Business Case and Intervention Summary

Intervention Summary

Title: Support to the Global Green Growth Institute (GGGI)

What support will the UK provide?

1. The UK will provide up to £14.9 million over three years (2014/15, 2015/16 and 2016/17) from the International Climate Fund (ICF) to support the Global Green Growth Institute (GGGI). The support package includes core funding for GGGI operations for three years to be disbursed on the basis of organisational performance and poverty-focus, plus provision for DFID to actively follow-up on the findings of a due diligence assessment and to evaluate performance.

Why is UK support required?

2. **DFID's vision is for poorer countries to achieve a secure, self-financed, timely exit from poverty.** Economic development is central to this process, and takes place when a country achieves sustained, high rates of economic growth *and* when this growth is accompanied by a wider economic transformation that shares prosperity, benefitting the poor.

3. **Economic growth is vital for creating productive jobs and increasing the tax revenues that help developing countries fund their own services**. Supporting the transformation of economies ensures that we are not only helping the poor where we find them, but generating a sustained transition out of poverty that creates new and long term opportunities for improved incomes.

4. **As articulated in the Economic Development Strategic Framework (EDSF) this requires**: (i) high and sustained growth rates; (ii) policies and investments that encourage inclusive, broad-based economic growth and are founded on sustainable use of natural resources; (iii) removal of the structural barriers that stop individuals benefiting from economic development and keep people in persistent poverty.

5. Growth is sustained in the long term by supporting inclusive political and economic institutions, and **through responsible management of natural resources and managing dangerous climate change. Revenues from assets that will run out should be invested well and renewable resources used sustainably.**

6. **Economic development which integrates environmental considerations is therefore critical.** This is because economies need to find patterns of development that take account of their natural capital, and reduce rather than exacerbate their vulnerability to future climate change. Otherwise growth may not be sustained over the longer-term and development gains can be easily eroded.

7. **'Green Growth'** is growth that takes into account its impact on natural wealth or assets and the environment. . This definition recognises the need to balance short-term drivers of growth and longer-term global environmental constraints and that trade-offs exist. It also recognises that green growth paths may not be in all countries' interests to pursue at all stages of their development, given their relative impact on poverty and shared prosperity.

8. **There is a dearth of evidence and policy advice for developing country governments** to consider and understand their options for national decision making, and the potential impacts they might have. Whether it is the trade-offs that taking a greener approach might have on economic growth or the potential lock-in issues associated with alternative growth paths, which are irreversible.

9. **DFID is in a strong position to support this agenda – through the UK International Climate Fund (ICF). This fund allows DFID to generate evidence on what works well (and less well) for green growth.** It is important to know where these trade-offs exist to ensure that the environmental gains achieved reinforce growth and poverty reduction. This is especially important for low-income countries**.**

10. **Developing countries need better information on which interventions achieve environmental objectives without compromising growth and poverty reduction**. The need for and impact of green growth vary between contexts. It is dependent on the state of development and will vary between sectors of their economies. The evidence is weak on when and how poor countries should prioritise green growth. In addition, countries' ability to implement even priority green growth actions are constrained by limited resources and implementation capacity and political capital.

11. **This programme therefore combines support to country governments to make their own well-informed decisions about growth paths with work to build the evidence base on green growth.** Its goal is to provide independent demand-led policy advice on green growth that is clear about the trade-offs but also clear about the potential opportunities.

12. **The Global Green Growth Institute (GGGI) is a new multilateral that helps governments devise and implement green growth plans.** Unlike other green growth institutions, GGGI's clear technical entry point is economic growth, as the main engine for poverty reduction. This is its unique selling point. It operates where there is strong demand for its independent advice. GGGI's teams are normally located in government ministries, making them well placed to incorporate the environment into budgeting and policy making and avoid creating parallel and ad hoc processes. GGGI's operational model is summarised in the figure in the Appendix to the Business Case.

13. **Although a young institution, GGGI has already demonstrated an ability to convert analysis and research into policy change in developing countries.** In Ethiopia GGGI has helped the government develop and implement a Climate Resilient Green Economy (CRGE) Strategy. GGGI provided the analytical basis to prioritise policy options using clear institutional arrangements that cut across government. GGGI also helped to develop a facility to finance the implementation of CRGE priorities. This has already received $26m of funding from UK and Austria. GGGI has also demonstrated results in Energy Efficient Building and Housing in Rwanda; and the agricultural sector in Karnataka. They are helping the East African Community develop a Renewable Energy Master Plan before supporting investment analysis for renewable energy projects in 2015-16.

14. **GGGI recognises that green growth requires the private sector to be a key driving force if scale is to be achieved,** seeking to catalyse private sector investment and ensure strong feedback (in both directions) between the private and public sectors. The private sector focus is also reflected through GGGI's governance, which includes a business council with 19 private sector members, including Siemens, KPMG and Deutsche Bank. GGGI also has partnerships with a number of global initiatives including Finance for Resilience (FiRe) together with Bloomberg and Rockefeller Foundation, a private sector-led platform that aims to drive global investment in clean energy. **The results of this work to engage the private sector can be seen on the ground.** In Thailand GGGI has helped establish a compliance based carbon market and in Mongolia public private partnership has been developed for green infrastructure.

15. **GGGI offers the best VFM option for DFID, outperforming alternative delivery options**. DFID advisers could not provide the sustained, technical engagement needed with national institutions

and the private sector to deliver on this agenda. DFID lacks the existing networks in which to engage the private sector. There is a risk that stand-alone studies will provide a piece-meal approach to developing the evidence base. And delivery through a multilateral, such as the World Bank, would miss the opportunity to capitalise on the reputation that GGGI has developed as a trusted adviser, and would require a major scale up by the Bank in this area.

16. **Support to GGGI would also help to leverage the impact of DFID's other investments in knowledge generation around 'green' patterns of development.** DFID currently invests in the Climate Development Knowledge Network (CDKN). An independent review of CDKN has found that the demand for knowledge and support for practical action on green growth exceeds the supply capacity of CDKN. Moreover, CDKN as a climate focused organisation, providing targeted research, information and knowledge products in response to demand. In contrast, GGGI provided a more strategic, ongoing broader policy advice to Governments focused more broadly on green growth, whilst at the same time engaging with the private sector to identify bankable projects that will impact positively on green growth.

17. **GGGI has a pipeline of activities that it does not have the resources to meet and has significant scope to scale-up activities in low-income countries, especially DFID focus countries**. It is clear that GGGI has a pipeline of activities, identified by developing and emerging economies, related to green growth policy research and support to implementation, and at current levels of donor funding, the GGGI does not have the resources to meet the level of demand for its services.

18. **GGGI developed from a Korean NGO. Given its origins and the fact that it has programmes in six member countries of the G20[1] as well as eight G20 donors[2], GGGI is placed in an influential position to shape international negotiations on climate change.** GGGI fills a clear gap in being the only organisation working on green growth to be governed and 'owned' by an equal partnership between developing and developed countries. Not only does this governance structure greatly increase GGGI's credibility in the eyes of developing country governments – but also allows unique opportunities for north-south and south-south learning across member countries.

19. **The UK was one of eighteen founding members of the GGGI**, with the Deputy Prime Minister representing the UK at the agreement of its establishment in Rio de Janeiro in 2012. The UK sits on the assembly of GGGI. DFID has not provided core funding to GGGI but DFID Ethiopia has provided £900,000 for its in-country work and advice. DFID Ethiopia does not plan to continue funding given this proposal to provide core funding to GGGI.

20. **GGGI operates in a full-range of developing countries, including both low and middle-income countries. DFID intends to increase the number of tier 1 countries that GGGI operates in, and our funding will depend on this.** This will complement the efforts of other donors, some of whom have also made their continued support conditional upon GGGI increasing its number of operations in low income countries in its next 5 year strategy (2015 – 2020).

21. **We have a unique opportunity to shape the nature and focus of countries within the GGGI portfolio.** We have already started to work with GGGI to build up a potential pipeline of low-income countries, especially in DFID focus countries, and this will remain a priority. In addition, our first disbursement will depend on a commitment from GGGI in the new strategy to be agreed in November that at least 50% of GGGI's portfolio will be in low income countries. Our second disbursement will be dependent of evidence that this material shift has occurred.

22. **The inclusion of Middle Income Countries (MICs) and Tier 2 countries in GGGI's portfolio is strategically useful, however, and supports DFID's poverty related objectives in a number**

[1] Brazil, China, India, Indonesia, Mexico and South Africa

[2] Australia and South Korea, alongside Denmark, Germany, Norway, Qatar, Switzerland and UAE.

of ways. Firstly, evidence from MICs is relevant for low-income countries (LICs), providing examples of how countries can leap-frog resource intensive growth and help avoid serious lock-in. Secondly, this helps generate a South-South dynamic which is appreciated by partner countries who look towards countries such as Korea and Vietnam as a source of inspiration. Thirdly many of these MICs also contain a large number of poor people and are a large source of carbon emissions. It should also be noted that a large part of the financing for programmes in MICs is provided separately from core-donor funds in earmarked funds, meaning that DFID's contribution to GGGI's core budget will be disproportionately allocated towards activities in LICs (as compared with the full profile of GGGI activities)[3].

23. **Alongside LIC and poverty focus, funding levels will be determined by a wider set of Key Performance Indicators (KPIs), to ensure DFID funding to GGGI continues to provide good value for money.** These KPIs focus on fully addressing financial management – the residual issues raised an overall positive due-diligence assessment. We are confident that these will be met as external assessments have commended GGGI's strong agility to respond to external demand. Other KPIs relate to important themes such as GGGI's approach and capability on gender.

24. **Gender will receive stronger focus in GGGI's next medium term plan.** KPIs to ensure GGGI makes progress on its performance on gender dimensions of green growth policy will ensure gender is embedded in its results framework and a dedicated gender specialist is recruited to develop an initial gender action plan for GGGI by mid-2015.

25. **As GGGI is a demand-led model, it first requires a high-level and strong political commitment by the partner country. We will work with DFID country offices to ensure they are aware of the services of GGGI.** DFID will also work through internal and external DFID channels, including across-HMG, in order to stoke demand from partner countries.

26. **GGGI is viewed as a strategic organisation for HMG international objectives on green growth and we will use GGGI to help inform cross-Whitehall discussions**. GGGI is a valuable partner for DECC in climate change negotiations. Green growth and GGGI is an important dimension of UK's bilateral relationship with Korea. DFID will also continue to work with FCO to take guidance on governance issues. This Business Case has been developed in close collaboration with FCO and with DECC.

What are the expected results?

27. This programme will provide practical support to implement high quality green growth policies in developing countries. It will also improve knowledge and evidence on green growth policies and their implementation across developing countries.

28. <u>The programme outcomes</u> will be: (i) policy-makers and private sector actors have better access to knowledge and evidence about green growth policies and programmes (including on trade-offs); (ii) governments and firms have the capacity, tools, and information required to implement green growth policies and programmes; and (iii) where appropriate, green growth principles are integrated into wider development planning. <u>These programme outcomes are expected to make a strong contribution towards the ICF objectives around transformational change</u>[4].

[3] Earmarked donors are: EBRD, Germany, Switzerland and UAE

[4] Transformational change is defined as change which catalyses further changes, enabling either a shift from one state to another (for example from conventional to lower carbon or more climate-resilient patterns of development) or faster change (for example speeding progress on cutting the rate of deforestation).

29. The programme results will be delivered under three outputs. GGGI's current work plan includes targets up to 2016. It will be updated when GGGI's new medium term strategic and results framework is completed later in 2014. DFID will contribute to the following results by GGGI::

30. **Output 1**: Country Driven green growth strategic plans developed, and accompanied, where necessary, by legal and institutional framework and investment plans for their adoption. This will include support to policy makers; including for example improved data on development progress beyond GDP, institution building, training, lesson-sharing between countries and practical advice to overcome governance or political economy barriers to implementation of green growth policies and programmes. Results under this output, by 2016, will include:

- GGGI will have provided policy advice and supported the development of 10 local, national, regional or sectoral green growth plans.
- GGGI will have supported the design and/or review of 10 legal and institutional frameworks surrounding the aforementioned green growth plans.
- GGGI will have developed 10 sectoral/subsector or locality based investment plans.
- GGGI will have mobilised up to $10m of public finance for climate change purposes

31. **Output 2**: Robust research and evidence for policy-makers on the costs and benefits of green growth policy measures; grounded in strong empirical work based on country experiences. Evidence has a strong focus on what works well (and less well) in different contexts, and identifies potential policy trade-offs (for example between growth, resource depletion and poverty reduction). Results under this output by 2016, will include:

- GGGI will have published a combination of 30: tools and methodologies; peer-reviewed research papers; policy guides and other knowledge products based on GGGI's country experience.
- 20 governments using GGGI produced evidence and analysis
- A 50% acknowledgement of using GGGI products by the academics, practitioners and policy makers surveyed.
- GGGI's work will have been presented at 50 high level forums or workshops in the past year.

32. **Output 3**: Providing a robust enabling environment in GGGI's client countries (and globally) for private sector investments aligning with green growth principles. Results under this output by 2016, will include:

- 4 Governments will have accepted GGGI recommendations on risk reducing instruments for further action.
- 4 Governments will have accepted GGGI recommendations on other incentive initiatives for further action.
- 10 forums established or supported that bring private sector and government officials together on establishing an enabling environment for green growth investments.
- 5 investment vehicles/tools/instruments designed to finance green growth plans developed with the support of GGGI
- Link companies to developing country governments that are seeking private sector finance, technology and expertise to accelerate implementation of their green growth economic

development plans

Strategic Case

Context and need for a DFID intervention

The problem:

33. There is clear evidence to show that economic growth is the principal enabler of long-term poverty reduction[5]. Where it has been achieved, high sustained growth has usually resulted in mass job creation which in turn has raised wages and spread the benefits of growth more widely. Developing countries have the potential to achieve far higher rates of growth than was possible during comparable stages of development in OECD countries.

34. High growth is necessary to transform a society and create an exit from poverty, but it is not sufficient. Growth needs to be inclusive and ultimately sustainable, otherwise groups excluded from the growth process will remain in poverty, and future generations risk remaining in, or falling back into poverty.

35. There is a risk that patterns of economic development that degrade the natural environment and deplete natural resources may be difficult to sustain in the long run and/or will not be pro-poor[6]. Growth patterns that are potentially unsustainable include: (i) growth that is driven by exploitation of the natural resource base or wasteful use of natural resources; (ii) carbon intensive growth, which can lock countries into high-carbon futures, and increase rate of climate change; and (iii) development paths that fail to build resilience to future environmental shocks or trend changes. At the local level, the poor are more reliant on easy access to environmental resources. Poor people are often rely on 'common property' natural resources such as forests, fish stocks, pasturelands and wetlands for their livelihoods[7] - for example for food, fuel and for small enterprises. Evidence and potential risks associated with these three patterns are explored below.

Pattern 1: Growth that depletes natural capital

36. Some countries have followed patterns of economic growth that are driven by depletion of the stock of natural resources. For example recent GDP growth in some African countries has been driven by oil and mineral exports. Over the period 2005 – 2013, resource-rich countries in Sub Saharan Africa had higher average growth rates than non-resource-rich countries[8]. According to the World Bank, strong growth in Sub-Saharan Africa has been underpinned by strong export growth – much of which is driven by exploitation of the region's natural resources[9]

37. However, the methodology used to measure economic growth – Gross Domestic Product (GDP) – takes inadequate account of degradation of natural capital. There are limits to how well GDP growth on its own measures progress of societies and welfare[10]. Its focus on present income leads to a need to keep present consumption levels up, but runs the risk of funding present consumption by

[5] Whilst policy can make some impact on poverty without growth, and certainly increase the effectiveness with which growth reduces poverty, there is strong evidence that growth is the principal enabling factor. (DFID Growth Refresh, 2012). See for example cross-country analysis by Kraay (Kraay, A. (2006), "*When is Growth Pro-Poor? Evidence from a Panel of Countries*", Journal of Economics 80, 198-227) which suggests that over longer horizons, between 69% and 97% of cross-country differences in poverty changes can be accounted for by growth.

[6] See World Bank (2012) *Inclusive Green Growth, The Pathway to Sustainable Development* (World Bank, 2012)

[8] World Bank (2013) *Africa's Pulse,* Volume 8 October 2013, page 9

[9] Oil, metals, and other mineral exports in Sub-Saharan Africa increased from $56 billion in 2002 to $288 billion in 2012

[10] Stiglitz et al. (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress (* 2009); Thomas, J. & Evans, J. (2010) T*here's more to life than GDP but how can we measure it?,* (Economic & Labour Market Review, 4(9))

running down wealth and hence reducing the capacity of the economy to continue generating income in the long run. The World Bank finds that countries with strong GDP growth rates such as Nigeria, Angola, Uzbekistan, and Azerbaijan have negative 'genuine' saving rates when depletion of natural resource capital is taken into account. GDP figures therefore do not indicate whether growth can be sustained in the long run.

38. Sustainable development is about enhancing well-being through time[11]. Some economists have argued in the long run, simply running down the stock of natural resources cannot sustain growth. Economic theory tells us that to sustain growth over time (i.e. for consumption per person to continue indefinitely) – the receipts from extraction of natural resources need to be reinvested into man-made capital so that the total capital stock remains constant[12, 13]. Collier (2010) recommends that non-renewable assets should be governed by the custody principle[14] whilst renewable natural assets should not be harvested below sustainably regenerating levels.

Pattern 2: Carbon intensive growth

39. Patterns of economic growth that result in greenhouse gas (GHG) emissions may be difficult to sustain in the long run because they can lock countries in to (potentially expensive) high carbon futures and lead to climate change[15].

40. As economies grow, governments and firms will make investment decisions about infrastructure that will last for many years into the future and about how to produce energy. Therefore there is need for action and planning today if we desire a low carbon future. This is particularly relevant for developing countries, where most of the infrastructure and cities will be built in the next few decades[16]. "Carbon lock-in" occurs when investments in long-lived projects and infrastructure result in countries being geared towards a higher carbon intensity path economy. Investments in high carbon infrastructure mean that the future costs of decarbonising an economy are increased. In addition to the economic lock-in of infrastructure there is likely to be political and behavioural lock-in that will increase the transaction costs associated with reducing carbon intensity in the future. Individuals in society also may become accustomed to a certain way of living their lives that might lead to resistance to later change.

41. There is strong evidence to suggest that carbon intensive growth patterns are leading to man-made changes in the climate, which will make it more difficult to sustain economic growth in the future.[17] A changing climate and increased frequency of climate related disasters matters for economic growth in the short and long run.[18] In the short run, poorer countries sustain greater negative impacts from

[11] World Bank (2003) *World Development Report - Sustainable Development in a Dynamic World: Transforming Institutions, Growth and Quality of Life* (The World Bank 2003)

[12] The economic theory was first explored by Hartwick, J (1977) *Intergenerational Equity and the Investment Rents from Exhaustible Resources* (American Economic Review, 67, December pp. 972 – 74). Also see de Bruin (2000) Economic Growth and the Environment (Springer, January 2000).

[13] Hartwick's sustainability theory assumes that different types of assets can be substituted for one another perfectly.

[14] The custody principle states that each generation bequeaths assets to the next generation of value at least equivalent to those bequeathed to it. Collier, P (2010): The Plundered Planet.

[15] Parry, Martin L., ed. Climate Change 2007: impacts, adaptation and vulnerability: contribution of Working Group II to the fourth assessment report of the Intergovernmental Panel on Climate Change. Vol. 4. Cambridge University Press, 2007.

[16] Hallegatte, S. et al (2013) *From Growth to Green Growth – A Framework*; World Bank Policy Research Working Paper 5872, World Bank Washington DC

[17]There is evidence to show that that climate change has already affected the magnitude and frequency of some climate extremes and these are likely to increase further in the future IPCC SREX Extreme Events Report (2011) Summary for Policymakers

[18] See DFID's 'How To note on climate resilient growth' (November 2010) for more detail.

weather events, related to their lower resilience[19]. Growth is affected in the long run because resources that could have been used (more productively) elsewhere to stimulate growth will be absorbed by relief, recovery and adaptation efforts[20]. Climate change will also affect several drivers of long run economic growth: capital accumulation; infrastructure; human health; and productivity growth in energy and agriculture sectors. In addition, these adverse impacts are also likely to put a strain on governance and institutions[21].

