

**Global Green Growth Institute**

Sixth session of the Council

Songdo, 18 November 2014

**Discussion Paper: GGGI focal point in Europe****I. Background**

1. At the fifth session of the GGGI Council, held 19-20 June 2014, the Council requested that the Director-General “[f]urther explore the option of maintaining a GGGI focal point in Europe with a focus on, for example, private sector engagement on green growth, finance related issues, and donor relations” and “to [p]resent a proposal in this regard to the Council at the November meeting, based on the overall strategy, work program and budget, including a full strategic cost-benefit analysis.”

**II. Executive summary**

2. This paper presents the rationale and therefore justification for GGGI to maintain a focal point in Europe, under close supervision of GGGI’s headquarters in Seoul. Specifically:

- a. GGGI sees the benefits of a European focal point to facilitate and enhance its ability to manage its relationships with donors as well as with other key counterparts, such as European NGOs, think-tanks and financial institutions;
- b. GGGI recognizes the important contribution of a focal point in Europe to GGGI’s global visibility;
- c. GGGI sees a need to maintain an ongoing relationship with significant climate and other project financing activities that take place in Europe; and,
- d. a European focal point will improve GGGI’s access to a range of potential and current donors in Europe, including for consultations around its service offering.

3. This paper has been prepared to align and conform to the directional input and feedback that GGGI has received through the process of developing its long-term strategic plan. It describes the functions, structure and organizational framework for the proposed European focal point and highlights the work that will be undertaken.

4. A strategic cost-benefit analysis is conducted on two levels. Firstly, the benefits of having a European focal point is considered in light of the objective of improving the efficiency and effectiveness of GGGI. Secondly, the relative attractions of different locations in Europe are considered. The paper presents an evaluation of several possible sites in Europe against objective criteria. The paper concludes with a recommendation for consideration by the Council.

### III. Rationale and justification

5. GGGI sees the benefits of a European focal point to facilitate and reinforce its ability to manage its relationships with donors as well as with other key counterparts such as European NGOs, think-tanks and financial institutions. GGGI conducts its global operations from the headquarters. At the same time, by being in a more suitable time-zone for relationship management with donors and relevant counterparts in Europe, a European focal point will extend GGGI's ability to manage its relationships with donors and counterparts in locations where donors are based and which are home to capital markets, financial institutions, NGOs and think-tanks. The interactions by the European focal point will be supervised by GGGI headquarters in Seoul.

6. GGGI recognizes the important contribution of a European focal point to improve GGGI's ability to conduct its operations as well as enhance its global visibility. Other international organizations have also seen the benefits of a European focal point for similar reasons. For example, the World Bank has offices in Europe<sup>1</sup> as do regional development banks.<sup>2</sup> IRENA has an Innovation Technology Centre in Bonn.<sup>3</sup> The UN also has a number of offices in Europe.

7. In addition, a European focal point will also improve GGGI's access to a range of potential and current donors in Europe, including for consultations around its service offering. GGGI will be able to strengthen the dialogue with European-based donor institutions and private sector partners around the impact of its activities – particularly on the development and investment priorities of GGGI's developing member countries – to mobilize resources and partnerships.

8. GGGI see a need to maintain an ongoing relationship with significant climate and project financing activities that take place in Europe. European countries contribute more than 50 percent of global ODA.<sup>4</sup> The European focal point will help GGGI improve the advice it can provide to developing country partner countries to support their green infrastructure investment decisions. Moreover, given the vital role of private capital for project financing, a European focal point will further facilitate GGGI's private sector and capital markets engagement to complete the menu of funding options available to developing country partners.

9. The proposed focal point will thus strengthen GGGI's ability to deliver on its new service offering. It will allow deployment of a whole range of existing (and future) de-risking instruments in GGGI's country programs and facilitate financial innovation to overcome residual market failures in green infrastructure investment.

