Risk Management
UNDP Global Fund Implementation Guidance Manual

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Risk Management

Overview

This section of the Manual provides guidance on risk management in the context of Global Fund grants. Though this guidance focuses primarily on UNDP-implemented Global Fund grants, provisions may be of relevance to any Principal Recipient (PR). The section starts with some basic concepts of risk management, which may be familiar to some readers. Please click 'next' or select the desired topic from the left-hand menu.

Introduction to Risk Management

What is Risk Management?

Risk can be defined as the effect of uncertainty on the achievement of an organization's objectives. Risk management is, therefore, the process of identifying and managing this uncertainty, or risk, with the goal of achieving objectives. Effective risk management enables an organization or individual to increase the likelihood of achieving their goals/objectives, by enabling them to identify potential future events that may affect the achievements of their targets, and, where possible, put in place measures to reduce their impact.

UNDP's **Enterprise Risk Management** is based on the International Organization for Standardization Internal Risk Management Standard (ISO 31000). The guidance in this Manual follows the process and definitions based on the ISO 31000 standard, and the following key definitions are used:

- **Risk** is an effect of uncertainty on objectives. This effect can be positive (supporting the organization or programme to achieve planned objectives) or negative (preventing the organization or programme from achieving its objectives). Uncertainty refers to deficiency of information or lack of understanding or knowledge about events. It is best practice to formulate risk in terms of "future event". Objectives can have different aspects (such as financial, health and safety, and environmental goals, and can apply at different levels (such as strategic, organization-wide or project).
- **Consequence** is the outcome of an event affecting objectives. An event can lead to a range of consequences, and initial consequences can escalate through knock-on effects.
- **Event** is the occurrence or change of a particular set of circumstances. An event can be one or more occurrences, have several causes, and consist of something planned not happening.
- **Likelihood** is the chance of something happening. Likelihood can be measured or determined objectively or subjectively, qualitatively or quantitatively, and described using general terms or mathematically (such as a probability or a frequency over a given time period).
- **Risk owner** is the person or entity with the responsibility and authority to manage a risk.
- **Risk register** is a risk management tool that serves as a record of all risk identified by the project. For each risk identified, it should include information such as likelihood, consequences, treatment options, etc.
- **Risk treatment** is a measure to modify risk exposure, to provide reasonable assurance of achieving objectives.

Risk Management in International Development Projects

Risk management is an inherent part of project management and has aspects of monitoring and review, reporting and communication. These are common activities regardless of the type of project.

All projects go through a planning phase, which is more or less complex depending upon the scope and complexity of the project. Project plans are based on certain assumptions; for example, lead time for procurement or projected number of patients in need of specific treatment. Any uncertainty related to those assumptions is a source of risk. If these uncertainties are examined and efforts are put forward into managing them during project planning, their effects can be 'controlled', or minimized (in case of threats) or enhanced (in case of opportunities), in order to support reaching project objectives. Project managers most often do this by making sure project plans consider the likelihood and impact of a risk, or preparing contingency plans.

Compared to projects in other areas, international development projects have greater exposure to risk. This is because the operating environments for such projects are difficult and usually with inadequate resources. In addition, most of these projects are funded by donors, who come with their own requirements that may require additional resources. For example:

- International development projects are usually implemented in environments with high contextual risk (weak infrastructure, unstable political environment, ongoing or recent armed conflict, high poverty rates, weak legal environment and banking system, lack of adequately qualified human resources, etc.). This affects projects' ability to attract qualified human resources and build effective partnerships. It presents a threat to staff and equipment safety, and poses limitations in terms of available infrastructure such as transport and internet.

- Development projects are funded through public finance/donors. This often means different reporting requirements, creating a high reporting burden and elaborate processes for approving changes to project plans, which can seriously affect the ability to respond to risks.
- Development projects' objectives are often centred on human welfare and as such any unplanned adverse effect of project implementation may carry a high ethical burden and substantially compromise the reputation of everyone involved.

Global Fund Risk Management

In 2014 the Global Fund Board adopted the **Risk Management Policy**, which is a comprehensive approach to risk management at the corporate level. A high-quality and detailed overview of the Global Fund risk management approach was prepared by **Aidspan** and is available **here**.

The Global Fund sees risk as an everyday part of its activities. There is a clear need to balance the risk of not accomplishing the Global Fund's mission to fight the three diseases, with fiduciary risk. Guidelines for risk differentiation define how much risk the Global Fund is willing to accept in the pursuit of its objectives. Setting risk thresholds ensures that risks are not over-or under-managed, and that scarce resources are effectively utilized.

The Global Fund identifies different categories of risk: internal, external and strategic. The management of internal and strategic risk does not have immediate implications for Principal Recipients (PRs). Regarding external risks, the Global Fund is willing to accept higher levels of risk in grants that are being implemented in environments that are inherently riskier (for example, in **Challenging Operating Environments**), than for grants in relatively lower-risk settings.