42. <u>To ensure long run, pro-poor growth, there is therefore a need to decouple economic growth from GHG emissions at a global level.</u> This is challenging because modern sources of energy are critical for economic growth - historically no country has grown its economy without increasing emissions. There could be a trade-off between avoiding carbon lock-in and the rate of growth [22] More research is needed to establish whether those trade-offs may be avoided in practice.

43. Opportunities for avoiding the trade-offs may be increasing as the economics of low carbon technology change, driven by the falling costs of renewable technology. The minimum price at which energy must be sold for an energy project to break even – its levelised cost - continues to fall for a range of renewable technologies. In a recent report UNEP find that the levelised cost of infrastructure scale solar photovoltaic (PV) systems was 40% lower in 2012 than in 2011 and residential PV systems were 30% lower. Those for on-shore wind also fell in 2012, though only by 3-4%. A study by the International Renewable Energy Agency (IRENA) found that most renewable technologies can produce electricity cheaper than diesel generators, often making them the technology of choice for consumers not connected to electricity grids.

44. <u>Developing countries are not in the same position as developed countries in dealing with these this trade-offs. Developing nations account for a small share of total emissions (although this proportion will change over time, as developing countries are experiencing higher levels of growth)</u>. As a result, DFID focal countries (especially the poorest) tend to have less need to reduce emissions– although they need to consider the effect of global emissions on their economies (by adapting and improving resilience). Because of their relatively low emissions and strong need for high and inclusive growth, DFID should not pressure low-income countries to pursue growth paths with lower carbon intensity (e.g. with a higher share of energy from rewenables) However, where countries want to explore lower carbon patterns of growth, DFID should be ready to support and work with them[23].

45. <u>A number of developing countries already see some benefits to a move to patterns of growth that are less carbon intensive</u>. For example The Government of Ethiopia has developed a *Climate Resilient Green Economy Strategy*[24], and The Government of Rwanda a *Green Growth and Climate*

[19] For example, during the period from 1970 to 2008 over 95% of deaths from natural disasters occurred in developing countries (Cavallo and Noy, 2010; CRED, 2010).

[20] Some economists have suggested that natural disasters could create a sort of 'creative destruction' by wiping our inefficient infrastructure that will be rebuilt (see Skidmore, M., and H. Toya. 2002. *Do Natural Disasters Promote Long-Run Growth?* Economic Inquiry 40 (4): 664–87.). However more recent research has discredited this theory, funding that disasters do on the whole damage growth in the short and long run (see Hallegatte, S., and P. Dumas. 2009. *Can Natural Disasters Have Positive Consequences? Investigating the Role of Embodied Technical Change*. Ecological Economics 68 (3): 777–786.).

[21] Vivid Economics (2010) *Promoting Economic Growth when the Climate is Changing* (DFID, 2010)

[22] Shafik, Nemat. 1994. *Economic development and environmental quality: an econometric analysis*. Oxford Economic Papers 46 (October): 757–773

[23] Where there are localised effects due to poorer countries own emissions and other pollution, they should address these.

[24] Federal Democratic Republic of Ethiopia (2011) *Ethiopia's Climate-Resilient Green Economy, Green economy strategy* (Addis Ababa, 2011)

Resilience Strategy[25]. Part of the appeal is the range of co-benefits associated with low carbon development that countries can exploit. For example, there is huge scope for cost-saving energy efficiency in all countries; there health gains from cleaner energy sources for cooking and lighting; and some research suggests that innovation in new technologies be a source of growth in itself[26]. More research is clearly needed to identify where 'win-win' policies exist and to compare their costs and benefits.

Pattern 3: Climate-vulnerable growth patterns

46. Climate change will have negative impacts on economic growth, but at the same time levels and patterns of growth will determine the level of vulnerability that countries have to the impacts of climate change. Discussions around 'green growth' often focus on low carbon development – but resilience is important too. The pattern of economic development (geographic, sectoral) will determine the economy's resilience to shocks – its ability to recover, and the speed with which it does. Growth and poverty reduction has been found to be important for increased climate change adaptive capacity.[27]

47. Research[28] indicates that the level of vulnerability that a country has to shocks from climate extremes depends on the stage of a country's development. At very low levels of development, the absolute monetary value of losses from extreme events is likely to be small (though it may be large in terms of poverty impact and even lives lost). As economies become more complex, they are typically more integrated sectorally and geographically than simple ones. This increases the multiplier effects of shocks in a particular sector or region. In the later stages of development, the relative scale of the economic impacts of disasters is likely to decline again as countries build capacity to adapt and their economics are diversified in ways that allow them to absorb and contain shocks.

48. To ensure sustainable long run pro-poor growth, economies therefore need to find patterns of development that reduce rather than exacerbate their vulnerability to current weather variability and future climate change.

The concept of 'green growth'

49. Green growth policies should aim to make sustained (long term) pro-poor growth, which is more resource efficient, and cleaner, without necessarily slowing down growth (in the short term) but these should be based on a clear and robust evidence base[29].

50. For countries with a large proportion of its population below or close to the poverty line will need to ensure a primary focus on policies that reduce poverty (including broad economic growth). Low

[25] Republic of Rwanda (2011) *Green Growth and Climate Resilience National Strategy for Climate Change and Low Carbon Development* (Kigali, October 2011)

[26] See Hallegatte et la. (2013) page 9, for a discussion

[27] Noy (2009) showed that higher GDP per capita, as well as better institutional and human development indicators reduced losses from climate-related disasters (Noy, I. 2009. "The Macroeconomic Consequences of Disasters." Journal of Development Economics 88 (2009): 221–231). de la Fuente and Dercon (2008) use micro-data show that those with more assets can cope better with severe shocks (de la Fuente, A. and S. Dercon. 2008. "Disasters, growth and poverty in Africa: revisiting the microeconomic evidence. " Background Paper for the 2009 ISDR Global Assessment Report on Disaster Risk Reduction. Washington D.C.: World Bank)

[28] Benson, C. and Clay, E., (1998); *The Impact of Drought in Sub-Saharan African Economies*; World Bank Technical Paper; No. 401; World Bank; Washington DC.

[29] Various policies and programmes labelled as 'green growth' should not automatically be assumed to meet the three requirements of good for growth, good for the environment and good for poverty reduction and they should scrutinise closely any trade-offs.

Income Countries should not be bound to minimise carbon emissions, but rather they should be encouraged to pursue growth and development paths that preserve options. As developing countries get richer they will generally become more resilient and better resourced to both (i) withstand more volatile and extreme climatic conditions and (ii) able to invest in adaptation and have a phased entry into mitigating climate change.

51. Green growth work is helping to identify programmes and policy that use aid resources and influence to promote climate-resilience are justifiable where they both deliver short-term poverty reduction impacts, and Help avoid serious lock-in or irreversibility in local or national development paths in terms of future growth and poverty for a country.

52. It is important that the international community should continue to invest in knowledge of what works, which has the potential to increase the set of 'win-win' opportunities and associated investments.

53. Green growth policies and strategies can be taken forward by both the public and private sectors. For business and industries, actions will include improving resource efficiency in production, reducing waste, and reducing the carbon-intensity of production. For the public sector, actions will include for example[30]:

- Collecting data 'beyond GDP' in the national statistics to measure changes in natural capital, and using that information to guide decision making – for example for public works projects[31].
- Developing policies that help the private sector to fully value natural capital. For example by pricing pollution or natural resource use through taxes or tradable permits. Governments can also remove subsidies to industries that encourage pollution or over-extraction of natural resources.
- Fostering 'green' innovation by funding research into technology development, reducing barriers to foreign investment, and by enforcing intellectual property rights,
- Providing information and sharing good practice with consumers and firms to help them to use natural resources more efficiently, and reduce waste and pollution.

54. There are a number of barriers to the implementation of green growth policies, however, are summarised in Table 1 below.

Table 1

Barrier to green growth	Explanation
Information failures (public sector)	There is not yet robust evidence base on green growth policies, the extent to which they are transferrable, and how they can be implemented in practice.
Information failures (private)	Private companies and industries lack information on low carbon technologies and on how to be less wasteful in their production.
Governance failures	There is a lack of practical experience amongst policy makers in planning and implementing green growth policies and strategies. Changes in the natural capital stock are often not captured in national statistical accounting systems – this makes it harder to take natural capital into account in decision making[32].
Governance failures	There may be vested interests (for example links between politicians and fossil fuel companies, the mining industry or energy intensive industries) that make it even more difficult for policy makers to implement policies that support low carbon development[33]. Policies that aim to reflect the 'real' price of environmental goods and services may be difficult to implement because the benefits are usually diffuse

[30] See OECD *Towards Green Growth*, Chapter 2 for a comprehensive discussion of green growth policies
[31] *OECD Towards Green Growth*, page 35. Also see the WAVES Partnership brochure
[32] World Bank (200x) *The Global Partnership on Wealth Accounting and the Valuation of Ecosystems Services, Annual Report 2013* (2013)
[33] Ellis, K, Cambray, A and Lemma, A (2003) *Drivers and Challenges for Climate Compatible Development* CDKN working paper, 2013.

	and hard to quantify, but the costs are immediate, visible and often concentrated on a vocal minority[34].
Behavioural barriers (public sector)	Decision makers tend to develop polices based upon past experiences by others, rules of thumb, and the information that they have to hand[35]. Because green growth policies are not the norm, policy makers may suffer from inertia or be adverse to the risks associated with trying out new approaches.
Behavioural barriers (private sector)	Green Growth requires changes in behaviour by industries and financial markets (for example to adopt resource efficient technologies) but there are barriers to engaging the private sector, particularly in developing countries.

55. However, while green growth can have benefits, there are many areas where there will be trade-offs between emissions reductions and a greener growth on the one hand, and alternative forms of growth that might be more effective in poverty reduction. Indeed, future resilience of countries depends to a large extent on their ability to create wealth and build up human capital now. Dercon (2012, 2014)[36] discusses potential consequences of implementing 'green growth' policies which fail to account for the sectoral and spatial processes behind effective poverty reduction. Dercon argues that without a sufficient evidence base, we risk asking the poor to pay the price for greening the planet.

56. Without a well-developed evidence base, we lack the ability to judge where these trade-offs lie in individual country-contexts. This suggests that it is important to build the evidence base on the circumstances under which green growth interventions might be appropriate (as whilst there is an expanding evidence base on green growth policies[37], and proposed methodologies for approaching policies[38], it remains limited), while supporting country governments to make their own appropriate decisions.

57. An improved understanding of the short-run costs of green growth policies will be one of the outputs of this programme. The programme will aim to better understand costs and benefits of green growth policy measures over time - examining effects on growth, resource depletion and poverty reduction - and grounding those findings in strong empirical work based on country experiences.

Need for DFID intervention

58. The UK is committed to spending £3.87bn through the Investment Climate Facility (ICF) between 2011/12 and 2015/16 to help the world's poorest adapt to climate change and promote cleaner, greener growth. If the interventions from this fund are not based on robust analysis and evidence, we may face a trade-off in overcoming the twin challenges of world poverty and climate change.

59. The UK is in a strong position to support this agenda. Through the ICF we are using climate finance to generate evidence on what works well (and less well) for low carbon, climate resilient development. Actions to tackle the barriers associated with green growth policy making will make an important contribution towards our efforts to achieve the ambitious goals of the ICF.

60. The ICF aims to bring about transformational change in its focus countries, defined as change

[34] World Bank (2012) *Inclusive Green Growth, The Pathway to Sustainable Development* (World Bank, 2012); page 12

[35] See Kahneman, Dl (2001) *Thinking fast and slow.* (Macmillan, 2011)

38 Dercon, Stefan. "Is green growth good for the poor?." (2012); Dercon, Stefan 'Climate Change, Green Growth and Aid in Poor Countries' (2014 – Forthcoming)

[37] See UNDP (2012) Case studies of sustainable development in practice, triple wins for sustainable development

[38] A methodology for assessing green growth polices is however presented in: De Serres et al (2010*), A Framework for Assessing Green Growth Policies,* OECD Economics Department Working Papers, No. 774, OECD, Paris.

which catalyses further changes, enabling either a shift from one state to another (for example from conventional to lower carbon or more climate-resilient patterns of development) or faster change (for example speeding progress on cutting the rate of deforestation). Improved knowledge on green growth policy design and implementation is critical to the wider success of ICF programming.

61. DFID acknowledges that for many focus countries, their priority is economic growth, as the main engine for poverty reduction and human development. As such, green growth strategies should work with government institutions concerned with developing and executing growth and development plans.

62. The information failures, governance constraints and behavioural barriers set out in Table 1 together generate a strong case for public intervention in the green growth policy sphere. And there is a good case for early action to address the barriers to green growth. Because some decisions today (for example the design of infrastructure investments or which cities develop) can lock economies in to high carbon or less resilient development pathways. Careful planning now to avoid 'lock-in' can have big implications for growth in the future.

63. One way in which DFID is already helping to develop knowledge, evidence and practical experience on green growth is through the Climate Development Knowledge Network programme (CDKN)[39]. CDKN aims to help decision-makers in developing countries design and deliver 'climate compatible development' (a model of development consistent with green growth as set out above).

64. An independent review of CDKN[40] has found that the demand for knowledge, evidence and support for practical action on green growth exceeds the supply capacity of CDKN. The Global Green Growth Institute (GGGI) has a pipeline of activities, identified by developing and emerging economies, related to green growth policy research and support to implementation. At current levels of donor funding, the GGGI does not have the resources to meet the level of demand for its services. There is therefore a good case for DFID to increase support these types of activities. A series of options as to how this could be achieved are explored in the Appraisal Case.

Gender equality

65. Green growth policy has wide economic, social and environmental impacts and the gender dimension central to these. Channels include differential impact of policies (e.g. removing kerosene subsidies) and effect of policies on economic assets and opportunities (e.g. women's rights over land, access to jobs). There is scope for stronger gender budgeting on green growth policies and for building gender into applied research green growth topics.

66. The Appraisal Case below looks at how DFID will ensure gender dimensions are prioritised following identification of the preferred option.

Impact and Outcome that we expect to achieve

67. The theory of change for this programme is that supporting policy design and implementation and improving knowledge and evidence on green growth policies will help decision makers to move

[39] More information on CDKN can be found here: http://cdkn.org/

[40] ITAD (2013) *External Evaluation Report of the Climate Development Knowledge Network*, ITAD 2013. The mid term review of CDKN found that, "As GGGI is currently working in a handful of developing countries and CDKN aims to concentrate on up to 14 deep engagement countries the need for both organisations vastly outweighs their combined capacities."

towards more sustainable patterns of development that contribute towards poverty reduction.

Impact

(i) Policy-makers have better access to knowledge and evidence about planning and implementing transformative, economy-wide green growth strategies (including on trade-offs);

(ii) Governments have the capacity, tools, and can leverage the finance required to implement green growth policies and programmes;

(iii) The private sector is directly engaged in developing and implementing green growth plans.

Outcome

(i) Green Growth strategies and implementation plans are adopted and implemented by governments and other stakeholders with adequate financing, institutional support, and technical expertise;

(ii) Relevant, high quality research is available and used to explore green growth and guide policymakers and others;

(iii) Private sector is directly engaged in developing and implementing green growth plans.

68. The impact and outcomes of the programme will be achieved through support to three outputs; indicators are set out in the log-frame.

(i) **Output 1**: Country driven green growth strategies developed, accompanied by, here necessary, legal and institutional frameworks and investment plans for their adoption.

(ii) **Output 2**: Robust research and evidence is available on cost and benefits of green growth policy measures.

(iii) **Output 3:** A robust enabling environment is created in countries (and globally) for private sector investments aligning with green growth principles. Companies are linked to developing country governments that are seeking private sector finance, technology and expertise to accelerate implementation of their green growth economic development plans. (Examples include: investment analysis for sustainable energy projects country/state energy and other sector plans involving private sector consultation, private sector involvement in urban planning.)

69. The expected results from the preferred option will be outlined following the appraisal case. These are set out in section H below alongside the theory of change for the preferred option.

APPRAISAL CASE

A. What are the feasible options that address the need set out in the Strategic case?

70. The Strategic Case set out the rationale for UK Government intervention in activities that help countries to move towards patterns of development that are sustainable in the long run and reduce poverty. The solution proposed is to support a green growth policy that integrates the environment into economic decision making.

71. The Strategic Case also identified a series of barriers that prevent policy makers (particularly in less developed countries) and firms from implementing green growth policies. These included informational failures, governance failures and behavioural barriers.

72. The programme will therefore need to overcome these barriers by delivering practical support to policy makers and companies to implement proven approaches, improving the knowledge and evidence base on green growth policies specific to particular country circumstances and be effective at disseminating evidence globally. Table 2 lists the delivery options have been identified as part of the scoping exercise for this Business Case:

Table 2: Options identified during scoping exercise

Option 1	No further support to green growth policy research and implementation
Option 2	Expand the remit of the DFID supported Climate Development and Knowledge Network (CDKN). This option could include a networked approach to green growth policy research, similar to the Low Emissions Development (LEDS) Global Partnership managed by CDKN.
Option 3	Support green growth research to be led by a research institute such as the International Growth Centre (IGC), the Overseas Development Institute (ODI) or the International Institute for Environment and Development (IIED)
Option 4	Directly commission and support a series of stand-alone research studies, led by DFID Policy Division. Set up a new body to work with policy makers and the private sector in developing countries to disseminate research and provide support to implementation.
Option 5	Finance green growth research and support to implementation by the World Bank or other interested Multilateral Development Banks.
Option 6	Support GGGI to work with developing and emerging economies to implement green growth policies, to undertake green growth policy research and disseminate evidence

73. **Option 1** would imply no additional UK support to green growth policy development and implementation. UK work on green growth would comprise existing support to the CDKN programme (more information under option 2 below). Studies could be undertaken to synthesise findings from across programmes implemented under the International Climate Fund to draw some conclusions on promising policy recommendations about how to implement successful low-carbon or resilience building projects. However, this option is unlikely to deliver a robust or systematic evidence base on green growth policy making, and there would be no provision for evidence dissemination yet alone practical support to developing countries to implement better policies. There would be no support to governments or private actors to implement green growth actions. This option is therefore rejected on the grounds that it fails to address the need identified in the strategic case.

74. **Option 2** is to increase UK support to the Climate Development and Knowledge Network (CDKN) programme. CDKN supports decision-makers in designing and delivering "climate compatible

development" – a model of development that is similar to green growth but narrower in its focus on climate change, development and growth. CDKN aims to provide developing country policymakers with access to high quality research and policy advice on climate change and development. CDKN delivers its work through a portfolio of country technical assistance, research, and knowledge management.

75. DFID has recently agreed an extension to CDKN of £40 million designed to maintain the organisation's operational budget and extend the initial 5-year phase of the programme by a further 2 years[41]. The progress and value for money of CDKN will be reviewed in financial year 2016/17, after which decisions about future UK support to CDKN will be made. <u>Further support to CDKN is therefore rejected as part of this programme. However it will be important that any further support to green growth research and policy implemented under this programme complements and strengthens the outputs delivered by through CDKN.</u>

76. GGGI's approach is long-term and relationship intensive, with a strong local presence and a focus on the county's mainstream, end-to-end planning and implementation processes. CDKN is a third-party provider of technical support, with a project based approach designed to accelerate progress in specific high-priority initiatives. These basic differences in strategic approach and delivery model allow the two organisations to work in tandem, and they have shown an ability to collaborate effectively and to enhance each other's outcomes in countries where both are present. (Further discussion of the differences and complementarities between CDKN and GGGI are in Box 1.)

