

Improper guidance and supervision of the Ministry of Foreign Affairs and Trade (MOFAT) on Global Green Growth Institute (GGGI).

** Please note that this is informal translation provided by the Embassy of Denmark in Seoul and NOT the official document from GGGI.*

According to the Regulation on Establishment and Supervision on Non-Profit Foundations registered under the Ministry of Foreign Affairs and Trade (hereinafter "MOFAT"), MOFAT approved the establishment of GGGI on May 14, 2010 and provided 31,300,000,000 KRW from June 2010 to July 2010 through the Korea International Cooperation Agency (KOICA).

According to the Article 7 and Article 8, clause 1 of the Regulation above, MOFAT should receive reports on business performance & settlement of accounts, business plan & budgetary bill with earnings and expenses and inventory of the non-profit foundations registered under MOFAT. Under unavoidable circumstances for the inspection and supervision of corporate business, MOFAT can ask a corporation to submit relevant documents and other references to MOFAT or let affiliated government officials to examine the business and financial status of corporation.

Following the Article 7 and Article 8, clause 1, when approving the establishment of GGGI on May 14, 2010, MOFAT attached a condition that MOFAT can cancel its approval of establishment of corporation when corporation neglects implementation of relevant rules including the regulation mentioned above and Civil Law, or when corporation's activities became stagnant due to its poor management or financial problem, which could become a burden or hindrance for the implementation of Korean government's foreign policy.

Furthermore, GGGI is supported by government donation through KOICA and is in the process of transition to International Organization in 2012. So the Ministry where GGGI is registered (i.e. MOFAT) and the supporting organization with government donation (i.e. KOICA) should have been thoroughly provided guidance and supervision to GGGI so that it can improve the efficiency of the organization and management of GGGI and can secure the fairness and transparency when executing of the budget, which would make GGGI to be more suitable for its status as an International Organization.

1. Enactment and Application of various rules and guidelines related to the Establishment of GGGI

HR rules, Compensation rules, Delegation and Approval rules, Procurement rules, Guideline for Accounting and Execution and bylaws and the like should have been enacted and applied prior to and upon the establishment of GGGI as they are necessary to ensure a high level of efficiency, fairness and transparency.

However, MOFAT did not specify the enactment and application of relevant rules and guideline including HR rules as a prerequisite condition for the approval of a corporation (i.e. GGGI) and did not provide guidance and supervision to make GGGI to enact and apply these rules and guidelines as soon as possible.

Accordingly, GGGI had not put in place any standards, guidelines or manuals on the organization and HR for 5 months since its establishment on May 14, 2010 and made and

implemented compensation (including salaries, etc.) rules on November 10, 2010, procurement rules on March 31, 2011 (i.e. 4 months later) and accounting and execution guidelines on June 17, 2011 (i.e. 7 months later).

This results in the excessive expenditure of all sorts of allowance (such as housing, education, conference, dispatch), which became the cause of failure in fairness and transparency when executing budget.

2. Budget execution including construction work for GGGI office

After the request from 'GGGI Establishment Task Force' to fund 5,500,000,000 KRW to establish and manage GGGI in fiscal year 2010, MOFAT asked GGGI to execute its budget following its budget implementation plan and details when notifying 5,363,000,000 KRW as budget for the establishment and management of GGGI on May 27, 2010.

However, GGGI executed 501,000,000 KRW for deposit for lease, which 201,000,000 KRW more than originally funded 300,000,000 KRW, 1,373,000,000 KRW for interior construction, which is 1,211,000,000 KRW more than originally funded 162,000,000 KRW (besides 469,000,000 KRW executed in 2011), 299,000,000 KRW (besides 217,000,000 KRW executed in 2011) for purchasing office appliances, which is 271,000,000 KRW more than originally funded 28,000,000 KRW. As mentioned in the [Table 10] 2010 Budget for the Founding and Operation of the GGGI Provision and Execution, GGGI executed 1,093,000,000 KRW less for operation cost and 456,000,000 KRW less for project cost, which is 1,550,000,000 KRW less in total but spent 2,254,000,000 KRW (besides 687,000,000 KRW executed in 2011), which is 1,718,000,000 KRW more as a cost for establishment of GGGI.

Nevertheless, MOFAT did not provide any proper guidance and supervision on the establishment of GGGI and its execution of budget and did not take any action to ask GGGI to get review and approval from MOFAT when they executed budget in a different way from originally planned.

3. Various allowances, Private vehicle and Corporate Credit Card

It was pointed out during the Audit that MOFAT should have provided proper guidance and supervision to GGGI to make them execute the budget in consistent manner following relevant regulations and contracts when it comes to various allowances including housing allowance, assignment of private vehicle and usage or corporate credit card.

a. Housing Allowance

GGGI provided 43,000,000 KRW to Executive Director XXX XXX as housing allowance unlike what has mentioned in his/her employment contract and provided 63,000,000 KRW as a ceiling for every month to Assistant Executive Director XXX XXX without verifying the actual rental cost.

