Global Green Growth Institute
19th Fl. Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul, Korea, 100-784
TEL: 82 2 2096 9991 FAX: 82 2 2096 9990 E-mail: info@gggi.org

1 July, 2015

Ref:

MINISTRY OF FOREIGN AFFAIRS / WWW.UM.DK
DANIDA
Asiatisk Plads 2
DK-1448 Copenhagen K
Denmark

Attention: Frode Neegaard, Chief Adviser

GGGI Management Response to the External Value for Money Evaluation of GGGI work by KPMG

On June 13, 2015[1], GGGI received the final draft of KPMG's Value for Money report on GGGI's corporate functions at Headquarters and in the Mongolia and Rwanda Country programs.

The VfM evaluation (VfM) was commissioned by the former Audit and Finance Sub-Committee (AFSC) of the Council held on October 28-29, 2013, and funded by the Danish government. GGGI's primary objectives in commissioning Value for Money evaluations are:

1. assess the economy, efficiency and effectiveness of GGGI's management practices and financial controls as well as accountability structures in place to support governance; and
2. provide assurance to GGGI donors and governance bodies that funds are utilized economically, efficiently and effectively and that resources are allocated and managed to achieve the maximum development impact.

KPMG's team focused on the procurement, human resource and finance management functions of GGGI at the corporate level, and as they were relevant to the Mongolia and Rwanda programs. Accordingly, the evaluation took place in three locations - Seoul Headquarters (February 12 to April 10, 2015), Mongolia and Rwanda (March to April, 2015). GGGI was assessed on the three standard components of Value for Money:

- Economy – appropriate quality of inputs at the best price and minimizing the cost of resources used or required (spending less)

[1] The date on the final report is April 3, 2015. However, six subsequent submissions were made, with the final 7th draft being delivered on this date.

Global Green Growth Institute
19th Fl. Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul, Korea, 100-784
TEL: 82 2 2096 9991 FAX: 82 2 2096 9990 E-mail: info@gggi.org

- Efficiency – producing outputs with a reasonable input of resources (spending well)
- Effectiveness – deploying resources to meet objectives (spending wisely)

GGGI welcomes the overall positive assessment of our operations in regards to recent improvements in economy, efficiency and effectiveness. These successes were a product of GGGI management and staff's improved international expertise, and their determination to fully implement institutional changes recommended in previous audits and assessments. Positive findings were recorded in the areas of "Strategy and Planning", "Finance", "Information Technology (specifically GGGI's Enterprise Resource Planning)", and "Project Management" in the Rwanda program.

GGGI also values the report's recommendations for improvements in many of our processes, procedures and internal controls in the Mongolia program, particularly on the issues of project management, procurement and human resources. GGGI will move forward to further assess and monitor project management in the Mongolia program, building on findings related to its economy and efficiency.

GGGI views the VfM as one part of an important learning process moving our organization forward as we transition to a more mature institution—one that is prudently managed according to a clear set of rules and regulations designed with the level of stringency used by comparable international organizations. At the same time, we find it important to respond to some of the specific findings and ratings contained in the final report. As this is our first time undertaking a VfM, we will use the challenges faced and lessons learned through this first evaluation to continue to deliver value for money to our members and partners. GGGI looks forward to more opportunities in the future to undertake VfM.

Thank you very much for the opportunity to offer our response.

Yours sincerely,

Yvo de Boer
Director-General
Global Green Growth Institute

Enclosures: GGGI Detailed Management Response to the Report of Actual Findings of GGGI procedures and processes- in HR, Procurement, Mongolia and Rwanda programs.

CC: Robert L.T. Dawson, Deputy Director-General and Head of M&A

Global Green Growth Institute
19th Fl. Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul, Korea, 100-784
TEL: 82 2 2096 9991 FAX: 82 2 2096 9990 E-mail: info@gggi.org

GGGI Detailed Management Response

I. Response to General Approach

GGGI management welcomes the overall positive assessment of our operations in regards to improvements in efficiency, effectiveness and economy arising from the efforts made by management and staff to implement recommended changes from past audits and assessments of GGGI work. These positive assessments were made after a thorough evaluation of GGGI's strategy and planning, finance, information technology (Enterprise Resource Process), and project management in the Rwanda program.