The Global Fund relies on three layers of assurance:

1. In-country assurance provided by the PRs and Local Fund Agents (LFAs).
2. The Secretariat assurance provided by the Chief Risk Officer.
3. The Office of the Inspector General (OIG) which undertakes audits and investigations. The OIG reports are available **here** and can serve as good indication of key weaknesses observed in Global Fund programmes.

Global Fund Operational Risk Management

Operational Risk Management is the methodology the Global Fund developed to support identification, assessment, and mitigation of grant-related risks. The Global Fund identified **19 common grant-related risks**, divided into four categories:

- Programme and performance risks;
- Financial and fiduciary risks;
- Health services and products risks; and
- Governance, oversight and management risks.

As part of ongoing risk management, the relevant Global Fund Country Team documents its assessment of each of the **19 pre-identified risks** and records how the risks are being addressed. The Country Teams use a tool called Qualitative Risk Assessment, Action Planning and Tracking (QUART) to assess the factors that contribute to each risk and to evaluate their likelihood and severity. The QUART tool is complemented by an analysis of the entities implementing the grant. The assessments are required at least once a year, but may not be required for portfolios assessed as being at lower risk. As part of the process, the Country Team (often with input from the Principal Recipient (PR), the Country Coordinating Mechanism (CCM) and the Local Fund Agent (LFA)) also prepares an action plan that describes how each risk is being addressed.

Global Fund Requirements for Risk Management at Implementer Level

The Global Fund considers that the implementers have the primary responsibility of managing risks in the grants they implement. This means that risk management at the Principal Recipient (PR) level is supported by the PR's internal controls systems. The Global Fund **Risk Management Policy** stipulates that implementers have an obligation to operate internal control systems to ensure that:

- Funds are efficiently and effectively directed to achieving programmatic results and reaching people in need; and
- Programmatic and financial data are accurate, timely and complete.

Where Sub-recipients (SRs) are engaged, the PR has the overall responsibility to manage the SRs and how the SRs manage Sub-sub-recipients (SSRs), if any are engaged. For more information on management of SR-related risks by PRs, please refer to the **SR management section** of the Manual. In addition, as part of their oversight of grant implementation, Country Coordinating Mechanisms (CCMs) play a role in managing risk by detecting weaknesses in performance or control systems, and promoting remedial action.

While the Global Fund does not mandate any tool or practice for risk management at the PR level, there are some requirements related to risk management during the grant life cycle.

Practice Pointer

By signing the Grant Agreement, the PR accepts the responsibility of managing the grant(s), which includes any and all risks related to them. It is common practice for PRs to engage other entities (SRs) to implement some grant activities. It is important to keep in mind that while the PR may delegate some specific work or activities to SRs, it cannot delegate the risk of said activities. The PR is always accountable. Therefore, the PR should undertake a robust assessment of SR capacity and any risks related to their activities and their internal control and systems, and plan accordingly. This plan should be regularly monitored and updated during grant implementation.

Risk Considerations in the Development of Funding Requests

During the application process for new Global Fund funding for countries submitting the full application, the Country Coordinating Mechanism (CCM) should assess the main risks related to the effective implementation of the programme and propose risk mitigation measures. The risk assessment should cover:

- external risks;
- programmatic risks;
- financial risks;
- health product quality;
- service delivery risks; and
- governance and oversight risks.

Actions to be taken that can control identified risks should be reflected in the programme design, selection of interventions and the selection of qualified Principal Recipients (PRs). Good implementation arrangements ensure that the programme runs well, key populations have access to quality health services, and there are adequate fiduciary controls and programmatic oversight up to the community level. As part of identifying risks related to implementation arrangements, the CCM assesses each nominated PR against a set of minimum standards and captures this assessment in the funding request. Depending on the country context and available resources, if the PR is nominated at this stage, it can provide valuable support to the CCM in undertaking risk assessment and proposing risk responses.

Countries applying for continuation of funding would have to undertake a review of identified risks and risk treatment options in the existing grants and confirm whether there are any significant changes.

Risk Management during Grant-Making

During grant-making the Global Fund undertakes an assessment of the nominated Principal Recipient (PR) according to the Global Fund's minimum standards. This builds on the Country Coordinating Mechanism (CCM)'s assessment of the capacity of nominated PR(s) provided in the funding request. The assessment focuses on four areas: monitoring and evaluation (M&E); financial management and systems; procurement and supply management (PSM); and governance and programme management. The Global Fund Capacity Assessment Tool is used for the PR assessment.

Practice Pointer

The Global Fund PR capacity assessment in cases when UNDP is the nominated PR has a reduced scope. Since the Global Fund recognizes that UNDP's regulations, rules, policies and procedures meet the minimum requirements, the capacity assessment should cover only the areas specific to the particular UNDP Country Office (e.g. number of staff planned for financial management of the grant, but not financial rules and regulations overall) or to the particular country (e.g. existing systems used for monitoring and evaluation of national disease programme).

Preparation of the **implementation arrangements map** is another important risk management activity during grant-making. The implementation arrangements map is a visual depiction of who is doing what with what portion of a grant (or multiple interrelated grants). It is, in essence, an organogram or process map of a grant or series of grants that together operationalize a programme. The implementation arrangements map includes:

- All entities receiving grant funds and/or playing a role in programme implementation;
- Each entity's role in programme implementation;
- The flow of funds, commodities and data;
- The beneficiaries of programme activities; and
- A representation of any activities for which an implementing entity has not been identified.