77. **Option 3** is for DFID to provide support to green growth policy advice and research through a policy research institute such as the International Growth Centre (IGC), the Overseas Development Institute (ODI) or the International Institute for Environment and Development (IIED). All three organisations already receive support for their research efforts from DFID[42]. Whilst all three of these institutions have a track record in the provision of policy relevant research, it is not clear that any have the capacity to deliver in-country support to policy makers and the private sector of the scale and type envisioned by the programme theory of change. <u>This option is therefore rejected on the grounds that it fails to address the need identified in the strategic case.</u>

78. **Option 4** is to design a <u>new</u> DFID led programme of support to green growth research and policy design from scratch. Under this option DFID would commission a series of stand-alone research studies, designed and managed by staff in DFID. The research could be undertaken by a third party agency (or series of agencies) identified through competitive tender. Under this option DFID would need to set up a new body that would disseminate research, create networks of practice, and work in collaboration with decision makers in developing countries to support implementation. Support could in principle be linked to the DFID County Office network. <u>This option will be explored further in appraisal section G below.</u>

79. **Option 5** is to deliver <u>support</u> to green growth policy research and implementation through a Multilateral Development Bank such as the World Bank, using a model akin to existing DFID programmes of support to the World Bank's Knowledge for Change Program (KCP) or the UN University World Institute of Development Economics Research (WIDER). MDBs are likely to have technical staff with strong expertise in relevant fields, plus they have the benefit of an existing network of contacts with decision makers in government. <u>This option will be explored further in</u>

[41] Analytical work by DFID considered a range of VFM criteria such as absorptive capacity, pipeline of activities and UK burden share in order to establish the appropriate level of funding for CDKN in this tranche.
[42] Insert figures, IGC xx; ODI accountable grant; IIED accountable grant.

appraisal section G below.

80. **Option 6** is for DFID to provide direct support to the GGGI to develop green growth policy advice and research, to disseminate that research, to work with developing countries to implement green growth policies, and to work directly with the private sector. Set up in 2010, GGGI's core mandate is to, "advance the practice and theory of green growth by helping to develop, implement and deepen understanding of green growth strategies". This option will be explored further in appraisal section G below.

81. **Options 4, 5 and 6 have been identified as the feasible options and will be explored further below.**

B. Assessing the strength of the evidence base for each feasible option including delivery routes

82. Table 3 below lists the quality of evidence for each delivery option in delivering the outcome is rated (either Very Strong, Strong, Medium, Limited or No Evidence).

Table 3

Option	**Evidence rating**
Option 4 – DFID managed studies and capacity building programme	**Medium.** DFID could undertake a project design phase in order to improve knowledge on the potential costs and benefits of this option. DFID can draw upon experience from other programmes – for example the design and implementation phase of CDKN.
Option 5 – Delivery through multilateral development bank	**Medium.** DFID can draw upon experience from existing programmes of support to multilateral organisations for growth research. Evidence from the Multilateral Aid Review can be utilised. However, scoping and design work would need to take place in order to estimate the costs and benefits of this option.
Option 6 – Support to the GGGI	**Strong**. DFID can draw upon a recent multi-donor review of the GGGI. DFID has good working relationships with GGGI staff who are able to provide evidence to support the appraisal case. Some scoping work will still need to take place to identify the correct level and type of funding required.

C. For each feasible option, what is the assessment of local capacity? Is the intervention likely to strengthen capacity in a durable manner?

83. A key outcome of any intervention is that 'Green Growth strategic and implementation plans are adopted and implemented by governments and other stakeholders with adequate financing, institutional support, and technical expertise'. Therefore it is vital that any option taken strengthens capacity in a durable manner. Therefore, this plays an integral part of our assessment into how each delivery option will achieve the planned outputs (see Annex I)

Categorise as A, high potential risk / opportunity; B, medium / manageable potential risk / opportunity; C, low / no risk / opportunity; or D, core contribution to a multilateral organisation.

Table 4

Climate & Environment Category		
Option	**Climate change and environment risks and impacts, Category (A, B, C, D)**	**Climate change and environment opportunities, Category (A, B, C, D)**
4 - DFID	*C*	*A*
5 - Multilateral	*C*	*A*
6 - GGGI	*C*	*A*

84. The programme has the potential to facilitate the move to environmentally sustainable and climate resilient growth. The main climate and environment opportunities will therefore be proportionate to the ability programme to deliver on its objectives. There are three main factors which will affect this delivery:

i. Ability to deliver high quality policy advice and research and analysis tailored to the needs of users;
ii. The ability to retain political neutrality and credibility; and
iii. The ability to deliver in timely manner over the next 2-3 years, given the need for evidence to support national e.g. NAMAs and climate resilient development policies; and international processes, e.g.: UNFCCC negotiations and Sustainable Development Goals.

Table 5

Option/Ranking	Quality/Demand Responsiveness	Neutrality/credibility	Delivery/Timeliness
4 - DFID	*2*	*3*	*3*
5 - Multilateral	*2*	*2*	*2*
6 - GGGI	*1*	*1*	*1*

85. The Appraisal Case below finds that GGGI support comes out best in terms of maximising its impact on green growth thinking, largely due to its specialised mandate and ability to deliver tailored, timely support, that responds to demand and facilitate its adoption e.g. into national planning processes. There are a number of risks to the approach:

i. Most fundamental is that the evidence does not support, or is not of good enough quality/credibility, to support policy making, undermining the case for Green Growth.
ii. The focus on growth may reduce the amount of focus on wider environmental issues such as bio-diversity and non-carbon pollution and preservation of landscapes, that should form part of an overall sustainable development strategy.

86. The programme must therefore ensure that its design and operational strategy addresses these issues. In addition, although the programme will have limited environmental impacts it is important that GGGI has in place a set of climate and environment policies and guidelines that meet international standards and ensure that GGGI requires its partners to work to similar standards.

D. If any, what are the likely major impacts on social development[43]?

87. An underpinning aim of the GGGI proposal is that green growth should contribute to poverty reduction, and as such can help transform a society if that growth is sustained and inclusive.

88. The analysis of best practice, good models and support for implementation will cover not only the potential risks, but the opportunities for different approaches, policy and programming choices present for women, the poor, and excluded. For instance, interventions which open up employment in non-traditional fields can create opportunities for women in the supply chain (eg SE4All salt pans, GACC clean cookstoves, India, barefoot solar engineers, and lighting a billion lives).

89. A second key issue for targeted analysis is the extent to which the protection and preservation of natural capital both helps maintain these assets for future generations, and enables poor people and groups to engage in the management of these resources without prejudicing their access, or excluding them from their prime source of livelihood and livelihood protection.

90. Thirdly, the project aims to synthesise experience across countries to contribute to evidence generation, models and best practice in this field, and to strengthen understanding of the growth/environment/poverty nexus. It will also support the implementation of policies with decision-makers. An ability to consider the differential impact of policies on different groups of poor people, on social exclusion and on women and girls will be a critical part of this analysis, and there will be much to learn from the methodologies and studies pioneered by the MDBs and IMF on ex-ante poverty and social impact analysis.

91. The recent joint donor review highlighted a number of areas where GGGI could strengthen its approach to the production of quality analytical products and implementation. Particular care will be taken to ensure that GGGI implements good practice on stakeholder engagement, understands the importance of building broad based constituencies for change (as evidenced by experience on PSIAs, World Bank 2008, DFID 2006), and can advise decision-makers on communications strategies for build ownership of difficult reforms.

92. To ensure high quality analysis and implementation, GGGI will also ensure that it contains the relevant expertise both centrally and in country offices to undertake analysis of ex-ante policy impacts on poverty, exclusion and women and girls.

E. For fragile and conflict affected countries, what are the likely major impacts on conflict and fragility, if any?

93. Climate change increasingly undermines human security in the present day, and will increasingly do so in the future, by reducing access to, and the quality of, natural resources that are important to sustain livelihoods. Climate change is also likely to undermine the capacity of states to provide the opportunities and services that help people to sustain their livelihoods[44]. Migration may be another response of people whose livelihoods are undermined by climate change. Whilst climate is unlikely to be the only 'push' factor in migration decisions, it may increase the risk of conflict in host communities. 'Green Growth' strategies can help countries alleviate the effects of climatic shocks and distributional struggles over scarce resources.

[43] These are shortened version of the climate and environment, and social development assessments. To see the full versions please see Annex III

[44] Barnett, Jon, and W. Neil Adger. "Climate change, human security and violent conflict." Political geography 26.6 (2007): 639-655.

F. What are the costs and benefits of each feasible option? Identify the preferred option.

94. The Strategic Case gives the economic justification for government support activities that help countries to move towards patterns of development that are sustainable in the long run and reduce poverty.

95. Where programmes work in a defined context, the usual approach to the economic appraisal is to present and compare the additional costs with the additional benefits of the proposed set of activities, and subject these to sensitivity analyses. However, through support to green growth research and implementation, this programme proposes to support a range of capacity building projects with country-specific as well as global benefits, research and its dissemination. The specific costs and benefits of individual components are uncertain. Therefore a comprehensive cost and benefit analysis is neither possible nor proportional, and has not been undertaken for the following reasons:

- The exact nature and scope of the questions to be considered are often defined during the research programme itself.
- The knowledge outputs are non-commercial global public goods, so do not have a market price to use for quantification.
- Development impacts of research can take many years as there is a large gestation period before evidence is reflected in policy and implemented.
- There are many factors contributing to policy decisions so attribution to research is very difficult to determine.
- The results chain for research is non-linear, indirect and contains a lot of externalities, so an accurate estimation of impact is nearly impossible to establish.
- There are still many unknowns in climate change science and economics, so it is hard to estimate what future probabilities and levels of cost will be.

96. Instead the approach is to assess each delivery option according to how well we expect it to achieve the planned outputs. Each deliver option is given a score of 1 (low) – 5 (high) on how they are expected them to perform against:

- Output 1: Country driven green growth strategies developed, accompanied by, here necessary, legal and institutional frameworks and investment plans for their adoption.
- Output 2: Robust research and evidence is available on cost and benefits of green growth policy measures.
- Output 3: A robust enabling environment is created in countries (and globally) for private sector investments aligning with green growth principles.

97. The expected costs of delivering the outputs were also assessed. The full assessment of each of these options are detailed in Annex I. The summary conclusions are as follows:

98. **Option 4: delivery by DFID in house potentially drawing in expertise from across HMG.** DFID does not currently have the capacity to provide high-quality demand-led advice on green growth planning and implementation. Demand-led planning and implementation is a specialism in its own right, and it is hardly feasible to have 40 DFID advisers learning independently throughout the world. Further, it is unlikely that DFID would be able to embed staff within national ministries as GGGI has been able to do. For research, DFID staff would design and commission a series of green growth policy evidence papers. As there are insufficient resources in house, these would need to be contracted out to a third party (or parties). It would be possible to bring in good technical expertise,

however there is a strong risk that stand-alone studies will not be systematic and will provide a piecemeal approach to developing the evidence base. There will be limited opportunity to learn from different contexts – particularly those beyond DFID focus countries and limited opportunity to develop networks and communities of practice for dissemination. In terms of engaging the private sector, DFID does not have existing networks on which to build, so it may take some time to build relationships and have impact.

We anticipate that there would be large up-front costs associated with the design and creation of a new body to carry out capacity building activities and there would be large burden on DFID staff time. On the other hand, DFID funds could be directed solely at DFID focus countries and would avoid the large fixed costs problems associated with new departments, such as HR and IT.

99. **Option 5: delivery by an** MDB **such as the World Bank.** The analysis proceeds with the World Bank in mind as a delivery agent, but the conclusions would largely hold if a different MDB were selected. The overall performance against programme outputs is fairly strong. The World Bank has solid expertise in relevant technical fields and has demonstrated thought leadership on green growth. There is however a risk that the Bank would skew research outputs towards its own interests (for instance prioritising research relating to infrastructure development) and some developing countries might not feel that policy advice was completely impartial. Thus this deliver route would not be independent or demand-led. This lack of trust may hinder their ability to embed themselves with National Ministries as GGGI has been able to do.

The World Bank has a good track record in the delivery of outputs similar to those proposed under this programme at reasonable cost (for example Knowledge for Change and WAVES). However, the programme would require the Bank to set up a new dedicated project unit to implement this programme. At first instance, this would probably mean a large number of advisers flying from a Washington base to provide advice. If this was then to move to a country or regional model, there would be large sunk costs associated with set-up of a new body.

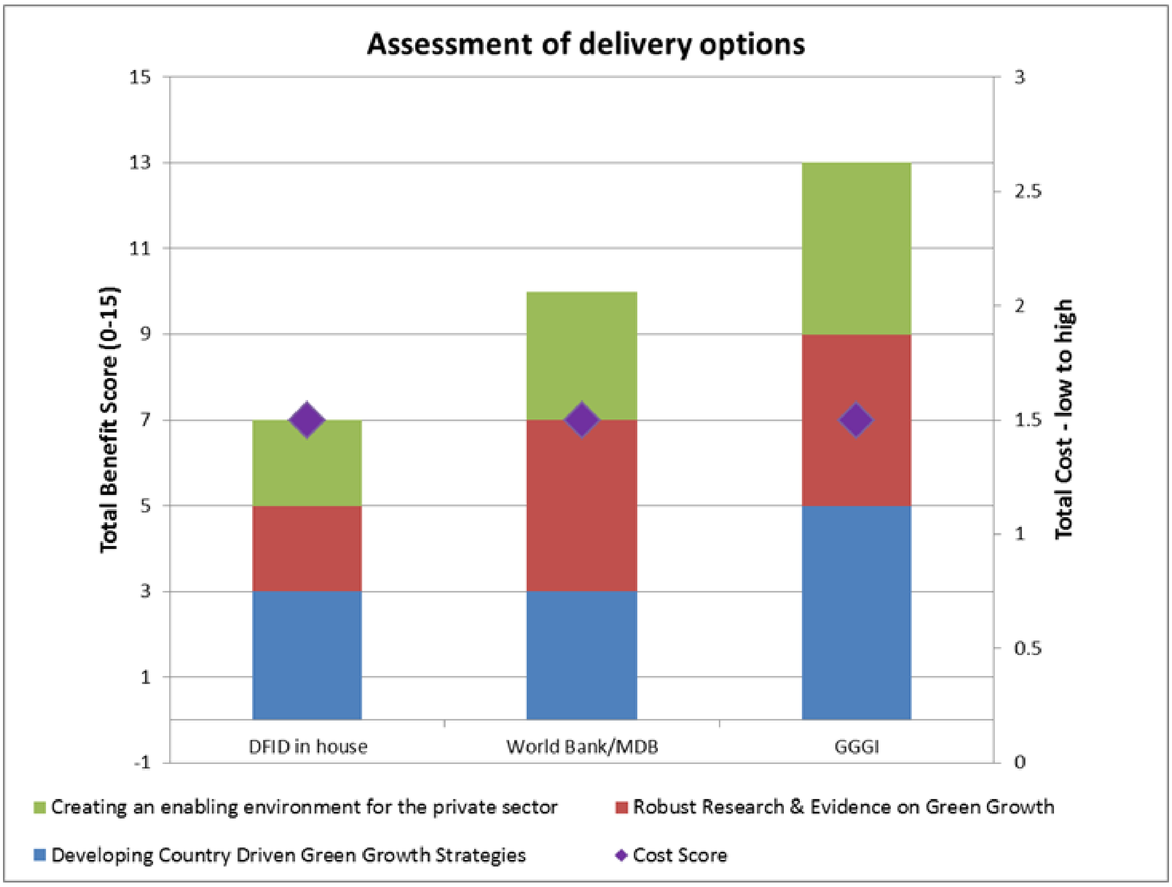
100. Option **6: delivery by GGGI.** The option displays strong performance against all of the programme outputs. GGGI have demonstrated expertise in green growth policy research, and in Ethiopia they have translated policy analysis into practical advice and capacity building with government, culminating in the development of the new *Climate Resilient Green Economy* Strategy. GGGI works in a mixture of developing and emerging economies, meaning there is good potential for less developed countries to learn from the experiences of countries further along their development path. Whilst progress on GGGI's private sector pillar has been fairly slow to date, the structures are in place to carry out work with the private sector, and there is scope to scale up these activities under this programme.

Delivery through GGGI would benefit from the structures and systems needed to deliver the programme outputs already being in place. GGGI has recently transformed from a Korean based NGO to an international organisation, and as a result it has significantly expanded its activities since 2010. There are sunk costs associated with the new management and administration systems that GGGI has put in place (for example the HR department, and IT and financial management systems). We anticipate that these overhead costs will decline over time relative to programme activities as GGGI expands its programme into more focus countries and accelerates measures to cut costs.

Risks of delivery through GGGI include need for: strengthened financial management and delivery systems and capacity; greater poverty focus in its programming; and need for strengthening its planning and delivery on gender. GGGI's senior management has put in place a reform programme on financial management issues. (As GGGI is the preferred option, these risks and the use of KPIs as well as focusing programme management on these areas, is discussed in the Management Case.)

101. Chart 1 summarises the finding from stage 2 of the appraisal. Option 6: delivery through GGGI, was the highest scoring option against the planned programme outputs. GGGI is also expected to be the lowest cost of the three options. Support to GGGI is therefore the recommended option.

Chart 1: Summary VFM analysis



** Maximum benefit score = 16; cost scores range from 1 (low cost) to 3 (high cost)*

102. An independent review of CDKN[45] has found that the demand for knowledge, evidence and support for practical action on green growth exceeds the supply capacity of CDKN. In the Strategic Case, we discussed the reasons why additional funding for CDKN would not be a preferable option in the short-term. Here we discuss why funding both GGGI and CDKN will represent complementary initiatives, with distinct but compatible approaches that will provide further leverage for the UK government in meeting the need addressed in the Strategic Case.

Box 1: GGGI and CDKN: Why invest in both?

100. GGGI's clear technical entry point is economic growth, as the main engine for poverty reduction. This is its unique selling point. It operates where there is strong demand for its independent advice. GGGI's teams are normally located in government ministries, making them well placed to

[45] ITAD (2013) *External Evaluation Report of the Climate Development Knowledge Network*, ITAD 2013. The mid term review of CDKN found that, "As GGGI is currently working in a handful of developing countries and CDKN aims to concentrate on up to 14 deep engagement countries the need for both organisations vastly outweighs their combined capacities."

incorporate the environment into budgeting and policy making and avoid creating parallel and ad hoc processes.

101. This is a fundamental difference between CDKN and GGGI. GGGI sees economic growth, as the main engine for poverty reduction and human development; GGGI aims at working with those government institutions concerned with developing and executing growth and development plans. CDKN's entry point is climate compatible development; 'development that minimises the harm caused by climate impacts, while maximising the many human development opportunities presented by a low emissions, more resilient, future.' Institutionally, GGGI's operating model involves their presence being requested by governments and housed in appropriate ministries. This embedded model increases the chances of high quality advice being adopted.

102.

GGGI is a treaty based, multi-partner institution, 'owned' by its country partners, and working with them in a long-term programmatic effort, with a fully-integrated set of support services. As such, GGGI's approach is long-term and relationship intensive, with a strong local presence and a focus on the county's mainstream, end-to-end planning and implementation processes. CDKN is a third-party provider of technical support, with a project based approach designed to accelerate progress in specific high-priority initiatives. These basic differences in strategic approach and delivery model allow the two organisations to work in tandem, and they have shown an ability to collaborate effectively and to enhance each other's outcomes in countries where both are present.

103. For instance, through GGGI's knowledge networking and sharing initiatives such as the Green Growth Knowledge Platform (GGKP) and the Green Growth Best Practice Initiative (GGBP), GGGI provides a platform for the dissemination of green growth policy relevant research, case studies and best practice. This ensures GGGI's work achieves the maximum 'demonstration effect', facilitating replication of its experience in other countries. GGGI and CDKN have collaborated successfully on these initiatives, which have strengthened CDKN's work on supporting developing country negotiators to the UNFCCC. As opposed to creating duplication or overlap, support to GGGI would help to leverage the impact of CDKN research and maximise its relevance, applicability and availability in developing and emerging countries.

104. The geographical scope of CDKN and GGGI country programmes is complementary rather than overlapping. In cases where CDKN and GGGI do work in the same country, they have aligned according to comparative advantage and have worked effectively together (Ethiopia). There is further potential to build on this going forward.

105. Working with both CDKN and GGGI can actually provide further leverage to the UK Government by helping ensure even stronger collaboration and a complementary focus. The closer the organisations are able to work together, the greater the potential impact of the respective initiatives, through transfer of knowledge and tools and coordination based on comparative advantages. A full discussion of GGGI's and CDKN's comparative advantages is attached in Annex II.

What DFID support to GGGI will deliver

103. GGGI works <u>across</u> three pillars of activity designed to address these barriers: green growth planning and implementation, research and public-private cooperation.