Despite these positive assessments, GGGI has reservations regarding particular findings in the case of Mongolia and on the issue of the human resources system. The final report demonstrates a relatively weak understanding of the purpose of the VfM for international organizations. The report's utility is also mitigated by the existence of procedural and conceptual inconsistencies, which are a result of the evaluation approach taken by the KPMG team—one which did not follow standard international procedure for VfM.

Purpose. This exercise was undertaken voluntarily by GGGI management to assess the value for money spent on corporate-level activities by examining the HQ systems and their implications on efficiency, effectiveness and economy for two selected countries: Mongolia and Rwanda. During the process, however, KPMG's team placed excessive focus on country operations which had the unintended consequence of creating an imbalanced evaluation. Furthermore, while some important findings and recommendations were raised, the final report does not present these in a way that is consistent with the VfM concept; instead the report provides a ratings orientation heavily focused on institutional proceses (HR, procurement, project management, etc.) rather than how such processes can be adapted to improve efficiency, effectiveness, and economy.

Methodology. KPMG's chosen approach deviated from standard VfM approaches used by other bilateral donor organizations, which were suggested by GGGI to KPMG.[2] This resulted in three key weaknesses:

Adapting. The KPMG team did not adapt their evaluation approach to take into account the nature of GGGI. A VfM for the private sector would examine shareholder value against profits earned. However, in an international organization, VfM should take into account both the donor needs and requirements as well as the nuance of each country context in which it operates. This is particularly critical for GGGI as a new and relatively small organization. The steering committee established to oversee the VfM exercise made extensive effort to ensure that a methodology was created to meet the desired objectives; however, KPMG was reluctant to

[2] KPMG's evaluation was conducted in accordance with ISSAI300 (Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience), an audit standard issued by the International Organization of Supreme Audit Institution (INTOSAI).

adjust its approach and instead opted to follow evaluation standards which they deemed appropriate for the work. These standards were more closely aligned to the needs of the private sector, with shareholder orientation and strong focus on traditional financial auditing.

Benchmarking. A standard VfM evaluation of an international organization should always be benchmarked against other international organizations in the country context, or in the case of corporate activities, similar secretariats. KPMG's evaluation methodology did not benchmark GGGI against comparable international organizations regionally and/or globally. Because this evaluation was not properly benchmarked, the findings are less useful for GGGI.

Rating. Although a ratings system is an integral part of public and private sector evaluations and audits, it is standard practice that the systems are explained and agreed to before any final ratings are given. The KPMG team did not signal that they would use a ratings system nor did they provide an explanation for how it was created until the submission of the *third* draft report. The explanation was eventually included in the final report upon GGGI's request, but the terms were never agreed to. We find the criteria to be unclear and inconsistent with the many nuances of GGGI's country programs and their overall effectiveness.

Concerns with the approach were raised at the kick-off meeting held on February 12 2015, with both the KPMG team and the GGGI VfM steering committee members present. This meeting and future meetings were held to promote a smooth evaluation process and to ensure that "the criteria for the audit will be developed by the VfM evaluation team in consultation with GGGI as needed…" as stated in the original Terms of Reference. Throughout the process of drafting the final report, GGGI management made numerous attempts to rectify the methodological shortcomings but had little success. GGGI has learned that in preparations for future evaluations it will be crucial to establish a detailed terms of reference and standardized methodology, agree on the methodology during the inception phase and to monitor the evaluation progress to ensure that it is oriented towards established goals and objectives.

II. Responses to Key Findings

A. Findings Related to Mongolia

1. Final Rating

The final report give an aggregate rating to the "project management" element of the Mongolia program of "Not Satisfactory" which GGGI believes is not justified. This rating is inconsistent with both the findings of the draft report itself, and the broad level of success the Mongolia program has experienced. The opening sentence of the Executive Summary clearly states that "[i]n general, the Mongolia Project achieved its main objectives. In line with GGGI's value proposition as the only international organization exclusively focused on green growth, GGGI provides integrated demand driven support for Mongolia's pro-poor green growth initiatives." While GGGI accepts that certain variables within the Mongolia project management may not have been as efficient in 2014, overall the project management of the Mongolia program from a Project Cycle Management perspective is satisfactory in the eyes of both GGGI management and most importantly its partners in the Mongolian government.

The Mongolia program has been rated very high satisfaction by the Mongolia government partners, especially referencing the December 2014 workshop. Vice Minister Tulga indicated that GGGI's efforts in Mongolia are highly valued in an official letter stating that: "[t]he consultative workshops that took place in 2013 and 2014, particularly those in December 2014 in Ulaanbaatar, helped to ensure broad input into the government's green growth planning and begin the process of applying national strategy to the needs of local communities." [3] Furthermore, the 2014 Danish Appraisal report on GGGI which examined both Rwanda and Mongolia also highlighted the successful management of the Mongolia project. [4] The evaluation team did not factor in the favorable feedback from government and donor statements regarding GGGI's success with effectively delivering on its core mandate.

2. *Recruitment of Country Representative*

The final report finds that improper procedures were taken in the recruitment of the current Country Representative (CR) for the Mongolia program. However, we emphasize that all rules for this recruitment were followed. The process was initiated based on the assumption that a Host Country Agreement with the government would be in place by the time the CR was hired. This was not concluded at the time of completing the recruitment due to unforeseen circumstances. The Head of HR, the Regional Director, the Head of Procurement and the selected candidate agreed that he would be offered a consultant contract as a temporary measure to secure placement in-country. All decisions were taken in accordance with the HR rules and procedures, which in this case were aligned to the procurement procedures. GGGI management will continue to prioritize the placement of program/project staff in-country as an alternative to fly-in, fly-out representation.

3. *Contract for two workshops that includes '52 resource persons' that contributed their expertise to deliver outputs*

The final report finds GGGI "not satisfactory" in terms of economy and efficiency on the payment of 52 contracts for government officials who participated in workshops sponsored by GGGI and the creation of deliverables. The practice of paying government officials for participation in development work, though uncommon, is not without precedent. However, the Director General in 2014 decided not to continue the practice of paying government officials for their contributions. GGGI therefore agrees with the findings of the report. Actions have been taken to ensure that the Procurement Unit will not allow this practice in the future.

[3] Vice Minister Tulga's letter was received on 05 May, 2015 after he was informed of the initial outcome of the KPMG team's visit to Mongolia where he was not able to meet the auditors during the visit due to other engagements.

[4] Please refer to the conclusion on page 18 of the file "(Final Report) Appraisal" provided to KPMG on Feb. 13 2015, that deals with overall finding of GGGI's work in-country.

19th Fl. Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul, Korea, 100-784

TEL: 82 2 2096 9991 FAX: 82 2 2096 9990 E-mail: info@gggi.org

B. Findings Related to the Human Resource System

The final report states that "considering the inherent high risk of the procurement function, it is strongly recommended that the number of procurement staff be increased to ensure that work is performed in a more stable manner." While GGGI tried many times to explain to the KPMG team that GGGI functions with two distinct groups—the HR Unit which handles staff who are covered by the Staff Regulations and Rules, and the Procurement Unit which handles consultants who are contracted to GGGI—the context was not fully captured in the final report.

GGGI management agrees in principle that there are more effective ways to manage and monitor the work of long-term consultants, including merging the roles of HR and the Procurement Unit, an organizational arrangement which is common in international organizations. Even though we do not find the associated evaluation fully justified as it is based on a recommendation for future action, and not a reflection of the systems that were in place in 2013 and 2014, this is a valuable recommendation that will be considered going forward.

III. Lessons Learned

GGGI staff and management put substantial time and resources into making sure that this VfM is an effective tool for improving the efficiency, effectiveness, and economy of GGGI activities. Although some of the findings were not completely justified, there are some takeaways from the exercise.

1. *Capacity Building*. GGGI should continue to explore options for implementing capacity building measures in partner governments. In the future, capacity building will continue to be a fundamental value add of GGGI work in-country. Our systems must be improved to ensure that it can be done in a systematic and transparent manner, while still remaining responsive to national contexts and government needs.

2. *Individual Contractor Agreement*. GGGI's Director General has approved and put into place for all new hires in countries where a host country agreement does not exist an improved set of procedures for employment contracts. The individual contractor agreement will be an important tool that will allow GGGI to maintain its in-country presence.

3. *Contract Management*. GGGI should continue to examine its contract management system for human resources. Undertaking this action will require significant time and effort to benchmark best practices of comparable international organizations and tailor a system to GGGI. Any future actions taken will be based on the availability of resources.

4. *Future Value for Money*. GGGI will take steps to ensure that future VfM exercises more closely follow international practices and are solutions-oriented. GGGI believes that VfM should not be a traditional financial assessment or audit, but rather a collaborative process by which lessons can be learned to improve the efficiency, effectiveness and economy of organizational activities.