The CCM and PR are responsible for preparing the **implementation arrangements map**. However, as the process of mapping is an effective means of facilitating accurate communication about processes and risks during grant making, the Global Fund Country Team and Local Fund Agent (LFA) may engage in the mapping exercise jointly with the PR and CCM, particularly in deciding whether multiple grants should be mapped together to demonstrate interdependencies. In practice, the PR is best positioned to prepare the map, since it has detailed knowledge about flow of funds and commodities and the mandate to select Sub-recipients (SRs).

Global Fund Risk Management-related Policies

The Global Fund Local Fund Agent

The Local Fund Agent (LFA) is an entity contracted by the Global Fund for a particular country to undertake an objective examination and provide independent professional advice and information relating to grants and Principal Recipients (PRs). Within the Global Fund's risk management framework, the LFA provides independent in-country verification and oversight mechanism in addition to Principal Recipient's assurance. The Global Fund expects LFAs to proactively identify and alert it to any issues that may prevent activities and funding from reaching the intended beneficiaries in the quantity, time, and quality intended, and the Global Fund programmes from reaching their objectives. Based on the Global Fund Country Team's risk assessment of the particular portfolio, the LFA's scope of work is tailored to the specific circumstances of the grant.

Practice Pointer

While LFAs are expected to flag any occurring risks to the Global Fund, the focus of their work is to independently verify and confirm information reported by the PR. In cases where UNDP is the PR, the LFA role in verification is limited as the Global Fund relies on UNDP's regulations, rules, policies and procedures. Please refer to the **legal framework section** of the Manual for guidance on Global Fund and LFA access to books and records.

Global Fund Challenging Operating Environments

In 2016 the Global Fund Board endorsed the **Challenging Operating Environments Policy**. Challenging Operating Environments (COEs) are countries or regions characterized by weak governance, poor access to health services, and man-made or natural crises. The policy classifies COEs based on countries with the highest External Risk Index (ERI) level in the Global Fund portfolio, and allows for *ad hoc* classification to enable rapid responses to emergency situations. Due to increased risks in COE territories, the Global Fund often introduces additional risk management measures such as Additional Safeguards. The portfolio categorization to focused, core and high impact countries is independent from COE, i.e. COE countries exist in all portfolio categories.

Once a country (or part of it) is categorized as a COE, the Global Fund can tailor the flexibilities that would apply. The flexibilities may relate to the following:

- Access to funding: The Global Fund can allow the extension of existing grants, non-Country Coordinating Mechanism (CCM) applications, and extended allocation where a COE country is no longer eligible for funding.
- Implementing entities: While the CCM nomination of the Principal Recipient (PR) is preferred, in COE countries the Global Fund may assume the responsibility for selecting the PR.
- Grant implementation: Where relevant and possible, goals, targets, activities and budgets can be adjusted, and implementation arrangements changed to reach target populations.

- Procurement and supply chain: Where existing in-country supply chain systems are dysfunctional, disrupted or at risk of disruption, third-party providers may be selected for part or all of the supply chain management functions. In emergency situations, PRs with strong procurement and supply chain capacity may be selected.
- Monitoring and evaluation: The Global Fund recognizes the risks associated with data collection and data quality in COEs due to weak health data systems. It addresses these risks by 1) insisting on strengthening of health management information systems (HMIS) and using different types of data (surveys, evaluations, quantitative and qualitative sources) and 2) when necessary having a performance framework with focus on output measures rather than outcome and impact.
- Financial management: The flexibilities on key financial processes include, among others: ease of reprogramming process with a high level budget based on past grant assumptions, reliance on implementers' own assurance mechanism where deemed strong, outsourcing of accounting and/or fiduciary function, and extension of audit and reporting due dates.

Global Fund Additional Safeguards Policy

Additional Safeguards Policy (ASP) is a set of measures that the Global Fund introduces whenever "the existing systems to ensure accountable use of Global Fund financing suggest that Global Fund monies could be placed in jeopardy without the use of additional measures". Examples of criteria for invoking ASP include significant concerns about governance; the lack of a transparent process for identifying a broad range of implementing partners; major concerns about corruption; a widespread lack of public accountability; recent or ongoing conflict in the country or region of operation; political instability or lack of a functioning government; poorly developed or lack of civil society participation; financial risks such as hyperinflation or devaluation; or lack of a proven track record in managing donor funds.

The ASP can be found in the Global Fund **Operations Policy Manual**. The ASP is usually invoked for the entire portfolio of Global Fund grants, on a countrywide basis.

The specific additional safeguard measures put in place are adapted to the risks and circumstances of each concerned grant. They may include:

- The Global Fund itself selecting the Principal Recipient (PR), in consultation with the Country Coordinating Mechanism (CCM);
- The Global Fund approving Sub-recipients (SRs);
- Additional reporting requirements;
- Tailored procurement arrangements; and
- In some cases, a no-cash policy (also referred to by the Global Fund as 'Zero Cash Policy'), which prohibits advance cash transfers to SRs that pose a particular risk.

