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PROSPERITY FUND: OPENNESS AND OPPORTUNITY STRATEGY

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WHAT ARE THE CONDITIONS FOR GROWTH?

Prosperity is one of the three FCO Foreign Policy Priorities. Our Prosperity agenda overseas is centred on creating the [four conditions for global growth](#). We do this by opening up new markets, building the UK's reputation internationally, delivering energy security and a low carbon future and creating opportunities for British business to strengthen the UK economy.

<p style="text-align: center;"><u>Openness</u></p> <p>We work for transparency and a strong, rules- based international economic system</p>	<p style="text-align: center;"><u>Reputation</u></p> <p>We promote Britain as an international partner of choice and world class destination for business, tourism and study</p>
<p style="text-align: center;"><u>Sustainability</u></p> <p>We work for a low carbon economy and resilient energy markets and we promote science and innovation as solutions to global challenges</p>	<p style="text-align: center;"><u>Opportunity</u></p> <p>We help British companies win new business and we promote education and innovation as drivers of growth</p>

[The Prosperity Fund](#) is intended to support our efforts to promote the conditions for growth. Most of the Fund is devolved to priority posts to appraise, select, manage and report on projects around climate change, resource security and open economies.

This year £1.05 million has been held centrally for projects focusing on the Openness and Opportunity conditions for growth. This strategy sets out our objectives and the processes for accessing funds and managing project spending. This is a living document which will be updated as necessary, in line with the current business requirement.

WHAT DO WE WANT TO ACHIEVE?

Creating openness and opportunity should be at the heart of all of our commercial and economic diplomacy, not just funded project work. Continuing to engage with host governments and business is essential to support the delivery of our Prosperity agenda.

In addition to lobbying and other economic and commercial work, the Prosperity Fund provides *additional* resource to support projects that will further our Prosperity objectives and deliver real benefits to the UK economy. We will use the central pot to:

Increase **openness** in the global economy, through:

- Increasing openness to trade and investment;
- Promoting international economic cooperation and harmonisation of economic rules and standards through a rules based international economic system (RuBIES).
Reducing corruption, bureaucracy and protectionism;
- Supporting stable, transparent economic policies.

Create **opportunity** for the UK, through:

- Strategically positioning the UK as the partner of choice, particularly in new emerging and high growth markets;
- Helpfully positioning the UK as a constructive partner.
- Supporting trade and investment activity that promotes sectoral growth strategies;
- Creating opportunity through supporting international partnerships in education, science and research.
- Promoting innovation as a driver of growth

WHY DO WE WANT TO ACHIEVE THIS?

Structural economic reform and harmonisation of economic rules and standards are essential to achieve strong and sustainable economic growth. Increasing openness in the global economy and encouraging greater international economic cooperation will go some way towards creating the conditions for economic growth.

There is a significant body of economic research which demonstrates the positive effect good institutions, openness to trade and investment and strong rule of law have on economic growth. We believe that this open and liberal economic model, based on some essential economic rules will support a more stable and productive global economy benefiting all countries. We strongly advocate rules that reduce corruption, increase competition and create the right incentives for firms to expand, innovate and grow. These rules will help improve productivity, dynamic efficiency and the efficient allocation of resources – ultimately this will lead to economic growth.

Annex A shows that, other things being equal, more open markets tend to both have larger per capita GDP, and be more likeminded with the UK (i.e. OECD members). While this graph does not demonstrate causality, there is a significant body of research supporting a causal relationship between openness, the rule of law and GDP.

In addition to supporting global economic stability and growth, increased openness will help create new opportunities for UK companies operating and trading around the world.

Measures to reduce protectionism and tackle corruption will help create a better business environment and a level playing field for UK companies to compete on. Additionally, as economies increase their wealth they will demand more high value services, an export in which the UK has expertise and comparative advantage. This will further increase opportunities for UK companies, such as those in the financial and professional services sector and advanced manufacturing sectors. The BIS International Strategy highlights key UK comparative advantages. Recent Economics Unit work has further developed this approach for a range of key export countries.

Further policy work, including in new emerging and high growth markets, will help strategically position UK companies. British businesses, through the Business Win returns, have reported that the most effective areas of support from across the network are “lobbying”, and “advice, access, contracts”.