104. **Green Growth Planning and Implementation:** GGGI embeds staff within developing country

government departments to assist in government-led processes relating to green growth. This model allows GGGI to act effectively as a trusted, neutral partner to governments that request its services. The 2013 Joint Donor Review (JDR) found that '[GGGI] country teams have established themselves as trusted advisors to the respective governments, and appear to have exploited this well to take the green growth policy process forwards. They have achieved direct access to top leadership levels in ways that development partners may not be able to access (according to the development partners themselves).

105. This method of operation has allowed GGGI to achieve a number of positive results, despite being a relatively young institution. For instance, the Government of Ethiopia have commended GGGI's support to their Climate Resilient Growth Economy (CRGE) planning process and have continued to work with GGGI on the implementation phase. This has led to the creation of a CRGE facility to help finance the implementation of the CRGE priorities and to which DFID Ethiopia has committed £15m. This transformative approach developed by the Government of Ethiopia will provide a clear example of green economic transformation, not only in Africa but across the world (see Box 2 below). Other examples of GGP&I results include:

- In Rwanda, GGGI have assisted with the policy and legal framework for energy efficient and affordable housing in Kigali. This is part of their wider work on urban development with the Ministry of Infrastructure. The ministry of Economics and Finance hopes to integrate the results of this into the 2014-15 national budgeting process.
- In Karnataka, three key recommendations from GGGI's agricultural sector analysis have been incorporated into the state budget and rain-fed farming policy.
- In Mongolia, GGGI have drawn together an advisory committee to produce three green energy scenarios, the results of which have been used by Ministry counterparts into the amendments to the Renewable Energy Law.
- Development of the Renewable Energy Master Plan of the EAC

Box 2: GGGI in Ethiopia

The CRGE vision, which was launched in November 2011, sets the ambition of Ethiopia having a middle income status by 2025 while building resilience to the shocks of climate change and achieving growth with a zero net increase in carbon emissions from 2010 levels. For the past two years, GGGI Ethiopia has been working closely with the government in all the stages of planning and strategizing how best to bring this vision to reality on the ground. The 2013 Joint Donor Review found that GGGI had 'achieved direct access to top-leadership levels in way that development partners may not be able to access [according to the development partners themselves]'.

At two workshops in October, Ethiopia unveiled the Sectoral Reduction Mechanism (SRM) Framework, which outlines the mechanism for implementation of the CRGE; the Operational Manual for the CRGE Facility that sets out the detailed mechanics of a new institution that will attract, pool and deploy funding to meet the CRGE vision; and the Climate Resilience Strategy for agriculture that analyses the risk posed by climate change and outlines priority strategies building climate resilience in the critical agriculture sector. In essence, the SRM Framework outlines the process by which line ministries should develop plans for funding from the CRGE Facility, which in turn is the pooled financing mechanism of the government.

UK Funding

UK Aid – DFID Ethiopia is contributing GBP 15 million (USD 24 million) to the CRGE Facility to support the Government of Ethiopia in its ambition to build a Climate Resilient Green Economy. These funds will be used to support the implementation of the Sector Reduction Mechanism's process: to generate and fund high quality strategic investments that respond to the priorities of the Government of Ethiopia. This finance will be used to support the Government of Ethiopia to build a Climate Resilient Green Economy across different sectors. This transformative approach developed by the Government of Ethiopia will provide a clear example of green economic transformation, not only in Africa but across the world. Feedback from DFID Ethiopia is that GGGI do an excellent job in policy terms, they are a key strategic partner and are doing really interesting and important work with Government.

106. **Public-Private Cooperation:** GGGI will catalyse private sector initiatives in a way consistent with green growth policy work stream. This will include work on (a) risk reduction and financial instruments; (b) incentives and (c) sustainable consumption and impact investments. As an example the private sector will be involved in developing investment guidelines for implementation of green growth projects and in designing policy frameworks. GGGI convenes a Business Council and partners with Siemens, KPMG and Deutsche Bank among others. The four main thematic areas with which the business council focus are: technology; global value-chains; institutional investors and energy efficiency finance.

107. Public Private Cooperation (PPC) also works in collaboration with GGGI's country activities, this includes its work in Thailand, where it aims to establish a compliance-based carbon market. This will use the Korean experience of its own carbon market as a template. In Mongolia, a project in consultation with the Ministry of Economic Development is developing a framework for Public-Private Partnership (PPP) in green infrastructure.

108. GGGI also works with a number of global private-public sector initiatives. These include the G20 Green Growth Action Alliance which works with the World Economic Forum's Environmental Initiatives; Bloomberg and Rockerfeller Foundation in order to mobilise climate finance; and The Sustainable Infrastructure Foundation to further develop project design templates in compliance with MDB standard practices.

109. **Knowledge Development & Management (KDM):** GGGI's research is grounded in the needs of practitioners based on the first two work streams. KDM brings feedback from the field on what further knowledge development is required by policymakers and practitioners, bridging the frequent disconnect between research and practice. Evidence is disseminated through networks such as the Green Growth Knowledge Platform (GGKP) and Green Growth Best Practice (GGBP).

110. Table 6 summarises GGGI's programme activities. The results and logframe reflect selected indicators and targets from GGGI's current work programme. Full work programmes are in GGGI's work plan and budget for 2014-16.

Table 6 - GGGI pillars of activity

Pillar	Description
Green Growth Planning and Implementation (GGP&I) (70% programme)	• Expert advice and capacity building in developing and emerging country governments to improve design and implementing green growth plans. • Works in close collaboration with national governments through ministries and by providing support to government led processes such as green growth plans at the national level or subnational level. • Works effectively in-country with other NGOs/experts providing climate-related expertise[2]

[2] CDKN's mid-term review offers evidence of the early stages of practical CDKN-GGGI cooperation (In Ethiopia): http://cdkn.org/wp-content/uploads/2010/10/2012-077-CDKN-MTR-Final-Report-15March-2013.pdf

	• Only operates in countries with high-level commitment to transforming green growth policy making, and where GGGI can leverage significant impact e.g. policy change, mobilising resources
Knowledge Development and Management (KDM) (15% programme)	• High-quality research building the evidence basis for green growth in GGP&I programmes and more widely. • Research agenda is geared towards priorities in: delivery of GGP&I programmes; and by senior economic policymakers and growth economists in developing countries. • Research draws on lessons from in-country GGP&I experience, identifying where gains are replicable in other focus countries. • GGGI manages global platforms for disseminating green growth research on critical aspects of green growth: - Green Growth Best Practice : seeks to improve quality and effectiveness of green growth planning and implementation internationally. It facilitates peer learning, compiling, analysing and broadly disseminating best practices at all levels of government, the private sector and civil society[3]. - Green Growth Knowledge Platform[4] with OECD, UNEP and World Bank, an online platform on green growth theory and practice.
Public-private co-operation (PPC) (15% programme)	• Linking companies to developing country governments that are seeking private sector finance, technology and expertise to accelerate implementation of their green growth economic development plans • Building intra- and cross-industry programs of cooperation, and linking them to relevant intergovernmental processes, to expand markets in developing and emerging countries for resource-efficient products, services and industrial processes. • Address issues from a private sector point of view: risk reduction; financial instruments; incentives; sustainable consumption and impact investment

111. GGGI will directly enable 10-15 geographically and economically diverse developing countries to address these three barriers and so demonstrate available paths to rapid poverty reducing growth with simultaneous strong environmental and emissions reducing performance. Concrete positive examples in selected partner countries will provide evidence and role models for others to replicate success across other countries. Successful action should also help to move the polarized North-South politics of sustainable development and provide important evidence and impetus to help the international community to integrate the economic and environmental pillars of sustainable development.

112. In order to achieve these goals the GGGI has been set up as a specialized enabling institution for green growth. It is a multi-stakeholder international organization, with a mission is to advance the practice and evidence of green growth by helping to develop, implement and deepen understanding of green growth strategies, focusing on integrating green growth into economic policy and business. These green growth plans will seek to take opportunities that others may miss due to a lack of knowledge in this area or due to a lack of long term and trusted engagement and deep understanding of the economy and society. The GGGI will provide countries with frameworks, evidence and advice to make decisions that consider a broad range of economic, social and environmental impacts that will deliver development and the GGGI will follow this through to action. The GGGI will increasingly be able to leverage experiences and lessons from this work to catalyse larger change.

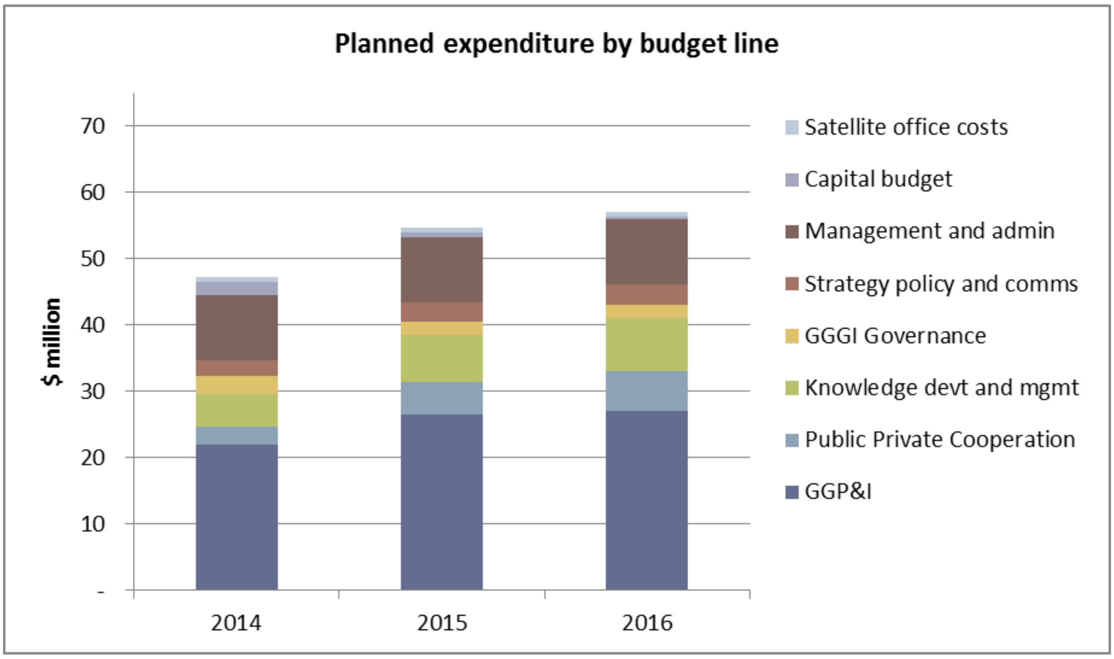
113. Chart 2 sets out GGGI's the planned budget from 2014 to 2016 against the programme and

[3] For Synthesis of Key Findings, please refer to: http://ggbp.org/wp-content/uploads/2014/02/GGBP-Synthesis-of-Key-Findings.pdf
[4] http://www.greengrowthknowledge.org/

management budget lines. Reflecting DFID's priorities for the next medium term strategy, DFID wants to see support to green growth policies increasing in poor countries in 2015 and 2016. We will incentivise this with the key performance indicators for DFID funding. We also want to see work with the private sector scaled up and this can be seen in the increasing spend for Public Private Cooperation.

114. Administrative costs are clearly high, especially in 2014/15. The importance of reducing administrative costs and the ways that targets will be set and monitored are discussed in the VFM section below. The nature of GGGI's business – delivering quality evidence and advice rather than financial aid – means that administrative costs appear high. It is important that these demonstrate a downward trajectory as a share of total costs. The use of annual tranches and key performance indicators builds in an exit strategy to the programme if performance is poor on technical or management grounds.

Chart 2: GGGI Planned expenditure by budget line



Source: Corrigendum to the GGGI Draft Workplan and Budget 2014 – 2016, December 2013

115. The programme will be able to report against a number of the ICF criteria. These are set out in Table 7 and in the logical framework. GGGI monitoring approach and DFID's approach to monitoring are set out in the Management Case.

Table 7: GGGI expected results against ICF criteria

ICF Criteria	Expected results
ICF Criteria 11: Volume of public finance mobilised for climate change purposes as a result of ICF funding	We anticipate that a commitment from DFID will encourage other donors to confirm their commitments and to mobilise additional funding to GGGI. We also expect that partner governments in GGGI focus countries will provide some match funding for green growth activities (which include actions on climate change).
ICF Criteria 13: Level of integration of climate change in national, sectoral or institutional planning as a result of ICF support	Through the GGP&I activity pillar, GGGI will support governments to integrate green growth into their national and sector level economic development strategies through provision of analytical tools, capacity building and communities of practice. The programme will be able to report

	against the scorecard indicator at a country or sector level.
ICF Criteria 14: Level of institutional knowledge of climate change issues as a result of ICF support	Under the knowledge development activity pillar GGGI will develop a range of economic research into green growth policy and practice. Under the GGP&I pillar GGGI will help partner governments to improve their institutional knowledge of green growth. GGGI also supports the online 'Green Growth Knowledge Platform' which aims to share green growth related tools and methodologies and to make them more directly available to developing countries. The programme will be able to report against the scorecard indicator at a country or sector level.
ICF Criteria 15: Extent to which ICF intervention is likely to have a transformational impact	GGGI will be able to report against the criteria scorecard for transformational change. We expect that GGGI will make progress against all of the scorecard criteria: - Fostering political will to act on climate change: GGGI will build communities of practice on green growth and improve the global knowledge base (for example through the green growth knowledge platform). - ICF-supported activities are enhancing local capacities to act on climate change GGGI will build capacity in partner governments (national and local) on green growth planning and implementation. - HMG-supported activities are encouraging innovation and testing new approaches and ideas GGGI research activities will develop and test new ideas and approaches. Green growth activities actions and strategies will be tested in a range of contexts through the programme. - HMG-supported activities are creating the incentives for others to act on climate change: GGGI aims to create incentives through knowledge and demonstration on successful green growth actions (in both the public and private sectors). - HMG-supported activities are being replicated by others: If the GGGI programme is successful, it will demonstrate the benefits of green growth activities to countries beyond its direct partner countries. - Activities are likely to be sustained once HMG funding ends: In the concept note for the new GGGI strategy 2015-2020, GGGI sets out how it aims to build a partnership model with client countries in order to sustain long term impact. The organisation plans to build long-term relationships with core donors in order to ensure predictable and reliable funding.

What is the appropriate level of funding to the preferred option?

116. At present there are 5 core donors supporting GGGI, (Korea who have contributed $10 million per year, and Australia, Denmark, Norway and Qatar who each have each contributed $5m per year). A UK contribution would display commitment to tackle the barriers identified in the strategic case and may help to leverage more predictable support from other donors.

117. The ICF technical panel suggested in their feedback that the UK provide £12-£15m over a 3-year period to GGGI, with an option to discontinue funding or expand in the future dependent on performance. The panel noted that the UK should ensure that it maximises its influence within GGGI

and that the organisation gave a stronger poverty focus.

118. An annual UK contribution to GGGI of $5 million (£3.1m[46]) would be in line with the scale of commitments by other core donors such as Norway and Denmark. A contribution of this scale over the three years of planned implementation (2014-16) would help to improve the predictability of GGGI's funding and give the organisation space to source other predictable core donors.

119. The recommended funding profile is shown in Table 8, in dollars then in sterling. DFID's funding is designed to support progress on governance and management improvements are on track and to support a significantly more poverty-oriented programme by GGGI in its next medium term plan and evidence of this shift within the timeframe of this project.. It will be disbursed as either further core funding or as earmarked funding, depending on what mechanism is judged to have the greatest leverage on the overall poverty profile of GGGI's strategy and spend.

120. Funding will be 11% ($5m/£3.2m) of GGGI spend in 2014 rising to 13% ($7.2m/£4.3m) in 2016, approximately 16% ($9m/£5.4m) in 2015 and 19% ($10.8m/£6.4m) in 2016. These percentages are upper limits. GGGI's financial year runs from January to December. If GGGI performance is strong in terms of organisation improvements and poverty focus but capacity to spend is not increasing as hoped, DFID will have the option to manage its exposure by disbursing part of the 2016/17 tranche in support of GGGI's 2017 budget. This could prevent DFID funding too high a share of GGGI's overall programme.

Table 8: Summary of DFID expenditure

	2014/15	2015/16	2016/17	Total
$000's				
Funding to GGGI	$5,000	$9,000	$10,800	$24,800
Total ($)	**$5,000**	**$9,000**	**$10,800**	**$24,800**
$:£	1.68			
	2014/15	**2015/16**	**2016/17**	**Total**
£000's				
Funding to GGGI	£2,976	£5,357	£6,429	£14,762
Strategy, due diligence follow-up, evaluation	£30	£35	£75	£140
Total (£)	**£3,006**	**£5,392**	**£6,504**	**£14,902**

Memo:			
GGGI Budget plans	47.2	54.8	57.1
DFID %	11%	16%	19%

121. The annual base tranches will also only be disbursed following satisfactory performance against key indicators, which have been identified based on the findings of the due diligence assessment. The framework is set out in the Management Case and will be referred to in the MoU. If performance is mixed, DFID will be able to provide part of the funding if appropriate.

122. Assessing the full poverty impact of GGGI's programmes requires looking beyond the income status of countries GGGI is active in. Table 9 below shows the share current profile of GGGI countries.

[46] Based on an exchange rate of £1:$1.635

Several countries are middle income but contain large numbers of poor people. Furthermore, evidence from MICs are relevant for LICs – providing the take-up of lessons from GGGI programmes and research takes place. While few DFID Tier 1 countries are included, GGGI is active in several very important and influential Tier 3 countries. However, the fact remains that few GGGI countries are at present low income whereas the theory of change is most clear and direct for GGGI operations in LICs. We have addressed this in programme design.

Table 9: Profile of GGGI's country focus (Green Growth Policy and Implementation work stream)

	Low income	**Lower-middle**	**Upper-middle**	**Other/N/A**
Countries/ Regions	Cambodia Ethiopia (NORAD, DFID) Rwanda	India Indonesia Mongolia Philippines Vietnam	Brazil China Jordan (BMU/Germany) Kazakhstan (EBRD) Mexico Peru S. Africa Thailand (BMU/Germany)	Central Asia Mekong MENA (UAE) East Africa Community
% of budget	27%	35%	30%	8%

Note: agencies in brackets are or have provided earmarked funding to GGGI's work in a specific country

123. Our first disbursement will depend on a commitment from GGGI in the new strategy to be agreed in November that at least 50% of GGGI's portfolio will be in low income countries. Our second disbursement will be dependent of evidence that this material shift has occurred. By withholding part of the contribution, this will allow DFID to ensure that GGGI gives a stronger poverty focus. GGGI's portfolio is currently weighted towards upper-middle and lower-middle income countries. It is in DFID's interest for GGGI to pursue a greater low-income focus in its Green Growth Planning and Implementation work-stream. There is an emerging consensus with other donors, that poverty focus needs to be increased. the KPIs will provide DFID with sufficient leverage to ensure not only are these low-income countries but also to fill gaps in the GGGI portfolio which are of specific interest to DFID e.g. West Africa. This may be earmarked or as additional core funding depending on DFID's assessment of how best to secure additional GGGI work in LICs.

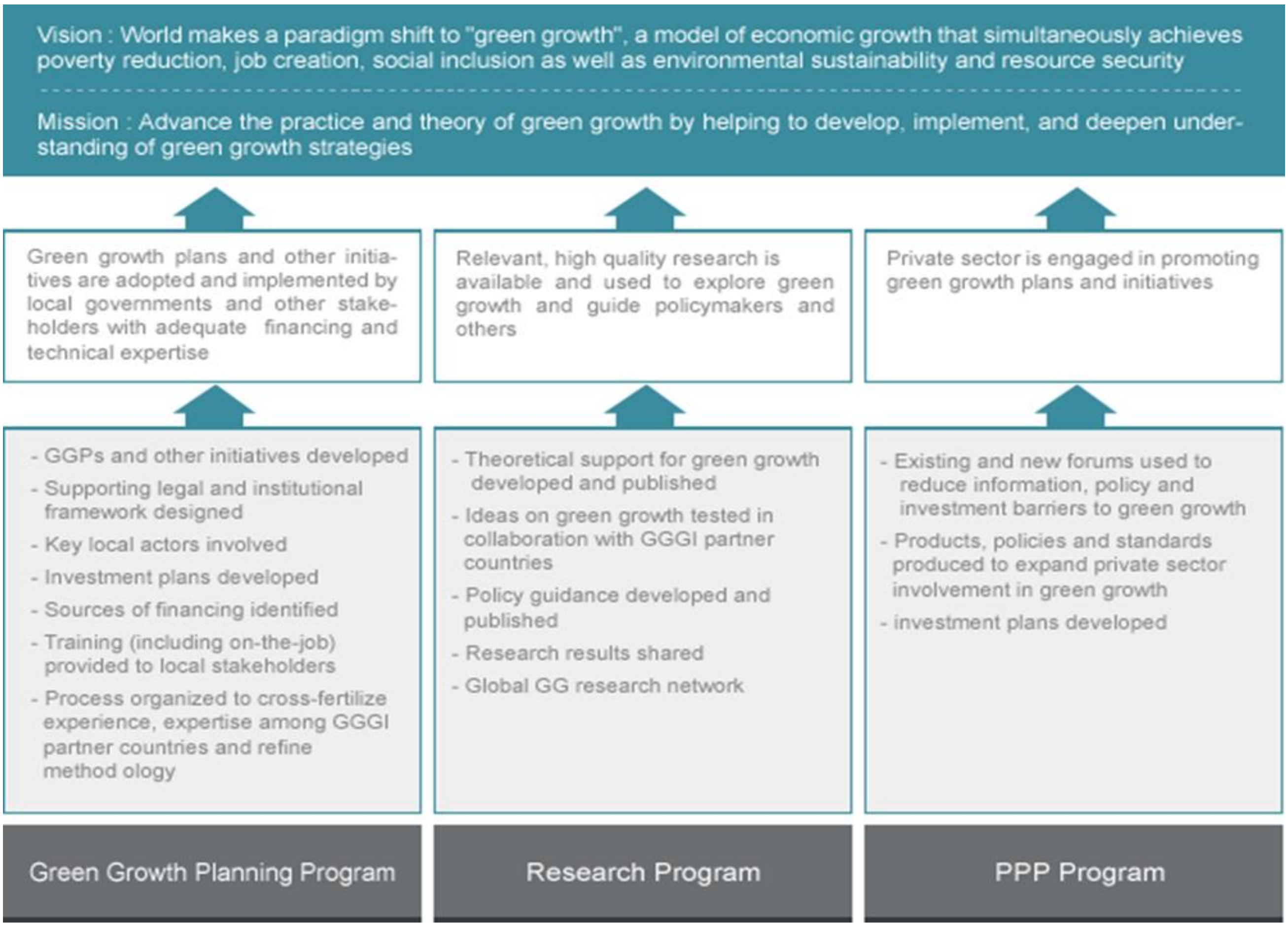
124.

125. As GGGI is a demand-led model, it first requires a high-level and strong political commitment by the partner country. DFID will work through internal and external DFID channels, including across-HMG, in order to stoke demand from partner countries.

G. Theory of Change for Preferred Option

126. Figure 1 below sets out GGGI's theory <u>of</u> change, linking its activities to the overall outcome of more sustainable and equitable growth – growth that will remain the main driver of poverty reduction in developing countries. The Theory of Change also shows how providing evidence and supporting the practical implementation of more sustainable growth policies GGGI will make an important contribution to the ICF ambition to support transformational change to more sustainable growth and poverty reduction.

Figure 1: GGGI Theory of Change



127. The key assumptions behind the theory of change are that:

- Policies and programmes that are simultaneously good for economic development, take the environment into account and reduce poverty do exist.
- Policies are not implemented at present because policy makers and private actors do not have the information necessary (for example on their costs and benefits) or practical experience needed to put them in place.
- Some policy makers must be willing to experiment with new green growth approaches in order that others can learn from their experiences.
- Some private sector actors are forward thinking and are willing to test new business models.

128. The theory of change assumptions will be tested and revised through routine programme monitoring and through programme evaluation.

129. DFID's objectives through GGGI require achieving influence through dialogue and through UK

participation in governance structures. The Management Case describes these structures and which committees the UK will prioritise.

H. What measures can be used to monitor Value for Money for the intervention?

130. The following section summarises what we will look at to monitor VFM and at GGGI's ability to report against DFID's VFM framework at economy (inputs), efficiency (activities/outputs) and cost effectiveness (outcome) levels.

131. It also refers to several key performance indicators that will be used in programme management as disbursement triggers for DFID funding. These include: credible budget setting; linking results and budgets; identifying cost savings and achieving these; and monitoring adherence to travel policy. The specific indicators for the second tranche are detailed in the Management Case.

Economy

132. Economy is the extent to which GGGI is purchasing inputs at the right price and quality. We will monitor GGGI's economy by ensuring:
    a. Policies governing major cost drivers (e.g. salaries, consultants, travel) are in line with practice in other international organisations
    b. Budgets are reported in a way which enables scrutiny of overheads and cost drivers
    c. Ambitious targets for improving cost economy are set and monitored at the level of the whole organisation and at division/department level.

a. Policies governing major cost drivers

133. The main expenditure line items are governed by a series of policies approved by the Council. GGGI has implemented procurement, recruitment, travel and financial management policies, benchmarked against other international organisations that ensure it is able to secure inputs at the best possible prices without compromising quality. All policies are available at: http://gggi.org/gggi-regulations-policies-guidance-notes/

134. GGGI has shifted away from a consultancy based model in order to improve effectiveness and to manage costs. Staff costs are benchmarked against other international organizations, through a thorough HR and Management Establishment Project conducted in cooperation with PwC. Staff grade and salary bands have been established based on research into the HR systems of other international organizations (World Bank, ADB, UN and others) and a strategic analysis of the implications of such HR systems and structures. Procurement policies are based on an exercise conducted by UNOPS, benchmarking GGGI procurement against the World Bank, UNDP, AusAID, EBRD and IRENA.

135. GGGI's consultancy fees have been based on comparison with other organisations for specified levels of qualifications and experience. GGGI only uses external consultants for expertise unavailable from their network of expert partners (LSE, Indian Institute of Science). For a project in Karnataka, 2,300 days were sourced at a unit cost of $227. The average cost for consultants in this project was $550 (over 327 days).

136. GGGI's travel policy has come under the spotlight during 2013/14. Specific cost management steps

related to travel in the 2014-16 plan include:

- Promoting the expanded use of information technology (IT) facilities including videoconferencing for consultations with project offices.
- Containing business travel expenses through travel policy reforms, including stricter implementation of the existing travel rules and vigorously monitoring business travel expenses based on enhanced quarterly monitoring by the OEMG.
- Monitoring and rationalising travel for conferences, seminars and meetings.
- Encouraging stricter enforcement of cost-effective flights and improvements in booking practices.

b. Budgets are reported in a way which enables scrutiny of overheads and cost drivers

137. GGGI's own systems require the organisation to present budgets and report on implementation and expenditure at the corporate and project level.

138. GGGI's own systems require the organisation to present budgets and report on implementation and expenditure at the corporate and project level. Parameters for the main expenditure line items are governed by a series of policies approved by the Council, including procurement, recruitment and financial management processes.

139. The current organisational reforms are improving GGGI's abilities to manage costs and monitor delivery/performance. Measures include:

- Cost savings, including reducing use of consultants using its own staff, outsourcing only where this provides access to expert resources in a cost-effective manner;
- Monitoring business travel;
- Further strengthening of the link between the budget and results;
- More rigorous monitoring and implementation of the budget, further prioritisation and new efficiency initiatives, rationalisation of business travel;
- Improvements in the scrutiny of project selection; and
- Regular and rigorous monitoring and review.

c. Targets for improving cost economy are set and monitored

140. The GGGI Management and Administration Department have developed a number of aggregate VFM indicators to measure its performance from 2014-2016 (set out in Table 10). GGGI is a relatively new and expanding organisation. The indicator 'Policy and programmes as % of total costs' is therefore low at this stage (68% in 2014). This will increase as investment in system improvements are completed, as programme expenditure increases and as additional efficiency/cost saving measures are implemented (to 77% in 2016).

141. Such indicators are not readily comparable to other institutions – for problems that are well known from the MAR process. For instance, GGGI's programmes are knowledge and human-resource intensive; GGGI does not disburse on bed nets, text books or infrastructure that would mean higher programme costs in other multilaterals. It is meaningful, however, to monitor this indicator over time for GGGI, and to scrutinise the cost drivers that underpin it. The overall approach to monitoring VFM

will provide this assurance. We will push for an target rate of savings that is both meaningful and easily communicated e.g. a specified percentage or amount per year.

142. DFID will track performance against these indicators over the programme lifetime on an annual basis. These indicators should be regarded as headline indicators. GGGI's Work Plan and Budget documents contain an impressive degree of detail of the cost components of different departments and offices. This transparency will enable DFID and existing contributors to push for meaningful discussions on cost drivers in GGGI's budget. A KPI is the identification of cost saving measures by Division (see Management Case).

Table 10: GGGI Management and Administration key performance indicators and targets

	2014	2015	2016
% of staff female	50%	50%	50%
% of staff at HQ	60%	55%	50%
% of staff in international offices	17%	17%	17%
% of staff in programme countries	23%	28%	33%
Management and admin as % of budget	21%	18%	17%
Policy and programmes as % of overall budget	68%	76%	77%
GGGI governance as % of total costs	5.9%	3.6%	3.5%
International office cost as % of total budget	1.5%	1.5%	1.4%
Capital investments as % of total budget	4.2%	1.3%	0.5%
Average length of time between receipt of invoice to payment (work days)	10	10	10

Source: GGGI Draft Workplan and Budget 2014-2016; adapted by DFID to reflect latest GGGI budget

Efficiency

143. To gauge efficiency we will monitor how well GGGI converts programme inputs into the planned outputs.

144. GGGI's outputs are often major activities such as delivering Green Growth Strategies. Taking the example of Green Growth Strategies, GGGI has demonstrated that it understands the expected costs of these strategies and that it has a systematic approach for budgeting, monitoring and revising costs. The expected cost of each sector, country or regional strategy varies from $0.5m to $3m depending on its scope and complexity and duration. The costs of components of these strategies (scoping, cross-sectoral analyses, appraisal of specific investments) are also known for different countries and further detail available on the cost drivers of these components.

145. Proactive cost management: Cost control of projects is embedded within Core Operating Processes – GGGI's project management procedures. Budgets are set at the outset based on expected quantity, quality and unit costs of inputs (a summary budget for a cross-sectoral analysis in Karnataka has been provided as an example with justification for the HR costs that make up 70% of the costs). Quarterly reviews, portfolio reviews, the requirement for variations to be approved by management committee and the role of the new internal audit function provide mechanisms for oversight of finance and results.

Effectiveness

146. Effectiveness is the extent to which the outputs of the programme are expected to achieve the desired programme outcomes. GGGI's operating model aims to ensure outputs can be converted into outcomes in the following ways:

- Building long term relationships using embedded teams of its own staff, with projects continuing for 3-5 years from initial scoping and analysis to mobilisation of investment funds

- GGGI aligns with national governments through relevant ministries and by providing support to government led processes such as green growth plans at the national or subnational level. In this way, GGGI is not developing parallel processes but rather supporting already ongoing or planned processes and activities

- Once robust, cost-effective strategic plan have been designed, GGGI supports their implementation through attracting public and private investment, supporting technical policy design and human and institutional capacity building

- Knowledge sharing activities to enable developing countries to leverage the lessons learned from its work elsewhere. For example, projects in Latin America will benefit from the experience on forestry in Indonesia as project teams share experience, models, data, networks etc.

- Compared with the typical project-by-project development assistance approach, GGGI's deep, long-lasting engagement and cross-fertilisation of experience enhances the value for money of what could otherwise be independent and difficult to connect projects.

147. In November 2013, GGGI published a concept note which will inform the development of its new strategic plan for 2015-2020. DFID will invest significant time in influencing this strategic plan through in the Informal Working Group that has been formed to consult on and develop the document. The strategic plan will set out three different levels of results: (i) global goals (or impact); (ii) organisational and functional outcomes and (iii) organisational outputs[47].

148. From informal meetings with existing core donors, including Denmark and Norway, it has been evident that DFID's priorities for GGGI's 2015-2020 Strategic Plan align with priorities of other donors.

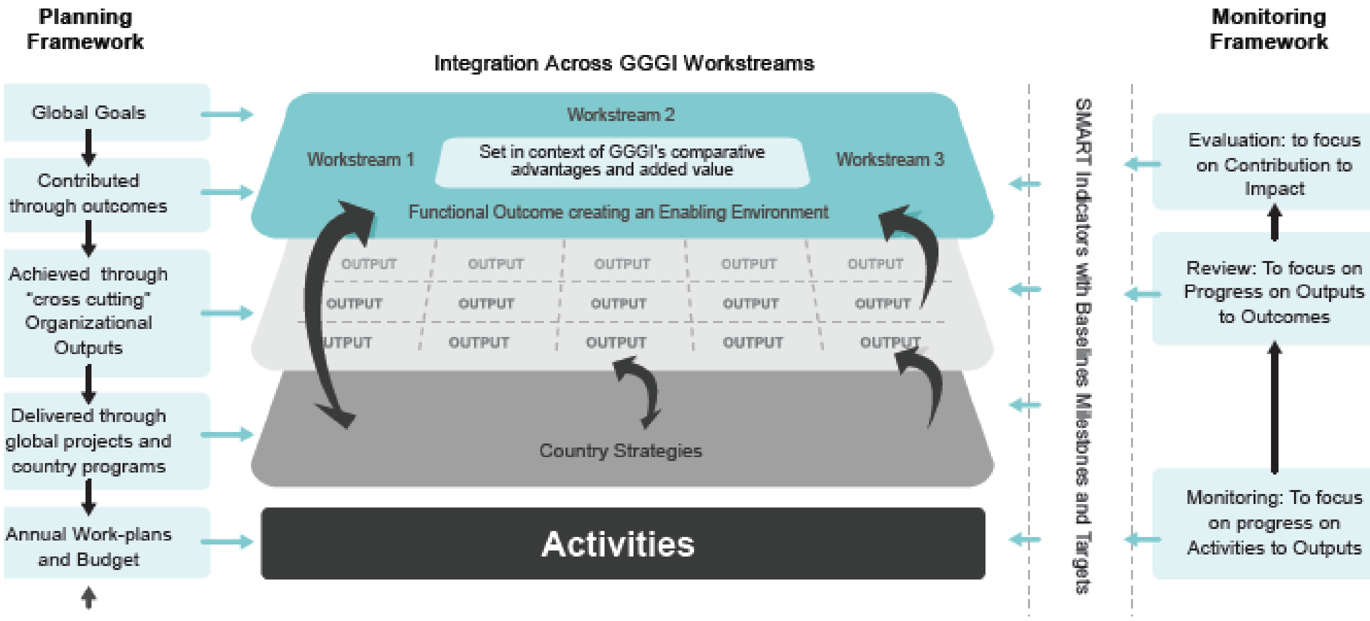
149. **The strongest of these priorities is that funding for the organisation can only be fully justified if the country mix adjusts to secure a higher representation of low-income and DFID-focus countries**. In addition to this, DFID would like to see GGGI's 2015-2020 Strategy: (i) addresses gender equity, social and environmental safeguards in each of the programmatic pillars; (ii) ensure predictability in the sources and timing of funding and (iii) to deepen focus in country level practical implementation. . The June Informal Working Group on the new strategy revealed consensus that GGGI's operations should be more focused on low income countries.

150. GGGI's preparations for its new strategic plan show its intent to improve its understanding of how its activities lead to quality outputs and deliver outcomes. As part of the next strategic plan, a new results-framework is being developed, based on a revised theory of change. The theory of change (set out in section H above) aims to establish links between the three different levels of result and demonstrate how integrated work across the three activity pillars will lead to 'transformational pathway changes' in focus countries. The planning and monitoring framework set out in Figure 2

[47] GGGI (2013) *Concept Note for Preparing GGGI Strategy 2015-2020*, November 2013

shows how GGGI monitoring and evaluation activities will be linked to its work planning and levels of activity. The organisational outputs will measure the direct contribution of GGGI makes in terms of processes, products and services to its strategic outcomes. They will represent the results attributable to GGGI at the global, regional and national levels and the tangible delivery of GGGI's interventions.

Figure 2: GGGI Planning and Monitoring Framework



Source: Concept Note for Preparing GGGI Strategy 2015-2020, November 2013

151. To assess impact, DFID will monitor progress against the new GGGI "global goals". The global goals will measure GGGI's development impact over 6 years, in countries, regions and globally; reflecting progress against GGGI's vision and mission[48]. To assess outcomes, DFID will monitor progress against GGGI's "strategic outcomes". The strategic outcomes will measure GGGI's development outcomes that contribute towards the achievement of the global goals. As part of the new strategic plan the strategic outcomes will be developed for each of the three core work-streams of GGGI and measured every 3 years. The project logframe will be revised at the conclusion of the 2015-2020 Strategy in late-2014.

152. In summary the case for GGGI developed in the Appraisal Case is based on:

- **Excellent fit with our objectives on green growth**: GGGI sees economic growth and the private sector as clear entry points for green growth policies, recognising the role of growth in poverty reduction. GGGI has proven itself able to implement research by embedding itself within government ministries. This engagement is crucial if we are to get the most value from the £3.87bn spend of the International Climate Fund (ICF).

[48] Achievements at this level cannot be attributed to any given development partner, but are the result of interventions of an array of stakeholders. GGGI will contribute to achieving progress in line with its mandate, but at this highest level of results, there can be no direct attribution of causality.

- **Clear mandate on green growth Difference from other existing organisations**: GGGI fills a clear gap in the international architecture on climate change and the environment – it fills a real gap. GGGI helps open up opportunities to more fully mainstream climate mitigation and adaptation policies by linking them to the core (usually higher priority) development objectives.

- **A credible demand-led model with strong performance in the countries it works in**: GGGI works with government departments responsible for growth and development plans. This model avoids developing parallel processes but supports core GGGI is regarded as a trusted and competent adviser in its partner countries. It has established valuable global partnerships across traditional divides of developed/developing countries and private/public sectors.

- **Emphasis on implementation and policy rather than research**: An operating model that bridges the gap between evidence and implementation effectively. GGGI's focus is on policy implementation, not just research and analysis – this is what DFID requires as it addresses the identified gap in green growth policy and practice.

- **Involvement of emerging powers**: GGGI involves a number of emerging powers due to its Korean HQ and non-traditional members and donors. Partner countries include six members of the G20 (Brazil, China, India, Indonesia, Mexico and South Africa). There are also three G20 donors (Australia, Germany and South Korea) alongside Denmark, EBRD, Norway, Switzerland, Qatar and UAE. GGGI is governed and 'owned' by an equal partnership between developing and developed countries. The demonstration effect of middle income/emerging economies is expected to be strong for currently low income countries.

- **Importance GGGI attaches to strong financial management and VFM**: GGGI is taking reforms to its financial management systems seriously, especially demonstrating value-for-money. The bulk of this Business Case and the structure of DFID's support to GGGI deals with the financial management changes underway and how DFID will implement this.

GGGI and Gender equality

153. DFID have received a commitment at the Informal Working Group meeting on the next GGGI Strategy that GGGI will strengthen gender considerations in their next Work Programme and Budget (2015-2017) to be published in October. We and other donors have sought these assurances because GGGI has not yet prioritised gender in its work. This section summarises GGGI's practices to date and how GGGI will make significant steps to improve its ability to address gender over the next year.

154. GGGI's business requires supporting the implementation of policies with decision-makers at the heart of government. An ability to consider the differential impact of policies on different groups of poor people, on social exclusion and on women and girls will be a critical part of this work.

Is GGGI's current and planned approach adequate

155. GGGI's policy and existing work plan and systems reflect its intent to tackle gender but we along with other donors recognise their efforts have to be deepened and accelerated. GGGI monitors internal gender indicators including the gender balance of its staff with an aim of gender parity and is developing a gender action plan. For its programmes, the Environmental and Social Safeguards Policy states:

The *GGGI, in all its work streams, will carry out, careful analysis on understanding the mechanisms through which policies, financing and technologies related to green growth affect women and gender balance in the community, the labour market and the family.*

156. But this Policy does not yet reflect institutional performance on gender. A Joint Donor Review (Australia, Denmark, Korea, Norway) in 2013 covering a wide range of aspects of GGGI did not find strong evidence of gender sensitivity in programming, noting that responsibilities were too narrowly focused and there wasn't wide awareness of social issues.

157. The 2014-16 work plan commits to ensuring that best practice on gender and safe guards is mainstreamed in all country level projects and has a safeguard's Advisor to monitor this. GGGI is developing tools for programme staff to address safeguards on environment, social and gender issues in GGGI's programme activities. Assessments will happen as part of the context analysis at scoping stage of interventions. A routine evaluation template for all ongoing projects is being developed by the Organisational Delivery Unit based on DAC standards that includes reporting on gender impact. It is expected that the tools will provide for assessments of social, environment and gender issues using a "traffic-light" system that defines remedial measures based on the assessments. These will be presented to the Council in December 2014.

158. GGGI's interventions can be strengthened by linking with gender budgeting initiatives in partner countries and by considering green growth and gender research.

How is DFID going to ensure gender is addressed during implementation

159. GGGI is managing a very wide range of institutional reforms which are also priorities for us, including to its financial management and human resourcing systems. DFID will support GGGI make progress on its performance on gender dimensions of green growth policy:

a) by prioritising GGGI's performance on gender during negotiations on the next medium term strategy during 2014;

b) including a specific gender KPI (relating to strengthening gender indicators in the revised results framework by mid-2015); and

c) requiring a dedicated gender specialist to be funded in the 2015 budget with the objectives of putting GGGI's work on gender on a new trajectory. This person would develop an initial gender action plan for GGGI by mid-2015. The plan would map out how GGGI (i) strengthens the gender dimension of country level strategies (ii) builds capacity at HQ and in country offices for best practice in green growth products and services and (iii) improves knowledge of how to monitor gender in GGGI activities cost effectively.

J. Summary Value for Money Statement for the preferred option

160. GGGI delivers the best value for money solution for delivering DFID's objectives on green growth. GGGI has a good and complementary fit with other DFID initiatives (e.g. CDKN, IIED), it has an international mandate for green growth policy in developing countries and is recognised as performing well by country governments, the private sector and other international organisations. GGGI's delivery model – focusing on policy implementation, not just research and analysis – is what DFID requires as it addresses this gap in green growth policy and practice. Aspects of its operating

model such as embedding in host governments and its strong links into private sector, think tank and academic networks would be difficult to replicate or substitute for in another organisation and risk duplication.

161. GGGI's model works for developing countries including many of the world's poor in low and middle income countries; however, DFID will seek to increase this poverty focus. The structure of DFID's contributions to GGGI are intended to underpin delivery of GGGI's existing work plan and reforms, but also to incentivise greater poverty focus in the next medium term strategy.

162. GGGI's negative publicity over the last six months concerned its travel policy and how this was implemented. This publicity as well as a Joint Donor Review highlighted the range of cost-related issues that GGGI has had to strengthen to transition from NGO to multilateral organisation.

163. During appraisal, including preparation of a due diligence assessment, GGGI has demonstrated to DFID its seriousness on value for money. GGGI has a strong awareness of the costs of its major activities and cost drivers at a division and organisational level. It has modernised the policies governing its systems and main cost categories. It has explained how it budgets for projects (such as a green growth strategy in a country) and how it monitors costs. It has a working definition of administrative costs that it can monitor as a proportion of total costs over time and presents data in a way that cost drivers such as salaries and travel can be monitored e.g. at the divisional level.

164. GGGI's programme costs as a % of total costs are monitored and expected to increase from 68% in 2014 to 72% in 2016. This is an organisation level target. Cost drivers of major components such as salaries and travel will also be monitored and targets set and monitored at divisional level.

165. DFID's management arrangements include KPIs that will govern future disbursements demonstrate how monitoring GGGI's targets for continued progress on value-for-money will be built into programme management.

Commercial Case

Direct procurement through a contracted supplier

A. Clearly state the procurement/commercial requirements for intervention
166. There will be no direct procurement requirement for the support as the preferred delivery option is to contribute to GGGI using a Memorandum of Understanding with GGGI. The GGGI will ensure good value for money is obtained by following international standard procurement guidelines, as set out their procurement rules. As part of its membership of the GGGI Council DFID will monitor the adherence to guidelines and expect to see evidence of procurement performance as part of GGGI's annual reporting.

Delivery through a third party entity (multilateral organisation; civil society organisation or support to government)

A. Why is the proposed funding mechanism/form of arrangement the right one for this intervention, with this development partner?
167. The appraisal of options identified the GGGI to be best placed in terms of results and value for money to deliver the outputs required. The most appropriate funding mechanism to use is DFID's Memorandum of Understanding for contributions to international organisations. This will enable the UK to provide multi-year funding, as one of several international donors. This document will clearly set out the understanding reached by DFID and the GGGI on how we will work together and is not a legally binding aid exchange. This agreement will give us the flexibility to modify or terminate our financial contribution to the project, if any changes occurred, which, in DFID's opinion, significantly increased or impaired its development value. The MoU will also ensure that UK funding is available for the purposes of achieving the outcome and outputs set out in the business case, which will be attached to the document and reference, when presented for signature. 168. DFID has conducted a Due Diligence Assessment. The findings of this assessment have informed the analysis in this Business Case including the design of Key Performance Indicators. The proposed contribution will enable the UK to use its role on the GGGI's Council to improve the focus on results, for example by driving improvements in project cycle efficiency, and the reporting of results which has significantly improved recently due to GGGI's response to the Joint Donor Review.
B. What assurance has been obtained on capability and capacity to deliver? **Core competences of organisation to deliver in-country:** 169. As a young organisation there is not yet a large body of evidence on GGGI's success in delivering long term transformational change. Where the GGGI has been working however it has shown its ability to demonstrate very positive results and has achieved many key results milestones. These achievements have been well documented in: GGGI's Annual Reports; Joint

Donor Reviews; External Assessments; Letters of Support from Government Ministries; and communications with DFID counterparts who have seen the outputs that GGGI have produced.[49]

170. GGGI has prepared technical and financial project reports to external project donors on a number of projects initiated and implemented in the last 2 years that have been already approved. Some of the donors are BMU (Bundesministerium fur Umwelt, Naturschutz und Reaktorsicherheit), and the Norwegian Ministry of Foreign Affairs.

171. GGGI's ability to deliver is also supported by third party endorsements received from one of its largest programmes in Ethiopia (see Annex V).

172. A Joint Donor Review (JDR) of September 2013 identified a number of areas for GGGI to strengthen systems and performance and GGGI continues to address the recommendations that were made. As a result, a number of changes are taking place to both its policies and systems. For example, a risk management framework is currently being developed and is strengthening its financial management by introducing an Enterprise Resource Planning (ERP) tool that will enable real time budgeting and reporting.

173. Guidelines on the application and implementation of the anti-corruption policy are currently under development and scheduled to be finalised within the first half of 2014. This will help to ensure that DFID is advised of any potential fraud against their funds. The analysis of GGGI's financial stability concludes that the organisation is financially viable and that sufficient controls are in place.

174. In addition, monitoring processes that track activities, outputs, outcomes, and indicators have been implemented, In addition project spending and contract information relating notably to institutional buy-in, risk analysis, proactivity, legal covenants, and reporting obligations to donors have been put in place.

175. Continued DFID funding as set out in the Memorandum will be subject to continued progress implementing the recommendations of the Joint Donor Review and satisfactory performance against annual key performance indicators (KPIs). These are set out in the Management Case of this Business Case, which underpins our financial contribution and will be the reference document to the signed Memorandum of Understanding.

Delivery of outputs:

176. DFID will be able to monitor results by both conducting its own reviews of the organisation, and also by working closely with GGGI's Organisation and Delivery Unit (ODU) who will monitor, evaluate and report on GGGI's organisation and delivery.

177. A key component of the ODU's ability to effectively monitor GGGI's performance will be the new enterprise resource planning tool (ERP) alongside the operation of a new Results Framework. Whilst DFID understands that both of these will take time to implement, they are included as Key Performance Indicators for release of the second tranche of funding in July 2015.

Technical capability and sources of expertise:

178. The Executive Management Group is composed of the Director General (Yvo de Boer), Deputy

[49] All of these are included in the Annex IV.

Director General – Management and Administration (Robert Dawson), Deputy Director General – Green Growth Planning and Implementation (Mattia Romani), Assistant Deputy Director (Nikolaus Schultz), Chief Financial Officer (Munehiko Joya) and Director and Strategy, Policy and Communications (Hyoeun Jenny Kim). All of the Executive Management Group have substantial experience in their relevant areas. Full details on all members of the Executive Management group, including academic qualifications can be found at: http://gggi.org/about-gggi/people-3/executive-management/

179. GGGI currently has a staff of 71 (professional) and 43 (general) staff professionals all with significant relevant professional and/ or academic experience. Given that DFID's contribution to GGGI is proposed to be as core funding, all staff will be involved with the programme.

180. The funding agreement between GGGI and DFID would be overseen and managed by GGGI's Strategy, Policy and Communications team composed of 12 full time professional staff. This would be supported by the Organisational Delivery Unit (4 full time professionals) with regard to project and programme monitoring and evaluation.

Procurement capability:

181. GGGI has approved procurement rules and guidelines, based on the following principles:

- Accountability: responsibility for the actions and decisions taken in relation to procurement and for the resulting outcomes.
- Effective Competition: Encourage competitive and non-discriminatory processes
- Fairness and Transparency: Treat all suppliers in a fair and equal manner and take steps to enable appropriate scrutiny of procurement activity;
- Sustainability: Meet the needs for goods, services, works and utilities whilst generating benefits not only to the organisation but also to the society and the economy and minimising damage to the environment;
- Best Value for Money: Use resources in an efficient, effective, economical and ethical manner.

182. The procurement process includes checks to ensure that the policy has been implemented effectively and correctly – the process is reviewed by the Procurement Officer, Contracts Review Committee (as appropriate) and is signed off according to the appropriate level of delegated authority.

183. A Procurement Audit may be in the work programme of the Office of Internal Audit and Integrity audit programme for 2015 within GGGI – this will evaluate compliance with the procurement policy.

106. GGGI now has a procurement team in Seoul headed by a Senior Procurement Expert. Their work programme includes the development of user friendly procurement guidelines for both internal and external use and the training of staff. The internal audit team is also responsible for the development of a full procurement strategy and plan which is aligned to GGGI's strategic objectives and specifically addresses value for money.

184. GGGI procurement rules are designed to ensure transparent and fair procurement through

controls around content and publishing of Invitation to Tender, stipulations around number of suppliers/ bids received, bid opening procedure, Bid security, bid evaluation, announcement of the bid evaluation result and award of contract.

185. The procurement rules clearly state the procurement ethics designed to ensure that GGGI treats all Suppliers in a fair and equal manner in accordance with the principles of fairness, integrity and transparency.

186. The Procurement Rules state in Rule 2.5 GGGI's Complaints and Appeals Mechanism: 'A Supplier that claims to have suffered or claims that it may suffer loss or injury because of the alleged non-compliance of a decision or action of the GGGI with the provisions of these Rules may challenge the decision or action concerned. A two-tier mechanism shall be set up for the Complaints and Appeals Mechanism whereby the protest shall first be submitted to the Procurement Officer, who shall provide a written decision stating the basis upon which it was made. The protestor has the right to file a written appeal to an internal Independent Review Committee, whose decision will be final and conclusive. The decisions of the Independent Review Committee will be published'.

Risks:

187. GGGI has developed a comprehensive set of rules and policies to safeguard its activities from inappropriate or non-compliant acts or omissions.

188. GGGI's staff rules and regulations and the Code of Conduct cover fraud, bribery and corruption issues. A formal anti-corruption policy was also approved on 7 November 2013 and is available on the GGGI website at: http://gggi.org/wp-content/uploads/2013/12/Anti-Corruption-Policy.pdf. The policy includes information on prevention and control of fraudulent practice and details around reporting of coercive, collusive, corrupt and fraudulent practice. This included implementing a full White blower policy, available online at: http://gggi.org/wp-content/uploads/2013/11/Whistleblower-Policy.pdf

189. GGGI also has policies and procedures in place for HR, Procurement, Finance and the Core Operating Processes, all of which are backed up by the Delegation of Authority which specifies roles and segregation of duties. Again, all policies are available online at: www.gggi.org/gggi-regulations-policies-guidance-notes/

190. Although yet to be institutionalised, GGGI is in the process of developing a comprehensive risk management framework. This will include a risk register with risk rating based on the probability of the identified risks occurring and their possible impacts on GGGI projects, as well as the organisation as a whole. The risks will be monitored on a quarterly basis and the register will be updated accordingly.

191. Risk management has been embedded throughout the organisation's project operations through the compiling of Quarterly Implementation Reports sent by the project teams, which are analysed and reviewed by the Organisation and Delivery Unit, and summarised for Directors and the Programme Sub-Committee for assessment/feedback. Any identified risk is then managed through regular meetings of the Executive Group.

192. With regards to ethics, GGGI have a Code of Conduct (Annex 2 to the Staff Rules and Regulations) which clearly states GGGI's policy on Conflict of Interest in Paragraphs 34 – 55.

GGGI's Procurement Rules also clearly state requirements for declaration of any conflict of interest.

DFID relationship

193. DFID will ensure the main risks identified in the Due Diligence Assessment are followed up through its Key Performance Indicators which will determine whether additional tranches of funding are to be released after the identified 'trigger points' in the project.

194. DFID also have an informal agreement to become a member of GGGI's Audit and Finance sub—Committee (AFSC) subject to membership approval. This will allow DFID to push for greater efficiencies through this body, which has been seen to be working effectively since its inception in January 2013.

195. DFID will also play an integral part of the Informal Working Group (IWG) which will help shape GGGI's strategic plan in the years 2015-2020 as discussed above. DFID has also joined a core donor group with Danida and Norad to support its effective engagement with GGGI technical staff and management. This group will undertake a further joint donor review at some point in 2015. DFID's priorities in the strategy process will include:

(i) Deepening the poverty focus of GGGI's portfolio and presence in low income countries,
(ii) Ensuring the strategy addresses gender equity, social and environmental safeguards in each of the programmatic pillars
(iii) Improving predictability in the sources and timing of funding; and
(iv) Deepening GGGI's focus in country level practical implementation in regions which are of strategic interest to DFID.

196. The Council meets twice a year. DFID will be represented by a senior HMG official from London or Seoul supported by GRD technical staff.

C. Is there an opportunity to negotiate on anticipated costs?

197. DFID will continue to use its role on the GGGI Council to continually challenge costs. We will also ensure that funds earmarked for specific activities deliver best value for money.

198. However, GGGI has standard global fee rates and management charges. Global fee rates are set in GGGI's individual consultant policy (31st July 2013). These fees are based on a benchmarking exercise against other International Organisations including UN, UNDP and IRENA. At the 3rd Session of the GGGI Council in June 2013 an agreement was reached to apply a minimum of 7% of overhead cost recovery rate to earmarked funded projects. GGGI's overall overheads in 2013 are 12.6% of budget with a planned decrease to 11% over the next three years as GGGI develops economies of scale. This is similar to other organisations in their early years of operation.

199. As set out in the value for money analysis (section I), GGGI's systems require the organisation to present budgets and report on implementation and expenditure at the corporate and project level. Parameters for the main expenditure line items are governed by a series of policies approved by the Council, including procurement, recruitment and financial management processes. There are a number of main cost items that will be monitored over time and against comparator institutions. DFID will work to improve on these levels of economy where possible.

Financial Case

A. Who are the recipients of all proposed payments?

200. GGGI will be the recipient of the majority of payments from DFID. GGGI will be responsible for the use of and accounting for these funds. A small amount of the funds will be retained by DFID to contract supporting activities directly.

B. What are the costs to be incurred directly by DFID?

201. The total cost to DFID will be up to £14.9 million for the period 2014/15 – 16/17. The £14.9 million will come from the £2.9 billion International Climate Fund (ICF) as resource expenditure. A cost break down is set out in Table 11. The Key Performance Indicators in Table 15 in the Management Case show the criteria for disbursements.

Table 11: Summary of programme expenditures

	2014/15	2015/16	2016/17	Total
£000's				
Funding to GGGI	£2,976	£5,357	£6,429	£14,762
Strategy, due diligence follow-up, evaluation	£30	£35	£75	£140
Total (£)	**£3,006**	**£5,392**	**£6,504**	**£14,902**
	2014/15	**2015/16**	**2016/17**	**Total**

202. Management of our GGGI contribution and participation in the GGGI Council will require administrative resource from DFID. Necessary resource is estimated to be 0.2 FTE A2 Adviser, 0.2 FTE Programme Manager and 0.05 FTE other advisory resources. This is an increase on existing resource but can be absorbed within existing administrative budgets. Specialist resources will also be sourced from CED and PSD on climate change policy and financial/private sector engagement. The budget line for due diligence follow-up and evaluation will be used as described in the Management Case.

203. DFID has funding for the GGGI is not considered novel, contentious, repercussive, or politically sensitive and does not exceed DFID’s delegated limit of £150 million, therefore will not require approval from HM Treasury.

C. Is the required funding available through current resource allocation or via a bid from contingency? Will it be funded through capital/programme/admin?

204. This programme will be funded using 100% current programme resources available from the ICF budget. The contribution would need to be RDEL as the funds provide only grants, and support research and projects which can include a mixture of types of investment for example research, capacity building, institutional strengthening and awareness raising. This is exogenous i.e.: at the point of contribution we would not know to what extent the funds would be used for capital projects.

F. What is the profile of estimated costs? How will you work to ensure accurate forecasting?

205. The contributions to GGGI will be disbursed in a way that will maximise DFID influence. This will include using KPIs to ensure that tranches of funds are only released once DFID are assured that GGGI have performed to the standards expected of them.

206. The timing of the payments will be set out in a Memorandum of Understanding between DFID and the GGGI. It is anticipated that the first payment will be in July 2014 with subsequent disbursements being in July 2015 and July 2016.

207. The Programme Manager will ensure accurate forecasting through developing a strong working relationship with GGGI, enabling effective engagement on programme issues including financial management and reporting issues.

GGGI's financial stability

208. As of 31 December 2012 the GGGI's total assets totalled $16,385,401, which is 12% more than the total assets as at 31 December 2011 ($14,578,532) and almost twice the total assets as at 31 December 2010 ($8,426,610). A ratio analysis of the GGGI's audited financial statements is in Table 12:

Table 12: ratio analysis of GGGI's audited financial statements

Ratio analysis			
Current ratio	2.69		Good
Acid test	2.42		Good
Total liabilities to total assets	34%		Good
Long term liabilities to Equity	0%		Good

209. Table 13 summarises GGGI's expenditure, revenue and financing plans for 2014-16. The approved budget for 2014 is $47.2m rising to $57.1m by 2016. However, expenditures will be tightly controlled within available budget and to ensure orderly procurement and spending; in 2014 spend is currently expected to be lower (around $43m) due to expenditure processes starting later as funds have become available later than hoped. The share of administrative/overhead costs also decline from about 32% in 2014 to 23% in 2016 as the cost of implementing reforms declines and programme spend increases. (Sections on VFM and KPIs describe cost reduction targets in more detail.)

210. New donor financing each year is projected to be in the region of $40-$50m of which the core/earmarked split is about 75:25. The 'carry over from previous year' 'and carry forward' to following year play an important role especially in 2014 and 2015 in managing GGGI's current difficult cash flow. Uncertainties over donor funding is an area that GGGI want to strengthen through (i) sound organisational systems and performance that warrant more predictable funding from donors; and (ii) better budget and resource planning. The two carry over figures of $14m in 2014 help finance operations this year. The carryover from previous year supported expenditure in the first half of 2014. The projected carry forward is due to expected later payments in 2014 and to support plans in 2015. Reflecting this unsatisfactory financing situation, credibility of budget and resource planning is part of the KPI framework. This is also a top priority of GGGI's senior management.

Table 13: GGGI expenditure and financing plans 2014-16

	2014	**2015**	**2016**
EXPENDITURE			
Green Growth Policy and Implementation	22.0	26.5	27.0
Public Private Cooperation	2.8	5.0	6.0
Knowledge development and managt	4.8	7.0	8.0
GGGI Governance	2.8	2.0	2.0
Strategy policy and communications	2.3	3.0	3.2
Management and administration	9.8	9.8	9.8
Capital budget	2.0	0.7	0.3
Satellite office costs	0.7	0.8	0.8
Memo: Policy/Prog costs as % of total	*68%*	*76%*	*77%*
TOTAL expenditure	**47.2**	**54.8**	**57.1**
REVENUE			
Core	35.0	30.0	35.0
Australia[50]	*0.0*	*0.0*	*0.0*
Denmark	*5.0*	*5.0*	*5.0*
Korea	*10.0*	*10.0*	*10.0*
Norway[51]	*10.0*	*5.0*	*5.0*
Qatar	*5.0*	*5.0*	*5.0*
UK - if approved	*5.0*	*5.0*	*5.0*
New Core Donor (to be identified)	*0.0*	*0.0*	*5.0*
Earmarked resources from donors	12.0	10.0	13.5
Total revenue	**47.0**	**40.0**	**48.5**
FINANCING			
Carry over/surplus from previous year	14.8	14.6	-0.2
Carry forward (-) / new financing (+)	-14.6	0.2	8.8
NET financing	**0.2**	**14.8**	**8.6**
TOTAL revenue and financing	**47.2**	**54.8**	**57.1**

211. An indicative level of DFID resources of $5m (£3.2m) are reflected in this budget. Additional resourcing will (a) help close the financing requirements after 2014 and (b) support additional high priority and poverty-focused programming depending on the outcome of the 2015-2020 Strategy.

D. What is the assessment of financial risk and fraud?

212. A comprehensive Due Diligence Assessment has been carried out for GGGI which has shown that GGGI is low-to-medium risk. GGGI is a relatively young organisation and its systems are still being developed. The organisation has made efforts to strengthen its financial policies (and others) over the past year.

213. Two recent assessments - one by Deloitte for Norway, and the other a Joint Donor Review (JDR) – have reported that GGGI has acted on the recommendations of previous audits and are taking

[50] Ausaid has recently confirmed funding which is expected to be about $5m per year.

[51] Norway provided $10m to GGGI in 2014 due to a delay in processing their 2013 contribution. Therefore, this $10m represents the Norwegian contribution for both 2013 and 2014.

positive steps to strengthen their policies. For example the JDR found that *GGGI's financial management system is marked by a number of weaknesses that are currently being addressed by the new Executive Management Group….. The review team is confident that the Executive Management Group is giving the highest possible priority to addressing the weakness in the financial management system. Obtaining a comprehensive and accurate picture of GGGI's financial situation and transparency and accountability in spending decisions is of critical importance, especially to the core-funding donors (p.24-25).*

214. GGGI is in the process of developing a comprehensive risk management framework. This will include a risk register with risk rating based on the probability of the identified risks occurring and their possible impact on the GGGI projects, as well as programme as a whole. The risks will be monitored on a quarterly basis and the register will be updated accordingly. This is already being practiced at the project level but more emphasis will be provided on aggregating the risks to the corporate level.

215. GGGI's staff rules and regulations and the Code of Conduct cover fraud, bribery and corruption issues. A formal anti-corruption policy was also approved on 7 November 2013. The policy includes information on prevention and control of fraudulent practice and details around reporting of coercive, collusive, corrupt and fraudulent practice. GGGI's Procurement Rules also clearly state policies and processes to protect against Fraud, Bribery and Corruption.

216. Guidelines on the application and implementation of the anti-corruption policy currently under development - and scheduled to be finalised within the first half of 2014 and rolled out through necessary dissemination and training activities - will ensure that DFID is advised of all potential fraud against their funds. However, current GGGI Funding Agreements and MoUs do contain language protecting donors against fraud within GGGI.

217. GGGI approved and implemented a Whistleblower policy on 8 November 2013. This includes details around the duty of all staff members to report in writing to the Deputy Director General – Management and Administration any suspected integrity violation of misconduct of staff and any third parties.

218. As of December 2013, the Code of Conduct formed part of GGGI's induction presentation package which has been presented to all new joiners and circulated for information and review to all existing GGGI staff members. The Office of Internal Audit and Integrity (OIAI), which was established in April 2013, takes a leading role in investigating reported misconduct including, but not limited to, fraud, bribery and corruption.

219. Upon receiving allegations of fraud, the OIAI have investigated all incidents and reported results from the investigations to Management. The results and action plans were consulted with external legal advisors. Management has taken necessary administrative actions in accordance with the organisation's Staff Regulations and Rules. The organisation does not tolerate any fraudulent activities by any level of staff members.

E. How will expenditure be monitored, reported and accounted for?

220. GGGI generates the estimated budget vs. actual execution report after the monthly closing and it is shared with the relevant programme managers / budget holders accordingly. GGGI from 2014 onwards will conduct a mid-term review of its budget whereby any variances can be investigated

and be incorporated into the revised budget. GGGI is in the process of strengthening this budgeting process to provide the ability to see the finer details/ variances month to month. The latest work plan and budget is available on GGGI's website.

221. Once the GGGI Finance Team finalises month-end closing, financial information is circulated to each department for the purpose of budget monitoring and control. Also, the team reports financial information to the Audit and Finance Sub-Committee (AFSC) on a quarterly basis and the Chair on a monthly basis and shares the information at regular Management Committee Members' (MCM) meetings.

222. GGGI management issues a monthly financial and operational key update report to the Chairman of the Council. All management reports are published according to GGGI`s disclosure policy.

223. In terms of whether DFID and other funding sources could be separately identified, monitored and reported, GGGI recently implemented a new EMAX financial system which allows for full management of different funding sources via separate project profit and loss–maintained and reported against.

224. During the fourth Council meeting in December 2013, GGGI had its finance policy and procedures manual presented and noted to all of the Council members. The noted policy was presented to the DG for his approval on 27 December 2013 and implemented on 1 January 2014.

225. Budget preparation and budget management is the responsibility of the programme manager/budget holder. This is assessed through quarterly reporting through the Quarterly Implementation Reports which track expenditure against budget. Going forward budget execution will also be assessed by monthly reporting to budget holders. A full mid-year budget review will also take place from 2014 onwards to check execution against plans and to make any necessary adjustments.

226. All external audit reports are available online through GGGI's Annual Reports. No issues have been raised in management letters. In 2013, four internal audit projects were undertaken. Reports for projects 1 and 2 were finalised in August and September 2013. Projects 3 and 4 have been completed and reports are currently being finalised.

227. The target of the 2014 proposed budget compared to projection for 2014 presented in 2013, will be achieving close to zero real growth. This will entail measures such as cost savings, further strengthening the link between the budget and results, more rigorous monitoring and implementation of the budget, further prioritisation and new efficiency initiatives, rationalisation of business travel, and further improvements in the scrutiny of project selection. Regular and rigorous monitoring and review will be ensured through active discussion with all the departments and project offices during midyear and annual budget exercise.

Management Case

A. What are the Management Arrangements for implementing the intervention?

DFID Management Arrangements

228. The UK was one of eighteen founding member countries of the GGGI, with the Deputy Prime Minister representing the UK at the agreement of its establishment in Rio de Janeiro in 2012. The UK sits on the assembly of GGGI. By end-2014 it is expected that Denmark, Australia, Republic of Korea, Norway and Qatar will have provided core finance to GGGI. DFID has not provided core funding to GGGI but DFID Ethiopia has provided £900,000 for its in-country work and advice. There are no other financial relationships with GGGI across HMG.

229. DFID will make suitable management arrangements for the GGGI, including necessary staff time and reserving funds to conduct important strategic and monitoring visits where necessary. Funding to the GGGI will be managed by DFID's Growth and Resilience Department (GRD). Necessary resource is estimated to be 0.5 FTE A2/B1D Adviser and 0.2 FTE Programme Manager. Specialist resources will also be sourced from GRD, CED and PSD on climate change policy, financial/private sector engagement and on priority issues such as gender and political economy.

230. The £120,000 budget line for due diligence follow-up and evaluation is planned to be utilised as follows (Table 14). £60,000 (£20,000 per year) will be to provide technical expertise in financial management procured by Growth Team (e.g. a small contract with an accountancy firm with UK and Korean presence. The outputs from this contract will inform DFID's inputs on the Audit and Finance Sub-Committee (discussed below); the products of the contract will be made available to GGGI and members of the Audit and Finance Sub-Committee (AFSC). £10,000 has been provided for additional DFID inputs into the important Joint Donor Review in 2015 (e.g. travel and accommodation to Seoul and GGGI country programmes by 3 or more DFID staff or consultants). The evaluation budget is likely to be a contribution to a wider DFID evaluation of Green Growth programmes in 2016/17.

Table 14: Strategy, due diligence follow-up and evaluation

Due diligence follow-up, evaluation				
£000's	**2014/15**	**2015/16**	**2016/17**	**Total**
Technical support on AFSC	20	20	20	**60**
Participation in Strategy and Joint Donor Review	10	15	5	**30**
Evaluation			50	**50**
TOTAL	**30**	**35**	**75**	**140**

231. DFID will continue to work with counterparts across Whitehall, especially the FCO and DECC to ensure that every opportunity is taken to maximise the impact and additionally of the GGGI. The British Embassy in Seoul provides a valuable means of communicating with GGGI Senior Management and representing the UK at GGGI Council and other meetings.

232. On the provision of funds DFID will draw up an MOU with GGGI. Such an agreement will include specific criteria or outputs that the UK requires as a condition of its support.

233. Core funding will enable the UK to assume an influential strategic role on GGGI's council. As a Council member DFID will be in a position to scrutinise ongoing management arrangements and also influence

the strategy, annual work program and budget, the monitoring and evaluation framework, and the financial controls. In addition, GGGI have expressed an interest that DFID sits on the Audit and Finance Subcommittee.

234. In addition to DFID's role on the Council and particular sub-committees, DFID will also influence GGGI through bilateral engagement, and through forming alliances with similarly minded donors. These meetings have already commenced alongside Danida and Norad and are held on a monthly basis. On providing funding DFID would become part of the Donor Consultative group and would participate in the next Joint Donor Review in 2015.

235. DFID will engage actively on annual reviews and independent evaluations, which will be necessary as the programme is innovative and building up credible, tested evidence on green growth will be important to ensure the GGGI's transformational impact. In managing the programme the Growth and Resilience department will draw on the knowledge and experience gained from managing the International Growth Centre and DFID's accountable grants.

236. Progress against the key results outputs will be subject to oversight by DFID. Funds will be released according to the KPI schedule below. Financial reports, compliance and administrative functions will be managed by the DFID programme manager. The DFID programme management team will coordinate component reporting as necessary to meet DFID annual review requirements. Annual Reviews will draw on the cadre 10% contribution of advisers across DFID.

237. The DFID programme management team will work closely with related programmes including CDKN. This will ensure that synergies between programmes are maximised including evaluation and lesson learning and consistency in approach. The DFID Programme Manager will be Danny O'Mahony.

Governance

238. GGGI grew out of the green growth experience of the Republic of Korea. It was initially structured as a non-profit foundation under Article 32 of the Civil Code of the Republic of Korea on 16 June 2010. It converted into an international organization in accordance with an agreement among its major partner governments in October 2012 following the ratification of the organization's Establishment Agreement by several member country governments.

239. On October 23, 2012, GGGI held inaugural meetings of its Assembly and Council in Seoul as part of the organization's new international governance structure. This came after a signing ceremony for the Establishment Agreement, which was held in Rio de Janeiro, Brazil, at the United Nations Conference on Sustainable Development (Rio+20) in June 2012.

240. Membership to GGGI is open to any member state of the United Nations that subscribes to the organisation's goals and objectives. Regional integration organisations –bodies consisting of sovereign states of a given region –are also eligible for GGGI membership.

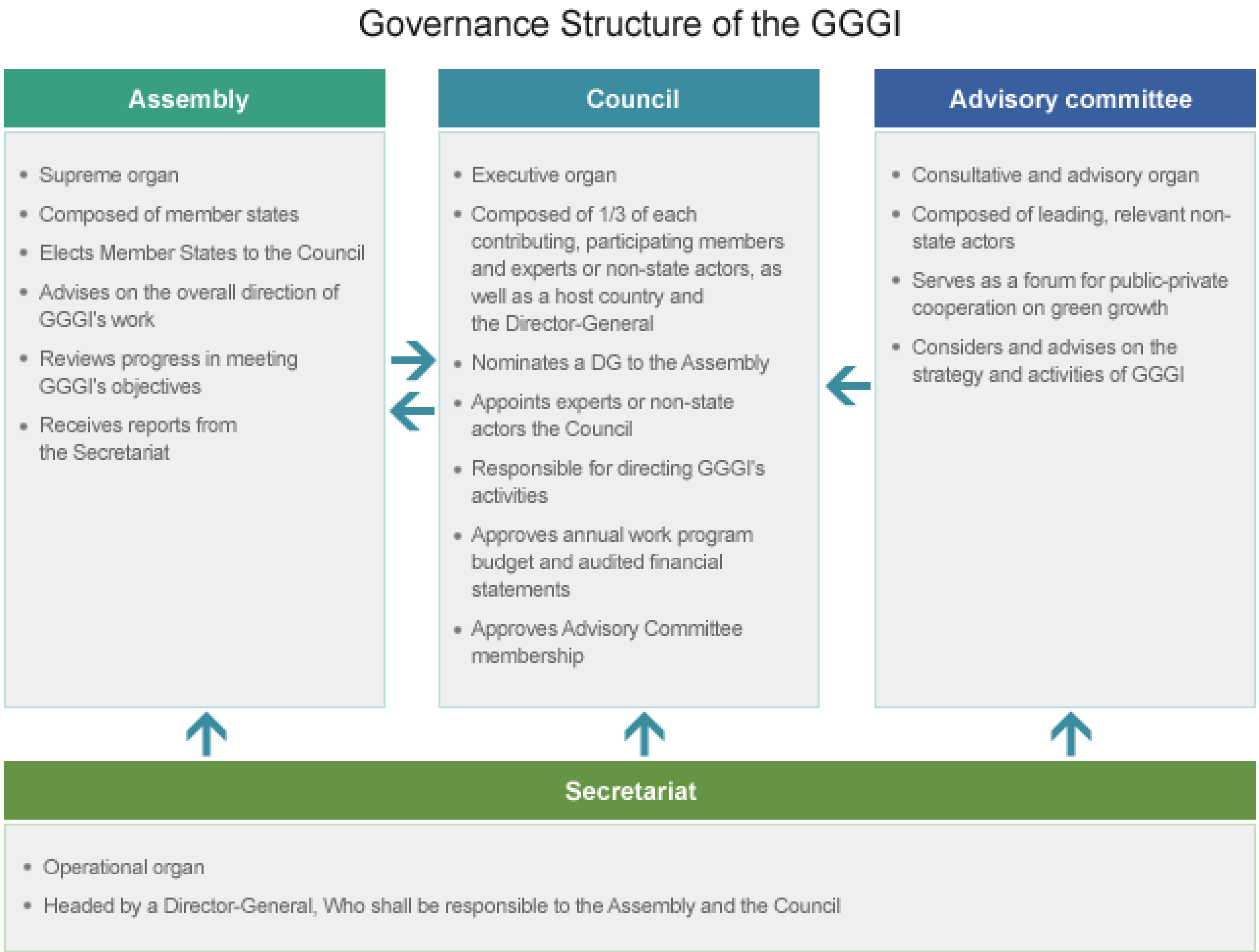
241. The GGGI's governance structure (see below) consists of of an Assembly, a Council, an Advisory Committee, and a Secretariat whose functions are as follows:

242. The Assembly is composed of GGGI Members and meets every two years. The functions of the Assembly include advising on the overall direction of GGGI and reviewing the organisation's progress in meeting its stated objectives. The Assembly also elects Council members and appoints the Director General (DG).

243. The Council serves as the executive organ of GGGI and approves the organisation's strategy, budget and criteria for GGGI programmes. Currently, the Council has three sub-committees – a Facilitative sub-committee, a Programme Sub-Committee, and an Audit and Finance Sub-Committee.

244. The Secretariat acts as the chief operational organ of the organisation and is headed by the DG, who represents GGGI externally and provides strategic leadership for the organisation to carry out its objectives.

245. The DG is nominated by the Council and appointed by the Assembly and performs his/her duties under their guidance.



246. In addition, GGGI has established an Advisory Committee, composed of leading, relevant non-state actors and serves as a forum for public-private cooperation on Green Growth and provides inputs on GGGI's strategy and activities.

247. Since its establishment over a year ago, the Assembly met once in October 2012 and again in an extraordinary session in September 2013. The Council has already convened four times and held a strategy workshop in mid-September 2013. The fifth Council meeting will take place in June 2014. The three sub-committees of the Council have met frequently to discuss and have worked with the Secretariat on a broad range of topics regarding GGGI's operations and activity.

248. The frequency of meetings of these governing organs and the breadth of their involvement are

evidence of the GGGI members' deep interest and effective guidance in overseeing and leading the newly launched international organisation to rapidly develop both internally and externally into a full-fledged IO with effective systems in place to control operations and activity.

249. GGGI has an Audit and Finance Sub-Committee (AFSC) whose members are appointed by the Council. The current members are Denmark (Chair), ROK, UAE, and Kiribati. They meet on a quarterly basis and the minutes are produced and reported to the Council. The Committee has been working very effectively since its inception in January 2013. DFID have received informal assurances that they will be able to join the AFSC once approved to become a member of the Council.

250. All recommendations made by the AFSC are actioned immediately and evidence submitted to the Chair of the AFSC who, if satisfied will circulate to all other members. Often these recommendations form the basis of subsequent decisions by the GGGI Council (for example recently on Procurement and Budgeting).

251. The Office of Internal Audit and Integrity (OIAI) was established in April 2013 under the direction of the Audit and Finance Sub-Committee (AFSC) of the Council. The Charter for OIAI, approved by the Director General and Chair of the AFSC, defines roles and responsibility of the office and clearly sets out its mandate.

252. GGGI has a Program Sub-Committee whose function is to assist the Council in carrying out its responsibilities in overseeing GGGI programmatic activities in the areas of green growth planning and implementation, research and public-private cooperation. The Sub-Committee meet as deemed necessary, but not less than twice per year. The current members are Costa Rica (Chair), Australia, Indonesia, Norway and GGGI representatives.

253. GGGI also has a Facilitative Sub-Committee of the Council. Its function is to assist the Council in carrying out its responsibilities in overseeing GGGI's activities and facilitating matters that require coordination with the Director-General in between Council sessions. The Sub-Committee meet as deemed necessary, but not less than twice per year.

Past Performance

DFID Ethiopia

254. DFID have only financed GGGI to deliver one piece of work, but work with them as strategic partners on the wider climate agenda. The Ethiopia Green Growth Planning and Implementation Programme is a flagship GGGI programme in Ethiopia. GGGI have strong established relationships with Government and are providing strategic, long term technical support. No other partner is delivering such high-level or strategic support. For other countries and programmes, GGGI should build on the Ethiopian experience, ensuring they learn lessons about what really works and what doesn't. In-country strategic vision and leadership is crucial.

255. GGGI effectively delivered a Climate Resilience strategy for Agriculture sector with Ethiopian Ministry of Agriculture, funded by DFID. The analysis was robust and they developed a very effective way of working with the Ministry.

256. GGGI tends to focus on the climate and growth elements; in low income contexts they need to ensure they bring a sufficiently strong understanding of poverty and social development issues to make the

links and provide analysis rooted in the political and socio-economic realities of the context.

257. Feedback from DFID Ethiopia reports that GGGI do an excellent job in policy terms, playing a key role in Ethiopia's National Green Growth Plan. However, corporate systems have been cited as weak and still being developed, but that they have rapidly improved only the past year. However they have no concerns about misspent finance or mismanagement of the programme. They did have some issues with delayed reporting, and it took GGGI many months to request final payment.

Joint Donor Review

258. Denmark, Australia, Norway and the Republic of Korea conducted a second Joint Donor Review[52] (JDR) in September 2013. Concerns raised by the review team included:

259. GGGI is in a 'double transition' from a Korean NGO to an international organisation and between the previous and new top management; and this double transition will continue to affect all parts of GGGI's operations in the coming year. However, the JDR also commended the efforts of the GGGI Secretariat to transform the operations of the organisation within a short time frame. GGGI Management confirmed that the reform process had already produced significant results and that it remained on track and would continue until members are satisfied that the organisation's work represents best practice against international organisation benchmarks.