UNDP is often nominated as PR in ASP countries. As UNDP-implemented Global Fund projects adhere to UNDP's regulations, rules, policies and procedures, not all Global Fund measures apply. Most flexibilities would be negotiated during grant-making and the Country Office (CO) is advised to request support of the UNDP Global Fund/Health Implementation Support Team.

Risk management in UNDP

Risk and uncertainty are inherent in many of UNDP's activities. Achieving its mission of eradicating poverty and reducing inequalities and exclusion requires the organization to take risks. UNDP has an elaborated **Enterprise Risk Management framework** (ERM)[1] embedded in its Programme and Operations Policies and Procedures (POPP). The steps of the risk management process are as follows:

- Establishing the context;
- Risk assessment;
- Risk treatment;
- Monitoring and review; and
- Communication and consultation.

The detailed policy for risk management at programme and project level is currently under development. At the project level, UNDP currently applies adaptation of PRINCE2 project management method. A Risk Log of each project is available online in Atlas (UNDP's ERP) as part of each project's documentation.

[1] Adopted in 2007 and updated in early 2016.

UNDP Risk Management in the Global Fund Portfolio

The Global Fund supports countries in pursuing ambitious targets, resulting in a direct impact on HIV, TB and malaria epidemics, which often include the provision of lifesaving services. In supporting countries to achieve these targets, UNDP implements grants in some of the most challenging operating environments.[1] Implementing projects in these contexts substantially increases the risk of the projects failing to deliver the intended results, organizational reputation and loss of assets. Furthermore, because projects are implemented in high risk environments, often in countries with weak governance and other systems, the risk of abuse of funds (at all levels) is very high. This includes the risk of diversion of health commodities. Finally, because the Global Fund-supported projects are part of a wider national disease strategy, UNDP engagement in project planning is lower than in other UNDP projects. As a consequence of limited Principal Recipient (PR) engagement during the project planning (funding request) stage, in certain cases operational risks are not thoroughly identified and fully addressed. National proposal writing teams usually include health experts with limited project management expertise, who may not adequately identify implementation risks during the planning stage. Therefore revisions of project plans to include risk treatment options may be required during start-up, grant-making or once implementation is in progress.

Since Global Fund supported projects are considered higher risk than other UNDP-implemented projects, there are several enhancements in terms of controls and assurance in addition to the risk management applied to all UNDP projects. This refers to tailored approaches and tools used by UNDP in the Global Fund portfolio that aim to strengthen controls and systems to prevent, mitigate or better monitor risks. This reduces the probability and impact of programmatic and operational risks. The contextual risks external to the project remain with the Country Office (CO) managing the projects, to address through the business continuity plan or crisis response.

Some of tailored approaches and tools aimed at preventing or mitigating are as follows:

- **Limited procurement by Sub-recipients (SRs)**. UNDP COs serving as PRs should not engage SRs to procure health products. Non-health procurement is limited to an SR agreement budget of US$100,000 or 10 percent of the total SR budget, whichever is lower. This measure ensures best value for money by allowing UNDP to undertake higher volume procurement, while ensuring all quality requirements for health products are observed.
- **Specialized procurement architecture for procurement of health products**. Timely delivery of quality assured products is essential to ensure continuous provision of lifesaving services and minimize the risk of service interruption. To ensure expertise in this highly specialized area, the UNDP Global Fund/Health Implementation Support Team ensures a service level agreement with UNICEF is in place for key products used in the Global Fund-financed grants. Further, the UNDP Global Fund/Health Implementation Support Team completes the selection and contracting process and maintains long-term agreements (LTAs) with suppliers of other health products used in Global Fund grants. Such arrangements have several positive effects, such as reduced delivery time (as each CO does not need to repeat the bidding process, but can just use existing contracts); volume discounts and other better terms due to market power; easier negotiations with key suppliers, product quality assurance and prevention of collusion in procurement. For more information please refer to the **procurement and supply management section** of the Manual.
- **Control Self-Assessment (CSA).** As part of UNDP's commitment to risk management, UNDP found it particularly useful to strengthen risk management in the context of the Global Fund portfolio. The CSA allows programme teams directly involved in business units, functions or processes to participate in assessing the project's risk management and control processes and identify additional risk mitigation actions. One of the major benefits of the CSA approach in Global fund-financed grants is that the entire team working on a programme (e.g. finance, procurement, M&E) understands what the key risks are and what controls are in place or need to be introduced to better manage them.

Practice Pointer

CSA is particularly useful for new PRs or before starting a new grant, as the effects of increased controls span over the life of the grant. UNDP COs interested in going through Control Self-Assessment should contact the UNDP Global Fund/Health Implementation Support Team.

[1] At different points, roughly half of the UNDP Global Fund portfolio is in countries characterized by the Global Fund as Challenging Operating Environments.

Risk Management in UNDP-managed Global Fund Grants

The steps outlined in this section are based on the UNDP **Enterprise Risk Management** (ERM) Policy, but are applicable to most other entities, particularly those following ISO 31000.

The risk management process spans the project's entire life cycle. One full cycle (establishing the context, risk assessment, risk treatment and communication and consultation) should be done during the '**Defining the Project**' stage of project management outlined in the UNDP Programme and Operations Policies and Procedures (POPP). For Global Fund grants, if UNDP is confirmed as Principal Recipient (PR) during the funding request preparation, the process should start at this stage, and risks and risk responses should be outlined in the funding request. If this early engagement was not possible, the process can start during the grant-making stage when the PR is confirmed and is preparing detailed grant implementation plans (performance framework, detailed budget and work plan, and list of health products). During grant implementation, monitoring and review is the most important component of risk management. They enable monitoring of identified risks, taking appropriate risk treatment measures and periodic review of identified risks in order to eliminate those that are no longer relevant and take note of any new uncertainties.

Establishing the Context

By establishing the context, the programme sets its objectives, defines the external and internal parameters to be taken into account when managing risk, and sets the scope and criteria for the remaining risk management process. In Global Fund programmes managed by UNDP, the objectives are already defined in the funding request, hence the focus of this step is to define external and internal parameters that may influence risk management. Examples of external parameters include: number and nature of project partners; relationship with key stakeholders; presence of other donors (which may provide opportunities for complementary work or greater collaboration to avoid duplication); broader political and regulatory framework the project is operating in, etc. Examples of internal context parameters include: roles and accountability within the organization, organizational culture, and resources and knowledge.

Risk Assessment

Risk assessment is the overall process of risk identification, risk analysis and risk evaluation. The main product of the risk assessment is the Risk Log (currently in Atlas in project management module) which would contain key information produced during risk assessment (for each risk: the event, cause, impact, probability, owner and treatment).

Risk identification

Risk identification implies identifying relevant risks and describing them (for examples, please refer to the section on **common risks identified in Global Fund programmes**). The aim is to generate a comprehensive list of risks that might enhance, prevent, degrade, accelerate or delay the achievement of grant objectives. Some tools and techniques for risk identification include:

- Brainstorming;
- Interviews and self-assessment, that could be facilitated by the UNDP Global Fund/Health Implementation Support Team;
- Facilitated workshop, e.g. control self-assessment workshops;
- Scenario analysis; and
- Risk questionnaire and survey.

The following documents can help to identify risks:

- Project performance framework, work plans and budgets;
- Global Fund performance letters;
- Global Fund Local Fund Agent (LFA) on-site data verification findings;
- Mission reports and assessments from technical agencies;
- Sub-recipient (SR) capacity assessment reports;
- UNDP Office of Audit and Investigations (OAI) **audit reports**;
- Programme evaluations and reviews; and
- Global Fund Office of Inspector General (OIG) audit and investigation reports.

In addition to the above, where UNDP is already a Principal Recipient (PR), any information collected through implementation in the previous periods can be used for risk assessment. This includes, but is not limited to:

- Project Management Unit monitoring visits reports;
- UNDP Global Fund/Health Implementation Support Team mission reports; and
- SR audit reports.

Risks are always identified as threats or opportunities relating to specific objectives in a specific organization. Therefore, strong internal controls and systems in the implementing organization contribute to reductions of certain types of risks (usually internal or operational). When UNDP is the PR for Global Fund grants, existing policies and procedures for financial management significantly reduce the risk of misuse of funds at the PR level, and attention can be focused on SR financial management.

Practice Pointer

It is recommended to define a risk as a probable future event (an occurrence that hasn't take place, but may happen in the future). In addition to the event, risk identification should include risk cause (or causes) and impact (or consequence).

Example A: The risk of poor programmatic data quality is defined as the possibility that reported data are inaccurate, unreliable, incomplete and/or not submitted on time (the "event"). The causes can be: a weak monitoring and evaluation (M&E) system at a national level (e.g. dysfunctional HMIS); lack of staff trained in M&E; armed conflict in particular regions of the country preventing monitoring missions, etc. Should this risk occur, the consequence is incorrect assessment of programme performance and limited ability of the management to make informed decisions related to the programme.

Risk analysis

Risk analysis entails assessing the likelihood and consequences of a risk by applying the criteria model (for more information on the criteria model, please refer to **UNDP Enterprise Risk Management (ERM) Policy**). Non-UNDP PRs may have their own definitions of risk likelihood and consequence, or criteria can be defined when establishing the context.

The likelihood and consequences of identified risks are estimated as per the criteria model, taking the existing controls into account.

Example A: In the example of the risk of poor programmatic data quality, based on the existing systems used by the national disease programme, the likelihood is assessed as "highly likely" (once or twice a year or 60-80 percent chance of materializing). The consequence is estimated as "high" primarily based on the "development results" criteria meaning that 20-30 percent of the planned result may be affected, since the programme may not be able to reach the set targets due to underreported number of cases.

Risk evaluation

Risk evaluation helps you make decisions based on the outcome of the risk analysis. The risk levels of all analysed risks are evaluated to determine which risks need treatment and their priority. The risk acceptance criteria are defined in the **UNDP ERM Policy**.

Example A: In the example of the risk of poor programmatic data quality, with likelihood assessed as "highly likely" and the consequence estimated as "high", the risk falls in the orange category (for more information, please refer to guidance on risk acceptance in the **UNDP ERM Policy**), which means it requires prompt action. Since this risk assessment is taking place during grant-making, i.e. before the programme start, the team investigates the best risk treatment option(s) at this stage.

Risk Treatment

Risk treatment involves identifying one or more treatment options and implementing the options considered most effective. Risk treatment options are:

- Risk termination, which can involve changing aspects of the overall grant management plan to eliminate the threat, isolating project objectives from the risk's impact, or relaxing the objectives that are threatened (e.g. extending the schedule or reducing the scope). In extreme cases this can include eliminating objectives, deciding not to start a project or terminating the project. Risks identified early in the project can be avoided by clarifying requirements, obtaining more information, improving communications, or obtaining expertise.
- Risk mitigation involves reducing the probability and/or the impact of risk threat to an acceptable level. Taking early and proactive action against a risk is often more effective than attempting to repair the damage a realized risk has caused. Modifying project plans at the planning stage and developing contingency plans are examples of risk mitigation.
- Risk transfer involves shifting the negative or positive impact of the uncertain event (and ownership of the response) to a third party. Risk transfer does not eliminate a threat; it simply makes another party responsible for managing i In the context of Global Fund grants, the Principal Recipient (PR) retains the ultimate responsibility *vis-à-vis* the Global Fund, hence it only makes sense to transfer risk to entities that are better equipped to deal with it. An example could be transferring the risk for transport of procured pharmaceuticals to a logistics company with adequate insurance.

- Risk tolerance is often taken as a risk strategy since it is very difficult to plan responses for every identified risk. Risk acceptance should normally only be taken for low-priority risks (green as per guidance on risk acceptance in the **UNDP Enterprise Risk Management (ERM) Policy**).

All risks shall be assigned to a risk owner, who is responsible for reporting the risks and assuring that they are treated appropriately. Once implemented, treatments need to be monitored and continuously reviewed in order to make sure they had the intended effect.

Example A: In the example of the risk of poor programmatic data quality, the team decided to apply risk mitigation (reducing probability) by including capacity development activities into the grant plans. Based on the analysis of existing data, the team identified the three regions with the highest rate of under-reporting, and included plans to train all health workers responsible for data collection in these regions in the first quarter of the project. The trainings would be accompanied by distribution of data recording and reporting forms. The team also identified the budget required for these risk mitigation measures and assigned implementation to the monitoring and evaluation (M&E) Officer (risk owner). The risk, its causes, probability, impact and mitigation measures were recorded in the project Risk Log.

Communication and Consultation

Communication and consultation with relevant stakeholders should take place at all stages of the risk management process and at regular/planned intervals. Sharing information on risks with the Global Fund and implementing partners promotes trust and ownership, and contributes to more effective risk treatment and overall decision making. Communication is particularly essential when significant contextual/external risks occur, since it can facilitate quick realignment of project efforts, redefinition of objectives (e.g. through reprogramming) and allocation of funding for risk mitigation activities (for more information, please refer to the section on **risk management in high risk environments**).

Example A: In the example of poor data quality, when the risk was identified, the team informed the key Sub-recipient (SR), the national disease programme. The SR provided data which lead to identification of the three most affected regions, and worked with the Principal Recipient (PR) to design risk mitigation measures. Following that, the Global Fund was informed about the identified risk and proposed mitigation measures, and all parties agreed to revise the budget in order to allocate funds to finance the mitigation measures.

Risk Reporting

Reporting of risks is an inherent part of risk management. The reporting of risks in UNDP creates risk awareness at all levels of the organization, and ultimately builds a transparent and improved decision-making process. Reporting on risks in UNDP follows established organizational reporting lines. Part of reporting is documenting the risk management process where the Risk Log is the primary document. In addition to the regular reports, and in line with the risk acceptance guidelines, the occurrence of red and orange risks (as per the risk acceptance guidance in **UNDP Enterprise Risk Management (ERM) policy**) should also be reported on an *ad hoc* basis. The *ad hoc* reports should simply include a description of the risk, the initiated treatment/status and (possibly) call for action or request for assistance.

In the context of the Global Fund-financed projects the Principal Recipients (PRs) are expected to report on risks during regular reporting (i.e. when submitting a **Progress Update**). Section 3 of the Progress Update requires PRs to report on risks of stock-out or expiry of key pharmaceuticals and health products. Section 5 of the Progress Update requires PRs to report on external factors beyond their control that have impacted or may impact the programme.

Example A: In the example of the risk of poor programmatic data quality, after implementing risk mitigation measures the team undertook targeted monitoring visits to three regions and analysed the actual under-reporting in order to assess whether risk mitigation measures were effective. The implemented risk mitigation measures were recorded in the Risk Log. In the first Progress Update to the Global Fund the team reported on implementation of the capacity building activities and their effects.