While GGGI provided housing allowances for 7 foreign employees (out of 10) living in Seoul based on their actual rental receipts except for 3 foreign employees who are also living in Seoul without reasonable ground, it paid for 4 employees in London and Copenhagen office with 1,500 USD/2,000 USD per each person, which is 57,542 USD in total even when they did not change their residence due to the employment contract with GGGI.

b. Child Education Allowances

As of August 31, 2011, GGGI paid 64,300,000 KRW, which is 25,924,000 KRW more than contract salary of 38,376,000 KRW to Executive Director XXX XXX for education allowances for 2 children. When GGGI signed on the agreement on the amendment of contracts in June 15, 2012, which has concluded to pay 30,000,000 KRW in excess of 25,000,000 KRW unlike mentioned in the 『GGGI Compensation Rules』 and it has resulted in excessive expenditure by applying the time of application retroactively as appointment date.

c. Dispatch Allowance, Public Official Pension, Meeting Attendance Allowances

GGGI provided 1,000,000 KRW monthly, 12,000,000 KRW in total to the employees of the Presidential Committee on Green Growth and 1,000,000 KRW monthly, 20,000,000 KRW in total to those of the Korea Legislation Research Institute who were never dispatched to GGGI when dispatch allowance should be paid for those who are dispatched to GGGI for more than 1 month.

In addition, GGGI has monthly paid 330,000 KRW, 5,940,000 KRW in total, as public official pension for the employee from the Ministry of Strategy and Finance (MOSF), who signed on a contract with GGGI directly after he/she took a leave of absence affiliated with MOSF while public official pension is usually paid from public official's basic salary.

Moreover, GGGI has paid 9,000,000 KRW as meeting attendance allowances to public officials who are closely connected with establishment and management of GGGI but with no basis.

d. Corporate Credit Card usage and assignment of Private Vehicle

Although GGGI made regulations on the usage of corporate credit card, it did not implement it while allowing management of GGGI to use corporate card. GGGI also allowed non-standing director to use corporate credit card exclusively even though he/she is not subject for issuing individual corporate credit card and it did not verify the purpose of the usage of the credit card and did not check relevant record of expense.

Moreover, GGGI assigned private vehicle to non-standing director who has not been entitled to from April 20, 2011 to September 30, 2011 and paid 22,836,666 KRW as salary for driver and 4,635,400 KRW as car maintenance expense.

4. Management on Contracts (e.g. Outsourcing) and Business Promotion

It was also pointed out the same problem during the Audit that MOFAT did not provide proper guidance and supervision on outsourcing companies related to GGGI in terms of various contracts and business plan so that GGGI can ensure transparency, fairness and efficiency of budget execution and responsibility.

a. Private Contract

GGGI has made 5 constructions including office interior from August 23, 2010 to January 21, 2011 at a cost of 2,226,000,000 KRW and had received estimate sheet from one company only. GGGI made private contract orally only and let unregistered construction companies start working without signing on contract and these companies could not provide proper work and follow-up management service, which led to the excessive expenditure for construction work (53,000,000 KRW) and to the budget waste (58,000,000 KRW) due to defect factors.

In addition, GGGI carried forward 5 plans concerning research outsourcing, 20 outsourcing plans for East-Asia Climate Change Partnership from September 28, 2010 to September 7, 2012 at a cost of 9,622,000,000 KRW. As [table1] "Conclusion and Management of Outsourcing East-Asia Climate Change Partnership" and [table2] "Conclusion and Management of Research Outsourcing" show, 25 cases has all made on private contracts and 17 cases out of 25 could not be finished properly even after the contract ends (varies by case from 2 months to 1 year and 5 months) so the results of the outsourcing cannot be utilized properly.

GGGI made private contract just because it costs under 100,000 USD after diving the contracts (of 197,000,000 KRW in total) in to 3 cases even when these 3 experts from external consulting company were dispatched from same company, during same period and started at the same time.

Though two of them were working on other cases (Kazakhstan Green Growth Plan), GGGI did not clarify on their working hour, percentage and did not provide reasonable management plan so they came to work three times a week only and could not provide any clear outcome.

b. Management of Outsourcing

GGGI made a private contract in December 24 2010 on research outsourcing of small scale irrigation techniques by assembling committee that amount to 555,000 USD which has been increased by 305,000 USD compared to original contract that has already been agreed with 250,000 USD in December 15, 2010.

GGGI reported as if it executed total 351,756,500 KRW to National Assembly in December 30, 2011, though they had paid 333,000 USD for deposit and intermediate payment in June 22, 2012 because of its insufficient outcome and status of final report, which was going through a constant supplementary updates.

Moreover when GGGI was in the progress of research outsourcing for Low-carbon Development for Shandong, it has proceeded outsourcing contract (amount: 500,000 USD) with XXX in December 30, 2010 without permission from Shandong even though it was well aware that the permission is necessary. As a natural outcome, XXX could not get help from Shandong and GGGI has terminated and submitted technical report afterwards instead of final report (in November 11, 2011). What is worse, technical report could not be utilized even until now (September 17, 2012) after 10 months since the project was finished.

After GGGI made a contract on research outsourcing in terms of Low-carbon Development for Brazil, Ethiopia and Indonesia, starting date has not been clearly mentioned as 'June 2010' which is 3 months earlier than actual contract date as 'September 28, 2012'. Since contract has not been valid without signature from authorized person such as XXX Chairman, it has paid 1,275,000 USD as deposit in October 11, 2010 and 1,275,000 USD as intermediate payment in January 10, 2011.

Furthermore, GGGI made possible for the project management expenses of 250,000 USD that has been paid to the foundation above for research outsourcing is possible to require additional submission of relevant document with financial statement, while not allowing to make inquiry for evidential material and perceive detailed information related to the 4,000,000 USD, which is paid for XXX's consulting service even when the research outsourcing has been completed.

Action to be taken

The Minister of Foreign Affairs and Trade (MOFAT) is advised to provide a thorough guidance and supervision on Global Green Growth Institute (GGGI) to ensure its efficiency of operation, fairness and transparency of budget execution when it is going through transition period to be an International Organization. **[Attention]**