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<sup>1</sup> See:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/WBEUROPEEXTN/0,,contentMDK:20792347~menuPK:2436959~pagePK:64168445~piPK:64168309~theSitePK:268437,00.html>

<sup>2</sup> See: <http://www.adb.org/about/departments-offices> and <http://www.iadb.org/en/office-in-europe/home,2100.html>

<sup>3</sup> See: <http://www.irena.org/contact/index.aspx?mnu=con&mnu=Pri&PriMenuID=22>

<sup>4</sup> See: <http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm>

#### IV. Scope

10. As envisioned, the European focal point will have both relationship-management and operational responsibilities. Specifically, as outlined in the proposed Strategic Plan 2015-2020 and Work Program and Budget, it will:

- a. Undertake consultation and contact with members in Europe, support the headquarters in membership expansion efforts, actively seek to expand the number of donor countries supporting GGGI, and help identify and pursue earmarked funding opportunities, including proposals to prospective donors to help meet the needs of partner countries;
- b. Support in-country activities, including assisting partner countries with the development of bankable projects;
- c. Engage with European partners, including donors, development finance institutions, banks and institutional investors, as well as with other private investors;
- d. Leverage GGGI's participation in the evolving climate finance architecture, shape these ongoing debates and build on their outcomes to strengthen in-country delivery models (e.g., Climate Innovation Lab, Financing for Resilience, the Capital Markets Climate Initiative);
- e. Help GGGI engage with infrastructure financing networks in Europe (e.g., Private Infrastructure Development Group, Sustainable Infrastructure Foundation); and,
- f. Support GGGI engagement with Europe-based corporations active in sectors relevant to GGGI programs.

11. In addition, under supervision from the headquarters, GGGI's European focal point will:

- a. Facilitate GGGI's outreach and collaboration activities with the OECD, World Economic Forum, the European Commission and Europe-based UN organizations;
- b. Coordinate GGGI's engagement with the Global Green Growth Forum (3GF);
- c. Conduct GGGI's relationship with both UNEP-FI and the UNEP-Inquiry;
- d. Support GGGI's participation in Finance for Resilience (FiRe); and,
- e. Manage the secretariat of GreenInvest<sup>5</sup>, which will be based in Europe.

#### V. Operational structure

12. To address the needs and scope of the proposed activities, the focal point will have [3] professional staff members (see Attachment 1) who will be part of the Knowledge Solutions Division and the Strategy, Policy and Communications Division, and will have a provision for

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<sup>5</sup> GreenInvest results from the merger of two G-20 originated initiatives, the Green Growth Action Alliance (G2A2) and the Dialogue Platform for Inclusive Green Investment (DPIGI).

administrative assistance on a contractual basis. These new GGGI employees will be supervised by the headquarters.

13. In summary, consistent with GGGI's proposed long-term Strategic Plan and Work Program and Budget, these GGGI employees will:

- a. Help maintain GGGI's relationships with Europe-based donors, NGOs and think-tanks, serving as the headquarters' representatives in Europe;
- b. Engage with European partners to support GGGI's operations in partner countries, including leveraging the network of contacts in the private sector and capital markets in order to tailor service offerings to respond to country needs;
- c. Help GGGI engage with infrastructure financing networks in Europe, including Europe-based consultations in shaping the enabling climate and green infrastructure architecture; and,
- d. Be able to deploy and oversee teams of experts as and when needed, develop proposals, and engage with public and private sector partners around GGGI service offerings.

## **VI. Cost/benefit analysis**

14. The preceding sections provided the rationale for a focal point in Europe. As indicated above, the three professional staff would be new positions, which are accounted for in the 2015-2016 work plan and budget; their duty station has not been determined.

15. We estimate the additional costs, rent and utilities associated with a focal point in Europe to be approximately USD 120,000 per annum, and have provided for this cost in the 2015-2016 budget. If GGGI were to send staff to represent GGGI periodically in Europe with the aim of accomplishing the same operational objectives, the costs of airfare, accommodation, meeting space and related costs would more than outweigh the incremental rental and utilities associated with GGGI having a focal point in Europe.