260. The JDR stressed the need for GGGI Headquarters to provide more support to GGGI country teams. GGGI management agreed to this need and is in the process of strengthening contact through improved communication and information flow. GGGI Management also agreed to give priority to placing more qualified GGGI staff on the ground in partner countries to provide a diversified set of skills and experience.

261. The JDR raised the need for better integration and consolidation of the organisation's activities. GGGI Management fully agreed with this conclusion and is working to ensure that both the country strategies and corporate strategy integrate the three GGGI work streams.

262. GGGI needs to intensify internal and external communication at all levels and localities. GGGI management sees communication as a key to achieving GGGI's overall goals and fully agreed to the JDR recommendations in this area.

263. The new Executive Management Group (EMG) clearly recognizes the problems with the administrative systems, including the inadequate systems for country level operational needs, and much of its current efforts go into addressing the problems, including the key issue of privileges and immunities. New improved administrative procedures and guidelines have, or are being, developed across areas of the organization. A new manual for delegation of authority has been developed to address the issue of delegations to country offices, in particular to decentralize the responsibilities for key areas such as planning, budgeting, financial management and programs. Hover, these initiatives are all new and therefore concrete improvements were not picked up in the JDR.

264. The JDR review team found that the intense effort is a positive step, which reflects real commitment to address the weaknesses in the systems. It will be important to communicate to country teams the

[52] *Second Joint Donor Review of the GGGI 2013, November 2013.* Available online at http://um.dk/da/~/media/UM/Danish-site/Documents/Politik-og-diplomati/Nyheder_udenrigspolitik/2013/GGGI/15%20%20Joint%20Donor%20Review%20%20management%20response%202013.pdf

planned improvements, and efforts should be made to involve the country program staff in identifying needs and testing the systems and procedures developed.

265. A status update on progress against the recommendations of the JDR was also prepared for and presented at the second Donor Consultative Group meeting on 24 February 2014. Donors commented that the EMGs efforts in addressing their concerns should be commended.

266. DFID will encourage GGGI to continue its progress against the recommendations of the JDR.

Deloitte Assessment for Norwegian Government

267. The Norwegian Government also commissioned three assessment reports, carried out by Deloitte, to look at GGGI's corporate functions at Headquarters level, as well as the Indonesia and Ethiopia country programmes and offices.

268. The primary objective of these reports was to assess the effectiveness of internal controls related to the financial management of the Norwegian funding to GGGI. The assessment was positive overall, demonstrating that GGGI had successfully addressed issues raised in an earlier audit which covered the period before GGGI was an international organisation but included recommendations for improvements in GGGI's financial management system that links with and supports GGGI country programmes. The assessment covered the nine months to September 2013 while GGGI was rolling out many significant changes to its accounting and controls.

269. By the last quarter of 2013, GGGI had already addressed many of the issues raised by the assessment team including introducing new and enhanced internal controls and procedures in the areas of budget management, procurement, contract monitoring and accounting. Norway's satisfaction with the outcomes of the audit was demonstrated by its decision to release to GGGI funds that had been temporarily frozen.

270. However, there continues to be challenges in ensuring the implementation of necessary financial control and support rules at the country level. This was especially the case in Ethiopia, while the situation was found to be better in Indonesia without being fully satisfactory. The management response to the Deloitte reports shows that the GGGI management have addressed or are in the process of addressing the identified weaknesses.

271. The full assessment and management response can be found at:
http://gggi.org/wp-content/uploads/2014/02/GGGI-Response-without-cover-letter.pdf
http://www.regjeringen.no/upload/KLD/KL/Seoul.pdf
http://www.regjeringen.no/upload/KLD/KL/Ethiopia.pdf
http://www.regjeringen.no/upload/KLD/KL/Indonesia.pdf

272. GGGI has also prepared technical and financial project reports to external project donors on a number of projects initiated and implemented in the last 2 years that have been already approved. Some of the donors are BMU (Bundesministerium fur Umwelt, Naturschutz und Reaktorsicherheit), and the Norwegian Ministry of Foreign Affairs.

GGGI Response

273. The GGGI Draft Work Plan and Budget 2014-2016 identifies a number of priorities to strengthen the

management arrangements. The most relevant priorities are recorded here.

274. Ensuring that the Management and Administration (M&A) division is fully operational and able to deliver the administrative and support services on the basis of the principle of best VFM. This is a centralized support function, that serves all GGGI projects for routine administrative transactional processes, including user support, individual human resources servicing, staff recruitment, legal support vendor management and accounts payable, as well as for sustainability and safeguards, and project performance monitoring and evaluation.

275. The prioritisation of deploying the Global Resource Efficiency Management System (GREMS) to ensure that corporate processes and systems are fully standardized in HQ and all projects. The process of streamlining will involve the development of common rules and procedures to replace various practices followed by different divisions and departments

276. The HR division will prioritise attracting, developing and retaining a skilled and diverse workforce. The IT and legal teams will be strengthened. The Finance department will be further strengthened in 2014-15 to better respond to the recommendations of the JDR. Priorities will include developing the highest standard Financial Management and Reporting System (FMS) that fully integrates work program budgets, spending, financial accounts and reporting at the Headquarters` level but also at the level of satellite offices and in-country operations.

277. The establishment of the Organization and Delivery Unit (ODU) which is independent from the other program divisions and will be responsible for:

- Monitoring and Evaluation
- Reporting
- Sustainability management and safeguards
- Procurement & consultants

278. These initiatives are expected to significantly strengthen the management arrangements in GGGI and address the concerns raised by the JDR. Progress is already evident:

279. DFID will continue to scrutinise these management arrangements through its position of the Council, through the Donor Consultative group and through bilateral engagement.

Informal Working Group on the new Medium Term Strategy

280. In November 2013, GGGI published a concept note which will inform the development of its new strategic plan for 2015-2020. DFID will play a key role in influencing this strategic plan as it participates in the Informal Working Group that will develop the document. The strategic plan will set out three different levels of results: (i) global goals (or impact); (ii) organisational and functional outcomes and (iii) organisational outputs.[53]

281. This will consist of a six-step process which will involve representative of ministries of the member states, external green growth experts and representatives of GGGI Secretariat. As part of this process, there will be a strategy meeting held between Denmark, Norway, The United Kingdom and GGGI held in May 2014 to ensure donor concerns and priorities are included in the strategy.

[53] GGGI (2013) *Concept Note for Preparing GGGI Strategy 2015-2020*, November 2013

Key Performance indicators

282. The annual tranches will also only be disbursed following satisfactory performance against key indicators, which have been identified based on the findings of the due diligence assessment. Criteria for the 1st and 2nd tranche are outlined in Table 15 below, whilst the criteria for the 3rd year's funding will be detailed during the Joint Donor Review scheduled for 2015. These are expected to be in similar thematic areas.

283. . If performance is mixed, DFID will be able to provide part of the funding if appropriate. In the event that GGGI does not perform to the level of expectation, DFID may modify or terminate its financial contribution to the project giving three months' notice in writing.

Table 15: Key performance indicators

1. Good policy framework and operational planning	**1st tranche – November 2014**	**2nd tranche – from July 2015**
1.1 Credible 2015-2020 Strategy agreed and implemented	Indicators: • High quality strategy finalised following a consultative process • Strategy includes commitment to expand share of low income countries in GGGI portfolio from 30% to 50% MoV: Council approves Strategy Timing: November 2014	Indicators: • Evidence that GGGI's budgeting is shifting towards 50% of activities in LICs. • Confirmation of programmes in new LIC to start 2015 and 2016 consistent with strategic objective on LIC focus MoV: Documentation for June 2015 Council meeting Timing: July 2015
1.2 2014-16 work plan and budget updated. Improved budgeting within identified financial resources		Indicators: • Credible 2015-17 budget and work plan with clear revenue and expenditures and credible plans to close any financing gap . • Enterprise Resource Planning tool in use in GGGI and used for planning based on different resource scenarios MoV: Revised annual budget submitted to June 2015 Council Timing: June 2015
1.3 Financial planning demonstrating value for money		Indicators: targets for cost reductions set for 2014 based on cost saving measures specified by Division. MoV: Cost saving measures specified by Division along with 2015-17 budget/work plan approval Timing: Nov 2014
1.4 Strengthened Divisional Results Framework operational		Indicator: GGGI's Corporate Results Framework aligned with annual work plan and specifying results at divisional level

		MoV: Divisional Results Framework included in work plan presented to Nov 2014 Council Timing: Nov 2014
1.5 Improved performance on monitoring gender impact of programmes	Indicator: Provision for gender specialist to be recruited in 2015 MoV: Budget and work plan presented to Council in November 2015 Timing: November 2015	Indicators: • Routine evaluation template for all projects monitor gender performance • Progress note presented to June Council meeting on drafting of Gender strategy under preparation to be discussed at November 2015 session MoV: Operational Delivery Unit confirms 90% compliance from programmes Timing: mid-2015
2. Strengthened financial and HR management	**1st tranche – November 2014**	**2nd tranche – from July 2015**
2.1 Enterprise Resource Planning tool (ERP) designed, rolled out and operational		Indicator: ERP rolled out and functioning in all GGGI countries MoV: GGGI confirm to DFID if real time reporting is taking place Timing: Roll out by end-2014; ERP functioning and used for reporting by mid-2015
2.2 Finance system linking country offices with HQ in real time		Indicator: Quarterly reports including comprehensive information from whole of GGGI using ERP MoV: GGGI reporting to Council Timing: June 2015
2.3 GGGI staff based in countries with appropriate financial and other programme management skills		Indicator: Staff trained in ERP systems MoV: Reporting to Audit and Finance Sub-Committee Timing: June 2015
2.4 Systematic reporting on adherence with travel policy	Indicator: Monthly reporting by GGGI travel management company to Deputy Director General Administration MoV: Confirmation to DFID by GGGI Timing: November 2014	Indicator: Report on compliance with travel policy to Audit and Finance Sub-Committee MoV: Audit and Finance Sub-Committee Timing: June 2015
3. Robust risk management framework	**1st tranche – November 2014**	**2nd tranche – from July 2015**
3.1 Strengthened risk management framework		Indicator: Approach to Enterprise Risk Management submitted to management for approval during 2014 MoV: Reporting to Audit and Finance Sub-Committee Timing: Dec 2014
3.2 Office of Internal Audit (OIA) and Integrity functioning effectively		Indicator 1: Work plan of audits on track Indicator 2: Procurement audit included in OIA work plan for 2015

		MoV: Reporting to Audit and Finance Sub-Committee Timing: June 2015

Exit Strategy

284. As set out in the Appraisal Case, in the event that GGGI does not perform to the level of expectation, DFID may modify or terminate its financial contribution to the project giving three months' notice in writing.

285. If GGGI proves to be successful and an appropriate partner for DFID beyond this 2016/17, it will be a candidate for additional support from the ICF.

B. What are the risks and how these will be managed?

Risk	Impact	Likelihood	Mitigation Measure	Residual Risk
In operational countries, there are adverse exogenous shocks to the economy or to political stability, making the case for green growth harder to demonstrate.	High	Medium	A significant number of countries that will be engaged are likely to be fragile and potentially conflict affected. Programme design will require provisions for the challenges of operating in these countries (e.g. security) and review the political environment for growth policy reforms when selecting partner country programmes. The programme should also identify key reformers inside and outside of government and work with them to influence the elites in choosing policy options for accelerating economic growth, ideally also working with domestic think tanks in partner countries. The stability and longevity of the programme should be enhanced through multi-stakeholder and cross-governmental engagement.	Medium
Poor planning and programme management adversely affects timely delivery of outputs for policy	Medium	Medium	The JDR found failings in the existing management systems. However, GGGI have devoted resources to improving these. They have rolled out the Global Resource Efficiency Management System (GREMS) to ensure that corporate processes and systems are fully standardized in HQ and all projects. However there is a residual risk that there is a lag between having the systems in place and having staff that are fully trained on how to use them.	Medium
Lack of demand from policy makers in developing countries, especially DFID' focus countries	High	Low – especially post Rio+20	Currently, demand for work on green growth from policymakers in developing countries has been high. The programme will need to maintain a high standard in order to create reputation and sustain demand.	Low
Failure to attract and maintain expertise within GGGI	High	Medium	Following the transition to a treaty based international organisation, GGGI implemented a personnel structure and compensation scheme that has been benchmarked against other international organizations. Nevertheless the JDR found staffing to be an issue and criticised the extensive use of	Medium

			consultants that worked alongside GGGI staff. The Draft Work Plan and Budget 2014-2016 identifies this as a priority area and will seek to strengthen human resources.	
Lack of political appetite to adopt policy recommendations.	High	Low	Selection of countries will be based on demand and any advice will need to be strongly tailored to country's political circumstances. GGGI is frequently approached by governments to conduct work with them on green growth planning and implementation. Programs will be designed to ensure cross-governmental buy-in and engagement at the highest levels to ensure adoption of policy recommendations. The Research Strategy will ensure it remains responsive to emerging growth policy issues. The JDR found that GGGI had successfully established itself into a trusted adviser to the Governments of Ethiopia and Cambodia.	Low
Lack of capacity within country governments to implement reforms	High	Medium	The programme will need to strengthen its ability to assess capacity upfront, before engaging. It will assess capacity to implement policy reforms and to ensure that capacity building will be an integral part of the green growth planning process. The GGGI will focus on capacity building throughout the programme.	Medium
The speed of the reform process and the fact that many new initiatives and guidelines are being implemented simultaneously.	High	Medium	While a number of improvements were advocated in the JDR, the fast pace and parallel process in which the improvements and guidelines are being developed and introduced could risk leading to procedures that are off target or inconsistent with each other. GGGI have postponed plans for expansion beyond their existing countries to consolidate and adapt to new processes.	Medium
Poor communication between HQ and country offices and a disjointed approach to green growth	High	Low	The JDR found that there were benefits from a decentralized approach where country offices were flexible and able to meet local demands but recognised the risk that this posed to ensuring a consistent approach. GGGI have committed to significantly strengthening their internal communications.	Low
Financial management systems	High	Medium	GGGI is introducing a new accounting system to enable better cash flow analysis as a basis for simulating financial scenarios over 1-2 years. The financial scenario analysis will help identify risk factors and so aid measures to prevent or mitigate risk. A spreadsheet based model will complement the financial risk analysis relating to liquidity, currency and contractual liabilities. Alternative funding sources are being examined as a way of expanding resources and mitigating emerging risks	Medium
Climate and environment risks Overall Climate and Environment safeguards	 High Low	 Medium Low	The main climate and environmental risk is that the programme fails to deliver its objectives. Hence the mitigation and risk rating are the same as those for the overall programme. Ensuring GGGI has international standard environmental policies and safeguards in place	Medium

C. How will progress and results be monitored, measured and evaluated?

Monitoring

286. GGGI's Monitoring and Evaluation Framework is attached at Annex VI. GGGI is in the process of changing its results framework with a target completion date of September 2014 and would make the monitoring framework more tightly aligned with the overarching framework at the HQ level and country programming framework at decentralised entities. This would entail establishment of SMART indicators with clear baseline, milestones and targets. This would be supplemented by a metadata handbook with definition of indicators, methodology, and frequency of data collection and associated costing.

287. Once projects have begun implementation, they are monitored on a quarterly basis. There are two essential reporting formats that the GGGI teams are required to update on a regular basis. The first is that teams are required to produce Quarterly Internal Reports (QIRs) within one month of the end of every quarter. The QIRs form the basis for Quarterly Progress Reports (QPRs) which are put together by the Organisation and Delivery Unit. The QPR is an aggregate at portfolio level of all the variables tracked at project level.

288. Teams are also required to produce and update, on a monthly basis, project Master Decks, which serve as the repository of the content and analytical framework of the project. Master Decks are reviewed by Directors across departments.

289. QIRs include risk ratings that cover institutional risk assessment and political risk assessment. Risk feedback is provided by the teams and reviewed/assessed by Regional Directors and the Deputy Director General. This information is summarised in the QPRs, in which it is also included a "watch list" of projects with disbursements lower than 40%, a list of projects with scoping of set-up delays, and projects that are closing.

290. QIRs also include ratings on project performance (unsatisfactory, satisfactory, and highly satisfactory) and on project risk (low, high, and medium). Performance ratings include disbursement, procurement, financial management, and overall implementation progress.

291. The ERP tool that is scheduled for implementation during 2014 for GGGI will greatly facilitate information flows, timeliness, reporting and reduce both transaction costs and the reporting burden on teams. It will provide a single source for information For example, project work plans and contract award and disbursement projections that are developed and approved as part of the budget process will be used directly by ODU for monitoring and reporting purposes – allowing real-time monitoring. Project achievements in producing outputs and reaching milestones – which they monitor as part of effective project management – will be updated in ERP as they occur and allow ODU to generate reports without having to revert back to the teams requesting duplicative reports.

292. This will also allow the management teams in the workstream to request and generate reports tailored to their needs and answer key queries in real time; for example, (i) what is the status of contract awards and disbursements against projections today?; (ii) what projects have fallen more than 30% behind their projections and what are the causes of those delays?; (iii) what have been the key outputs and milestones achieved in the last quarter?; (iv) what has been the breakdown of assistance by sectors (which are now aligned with the DAC definitions); among many other possible queries. In this regard, the process of data collection through QIRs will change dramatically as the ERP comes online. For example, generating key achievement reports can be timed to precede key Council meetings and disbursement / contract award report updates can be timed to precede budget reviews.

293. In preparation for the ERP, the Organisation Delivery Unit has been working closely with the workstreams to map the project processes, required documentation, approvals etc. which will be integrated into the ERP system. The system will have some core project management capabilities and allow, for example, use of the logical framework as an implementation tool.

294. DFID will continue to monitor progress being made on the updated results framework and the establishment of SMART indicators with clear baseline, milestones and targets. DFID will also ensure that introduction of the ERP tool progresses effectively. DFID's logframe will be updated once GGGI's new strategy and results framework have been finalised in late-2014.

295. Strategic Outcome indicators will measure progress in terms of commitment and capacities that HQ and country programs put in place to contribute to the global goals. Strategic Outcome indicators will provide the clear basis of aggregation of results delivered in countries as well as structured profile by country.

296. A balanced set of indicators for organisational outputs for each strategic outcome and functional outcome will be formulated.

297. DFID will monitor progress under the GGGI with reference to the log frame, the business case, agreed work programmes and delivery of key milestones.

Evaluation

298. As set out above GGGI and DFID are establishing sound procedures to monitor programme delivery, management and outputs. In addition mechanisms have been established to monitor the impact and outcome levels of the programme through the logical framework. These will be important sources of information on which to base evaluations.

299. Annual reviews will take stock of overall progress against planned results, agree forward strategic priorities and work programmes, identify key lessons and risks, and consider what changes are needed to maximize the likelihood that long term outcome indicators are achieved. Annual reviews will also focus upon progress by GGGI in undertaking key institutional reforms and strengthening their management arrangements.

300. To ensure impartiality and to ensure GGGI's impact is evaluated robustly an independent evaluation will be undertaken as part of the Climate and Environment Department's ICF Evaluation programme, managed and funded separately from GGGI. Climate and Environment Department will explore potential to undertake a join evaluation of GGGI with CDKN.

301. This will help ensure that GGGI's impact and influence is evaluated as one player in the overall green growth, sustainable development and climate landscape and will allow a degree of independent 'benchmarking' against similar institutions and programmes.

302. The first round of independent evaluation be undertaken in time to inform, (and as part of) the joint donor review of the programme in 2015. This will be conducted in a similar format to the Joint Donor Review of 2013. Terms of Reference can be found in Annex 2 of this document: http://gggi.org/wp-content/uploads/2013/11/GGGI-Management-Response-to-Second-JDR_Final_04112013.pdf

Logframe

Quest No of logframe for this intervention: 4487838

Indicators in the logframe are based on the work plan for 2014-16.The logframe will be revised when the GGGI's medium term strategy 2015-2020 is finalised in late-2014. In particular Global Goals will be developed in the medium strategy that will constitute impact indicators in the logframe. These will show GGGI's contribution to assisting national governments progress towards achieving growth and low carbon and sustainable development objectives.

Appendix: GGGI operational approach

Notes: GGP&I = in-country work with governments and private sector; KDM = knowledge development; PPC = public private cooperation