning of the new risk management, control and assurance practices, and review whether further changes may be required.
- 11.2 It is possible that the proposed changes will create additional demands on teams which are not currently envisaged. The Secretariat will monitor resource requirements across the Secretariat over time.

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

- 12.1 The Secretariat will incorporate the enhanced risk management and assurance arrangements in any relevant existing and new legal agreements.
- 12.2 The Secretariat will define how best to engage the Board and Board Committees on risk including the most suitable reporting process.

## **13. Consultation**

- 13.1 The changes in this paper integrate findings from the consultations on the Risk Policy. The Gavi Board approved the Risk Policy, and the risk management and fiduciary oversight operational framework in December 2014. Furthermore, updates on the change implementation plan have been discussed bilaterally with certain donors given their particular interest on this topic. Lastly, an initial discussion with the Audit and Finance Committee has been held on the topic of this paper. They were supportive of the progress and the overall direction, and encouraged to move to a content-focused discussion as quickly as possible.

## **14. Gender implications**

- 14.1 There are no direct gender implications.