Monitoring and Review

Monitoring and review should be a planned part of the risk management process. This involves regular checking and/or surveillance. It can be periodic or *ad hoc* and is done to see if: further action is needed; appropriate controls are in place; new uncertainties are emerging; and strategic changes to UNDP's risk landscape require senior management action. Monitoring and review results should be recorded and reported as appropriate, and also used as input for auditing and annual review of the project's risk management framework.

Example A: Following the implementation of risk mitigation measures and reassessment of the risk after the first quarter, the probability of poor data quality risk was reduced to "moderately likely" (20-40 percent chance of materializing). The risk was monitored for the next year with no significant change. In the beginning of the project's second year, the risk owner noticed weaknesses in reporting, indicating the increase in probability of this risk. The team analysed the situation and found a significant reduction in the percentage of trained data collectors in affected regions, due to health worker turnover. They planned new risk mitigation measures, and documented all changes in the Risk Log.

Risk Management in High-risk Environments

UNDP Corporate Policies

The UNDP Programme and Operations Policies and Procedures (POPP) include **Standard Operating Procedures (SOPs) for crisis response**, **Fast Track Policies and Procedures** (FTPs) and **Financial Resources for Crisis Response**. The SOPs for crisis response define the triggers and activation of crisis response; levels of organizational crisis response; roles and responsibilities and phases for immediate response. Once the crisis response is triggered, FTPs can be activated. Depending upon the nature and scope of the crisis, the FTPs can apply to the entire UNDP operations in programme and management areas; to projects that are specific to a crisis response; or projects that fall within the framework of the 'strategic and time-critical' response. There are FTP provisions for programme and project management; human resources; financial management; procurement; partnership management and information and communication technology (ICT). Crisis response activation is managed at the Country Office (CO) level, but is applicable to the Global Fund portfolio managed by that CO. Similarly, activated FTPs can be applicable to the Global Fund portfolio, depending upon their scope.

Risk management for UNDP Global Fund portfolio in high-risk environments

In addition to measures for crisis response applicable to specific UNDP Country Offices (COs) there are additional provisions to consider for Global Fund grants implementation in high-risk environments.

The CO/Principal Recipient (PR) should check with the Global Fund whether the country (or affected region within a country) is classified as a Challenging Operating Environment (COE), which could mean additional Global Fund policy flexibilities are applicable.

The main principle for managing Global Fund grants in high-risk environments is the increased need for UNDP CO/PR to manage risk, document this process and communicate. During grant-making/reprogramming request or defining project stage/grant-making, risks should be identified and risk treatment planned and reflected in project plans. If the onset of crisis is sudden, one of the first steps to be undertaken is analysis of risks created by the crisis, and identification of immediate responses required.

By default, implementing grants in high-risk environments means higher risks. The need to continue delivery of lifesaving services calls for agility and flexibility in procedures (both **UNDP Fast Track Policy** (FTP) and **Global Fund COE provisions**). Since existing procedures are part of internal controls, relaxing them means the organization is accepting higher risk. According to the standard Grant Agreement, the PR bears all grant-related risk. Therefore, in high-risk environments the PR should consider the following:

- Ensuring uninterrupted services in the high-risk environment may require a change in implementation arrangements, especially if the crisis onset happened after grant signing. In situations of natural disaster or armed conflict the project beneficiaries may be displaced and a quick assessment may be required to understand how to provide health services in the changed circumstances. Supplying health products to new service delivery spots may require changes in pre-crisis practice.
- Safety risks to project beneficiaries and staff should be carefully examined. This is applicable not only in areas of armed conflict or natural disasters, but also where activities of key affected populations are criminalized. Immediate risk mitigation measures in such circumstances include ensuring confidentiality of beneficiary data, controlled and limited access to records, use of unique identifier codes and partnering with national institutions. Long-term measures include policy work to change punitive laws.
- Communication and consultation as part of risk management is essential in high-risk environments. It is necessary to discuss the risks, causes and impact with Sub-recipients (SRs), and jointly plan risk treatment. It also involves discussing risks with other key project partners at the country level, since common risk mitigation measures may be applied. Finally, it is very important to communicate about risks with the Global Fund and flag any "unknown" areas. For example, in case of armed conflict outbreak in part of the country which prevents access to sites, the Global Fund should be informed about the PR's inability to access and verify assets in the conflict zone, and the Global Fund should decide if this is acceptable.
- In the given circumstances, can the PR honour the obligations undertaken under the Grant Agreement with the Global Fund? For example, the Global Fund can request that all assets purchased with grant funds are returned to the Global Fund. In situations of armed conflict, the PR should flag the uncertainty related to physical verification and control of assets which will be given to SRs in the zones not accessible to the PR. Other example includes access to service delivery sites for verification of programmatic data.
- Whether the programme objectives are realistic – This is particularly important in situations where the context changes after the grant is signed. The PR should undertake an analysis of assumptions used to set the original targets, and their validity in the changed circumstances. When necessary, a reprogramming request should be submitted to the Global Fund.
- Weaknesses in national systems and capacity is often the main contributor to high-risk environments for Global Fund grant implementation. This is addressed by midterm capacity development measures, aiming to address root causes. In the short-term, mitigation measures can include outsourcing and engaging technical assistance for key implementers. For UNDP-managed grants, in case of weak capacity for financial management at SR level (as determined by the SR capacity assessment) transfer of funds to the SR is usually avoided and SRs implement sub-projects through direct payment modality.