Much of the work to create Openness and Opportunity will also have strong links with the other two conditions for growth. For instance, work to promote Opportunity for UK business will contribute to the UK’s Reputation overseas, and have crossover with the GREAT campaign.

HOW WILL WE DO IT?

CEDD has been allocated a central pot of £1.05m. This is in addition to the devolved £16.7m programme fund that has been allocated to priority posts and regions to be spent in accordance with the [devolved fund guidance](#).

We will allocate the central pot as follows. All allocations are *indicative* only. Depending on what bids the Board receives, there will be some flexibility in how funds are divided between regional, cross-cutting projects, and smaller, country-specific work.

- **Pot 1: Regional, thematic or cross-cutting: £700, 000.** As its name implies, the central pot should be used to drive big picture initiatives where CEDD can use its overview of activity across the network to spot synergies and encourage a joined up regional or thematic approach. We will therefore ring fence approximately £700, 000 for large-scale, strategic interventions where our work will have the most impact. Annex B sets out an illustrative shortlist of possible cross-cutting projects which meet these criteria. Over the next month the team leads will work to develop some of these into full concept bids. This shortlist is not exhaustive and we are keen to receive more bids for regional or cross cutting work, either from London or posts. Joint bids from multiple posts are also welcome.
- **Pot 2: Country specific: £300, 000.** Although the majority of the central pot will be to support big picture, thematic work, we also recognise that posts, particularly those without in-country Prosperity funds, may have ideas for projects that will have lead to economic or commercial benefits for the UK. We are therefore earmarking approximately £300, 000 for country-specific work which contributes to the openness and/or opportunity conditions, as defined above. We will issue a call for bids via Diptel.
- **Pot 3: Ad hoc: £50, 000.** To keep in reserve to enable us to respond to ad hoc or miscellaneous requests, particularly from Ministers – eg. to hold a one-off conference or support an inwards visit. Initiatives must contribute clearly to the openness or opportunity conditions, as defined above. The PGM will review expenditure from this pot regularly, and may re-allocate some funds to Pots 2 or 3 if it looks like there will be underspend.

CRITERIA

Essential: Projects must:

- Demonstrate clear benefits for the UK.
- Utilise well developed metrics and are grounded in strong economic analysis which clearly demonstrate and quantifies benefits to the UK, as well as to the domestic/global economy, where applicable.
- Have clearly outlined outputs and outcomes, which contribute to the openness and opportunity conditions for growth, as defined above. See section below on Metrics.
- Be additional – i.e. achieve an outcome which would not have otherwise been achieved without intervention, and where HMG have a clear, value adding role. Funds should not be used to supplement or top-up existing bilateral Prosperity work.
- Not duplicate work being funded by the devolved programme fund.

Desirable: In addition, we will prioritise projects which:

- Focus on cross-cutting and thematic issues with regional and/or global impact. Through doing this we will promote the sharing of best practise across the network and provide a focus on key policy challenges across the network.
- Have a multiplier effect and will lead to match funding from other stakeholders.
- Are replicable - for instance where the lessons learned or tools developed will be applicable in other markets beyond the original target of the project.
- Have been discussed and agreed with PAGs and other relevant stakeholders to ensure join up with existing initiatives and avoid duplication. Commercial projects should be “British Business driven.”
- Demonstrate evidence of political will and engagement from host governments and/or regional stakeholders, including engagement from business.
- Have conducted a full risk assessment and provided details of mitigation.
- Contribute to the other conditions for growth (Sustainability and Reputation) in addition to Openness and Opportunity.
- Have a minimum spend of £20,000 for FY14/15, though we will consider projects below this threshold.