16. Within Europe, it is possible to compare the costs and benefits of different potential locations as potential focal points based on objective criteria. There are several options to locate GGGI's focal point in Europe, and these can be assessed.

17. The proposed decision framework takes into account the following key criteria:

- a. Proximity to main centers of activity for donor and stakeholder engagement as well as capital markets and financial institutions;
- b. Ease of access to developing partner countries and other hubs of activity; and,
- c. Cost (e.g., income tax, rental rates and social benefits).

18. Applying the above criteria, we considered the following candidate locations: Brussels, Copenhagen, Frankfurt, Geneva, London, Oslo and Paris. Table 1 below compares the different candidate locations in Europe based on the above criteria.

**Table 1. Comparison of European cities**

	Proximity to centers of activity		Ease of access to developing country partners	Costs			
	Donor and stakeholder engagement	Capital markets		(A) <sup>1</sup>	(B) <sup>1</sup>	(A)+(B)	Prime rent (\$/m <sup>2</sup> /yr) <sup>2</sup>
				Effective income tax rate (%)	Effective social security rate (%)	Income tax plus social security (%)	
<b>Brussels</b>	●	●	●	33.9%	13.1%	47.0%	335
<b>Copenhagen</b>	●	●	●	42.1%	0.2%	42.3%	144
<b>Frankfurt</b>	●	●	●	28.3%	15.5%	43.8%	577
<b>Geneva</b>	●	●	●	--	--	N/A	924
<b>London</b>	●	●	●	24.1%	7.3%	31.4%	2,503
<b>Oslo</b>	●	●	●	31.3%	7.8%	39.1%	516
<b>Paris</b>	●	●	●	20.0%	22.0%	42.0%	987

<sup>1</sup> Source: KPMG's report on individual income tax and social security survey (2012). For additional detail, see attachment 2.

<sup>2</sup> Source: BNP Paribas Real Estate European Office Market (2014). Data as of Q4 2013 converted at USD 1.26510:1 EUR using [www.oanda.com](http://www.oanda.com) as of 1 October 2014. Rental costs for London based on previous actual GGGI costs; rental rate for Copenhagen based on actual costs in UN City (in *italics*).

19. The first two criteria – proximity to centers of activity, ease of access to developing country partners – are considered on a qualitative basis. A green dot means that the location would be relatively attractive in terms of GGGI operations. For example, green dots for donor and stakeholder engagement reflects an estimate of proximity to both donors as well as stakeholders in the finance and investment community.

20. Similarly, a green dot for capital markets means a significant hub of activity, including for areas related to GGGI's work. An orange dot reflects a medium score. For example, for ease of access to developing country partners, an orange dot means indirect flights, while a green dot means availability of direct flights. A red dot indicates relatively limited activity in the category, in comparison to the other locations.

21. Based on the above assessment of proximity to centers of activity, including donor and stakeholder engagement as well as capital markets activity, Brussels, Frankfurt, London and Paris would be potential candidates. Brussels hosts the European Commission as well as a number of international organizations, including the World Bank and United Nations offices, including UNDP. Frankfurt represents a major hub of financial activity, including the Frankfurt stock exchange and European central bank, and offers access to organizations in Bonn and Berlin as well as other European cities.

22. Similarly, London and Paris offer access by air or rail to European cities. London is home to a relatively large number of organizations involved in infrastructure and sustainable development, including the Private Infrastructure Development Group, Capital Markets Climate Initiative, and the Climate Innovation Lab, as well as the European Bank for Reconstruction and Development (EBRD). While Frankfurt has a major capital market, the European central bank and related institutions, London is also a major financial hub with the London stock exchange and numerous major banks and investment funds as well as

organizations focused on sustainable development and climate change.

23. If – in addition to the criteria above – the assessment takes into account GGGI membership, then Copenhagen, London and Oslo would be front-runner candidates. This would be consistent with the principle that GGGI should focus its activities on member countries. Moreover, by being in member countries, these locations offer the potential of securing privileges and immunities (P&I's) for GGGI.

24. These three cities would be strong contenders for a GGGI focal point in Europe. The attractions of London are described in paragraph 22. Copenhagen would provide access to Danish International Development Agency (DANIDA), the Investment Fund for Developing Countries (IFU), the Danish Climate Investment Fund, as well as PensionDanmark, a leading pension fund in green investment.<sup>6</sup>

25. Oslo would also be an attractive contender. Oslo would provide direct access to Norwegian Agency for Development Cooperation (NORAD), the Norwegian Investment Fund for Developing Countries (Norfund), and the Norwegian International Climate and Forest Initiative (NICFI).

26. Based on earlier discussions with the UK in the context of the P&I Sub-Committee of the Assembly, as well as communications with Denmark regarding the likelihood of achieving privileges and immunities in Denmark, it seems likely that GGGI will be closer to achieving privileges and immunities in London than in Copenhagen. GGGI has not discussed the possibility of securing privileges and immunities with Norway.

## **VII. Conclusion and recommendation**

27. Based on this assessment, it is clear that GGGI will benefit substantially by having a European focal point, as described above, as such a focal point will help GGGI execute its operations and achieve its objectives more efficiently and effectively.

28. In view of both the operational requirement to engage donors, and taking into account membership and the potential for securing privileges and immunities it makes sense for locate GGGI's European focal point in a member country.

29. Based above considerations and assessment, and particularly in view of the potential for privileges and immunities, and given GGGI's operational and administrative requirements, London seems to be the most appropriate and suitable location among the candidate locations for a European focal point.

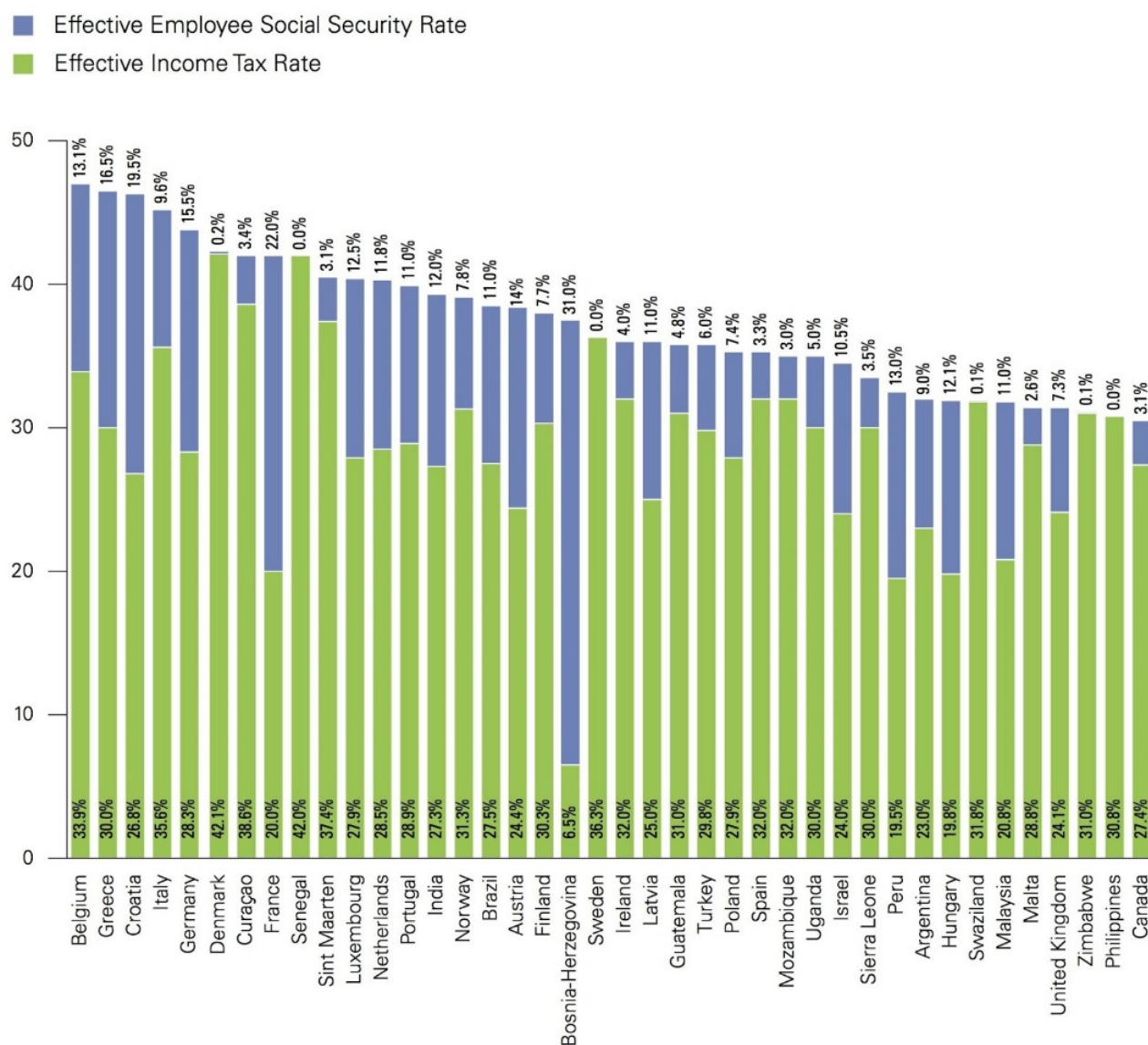
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<sup>6</sup> See <http://www.pension.dk/en/english/About-PensionDanmark/News/PD-news/PensionDanmark-wins-two-new-awards-for-green-investments/>

## Attachment 1. European Focal Point Personnel Descriptions

- The **Senior Green Infrastructure Specialist** will initiate and lead processes with regard to the origination of green infrastructure projects with the objective of generating a strong pipeline of infrastructure deals, including analysis of financial models, preparation and delivery of pitches for senior debt and advisory mandates, and mobilize of available de-risking instruments. He/she will also mobilize de-risking instruments and identify pathways towards financial closure. He/she will be familiar with project preparation and structuring processes; infrastructure procurement and approval processes; pre-feasibility/feasibility study standards; development of internal documents such as project summaries, credit applications, business opportunities and other *ad hoc* analysis; designing delivery pitches for senior debt and advisory mandates to clients; conducting due diligence processes for lending mandates; running and modifying financial models; and, will be able to field and oversee missions of expert teams to deliver in-country support.
- The **Risk Management Specialist** will focus on risk reducing instruments, including monitoring the evolving global climate and infrastructure finance landscape and the range of publicly backed instruments that have been designed or are considered for development and deployment. He/she will be skilled in analysis of third party financial models, preparation of pre-feasibility/feasibility studies, and assessment partner country enabling environments. He/she will also be able to provide advice on transparent procurement and project approval processes, develop project selection and prioritization criteria, improve project risk/reward profiles, provide guidance on project preparation, identify residual (non-project) risks, advise on credit enhancement, guarantees and exchange rate hedging, and prepare and deliver pitches for senior debt and advisory mandates.
- The **Donor Engagement Specialist** will maintain day-to-day relations with existing and potential European bi-lateral donors, multi-lateral donors, including the European Commission and the European based operations of international organizations [and European based private sector companies whose areas are relevant to delivery of Green Investment Advisory Services.] He/she will provide regular updates of donor priorities and possible strategic alignment with GGGI's mission and delivery model. He/she will contribute to network building and cooperation with other international organizations such as the OECD, World Economic Forum, and other Europe-based development banks, development finance institutions, and UN organizations. He/she will also lead preparation of donor materials reflecting GGGI's evolving service offering to be developed under the supervision of in coordination with the headquarters to meet in-country needs of GGGI partners.

## Attachment 2. Comparison of tax rates



Source: KPMG's Individual Income Tax and Social Security Rate Survey 2012, from <http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Individual-Income-Tax-Social-Security-Rate-O-201210.pdf>