Common Risks Identified in Global Fund Programmes

This section provides examples of common risks occurring in UNDP-managed Global Fund programmes. It is based on the **Global Fund's 19 operational risks** with modifications based on UNDP's experience as Principal Recipient (PR).

1. **Governance and risk management:**
    - Poor relationship with stakeholders – deteriorated working relationship between PR and key stakeholders (at any level) that can result in the project's inability to implement key activities and ultimately reach its objectives. This can refer to key ministries, national disease programmes, donor, Sub-recipients (SRs) or other key partners.
    - Inadequate organizational structure – the possibility of the PR not having the requisite capacity to provide effective oversight and implement the grant's activities, including oversight of SRs and service providers.
    - Poor sustainability – the possibility of ineffective or unsustainable programmes in terms of developing capacity of national systems and entities, and an inadequate transition plan for the designated future PR.
2. **Programme management:**
    - Not achieving programmatic targets – the possibility of the grant failing to reach its planned targets in terms of coverage with services or other programmatic activities essential for reaching grant objectives. In some cases, this can be caused by unrealistic targets being set for the programme or insufficient funds being budgeted to allow implementing required activities. In most such cases this results in low grant rating.
    - Poor quality of health services – the possibilities of inadequate or no national guidance; poor prescriber and provider adherence to internationally recognized diagnosis, treatment and prevention guidelines; patients' poor adherence to regimens; poor monitoring of adverse events; lack of rational use of health products, or other related areas of health services quality. Poor quality of health services contributes to lack of impact on the epidemic.
    - Inadequate reporting and compliance – the possibility that the PR exhibits delays and/or quality issues in regular reporting to the Global Fund, including failure to fulfil **conditions precedent (CP)**, **special conditions (SCs)**, management actions and other recommendations within prescribed deadlines.
    - Inadequate monitoring and evaluation (M&E) and poor data quality – the possibility that reported data are inaccurate, unreliable, incomplete and/or not submitted on time. Inadequate M&E and poor data quality can result in incorrect assessment of programme performance and hinder management's ability to make informed decisions related to the programme.
3. **Sub-recipient management:**
    - Inadequate SR selection process – the possibility of not selecting the best SR(s), failing to identify SR weaknesses during the SR capacity assessment exercise and prepare a capacity development or risk mitigation plan to address the identified weaknesses.
    - Inadequate SR reporting and compliance – the SR exhibits delays and/or quality issues in regular reporting to UNDP, non-compliance with the terms and conditions of the SR agreement, or failure to fulfil conditions, recommendations coming out of SR audit or other recommendations within prescribed deadlines.
    - Inadequate SR performance – the possibility of SR failure to deliver programmatic targets as accepted in the SR Grant The failure to deliver programmatic activities is often linked with low financial absorption.
    - Inadequate oversight of SRs – the possibility of any material weaknesses in the oversight of SR activities, including failures to proactively identify and reasonably mitigate risks that may materially impact attainment of grant objectives, and failure to implement a robust verification process before accepting SR programmatic and financial reports.
4. **Procurement and supply management (PSM):**
    - Treatment disruptions – the possibility of negative health outcomes for beneficiaries from treatment disruptions due to issues/gaps in the PSM of pharmaceutical and health products.
    - Substandard quality of health products – the possibility of providing pharmaceuticals and other health products that do not meet required quality standards to end users.
    - Theft or diversion of non-financial assets or consumables – the possibility that funded assets or consumables (non-financial) are lost due to theft or diversion by SRs, other in-country partners or third parties.

5. **Financial management:**
    - Misuse of funds – the possibility that funds (cash) are lost due to ineligible expenditures (use of funds for activities outside of the agreed work plan and budget), fraud, corruption, or theft within UNDP, SRs, other in-country partners or third parties. Some activities by their nature (difficult to verify) are more prone to misuse of funds. This refers to trainings, communication and mobilization campaigns, incentives and top-ups, travel cost and Daily Subsistence Allowance (DSA), printing materials, per diems paid in cash, etc.
    - Low financial delivery – the possibility that funds in a Global Fund grant are not used within the timelines agreed in the grant budget due to limited absorptive capacity, including the inability to reprogramme funds within the grant. Low absorption can be tied with failure to implement programmatic activities and often occurs with failure to reach programmatic objectives. In other cases, the programmatic activities can be implemented as intended and low delivery could be a consequence of changed circumstances related to budget assumptions (e.g. lower unit costs) or more efficient implementation and failure to reprogramme funds that became available through savings.
    - Poor financial efficiency – the possibility that funds are wasted or used inefficiently due to poor management by UNDP or SRs, including for pharmaceutical and health products (overstock, expiry, equipment not utilized as intended). This does not refer to technical choices for activities, but covers options for implementation including value for money in SR selection and procurement.