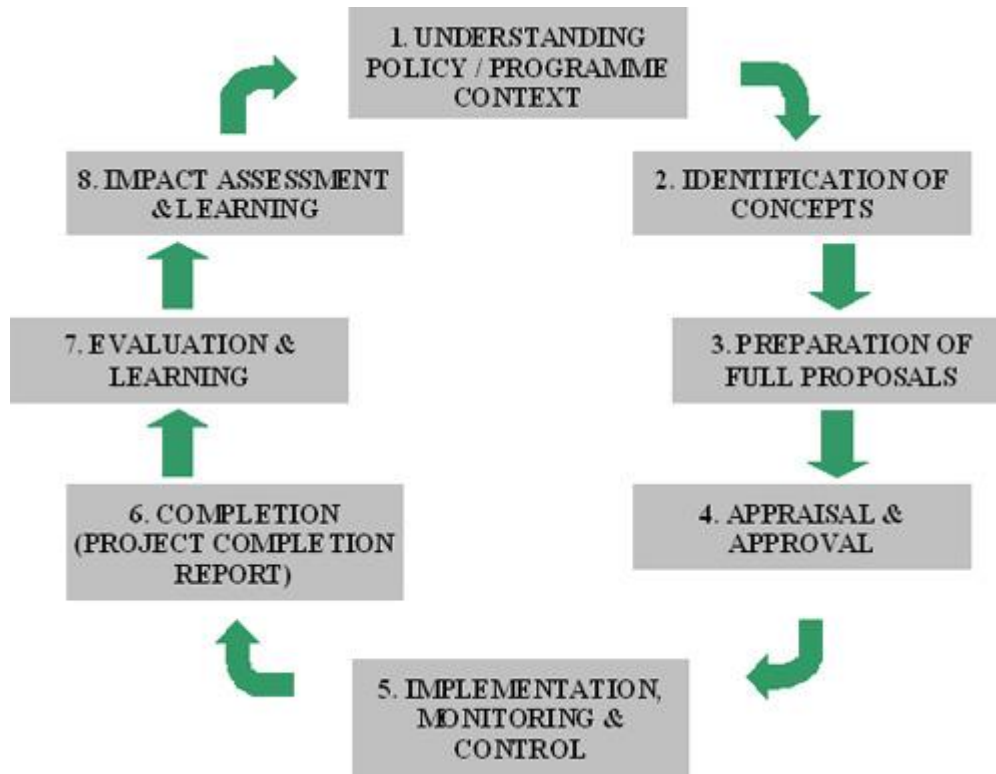
Constraints: The following conditions also apply:

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- 100% of funds must be eligible for Overseas Development Aid. In line with OECD DAC spending guidelines, the main objective of every ODA-funded project must be the economic development and welfare of the host country.
- CEDD may tender projects out to external delivery partners, but must ensure that we define the project objectives, that the tender process is open and transparent, compliant with relevant EU regulations, and that the project would not have run without FCO funding.
- Proposals can only cover the FY 14-15. Whilst additional funds may be available in subsequent years, we cannot guarantee multiyear funding.

PROCESS

Diagram 1: The Project Lifecycle



METRICS

Projects will be categorised under the Four Conditions. For CEDD, the impact and progress of each project will be primarily measured against the openness and opportunity conditions, but can also be measured against reputation and sustainability where relevant. PO consulted across the Directorate and Economists Unit and agreed the following provisional external outcomes below, which will be refined over the following months. These have been included in a [dashboard](#) developed with PA Consulting (please note the dashboard does not yet have data as projects are still to be confirmed). DFID have sense checked along the way.

Opportunity:

- Exports
- Outward investment
- FDI Projects

Openness:

- Trade as a percentage of GDP (can be broken down by country)
- Ease of doing business
- Transparency International's Corruption Perceptions Index

PO will continue to work across the Directorate and Economics Unit to refine these outcomes and develop a basket of outputs to help track project progress and impact.

In addition to the measures we are using centrally, projects can and should develop their own impact measures. These will depend on the output of specific projects, but should be SMART and linked to the openness and opportunity conditions.

Quantitative and qualitative metrics should preferably be validated by a third party. Ideally the project should be benchmarked at the beginning and at project close. The benchmarking process could also be of benefit by fine tuning the project outputs and outcomes before the project commences, thus making the project more measureable overall whilst potentially improving its impact.

Under opportunity, a Business Win form can be used as a metric to validate an export (or non-export win, such as outward investment or reduced tax burden), if practical within the project timescale. Other options include the use of trade bodies, regional stakeholders or host governments.

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