

Global Green Growth Institute

Fifth session of the Council

Seoul, 19-20 June 2014

Discussion paper: Near-term stability measures

Further to Council discussion on resource mobilization, including Council paper C/4/7,¹ the Secretariat has identified three measures that Secretariat believes can provide an increased level of financial stability and which can be implemented in the near term. These are: standardized funding agreements with contributing members; regularized schedules for core contributions²; and, a working capital fund or financial reserve.

Standardized Core Funding Agreements

Standardizing the current funding agreement used by contributing members would significantly enhance the ability of GGGI to focus its limited resources on program delivery. Currently, GGGI's funding agreements or memoranda of understanding (MOUs) take various forms and impose a range of specific terms and conditions which have tended to be specific to individual core donor requirements. This has made tracking and management of the specific terms and conditions of these funding agreements or MOUs more labor intensive and time-consuming than would be necessary if the terms and conditions were harmonized.

In addition, a Standard Funding Agreement would help enable GGGI to more efficiently respond to contributing members and donor countries (i.e., both core and earmarked) legitimate oversight, diligence and prudential requirements. The Secretariat recognizes and indeed appreciates the level of interest involved in the numerous audits, appraisals, assessments and reviews that contributing members consider necessary for oversight and other purposes – indeed, the reforms they produce improve GGGI overall – however, they also impose demands on the organization which have distracted management resources from program delivery, particularly in 2013 and the first half of 2014.

Council members are requested to take note of the proposed Standard Funding Agreement provided in Appendix A as a model for future discussions; and, mandate the Secretariat to start discussion with contributing members in particular to ensure that this measure can be efficiently implemented.

Regularized contributions

As part of the Standard Funding Agreement, the Secretariat wishes to ask contributing members to make their annual contributions by February 1 or July 1 each year. Given GGGI's relatively small size, experience demonstrates that a regular, predictable flow of funds is a vital requirement for rational program and budget planning and cash flow management. Predictability and contributions at the start of the budget year will help ensure program delivery

¹ See http://ggi.org/wp-content/uploads/2013/11/11.-C.4.7.-Resource-mobilization-plan_final.pdf

² Until such time as it may be possible to establishment a broader funding base and/or a replenishment model.

to members and partners and a positive dynamic among contributing and participating members; lack of predictability means disrupted program delivery, reputational risk, and administrative burdens which can create a negative spiral for the organization.

The Council is therefore requested to endorse this proposal that the Standard Funding Agreement codifies a regular, predictable payment schedule among all contributing members.

Financial Reserve

Recent experience demonstrates the business need for a financial reserve. GGGI's financing model depends on timely contributions of core contributions. GGGI needs a financial reserve to reduce vulnerability to variability in the timing of core contributions, maintain program continuity, reduce reputational risk and safeguard the organization as a going concern.

The recent Danish appraisal noted that GGGI does not currently have any reserves, nor "is there a policy for the size of the opening balance at the start of the fiscal year in relation to the planned, budgeted and prioritized activities. This implies that the organization depends on a positive and regular cash flow from the beginning of the year." The appraisal recommended that "GGGI as part of the strategy process develop the concept, size and plan for the accumulation of a working capital (reserve) to ensure that priority activities can always be undertaken when cash flow is challenged."³

To be sure, the highest priority for GGGI's financial stability is to ensure that contributing members pay early enough in the financial year that GGGI can meet its budgeted disbursement requirements with timely inflows of contributions. A financial reserve is not the first choice for stability; it is a back-up plan, but one that is necessary.

GGGI's Financial Regulations⁴ do not provide for a financial reserve *per se* but the regulations do provide for a Working Capital Fund as: "a fund established to ensure continuity of operations in the event of a budget and liquidity shortfall" (see page 5 of the Financial Regulations). GGGI therefore proposes to set up a financial reserve under the above provision.

It is proposed that such a financial reserve be established from January 2015 as follows:

- First, the goal of the financial reserve is to ensure that GGGI can implement its work program and budget if donor contributions are delayed.
- Second, the financial reserve will initially be capitalized from carry-over of the 2014 budget. To ensure GGGI's financial stability, we intend to build the reserve over the next three years to a level sufficient to cover a full year of budgetary requirements, capitalizing the reserve over time based on a determination by the Director-General through the normal budgetary and planning process.
- Third, the Director-General will keep the Council informed about the level and status of financial reserve, including in particular the use of any carry-over to capitalize the reserve, through the normal budgetary and planning process, and will update the Council about potential longer-term level and use of the reserve as needed.

³ See Appraisal of Danish core contribution to Global Green Growth Institute 2014-2016, page vii and 26, available from: http://um.dk/da/~media/UM/Danish-site/Documents/Politik-og-diplomati/Nyheder_udenrigspolitik/2013/GGGI%20appraisal%20final%2028%20April%202014.pdf

⁴ See C/3/8, available from: <http://gggi.org/wp-content/uploads/2013/12/Financial-Regulations.pdf>

The Council is requested to mandate the Secretariat to establish a financial reserve under the provisions of the Financial Regulations allowing a working capital fund, as proposed above.

FUNDING AGREEMENT

BETWEEN

[THE DONOR]

AND

THE GLOBAL GREEN GROWTH INSTITUTE

[DRAFT AS OF MAY 2014]

[THE DONOR] and the Global Green Growth Institute (“GGGI”) (hereinafter referred to individually as a “Party” and jointly as the “Parties”);

Noting that GGGI is an international organization with its headquarters located in Seoul, Republic of Korea and established by the Agreement on the Establishment of the Global Green Growth Institute done in Rio de Janeiro on 20 June 2012 (the “Establishment Agreement”);

Noting further that the Government of [THE DONOR] has [ratified/approved/accepted/acceded to] the Establishment Agreement, which entered into force for [THE DONOR] on [INSERT APPROPRIATE DATE];

Recalling the objectives of GGGI to promote sustainable development of developing and emerging countries, including the least developed countries, by:

- a. supporting and diffusing a new paradigm of economic growth – green growth – which is a balanced advance of economic growth and environmental sustainability;
- b. targeting key aspects of economic performance and resilience, poverty reduction, job creation, and social inclusion, and those of environmental sustainability such as climate change mitigation and adaptation, biodiversity protection and securing access to affordable, clean energy, clean water and land; and
- c. creating and improving the economic, environmental and social conditions of developing and emerging countries through partnerships between developed and developing countries and the public and private sectors;

Recalling further the [Memorandum of Understanding/Agreement] between [THE DONOR] and GGGI signed in [INSERT PLACE] on [INSERT APPROPRIATE DATE]; and,

Recognizing that [THE DONOR] shall make available to GGGI core (unrestricted) funding [for the three-year period 2014-2016] to assist GGGI’s activities in accordance with the provisions of this Funding Agreement (the “Funding Agreement”);

Have agreed as follows:

ARTICLE 1

OBJECTIVE

The objective of this Funding Agreement is provide core (unrestricted) funding to support the activities of GGGI under the terms and conditions set out below.

ARTICLE 2

ACTIVITIES OF GGGI

1. The Parties understand that GGGI will engage in the activities as described in the Establishment Agreement and execute its strategy, work program and budget as approved by the Council of GGGI.

2. The Parties further understand that GGGI may undertake additional related activities that may be jointly agreed by the Parties, subject to each Party's own policies and procedures, including approval by the GGGI Council as may be appropriate.

ARTICLE 3

FINANCIAL SUPPORT AND FUNDING PROCESS

1. To support the activities of GGGI, [THE DONOR] shall provide a [multi-year] financial contribution of core (unrestricted) funding of [AMOUNT] United States dollars (USD [AMOUNT]) (the "Grant") to GGGI [over three years] as specified below.

2. [THE DONOR] shall disburse the Grant in accordance with the following schedule:
 - a. [AMOUNT] United States Dollars (USD [AMOUNT]) shall be paid within 30 days after the signature of this Funding Agreement by the Parties;

- b. [a second disbursement of [AMOUNT] United States Dollars (USD [AMOUNT]) shall be paid by [twelve (12) months from the due date of the first disbursement above]; and]
- c. [a third disbursement of [AMOUNT] United States Dollars (USD [AMOUNT]) shall be paid by [twenty-four (24) months from the due date of the first disbursement above].]

3. Payment shall be made to the following bank account:

Account Name:	Global Green Growth Institute
Bank Name:	[to come]
Bank address:	[to come]
Account number:	[to come]
Swift code:	[to come]
IBAN:	[to come]

4. Upon receiving of the Grant, GGGI shall forward a receipt to [THE DONOR] for the amount and date of receipt and, where applicable, the exchange rate used.

5. Any income from the investment of the Grant will be retained and revert to core funding, in accordance with the financial regulations, rules, policies and procedures of GGGI.

ARTICLE 4

CONSULTATIONS

The Parties may hold consultations at the annual meeting of the GGGI Donor Consultative Group which serves as a common platform between GGGI and its donors, and among GGGI donors, to exchange information, discuss GGGI activities and strategic issues, explore synergies, strengthen dialogue, transparency and mutual commitment to GGGI's objectives, and increase efficiency of donor interaction with GGGI.

ARTICLE 5

REVIEWS

1. [THE DONOR] may conduct or participate in a review, evaluation, appraisal, assessment, audit or similar exercise ("Review") of GGGI.

2. In undertaking any such Review, [THE DONOR] shall make best efforts to minimize the burden on GGGI, and to this end, [THE DONOR] shall make best efforts to ensure that the timing and terms of reference for any such Review is coordinated with any similar requirements from other donors (e.g., through the Donor Consultative Group).
3. [THE DONOR] shall bear the costs associated with any such Review.

ARTICLE 6

REPORTS

1. GGGI shall keep proper financial records in accordance with the financial regulations, rules, policies and procedures of GGGI. [THE DONOR] shall keep record of its Grant to GGGI.
2. GGGI will provide to the Donor the following reports:
 - a. audited financial statements for the preceding fiscal year, in accordance with the financial regulations, rules, policies and procedures of GGGI;
 - b. an annual report of GGGI's activities, within 30 days of its publication; and,
 - c. other related documents, if requested by [THE DONOR], subject to GGGI's Disclosure Policy.

ARTICLE 7

CONFIDENTIALITY

1. Each Party shall keep all Confidential Information (as defined below) in strict confidence and shall not disclose or permit its representatives to disclose such information to any third party, unless such disclosure is mutually agreed by the Parties.
2. For the purposes of this Funding Agreement, "Confidential Information" means all information, documents, agreements, files and other materials which are obtained from or disclosed by the disclosing Party pursuant to or in connection with this Funding Agreement,

including any documents which contain or otherwise reflect or are generated from such information, documents, agreements, files or other materials.

3. In other cases, disclosure shall be made in accordance with GGGI's Disclosure Policy.

ARTICLE 8

SOCIALLY RESPONSIBLE AND ENVIRONMENTALLY SAFE PRACTICES

1. No offer, gift, payment, consideration or benefit of any kind shall be, either directly or indirectly, accepted by the Parties or by their representative(s) as an inducement or reward for the award or execution of contracts financed through or under this Funding Agreement.

2. The Parties are committed to the principles of the United Nations Global Compact and shall, in the course of or in relation to this Funding Agreement, make their best efforts in good faith to refrain from any act or omission that would be environmentally or socially harmful, and shall at all times be in compliance with all environmental, health and safety laws of the relevant jurisdictions and observe any applicable international environmental, health and safety conventions and agreements.

ARTICLE 9

STATUS OF THE PARTIES

1. Neither Party nor its personnel shall be considered as an official, agent, employee, representative or joint partner of the other Party. Neither Party shall enter into any contract or commitment on behalf of the other Party.

2. Each Party shall carry out its responsibilities and obligations under this Funding Agreement in accordance with its regulations and rules applicable to it, and, unless separately agreed upon in writing, shall bear its own costs with respect to the implementation of this Funding Agreement.

ARTICLE 10

RIGHTS, OBLIGATIONS, PRIVILEGES AND IMMUNITIES

1. Nothing in this Funding Agreement shall in any way constitute or imply a waiver, renunciation, termination, or modification by GGGI of any of its privileges, immunities or exemptions granted by any applicable convention or under international law or any other applicable law.
2. Nothing in this Funding Agreement will affect the rights and obligations of the Parties deriving from any decisions, treaties, conventions, or regional or international agreements related to green growth activities, projects or programs to which they are parties.

ARTICLE 11

EXEMPTION FROM VAT AND OTHER TAXES

[THE DONOR] agrees that GGGI may use the Grant to cover VAT and other taxes in countries of operation in case the governments of said countries of operation do not provide tax exemption for GGGI.

**ARTICLE 12
FOCAL POINTS**

1. The Parties hereby designate the following focal points for the coordination of the activities and tasks under this Funding Agreement:

a. for [THE DONOR]:

[Name and position]
[Contact details]

b. for GGGI:

Ms. Jenny Hyoeun Kim

Director, Strategy Policy and Communications

Global Green Growth Institute

19 Fl. Jeongdong Bldg.

15-5 Jeong-dong, Jung-gu

Seoul 100-784, Republic of Korea

Tel: +82 2 2096 9991

Fax: +82 2 2096 9990

Email: jenny.kim@gggi.org

2. If there is a change in the designated focal point, notice shall be provided to the counterparty without delay.

**ARTICLE 13
DISPUTE RESOLUTION**

Any dispute arising from the interpretation or application of this Funding Agreement will be resolved amicably through consultations or negotiations between the Parties [through an agreed channel for mediation or adjudication].

**ARTICLE 14
AMENDMENT TO THE CONTRACT**

This Funding Agreement may be amended by a written amendment signed by the Parties.

**ARTICLE 15
FINAL PROVISIONS**

1. This Funding Agreement may be terminated by mutual agreement. In such case, steps will be taken to ensure that the termination does not prejudice any prior obligation, project or activity already in progress or which have been programmed in to the work plan and budget.
2. In the case of early termination under sub-article 1 above, GGGI will continue to hold and utilize any amounts of the Grant which are unspent for the purpose of honoring all commitments and liabilities incurred up to the date of effective termination.

**ARTICLE 16
ENTRY INTO FORCE**

This Funding Agreement shall come into effect upon signature of both Parties and shall remain in force [for a period of three (3) years or] until all obligations arising from this Funding Agreement have been fulfilled], whichever is later].

IN WITNESS THEREOF, the undersigned, acting on behalf of their respective Party, have signed the present Funding Agreement in the English language in two originals.

FOR
[THE DONOR]

FOR
THE GLOBAL GREEN GROWTH
INSTITUTE

[Name]
[Title]
Date:

Yvo de Boer
Director-General
Date: