

**Papua New Guinea- Australia
Incentive Fund
(Phase III)**

Program Design Document

POST PEER REVIEW

1 September 2008

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Acronyms

APNGIF	Australian Papua New Guinea Incentive Fund Phases (I) & (II)
AusAID	Australian Agency for International Development
CBO	Community Based Organisation
CDS	Community Development Scheme
CP	Concept Proposal
DCS	<i>Papua New Guinea – Australia Development Cooperation Strategy (2006-2010)</i>
DNPM	Department of National Planning and Monitoring
FBO	Faith-based organisation
FIDIC	International Federation of Consulting Engineers
GoA	Government of Australia
GoPNG	Government of Papua New Guinea
IF(I)	Incentive Fund 2000-2003
IF(II)	Incentive Fund 2003-2008
IF(III)	Incentive Fund 2009 - 2014
IFA	Incentive Fund Agreement
IRT	Independent Review Team
JOA	Joint Organisational Assessment
LLG	Local Level Government
MC	Managing Contractor
MG	Management Group
M&E	Monitoring and Evaluation
MEF	Monitoring and Evaluation Framework
MTDS	<i>Medium Term Development Strategy 2005-2010</i>
NGO	Non-governmental organisation
OP	Organisational Proposal
PCR	Program Completion Report
PDD	Program Design Document
PM	Program Manager
PNG	Papua New Guinea
PPII	Provincial Performance Improvement Initiative
SNS	Sub-National Strategy

Executive Summary

History and background

During the 1999 Development Cooperation Treaty negotiations between the Government of Australia (GoA) and the Papua New Guinean Government (GoPNG), it was agreed that Australia's development cooperation program to Papua New Guinea (PNG) would include jointly programmed assistance to be known as the Australia - Papua New Guinea Incentive Fund "Incentive Fund" or "APNGIF".

It was intended that the APNGIF would provide direct funding for development activities implemented by private and public organisations of excellence. As described in the Development Cooperation Treaty, the Incentive Fund was seen as a mechanism to increase the contestability in the delivery of Australian-financed aid activities. It was intended to increase the range and level of involvement of PNG organisations, and reward those organisations that delivered priority development outcomes while demonstrating their efficiency, effectiveness and accountability.

Funding PNG's best organisations was not only intended to reward their excellence, but also to provide an incentive to other organisations to improve their performance (so they too could seek funding). The long-term development objective of the APNGIF was to encourage PNG organisations to be more effective and more efficient, improving their overall performance. The APNGIF also provided an opportunity for new organisations and new initiatives to be funded under the Australian aid program.

The increased involvement of PNG organisations in the aid program through the APNGIF was an important and significant step in the maturity of Australia's development cooperation with PNG. The capacity to do business with a wider range of private or public sector partners in PNG (who had proven their capacity to respond to PNG's development challenges) led to a range of significant benefits, including:

- increased effectiveness in targeting the needs and priorities of Papua New Guineans;
- increased ownership and commitment to the aid program by PNG; and
- increased cost efficiency.

The Incentive Fund 2000 - 2008

The Incentive Fund is generally well regarded having worked with organisations with a good track record and which value and care for the resources available to them, thus increasing the sustainability of the supported activities.

Starting in August 2000 and ending in 2008 with activities approved in 2006 the APNGIF has worked over two phases: (a) IF(I), August 2000 to 2003, and (b) IF(II), 2003 to December 2007. It has funded A\$113 million across 39 projects the last of which will be completed in 2008.

Seven years of history including the Incentive Fund successes, some failures, comprehensive reviews and a sound operational performance in recent years give this next phase of the Incentive Fund a sound foundation to build upon.

Principles for designing a third phase

Following the 2007 Review the two governments agreed on a set of over-arching principles to guide the design of the next phase of support. These have been incorporated into the design document:

- There is value in retaining an incentive based program funding mechanism within the PNG program.
- The principles of being demand driven and flexible should continue to apply.
- Sustainability should be a key consideration in the application assessment process.
- The focus will be on good PNG organisations which are delivering services of value to people, and on further building their capacity.
- Equity in relation to the allocation and distribution of GoA aid resources is not a primary objective of the incentive based funding mechanism.
- Annual funding levels should be in the order of A\$15 million per annum (about 5% of the program)
- Close linkages should be developed with the Sub National Strategy (SNS), Provincial Performance Improvement Initiative (PPII) and AusAID Democratic Governance strategy and programs, including the Democratic Governance Transition Program (superseding the Community Development Scheme in an interim phase).
- Eligible organisations will include provincial governments, PNG civil society organisations and non-commercial statutory authorities (e.g. hospitals, higher education institutions).

The key aspects that need to be retained and/or changed and strengthened include:

- Retaining the ‘brand’
- Retaining basic systems and processes which are working well
- Strengthening the role of the initial activity Concept Paper and reducing the risk to applicants of wasting their time and resources
- Retain the ‘gateway’ organizational capability requirements
- Building on the gender equality work started within the second phase e.g. incentive rewards for women’s participation in all aspects of the projects and funding projects that directly benefit women
- Strengthen links to GoPNG sector activities and provide a transition for performing organisation
- Strengthening the central role of the Management Group (MG) recommendations; and
- Improving monitoring and evaluation to capture outcomes.

It was agreed that IF (III) would continue to be a ‘restricted’ access fund within the wide AusAID portfolio of programs, mechanisms, facilities and activities. It is restricted in the sense that entry criteria will be tightly scrutinized and the barrier to entry set quite high.

Goal and purpose

The proposed Goal for IF (III) is:

To deliver significant and immediately tangible economic and/or social development outcomes for men, women and children.

The proposed Purpose for IF (III) is:

To strengthen and reward performing Papua New Guinean organisations capable of delivering high impact development activities that benefit men, women and children.

The 'incentive' is in the opportunity for PNG service delivery organisations to 'lift their game', to expand their ability to 'do their job' and then become eligible to access the significant resources available under the Incentive Fund. This is the incentive, the encouragement and the reward factor for those organisations that are doing well (i.e. performing) and those with capabilities who seriously aspire to do better. Only organisations that are already capable and can demonstrate that they have the capacity to expand their development impact will be eligible.

Location, duration and scope

Projects will be implemented throughout PNG. Location should not be a constraint provided an applicant meets the criteria. The program office will be located in Port Moresby.

This phase of the Incentive Fund should be for five years from 2009, with an option for a further two-year extension. The seven-year phase is strongly recommended given the length of time needed within the project pipeline for a significant set of activities to be completed.

The Australian and GoPNG governments have agreed that the Incentive Fund will be about A\$15 million annually from GoA. Funding can be adjusted depending upon demand and agreement by the governments. There is scope for additional funding for IF (III) from GoPNG's Development Budget. Nothing in this design precludes or prevents such funding if it was to be made available. GoPNG could seek to contribute joint funding to the overall IF(III) pipeline of activities or it could be tagged for specific activities.

The level of funding is subject to review by both governments, however any such review should be mindful of the need for the level of grants available to extract value for money out of the fixed costs of the IF III management mechanism.

Qualification for participation

A wide range of PNG organisations that meet the 'gateway' entry criteria are eligible to apply to for funding including provincial and local level governments; statutory non-commercial bodies. For example: PNG civil society organisations; community organisations including faith based organisations; and, private sector organisations that directly benefit targeted communities. National government departments, commercial statutory bodies and for-profit private sector companies are excluded.

Application assessment and processing

IF(III) through an AusAID engaged Managing Contractor (MC) will provide two opportunities annually for performing PNG organisations to access funding. The minimum project will be K500,000, or at a level that enables a progression from *Strongim Pipol Strongim Nesen*. This represents a reduction from the IF (II) entry point of K1 million. The lower entry threshold is specifically targeted at encouraging non-infrastructure applications. While no upper limit is being recommended, the MC and MG should be mindful of the need to support an

equitable distribution of funding. The upper limit of K7.5 million for APNGIF in its second phase was not a major constraint, although as a maximum it did become a target. In some cases it will be appropriate for successful applications to be phased or staged, in timing and funding, to manage implementation and capacity risk.

The Incentive Fund Management Group (MG) will provide strategic direction to the project. Based on analysis and recommendations from the MC, the MG will prioritise and select activities for approval following a three-stage process:

- **Stage One:** has two steps, (a) the initial assessment against the gateway criteria, and (b) a deeper assessment of the development proposal and the applicant's organisational capabilities and capacity. These steps have been introduced to lower costs, eliminate wasted applicant effort and help manage expectations, especially for unsuccessful applicants.

Initially, the Concept Proposal (CP) and Organisational Proposal (OP) will be assessed by the MC against a set of basic governance and development activity criteria (the 'gateway criteria'). The MC will then make recommendations on each application to the MG. This initial screening is a desktop exercise with strong MC involvement and guidance, conducted largely on the contents of the documents.

- Approved CPs and OPs that meet the gateway criteria will be further screened by the MC for development soundness and organisational capacity. Cross-cutting issues will be addressed at this stage. Capability weakness will be assessed at this stage. A decision to approve or reject the proposal will be made by the MG. **Stage Two:** Once the initial concept has been approved by the MG, and the activity is in the pipeline, the specific organisational capability and weaknesses (e.g. project management) of the applicant will be identified. The primary tool for identifying required capabilities and assessing the applicant against will be a joint organizational assessment (JOA) using the OP as the review template. Sound development activities promoted by capable organisations should not be discarded because the applicant lacks a particular non-core capability to implement or sustain the project and subsequent activity. Assistance may be provided to assist in specialist technical aspects of proposal development and/or project management, e.g. a school organisation may need support to get plans drawn and accurate costings completed. The organisation is expected to have a core capacity and resources to develop the activity to project plan stage. The JOA will result from this process.

Competitive filtering and assessment of all approved CPs from applicants with an acceptable JOA will now take place. From the list of accepted CPs submitted by organisations that have passed the JOA, the MG, acting on advice from the MC, will construct and manage the IF(III) pipeline of activities. Approval at this stage authorises the applicant to proceed to develop the fully costed activity plan. Approval at Stage Two is a significant event and a strong commitment by IF III to the activity.

- **Stage Three:** approved CPs will then be developed by the applicant into a full application for final consideration by the MG. A full activity M&E framework will be developed together with baseline data and a clear exposition of proposed outcomes, targets and intended change. The draft financing agreement will be negotiated at this stage.

- **Stage Four:** Final approval of the activity plan and the signing of the financing agreement.

Management arrangements

The Management Group will consist of at least three PNG nationals jointly appointed by DNPM and AusAID representing experience in community, faith-based and private sector organisations, plus DNPM and AusAID representation. Continuity of membership from the previous phase is desirable.

IF(III) will be managed by a managing contractor that will have permanent staff in-country consisting of a program manager, an administration manager, a finance manager and three full-time development specialists covering organisational development, construction/procurement and performance management, research and M&E. A cadre of short term advisers will be available under a period contract arrangement for specialist tasks and at times of high workload.

IF(III) is 'demand driven' and is intended to open up possible partnerships with new organisations and promote innovative approaches to development problems. IF(III) projects must demonstrate potential to deliver 'high impact' service delivery, to 'make things happen at the sharp end'.

Monitoring and evaluation

The assessment of program impact is a responsibility of the MC, at least in the sense that the MC is responsible for facilitating an integrated M&E arrangement with the recipient organisations that delivers a judgement about outcomes as well as about outputs.

The MC will design, facilitate and oversee an integrated M&E arrangement. M&E systems will need to be developed within successful applicant organizations that identify both organisational change as a result of the grant and the development outcomes for men and women beyond the completion of the Incentive Fund financed inputs.

At the same time the aggregate results of the Incentive Fund's activities will be captured through routine monitoring and evaluation by the MC and a small research component. Regular independent reviews will take place, together with regular activity financial audits during implementation. Data will be sex disaggregated and also qualitative to ensure an understanding of differential benefits for men and women.

1. CONTEXT

1.1 PNG's development situation

1.1.1 Overall context

High world prices for export commodities accelerated growth in 2007 and government revenues surged, a trend continuing in 2008. A six percent GDP growth rate will see buoyant public spending continue. Inflation is likely to rise. Wind-fall revenues provide an opportunity for government to reduce debt, build infrastructure and support local development projects. Strong economic management from Treasury is expected to continue.

Despite these very positive signs significant development challenges remain, some of which are deeply embedded in weak government public administration and result in poor implementation capacity. A key challenge for GoPNG is to use these current favourable market conditions to secure sustainable development through upgraded infrastructure, enhanced service delivery capacity and the extension of basic services. While the demand will be for high impact and visible infrastructure projects it is recognised by both governments (i.e. at the April 2008 Madang Ministerial Forum) that extensive work is required to build the capacity of PNG organisations, institutions and sectors to deliver improved development outcomes for both men and women.

PNG development indicators are still low:

- With its 6.25 million population growing at 2.7 percent (2005-2007) the adult literacy rate is 57.3 percent. About 13 percent of the people live in urban areas.
- The Asian Development Bank estimates that 30.2 percent of the population live on less than US1 per day.
- Women in Papua New Guinea are less educated and therefore less literate and employed less, experience extreme levels of sexual and domestic violence and less voice in government with only one female member of Parliament. This adds up to severe disadvantages for women in accessing services and participating in the full life of the country.
- Life expectancy at 57 years of age, infant mortality at 61/1000 and maternal mortality at 300/100,000 have not improved since 1980 and may have actually declined.
- PNG faces a major health crisis in managing and preventing the transmission of HIV/AIDS. If not contained, the spread of HIV/AIDS will have major socio-economic implications for the nation.
- The World Bank's latest governance indicators rank PNG in the weakest 25 percent for regular, quality rule of law and control of corruption
- Transparency International latest measure of corruption dropped PNG from 102 out of 145 to 162 out of 179 in the world – an alarming deterioration given how this index is created.
- The Work Bank's *Doing Business* indicators rank PNG 84 out of 178 economies in 2007 as a measure of business regulation and property rights protection.

The development challenges are significant. However, the current combination of the sound economic conditions and significant donor assistance can be used to build physical and social infrastructure (including gender equality) and to develop capacity in government, civil society, faith-based organisations and the private sector. Papua New Guinea has an opportunity to avoid the situation of the early 1990s when a similar opportunity lead to no real development benefits.

While national government agencies have significant responsibilities for the planning, delivery and monitoring of services they are not alone. Provinces, faith-based organisations and their private sector also carry a significant burden for service delivery, especially education and health services where they are almost 100 percent responsible for service delivery. Often they have a significant advantage over central government in that they are located close to the people and operate with much lower administrative and operational costs.

The GoPNG and donors have been making significant efforts since early in this decade to design and implement improved development mechanisms to support these organisations in their work. The aid programs of PNG's development partners are no longer delivered solely through national government agencies. GoPNG agencies are being encouraged through partners, networks and funding arrangements to work with a wide range of actors. Strengthening service delivery and engagement in communities, districts and provinces is a high priority. The original Incentive Fund was a trail blazer in this regard as the description of its origin in Section 2 of this design document illustrates.

Papua New Guineans - a joint commitment to localise the principles of the Paris Declaration on Aid Effectiveness (March 2005). Specific strategies have been agreed to strengthen aid effectiveness:

- GoPNG defining operational development priorities
- Development partners to align activities with GoPNG strategies
- GoPNG and development partners will strengthen program-based approaches
- GoPNG will strengthen institutional capacity with development partner assistance
- GoPNG systems and process will be used to the maximum extent possible
- Development partners will seek to implement common systems and approaches
- Development partners will seek complementarities in their work and activities
- Results orientated performance management frameworks will guide action
- GoPNG and development partners are mutually accountable for aid effectiveness.

The declaration includes targets and indicators for 2012, an action plan for 2008, and protocols for development partner missions to PNG and the mobilisation of technical assistance.

The *PNG Commitment on Aid Effectiveness* and the associated Record of Discussions can be found at www.aidharmonization.org//actionplans

1.1.2 Government of Papua New Guinea Development Priorities

Papua New Guinea's broad goals and development principles are set out in the *Constitution*. The constitutional goals are translated by GOPNG into the *Medium Term Development Strategy 2006-2010* (MTDS) which identifies priority areas. Based on the Government's Program for Recovery and Development, the MTDS establishes the GoPNG sectoral expenditure priorities as:

- Rehabilitation and maintenance of transport Infrastructure
- Promotion of income earning opportunities
- Basic Education
- Development oriented informal adult education
- Primary Health Care
- HIV/AIDS Prevention
- Law and Justice.

The MTDS has ten guiding principles where it sees that PNG has an advantage:

- private sector-led economic growth
- resource mobilisation and alignment
- improvements in the quality of life
- natural endowments
- competitive advantage and the global markets
- integrating the three tiers of government
- partnerships through strategic alliances
- least developed areas intervention
- empowering Papua New Guineans and improving skills
- 'sweat equity', and Papua New Guinean character.

The MTDS presents strategies that address export-driven growth, rural development and poverty reduction through good governance and the promotion of agriculture, forestry, fisheries and tourism. The MTDS is being implemented by empowering Papua New Guineans, especially those in rural areas, to mobilise their own resources for higher living standards.

In addition to these sectoral expenditure priorities, there are comprehensive plans in place for PNG's most important sectors. These include

- a) *National Women's Policy* (1987)
- b) *National Health Plan* (2001-2010)
- c) *National Transport Development Plan* (2001-2010)
- d) *National Education Plan* (2005-2014)
- e) *National Food Security Policy* (2000-2010)
- f) *National Law and Justice Policy* (2002)

g) *Papua New Guinea National Strategic Plan on HIV/AIDS (2006-2010).*

In addition, each PNG national department, provincial and local level government has a corporate plan and an annual planning process where priorities are identified.

1.1.3 Government of Australia Development Strategy

Australia's aid objective is for PNG to achieve self-reliance through broad-based and sustainable development. The priorities of the aid program are detailed in AusAID's joint *Development Cooperation Strategy (2006-2010)* (DCS) with the GoPNG which advocates four core pillars:

- a) Improved governance and nation-building
- b) Sustainable broad-based economic growth and increased productivity
- c) Improved service delivery and stability
- d) Strengthened, coordinated and effective response to the HIV and AIDS epidemic

The DCS reflects a desire for a genuine partnership between Papua New Guinea and Australia that is driven by Papua New Guinean ownership and leadership with a strong emphasis on sustainability and capacity building. The DCS responds to the key recommendations identified by the 2004 Joint Aid Review.

It supports the Medium Term Development Strategy as the GoPNG's overarching plan for social and economic development will be central to the DCS. The MTDS recognizes the central responsibility of government to provide a number of core functions and basic services and, together with the MTDS, provides a framework to guide the allocation of PNG resources in both the development and recurrent budgets.

Specific AusAID strategies and programs in Papua New Guinea of direct relevance to the Incentive Fund include:

- *Australian Aid: Promoting Growth and Stability (2006)*
- Australian sector frameworks for assistance
- *Gender equality in Australia's aid program – why and how (2007)*
- *Tackling Corruption for Growth and Development (2007)*
- *Meeting the challenge: Australia's international HIV/AIDS strategy (2004)*
- *PNG Sub-National Strategy*
- *PNG - Australia/HIV and AIDS Program - Sanap Wantaim (Stand Together) (2006)*
- Democratic Governance Strategy
- the forthcoming Economic, Public Sector, Governance Strategy
- Public administration reform actively supportive of encouraging expenditure and budget control, improved governance and affordable service delivery within the GoPNG public sector reforms.

Support for the implementation of the DCS strategies and approaches should come through clearly in all IF(III) activity proposals. The Managing Contractor will have an obligation to ensure that Incentive Fund documentation and marketing material gives applicants' guidance as to how these issues are to be addressed.

1.1.4 Sub-National Strategy

Special mention needs to be made of the GoPNG's *Provincial Performance Improvement Initiative* (PPII) and AusAID's *Sub-National Strategy* (SNS) which focus on strengthening the capacities of provincial and district administrations and their performance in service delivery. There are compelling reasons to closely associate or link the Incentive Fund with the SNS, most likely through a referral based system from the SNS and/or other AusAID sectors. Provinces and districts in PNG are an important vehicle for improving service delivery and in many areas such as health and education are responsible for bringing basic services to the people.

Each Provincial Administration (with its respective district administrations) that works with SNS (PPII) could potentially become an active partner for promoting the Incentive Fund in that province. Through the development planning and prioritisation processes that the SNS facilitates in each province, the SNS can also facilitate each provincial administration in identifying high impact programs which may become potential candidates for Incentive Fund financing if the applicant fulfils the necessary conditions, most of which strongly support SNS and PPII organisational capacity objectives.

The SNS can also assist through the linkages it facilitates between civil society/private sector and each provincial administration. Provincial administrations are therefore in a position to inform civil society and the private sector of the potential opportunities for accessing the Incentive Fund, and to support proposals from civil society and the private sector that bear merit.

Any particular arm of the provincial administration such as an administration-sponsored farmer cooperative, trading entity, local level government or urban council can also become an applicant for Incentive Fund financing if it fulfils the necessary criteria.

The SNS could potentially work with candidate provincial or district administration bodies who are interested in accessing the Incentive Fund to help them strengthen their respective capacities until they fulfil required Fund criteria. Provinces that move through the PPII and SNS capacity development phases should in due course be able to meet the Incentive Fund 'gateway' organisational criteria and therefore become eligible to seek funding.

However, the provincial administration should never become the sole source of applications for financing to the Incentive Fund from that province. There may be occasions when a provincial administration may not support a well deserving proponent for various local or political reasons. The proponent should have the right to approach the Incentive Fund directly.

The links which SNS has with each provincial and district administration should be used to help assess project applications that come from a particular province. The provincial administration will of course be only one of many sources of information that will be sought by the Incentive Fund for assessing the feasibility of a proposal.

The capacity or infrastructure that the Incentive Fund helps finance should be monitored by the PPII provincial progress monitoring systems for its broader economic and social impacts. This will be in addition to the Incentive Fund's own monitoring systems.

No major conflicts or risks in the relationship of these two programs are foreseen at this stage. They each have a very distinct focus and objective. The focus of the SNS is clearly and primarily long term strengthening of public sector management capacities of provincial, district and local level government levels of sub national government, and primarily for economic management and service delivery. The Incentive Fund is focused on high impact,

infrastructure oriented projects and related organisation capacity building, irrespective of whether the organisation concerned is public or private.

The only possible risk is the one mentioned earlier, viz that a particular provincial administration may actually constrain the initiative of a project proponent from accessing the Incentive Fund due to its own biases, or local politics. Both, the SNS and the Incentive Fund will have to guard against this eventuality.

1.2 Origin of the Incentive Fund Concept

The 2000 Australia Papua New Guinea Incentive Fund (APNGIF) commenced in Papua New Guinea at a time when there was renewed and vigorous attempts to improve the performance and accountability of government organisations in the provision of public infrastructure and the delivery of social services. The PNG government of the day called for greater involvement, and direct government funding, of civil society, church, private sector and other organisations that were, for one reason or another, better placed to provide social services. At the same time, Australia was, and still is, looking to increase the effectiveness and efficiency of the aid program, in part, by increasing the level of contestability in the aid program, strengthening performance measurement, and linking funding decisions more closely to performance.

The APNGIF was designed to provide funds directly to both private and public organisations that could provide or maintain infrastructure and/or services. It was intended that the success of involving PNG organisations in the delivery of the Australian aid program should be assessed by the impact, or the results, achieved by the PNG organisations supported under the Incentive Fund. It was therefore essential that the Incentive Fund not only target PNG's best organisations, but those organisations with good ("excellent") project proposals.

The organisations supported under the APNGIF were not only to provide focused, quantifiable and viable impacts, but were to be efficient and accountable. The emphasis on getting measurable results, by targeting good organisations with good project proposals, was stated in the design to be important to:

- verify that PNG organisations can effectively deliver Australian aid; and
- confirm that aid to PNG can indeed be as effective as it is to other countries supported by AusAID.

Funding PNG's best organisations was not only intended to reward their excellence, but also to provide an incentive to other organisations to improve their performance (so they too could seek funding). The long-term development objective of the APNGIF was to encourage PNG organisations to be more effective and more efficient, improving their overall performance. The APNGIF also provided an opportunity for new organisations and new initiatives to be funded under the Australian aid program. However, improved performance, rewarding excellence, new initiatives and new organisations could only be encouraged if the selection of projects was, and was perceived to be, open, fair and transparent. Organisations had to believe that good proposals had a fair chance of being funded. As discussed later this emphasis on the 'excellence' or quality of the proposal itself was not without problems.

The increased involvement of PNG organisations in the aid program through the APNGIF was an important and significant step in the maturity of Australia's development cooperation with PNG. The capacity to do business with a wider range of private or public

sector partners in PNG (who had proven their capacity to respond to PNG's development challenges) led to a range of significant benefits, including:

- increased effectiveness in targeting the needs and priorities of Papua New Guineans;
- increased ownership and commitment to the aid program by PNG; and
- increased cost efficiency.

A wide range of organisations submitted proposals and concepts across all development themes that were appraised by the Incentive Fund. **Annex D** lists the 217 APNGIF full applications that were appraised by the contractor and from which 39 successful applicants were selected. Information is presented by date received, the applicant organisation, the project title, the amount requested and the outcome.

In mid 2003 following the 2002 Review a new initial step was introduced called the Concept Paper. This was intended to reduce the number of full applications prepared.

This information is included to give the reader an appreciation of the extraordinarily wide range of organisations and their projects across sectors that were offered to the APNGIF for funding. The strong emphasis on education, health and infrastructure projects is reflected in this listing.

1.2.1 IF Reviews and lessons learned

The APNGIF was the subject of a number of reviews, the major ones being in 2002, 2004 and early 2007. The key documents from these reviews were considered by the design team:

- AusAID, *Mid Term Review – Final Report*, 17 December 2002, (2002 Review)
- Fowler, Ian, *PNG Incentive Fund – Design Review*, AusAID, September 2004 (Design Review).
- Tuckwell, Keith, *Australia PNG Incentive Fund Review Report*, AusAID, 1 February 2007 (2007 Review)
- Stanton Partners, *Independent Review Team Reports*, AusAID, series No. 1 – 11, August 2000 – August 2006.

The 2002 Review resulted in the establishment of IF(II), which deleted a major component known as 'the Policy Stream' from the original design. The Policy Stream sought to encourage and reward organizations, particularly provinces, to implement development policy in sectors that reflect the long-term goals of the Government and the Australian aid Program. The review reported challenges that the Policy Stream encountered including:

- (i) the difficulty determining criteria against which the performance of the provincial governments could be assessed and for which there was accurate and timely data available
- (ii) making the awards competitive and prospective to create the incentives for provinces to implement Policy reforms; and
- (iii) how best to manage allegations and findings of impropriety by provincial governments and individual officials when the IF is premised on supporting organizations that promote excellence.

After a period of further study and dialogue with GoPNG the AusAID Sub-National Strategy (SNS) and the GoPNG Provincial Performance Improvement Initiative (PPII) were developed as mutually supportive programs to develop the capacity and capability of provinces to address core governance issues, including basic public administration. The 2002 Review was an important contributor to the development of thinking in this area given that the constraints identified were not only preventing provinces from achieving 'excellence' they were inhibiting organisation performance to deliver the most basic of services.

The 2007 Review was prepared as the foundation document for this the third phase of APNGIF. Its eight Endorsements were:

1. The findings of positive outputs and outcomes from APNGIF to date.
2. The principle of including in the PNG-Australia Development Cooperation Program an incentive based funding mechanism: being demand driven, flexible and competitive.
3. The proposed change of focus towards supporting good organisations instead of good concept papers and proposals.
4. Equity is not a primary objective of the funding mechanism.
5. The process should encourage competition amongst stakeholders.
6. Ensuring linkages and coordination of activities under this new funding mechanism and the potential complementary role that this new funding mechanism could have to support activities within the wider AusAID PNG program, at the same time strengthen coherence with GoPNG sector priorities and policies, processes and systems (e.g.: SNS-PPII and Democratic Governance programs).
7. Increasing the focus of the new funding mechanism on organisational capacity building supported through a Joint Organisational Assessment (JOA) process; and
8. Consideration of sustainability should be addressed in the assessment process.

These Endorsements resulted in GoPNG and AusAID agreeing on the principles recorded in Section 1.2.4 of this design document as the basis for this program of support. The 2007 review contained a review and discussion, with recommendations, of specific areas to be improved in this phase. These recommendations addressed:

- Creating improved management arrangements suited to the annual level of funding in the Incentive Fund.
- Ensuring coordination with other AusAID sectors and donors.
- Clarifying what activities could be funded.
- The available level of funding, the layering or tiering of funding.
- Clarifying eligibility of organisations.
- Encouraging and supporting successful applicants that had well-run organisations, and a well-thought out and feasible development proposal
- Supporting applicants to build their capacity in non-core capabilities such as project management and those areas that are needed to sustain the project, e.g. maintenance and asset management

- Making improvements to the entry process and proposal evaluations to reduce wasted effort and cost, especially to those organisations not likely to be successful i.e. earlier and better preliminary screening and assessment.
- Supplementing the very good inputs and outputs monitoring and evaluation with an active and resourced program of outcome evaluation.

The author of the 2007 Review was a participant in this design process. Most of the specific technical and process improvements recommended in that review have been incorporated into this design.

Throughout its life the Incentive Fund has been regularly reviewed by an Independent Review Team (IRT) that conducted financial audits and reviewed the operation, objectives and assumptions of the Incentive Fund, and assessed the performance of the Managing Contractor.

The design team also had access to the monitoring and evaluation reports prepared by the contractor for each of the 39 activities supported by the APNGIF.

1.2.2 Building on strengths and fixing weaknesses

Seven years of history including the Incentive Fund successes, some failures, comprehensive reviews and a sound operational performance in recent years give this next phase of the Incentive Fund a sound foundation to build upon. The key aspects that need to be retained and/or changed and strengthened include:

- a. **Retaining the 'brand':** the Incentive Fund is well known as an institution and brand. While it is tempting for designers to tinker with names of programs and projects there is no justification to do so in this case.
- b. **Retaining basic systems and processes:** with the exception of the next point the basic systems and processes for managing the Incentive Fund are sound and well documented. Some modifications are required to accommodate the recommendations of the 2007 Review as incorporated into this PDD. Most are incremental improvements.
- c. **Strengthening the role of the initial activity Concept Paper:** the most significant criticism of IF(II) received by the design team, and received regularly over the years by senior AusAID and DNPM management, is the high cost to a large number of unsuccessful applicants under the current arrangements. IF(I & II) received 4,340 enquiries; 338 concept papers were appraised; 217 full proposals were received and appraised from those concept papers; and, 62 proposals were submitted to the MG resulting in 39 approved projects. Assuming proposals cost a minimum of K100,000 in time and effort to prepare, and we know of one that cost K700,000 in cash terms, the 178 rejects were an unacceptable cost to PNG organisations (potentially K20+ million) and a waste of MC time, for a 1:5 chance of success. IF(III) will introduce a much tighter concept approval first stage so that those approved after the first two-stages can go forward and prepare the full application confident that they are highly likely to receive final approval.
- d. **Retain the 'gateway' organizational capability requirements:** there was near universal agreement that the basic benchmark organisational capacity and financial health checks (e.g. three years audited accounts) should be retained as entry criteria that must be achieved, prior to an applicants development concept being reviewed.

- e. **Build on the gender equality work from the second phase:** the second phase of the incentive fund included gender equality as one of the selection criteria of projects. Projects were more likely to be funded if they could demonstrate women's participation in all aspects of the project delivery, and/or if there were clear and direct benefits for women. All recipients had to undergo gender training before commencing the projects. These things led to some extraordinary benefits for women and changes in gender dynamics in some cases. The monitoring and evaluation framework also carefully documented the benefits and participation of women and sought feedback from community women about the differential impacts on the projects. These processes should continue in the third phase and be further strengthened.
- f. **Strengthen links to sector activities and provide a transition for performing organisations:** the Incentive Fund is not in competition with other GoPNG Development Budget or AusAID funded activities. It should complement them and be consistent with them. It is an additional source of funding for those who have the capacity to do their job better if they have access to additional resources.
- g. **Strengthening the central role of the Management Group (MG):** the small MG of appointed members, AusAID and DNPM will take a more active role in this phase in decision-making. It will be accountable for making the decisions on the concept proposals to be funded and those that are rejected. Previously, this was the managing contractor's task. The IF (III) Managing Contractor will carry out the executive function ensuring that it reports to and is advised by the MG when it comes to the final determination of applications beyond the initial compliance screening. The MG will be more than a 'rubber-stamp' to the MC's recommendations.

1.2.3 Improving the capture of outcomes

In the first two phases of the Incentive Fund the financial and physical monitoring of the projects at activity level has been done well, by the managing contractor, project owners and the IRT. The 2007 Review concluded:

"A snapshot of the M&E processes undertaken with the AMC included review of the outputs and outcomes with the M&E specialist and the development specialists. This snapshot firmly indicated that currently the [Incentive Fund] processes are ensuring efficient delivery of project outputs and, on the whole, these are relevant and delivering effective development outcomes"

However, it was also recognised that while significant efforts were being applied to the verification of outputs there had been less success in documenting medium term development results that were becoming apparent some time after the completion of the main expenditure¹. Some post-completion evaluation work is being completed as IF(III) winds down.

Monitoring and evaluation (M&E) in the next phase therefore needs to demonstrate:

¹ The design mission found at least one example of a successfully completed output which was nevertheless not allowing the institution to provide the service it hoped for because of external factors.

- that the Incentive Fund is a viable alternative way of spending around five percent of the aid program in PNG and activities chosen are on a sufficient scale to make a meaningful impact on PNG development priorities for both men and women; and
- where possible, aggregate impacts, e.g. evidence of a class of organisations having improved their performance and capacity.

This need for post ribbon cutting M&E was clearly illustrated to the design team by this email received from Sister Mary Vivette of Notre Dame Girls High School in Western Highlands Province following the team's visit. The K8.2 million project to add Grade 11 and 12 classrooms, dormitories, facilities and security was completed over a year earlier. Sister Vivette wrote:

"Here are the statistics for the first class that used the new facilities in 2006:

Subject	National Ranking (78 Girls Schools)	Western Highlands rank (5 Girls Schools)
English	26 th	2 nd
Math A	3 rd	1 st
Math B	12 th	3 rd
Biology	5 th	1 st
Chemistry	27 th	5 th
Physics	3 rd	1 st
Economics	1 st	1 st
Geography	19 th	3 rd
History	12 th	2nd

53% of the students went to tertiary institutions. The normal would be about 25% or one student out of four.

Definitely, academically these young women have achieved as well as having a chance to continue their education. They surely have the tools needed to contribute to the welfare of this country as Christian women. Those that did not continue their education are truly educated women who can make a difference in their families as well as their country. About 70 students have advanced knowledge in the areas of computing, agriculture and sewing that would enable them to contribute to the business world formally or informally. Without grades 11 and 12 at Notre Dame, more than half of the class would not have had the chance to get this level of education in a secondary school.

Surely it seems to be obvious from the first class that what was given by the Australian Government has contributed to the development of the women of PNG.

Regards, Sr. Mary Vivette."

This email tells a significant positive story directly and significantly contributed to by the APNGIF, but only visible 18 months after the actual project completion. Capturing these impacts needs to be built into each and every grant. [A full evaluation of this and all IF II activities has now been completed.]

1.2.4 Incentive Fund - consideration of a third phase

In early 2007 the Department of National Planning and Monitoring (DNPM) and the Australian Agency for International Development (AusAID) agreed on the following overarching principles for a new phase of a revised Incentive Fund:

- There is value in retaining an incentive based program funding mechanism within the PNG program.

- The principles of being demand driven and flexible should continue to apply.
- Sustainability should be a key consideration in the application assessment process.
- The focus will be on good PNG organisations which are delivering services of value to people, and on further building their capacity.
- Equity in relation to the allocation and distribution of GoA aid resources is not a primary objective of the incentive based funding mechanism.
- Annual funding levels should be in the order of A\$15 million per annum (about 5% of the program)
- Close linkages should be developed with the Sub National Strategy (SNS), Provincial Performance Improvement Initiative (PPII) and AusAID Democratic Governance strategy and programs, including the Democratic Governance Transition Program (superseding the Community Development Scheme in an interim phase).
- Eligible organisations will include provincial governments, PNG civil society organisations and non-commercial statutory authorities (e.g. hospitals, higher education institutions).

1.2.5 Design mission

The Design Mission Terms of Reference are **Annex A**. The Design Team² started their work on 27 August 2007 and immediately started field visits. Two members of the team had extensive experience in the reviews of the operation of previous phases of the Incentive Fund. Persons and places visited are listed at **Annex B**.

DNPM senior officers and AusAID's Minister Counsellor were briefed on the Aide Memoire, **Annex C**. The product of the design mission was the preparation of this Program Design Document (PDD).

The PDD was finalised in August 2008 following a Peer Review conducted in Port Moresby on 15 July 2008 that included DNPM.

² John Mooney, Team Leader; Keith Tuckwell, Adviser; Keith Lingard, Short Term Adviser; Cedric Saldanha, Short Term Adviser; John Winter, AusAID M&E Adviser; Margaret George-Mavu, DNPM representative; Belinda Conn, AusAID First Secretary and Willie Koi AusAID Activity Manager.

2. INCENTIVE FUND (III)

2.1 Philosophy for phase III

2.1.1 'Incentive' not 'excellence'

Previously the APNGIF applied the incentive component by requesting proposals from organisations that could be rewarded for their 'excellence' and that then submitted an "excellent" standard of application. This approach was not endorsed to continue by the 2007 Review or this PDD. Experience has shown that it had the potential to skew access to the Incentive Fund. It had a tendency to focus on rewarding organisations able to deliver a high standard of documentation. It did not serve to truly incentivise organisations to improve. It also had the potential to exclude 'good' organisations, with sound development proposals, but which did not have the capacity or the resources to present 'excellent' proposals in terms of content, style and format.

Another danger of the emphasis on excellence was that 'excellent' proposals could be developed for potential applicants, a process that masked inherent organisational and capacity weaknesses. APNGIF experience shows that the strongest projects are those where the originators, the custodians of the sound development idea and managers of a successful PNG organisation, went on a journey of personal development and deep commitment to secure the funding and implement the activity. They wrote the proposals, they project-managed the activity (with specialist assistance as required), they dealt with the dramas, they managed the finances as their own and they delivered the results. For most this was often extremely difficult and trying at times, but passion and commitment produced results. Within the current portfolio of Incentive fund projects the weaker projects are those where much of the original planning and design and the implementation were contracted out to third parties – not such a problem in recent times, but certainly it was in the early phases of the Incentive Fund.

To add value to the current Australian aid program the Incentive Fund must, through the funding of a major activity, provide a real incentive to an organisation and its leaders to enhance the management of an organisation to deliver its mandate and for the organisation to deliver improved development outcomes for all. This implies that capacity development of an organisation occurs in parallel with, and in a real sense as part of, the planning and implementation of the activity. In the medium term this should then enable improved delivery of its mandate as a direct outcome from the Incentive Fund's support. This PDD subscribes strongly to the concept that improved capacity is something that emerges if an organisation is given the opportunity to grow via processes that must be managed internally. Capacity development is a long-haul process not a quick fix or a set of inputs that merge to create tangible 'enhanced capacity.'

This phase of the Incentive Fund must have a strong focus on capacity and capacity development. This is consistent with the DCS and the two AusAID programs most closely related to the Incentive Fund, SNS and the new demographic governance program, *Strongim Pipol Strongim Nesen*. The Democratic Governance Strategy is built around two principles³ based on concepts that emerge regularly in this PDD including partnership,

³ **Principle 1:** Support state and civil society to work in partnership in order to strengthen their complementary roles and responsibilities, thereby facilitating political stability, service delivery and sustainable economic development; and **Principle 2:** Work at as local a level as possible supporting civil society, the sub-national levels of the PNG state and, where relevant private enterprise, to articulate demand for democratic processes and institutions, and strengthen their capacities to meet that demand and become drivers of change.

service delivery, economic development, working locally and strengthening and building capacities to meet demand and effect change.

Using the Incentive Fund mechanism for capacity development implies at least three interpretations of the application of the incentive principle:

- The organisation has demonstrated an improved organisational capability and delivery of development outcomes, i.e. it is performing well in its current scope. The Incentive Fund is effectively used to acknowledge and reward those achievements and to encourage and further improve its scope and reach – building its internal capacity; and
- As a result of the improved capacity it can expand its ‘business’ resulting in improved delivery of services for all and ultimately development outcomes; and
- Other organisation will be encouraged to follow the same path with the Incentive Fund promoting self-improvement.

2.1.2 Increasing access – bridging the gap

This PDD re-aligns the concept of the Incentive Fund by

- lowering the minimum grants
- rewarding performing organisations
- assessing actual capacity
- assessing the participation of women
- tightening the linkages to sectoral priorities; and
- enhancing the emphasis on promoting incremental change and impact.

The question to be considered now by potential applicants will become “how can the Incentive Fund best be used to build real and sustainable capacity within a promising and performing PNG organisation to deliver a sound development activity”, rather than “what can we do with K7 million (the APNGIF maximum grant)?”.

The new democratic governance program, *Strongim Pipol Strongim Nesen* is designed to achieve greater coherence and coordination across the AusAID program in support of the Democratic Governance Strategy. Following an extensive mapping exercise it will work with a range of community stakeholders and selected national and sub-national government partners using a wide selection of implementation tools and approaches including improved participatory planning, fostering partnerships, building capacity to support small-scale interventions that directly improve service delivery, strengthening weak but promising organisations and encouraging civic education. The new Incentive Fund could provide a graduation for organizations which have successfully worked with the *Strongim Pipol Strongim Nesen*, and other AusAID sectoral programs, whereby they can move on to further expand their operations and strengthen their capacities with support from IF(III).

The current major constraint to expanding access to the Incentive Fund is the current minimum grant of K1 million. The effect has been that 80% of the projects supported under the APNGIF were heavily infrastructure related. In many ways it may have been more practical to simply call the APNGIF the “infrastructure fund”, especially when considering

the application of the word ‘incentive’ seemed to be defined by “excellent” standards of documentation.

There are sound PNG organisations that do not require K1 million of support to expand their service delivery ability. The CDS often encountered organisations that saw the APNGIF as the “jackpot”. It shifted their focus away from what they were good at, and what they really needed to do, towards strategising how they could get access to the largest possible funding stream. The Incentive Fund thus undermined its own objective of promoting sustained good organization performance in service delivery. For practical reasons a threshold needs to be set (and this PDD proposes K500,000), but when one is set it has to be closely aligned to the upper limits developed under *Strongim Pipol Strongim Nesen*.

Finally, organisations from remote or non-main town parts of Papua New Guinea with a good development concept that meet the criteria should not be denied support due to increased costs of implementation at their location. Under the agreed equity principle noted in Section 1.2.4 of this design document, it is not a requirement or priority for the Incentive Fund to evenly divide funding across the GoPNG’s sectors or across provinces etc, or to promote positive discrimination in favour of remote area. However, remoteness should not be a disabling factor.

2.1.3 A complementary approach to aid delivery

As discussed in Section 2.6 a further rationale for a new phase of the Incentive Fund is that it gives successful organisations across PNG, particularly service delivery organisations outside of the national government departments, access to significant funding which may not be available to them through AusAID’s normal sector programs. It is part of a set of aid delivery modalities deliberately established jointly by the two governments to target improved service delivery at the local level. In doing so, it provides an alternative to, and reduces the risks associated with, a concentration of most of the remainder of the AusAID program (with some exceptions) on the use of PNG systems to strengthen public sector institutions and service delivery.

2.1.4 A brief explanation of key aspects of the agreed principles

Six specific elements of the jointly agreed principles for this program (Section 1.2.4) are worthy of specific mention in this introduction to IF(III) as incorporated into this design:

- a) **Incentive:** the incentive is for organisations that deliver significant and immediately tangible economic and/or human development impacts to plan for self-improvement and expansion of their services in the reasonable belief that resources will be available to back the plans.
- b) **Flexible funding mechanism:** IF(III) should provide a flexible funding mechanism capable of operating outside GoPNG and AusAID and other donor sector work programs, but consistent with GoPNG development and sector policies and strategies. IF(III) allows the possibility of a faster delivery mechanism ‘at the sharp end of development’. This flexibility should extend to IF(III) being available to GoPNG for it to use for the purposes of GoPNG’s Development Budget in either jointly funded activities with AusAID (in agreed contributions) or purely GoPNG funded activities.
- c) **Demand and innovation:** IF(III) should be ‘demand driven’ which means funds are potentially accessible by all eligible PNG based communities, organizations and institutions involved in delivering services of value to communities. IF(III) is an entry point for innovative PNG organizations and an opportunity for new AusAID

partners. It can generate greater local ownership of activities which in turn leads to more sustainable outcomes.

- d) **Organisational Focus:** The IF(III) will assess the effect of a grant upon the organisation itself. This means understanding and assessing the organisation prior to an award and determining what implementation support the organisation will need (especially if the activity being funded includes elements which are not its core business e.g. construction) and the expected positive and negative impacts the award may ultimately have upon for women and men within the organisation. Whilst the core mandate of IF(III) is definitely not *primarily* organisational capacity development, it does have a major responsibility to influence and support organisational change with capacity development support relevant to the activity being supported.
- e) **Competition:** IF(III) is a competitive funding mechanism and it is initially anticipated that there will be two rounds of funding grants totalling A\$15 million (K40 million) per annum. Grants will start from K500,000, or at a suitable levelling bridging with *Strongim Pipol Strongim Nesen*. There should be no upper limit, with the overall IF(III) funding resources, the activity pipeline and demand determining approved funding. Flexibility has been deliberately built into the design of IF (III) and this includes the potential to adjust the number of funding rounds and possibly target funds towards particular development priorities if desired. A Management Group (MG) will provide approval of concepts and proposals. The competitive nature of the funding mechanism, including unashamedly restrictive gateway criteria, sector endorsements and prioritisation against other concepts, will filter down the number of potential applicants.
- f) **Accountability:** If an organisation is funded by IF(III), it will also receive project management guidance, including gender equity advice, and support from IF(III). It will then be fully accountable for project management, including: a transparent and value for money procurement according to the process approved in the application which will follow the organisation's usual procedures, e.g. for government bodies the Government of Papua New Guinea *Good Procurement Manual* and use of the Central Supply and Tenders Board, (note: the MC will only undertake procurement as a matter of last resort); developing appropriate monitoring and evaluation systems; providing monthly financial management and progress reporting; and capturing and reporting on both expected and achieved development outcomes for men and women and organisational changes.

2.2 Goal and purpose

2.2.1 Goal

The proposed Incentive Fund Goal is:

To deliver significant and immediately tangible economic and/or social development outcomes for men, women and children.

Within a development context the words “significant and immediately tangible” may seem to some to be unrealistic. However, the designer wanted to stress by the use of these colloquial words that given the right combination of inputs, processes and outputs, Incentive Fund activities will produce visible outcomes within the short to medium term, say two to five years.

2.2.2 Purpose

The proposed Incentive Fund Purpose is:

To strengthen and reward performing Papua New Guinean organisations capable of delivering high impact development activities for men, women and children.

The ‘incentive’ is in the opportunity for PNG service delivery organisations to ‘lift their game’, to expand their ability to ‘do their job’ and then become eligible to access the significant resources available under the Incentive Fund. This is the incentive, the encouragement and the reward factor for those organisations that are doing well (i.e. performing) and those with capabilities who seriously aspire to do better.

Only organisations that are already capable and can demonstrate that they have the capacity to expand their development impact will be eligible. The Incentive Fund will not provide services and support to develop organisations to meet entry requirements. However, explicit capacity development activities will be included in the approved activity, designed after a thorough assessment of the applicant, to ensure that any capabilities and/or capacity required to sustain the investment are strengthened and enhanced.

Men, women and children are mentioned specifically in the purpose and the goal to ensure the program directly benefits all and the impact can be measured differentially. It also recognises the different levels of development each group faces and that the Incentive Fund is to specifically address this inequality within the projects chosen.

Potential new entrants can be developed and strengthened through other AusAID programs, including the *Strongim Pipol Strongim Nesen, Churches Partnership Program, Sub-National Strategy* and the AusAID HIV and AIDS Program (*Sanap Wantaim*), other donors and GoPNG. Building the linkage between current AusAID sector programs and the Incentive Fund is an explicit objective of this approach.

The proposed purpose is not limiting in its definition of “high impact development activities”. The first reference point is the Goal itself which contextualises the phase as “significant and immediately tangible”. The range of available activities is large and open to demand. The 2007 Review envisages possibilities in:

- Training and skills development – nursing, teaching, vocational centres
- Economic development activities – markets, regional agriculture, key infrastructure
- Health – regional, provincial and district community health activities.

The design team was conscious that APNGIF was perceived of by many as an infrastructure program. We feel the need to emphasise that infrastructure is not a need in itself, but a means to achieve a higher development objective. IF(III) will have a strong capacity development aspect, as mandated by the Purpose which is about strengthening the good organisations, not solely about the inputs and physical outputs of the intervention. The outcome of the interventions will contribute to the achievement of the Goal.

The design team is also aware of an interest in expanding IF(III) in areas of economic growth, a priority area for GoPNG. While recognising that the IF(III) is flexible enough to support development innovation in such areas, caution is needed. We believe that the managers of the Incentive Fund should be risk adverse, especially in areas and activities that have shown tendencies towards being high risk in previous iterations of donor assistance in PNG and elsewhere.

2.3 IF(III) - in brief

The IF(III) is a 'restricted' access fund within the wide AusAID portfolio of programs, mechanisms, facilities and activities. It is restricted in the sense that entry criteria will be tightly scrutinized and the barrier to entry set quite high.

IF(III) through an AusAID engaged Managing Contractor (MC) will provide two opportunities annually for performing PNG organisations to access funding for projects focused on the Purpose. The minimum project will be set K500,000 (or around a level that meets the top-end of grants available under *Strongim Pipol Strongim Nesen*), a reduction from the K1 million previously. The lower entry threshold is specifically targeted at encouraging non-infrastructure applications. Applicants will include a wide range of PNG organisations that are doing their job well and that meet the 'gateway' entry requirements. While no upper limit is being recommended the MC and MG should be mindful of the need to support an equitable distribution of funding. The upper limit of K7.5 million for APNGIF in its second phase was not a major constraint, although as a maximum it did become a target. In some cases it will be appropriate for successful applications to be phased or staged, in timing and funding, to manage implementation and capacity risk.

The Incentive Fund Management Group (MG) will provide strategic direction to the project. It will prioritise and select activities for approval following a three-stage process:

- **Stage One (Gateway Filter and Initial Assessment):** has two steps:
 - (a) the initial assessment against the gateway criteria;
 - (b) a more thorough assessment of the development proposal and the applicant organisational capabilities and capacity.

These steps have been introduced to lower costs, eliminate wasted applicant effort and help manage expectations, especially for unsuccessful applicants.

Initially, the Concept Proposal (CP) and Organisational Proposal (OP) will be assessed by the MC against a set of basic governance and development activity criteria (the 'gateway criteria'). The MC will then make recommendations on each application to the MG. This initial screening is a desktop exercise with strong MC involvement and guidance, conducted largely on the contents of the documents.

CPs and OPs that meet the gateway criteria will be further screened by the MC for development soundness and organisational capacity. Cross-cutting issues will be addressed at this stage. Capability issues and weakness will be assessed at this stage. A decision to approve or reject the proposal will be made by the MG. This is the beginning of the process that builds the IF III pipeline of activities. The MG is not obliged to send all 'complying' CPs to the next stage as it has an obligation to manage the pipeline in terms of the overall balance of the IF III portfolio to PNG's development. CPs should be sent to Stage Two on the basis that the MC and MG believe that there is a high likelihood of the organisation receiving a satisfactory joint organisational assessment and the CP proceeding for funding.

- **Stage Two (Joint Organisation Assessment):** Once the initial CP has been approved by the MG, and the activity is in the pipeline, the specific organisational capability and weaknesses (e.g. project management) of the applicant will be identified. The primary tool for identifying required capabilities and assessing the applicant against will be a joint organizational assessment (JOA) using the OP as the review template. Sound development activities promoted by capable organisations should

not be discarded because the applicant lacks a particular non-core capability to implement or sustain the project and subsequent activity. Assistance may be provided, if requested in the concept proposal to assist in specialist technical aspects of proposal development and/or project management, e.g. a school organisation may need support to get plans drawn and accurate costings completed. The organisation is expected to have a core capacity and resources to develop the activity to project plan stage. The JOA will result from this process.

Competitive filtering and assessment of all approved CPs from applicants with an acceptable JOA will now take place. From the list of accepted CPs submitted by organisations that have passed the JOA, the MG, acting on advice from the MC, will construct and decide upon the IF(III) pipeline of activities. Approval at this stage authorises the applicant to proceed to develop the fully costed activity plan. Approval at Stage Two is a significant event and a strong commitment by IF III to the activity.

- **Stage Three:** approved CPs will then be developed by the applicant into a full application for final consideration by the MG. The MC will assist those who receive a satisfactory JOA to progress their proposal into a detailed application. The MC will not be developing or writing proposals or providing project specific design assistance. Applicants will be expected to have a core capacity but it is recognised that they may need assistance in addressing specific technical issues that are not their core capabilities. These weaknesses will be identified in the CP (and/or JOA). The MC's role is one of mentoring, guidance and providing advice on how applicants can and should be using third parties to build the quality of the application.

A full activity M&E framework will be developed together with baseline data and a clear exposition of proposed outcomes, targets and intended change. The draft Incentive Fund Agreement (IFA) will be negotiated at this stage including all financing arrangements.

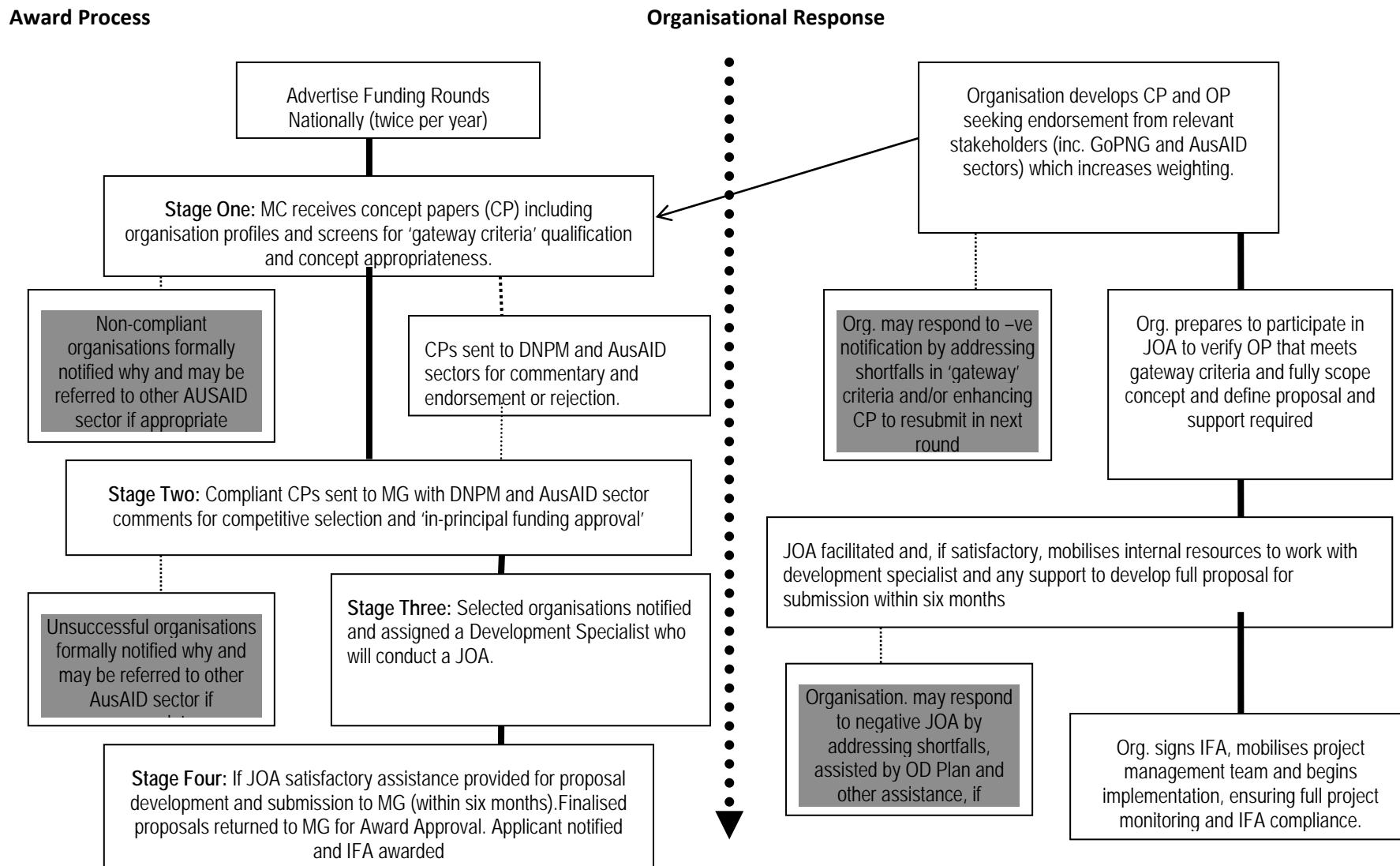
Stage Four: Final approval of the activity plan and the signing of the IFA. At this final stage the MG will receive the final set of documentation from the MC. The MC will make a formal recommendation on the application. At a formal meeting the MG will approve the application (with or without conditions) or reject it.

In the event that final approval is not forthcoming the MG, via the MC, will provide extensive feedback to the organisation and further assistance, including possible referral to other funding and capacity development mechanisms to address weaknesses. The organisation is at liberty to reapply in future funding rounds.

There will be no appeal for unsuccessful concepts – organisations can reapply to future funding rounds.

Figure 1 is an illustration of this four-stage process.

Figure 1: IF(III) AWARD FLOW CHART



The MG for IF(III) will complement and support GoPNG and AusAID sector priorities and related sector operations in their consideration of all applications and final decision-making. The IF(III) is not a standalone grants scheme. Concepts that have strong linkages to sector frameworks and processes and those aligned with both governments' development strategies should receive higher weightings, as should those that specifically address increasing gender equality.

GoPNG, DNPM and AusAID sector engagement in the Stage Two assessment process will need to be supported by key stakeholders in the relevant sector itself to either endorse or reject a concept. Their support is important for an application to proceed to Stage Three (detailed activity plan preparation). Any shortfalls in the participation and commitment from GoPNG sectors, DNPM or AusAID sectors could be detrimental to an organization's concept proceeding. Lessons learnt from APNGIF indicate that ensuring DNPM and AusAID sector involvement in decision making will be a challenge for the Managing Contractor. However, there is also an implied emphasis for the submitting organization to ensure early engagement with the MC to seek full concept endorsement from GoPNG. Applicants will not deal directly with the relevant AusAID sectors but rather they should work with GoPNG national policy departments and the MC. It should be noted that no applicant should be disadvantaged because endorsement is not forthcoming because of local or political bias.

Reducing the minimum awards from K1 million to around K500,000 should encourage greater competition, and hopefully new entrants. Grants will be flexible with the maximum limits capped by funding rounds and competition. The MC and MG may need to make appropriate adjustments to the documentation required of applicants for grants at or around the minimum grant when compared to a much larger application. Excessive application and transaction costs for applicants should be avoided. However, the four stage application and review process shall be used in all applications that move through the system.

The fund will be financed through dedicated sub-imprest account mechanisms in each project site, fed from a head account managed by the MC. The IF III awards will be for the total activity budget, most of which will be implemented over a number of years.

IF(III) is 'demand driven' and is intended to open up possible partnerships with new organisations and promote innovative approaches to development problems.

IF(III) projects must demonstrate potential to deliver 'high impact' service delivery for both men and women, to 'make things happen at the sharp end'. Monitoring and evaluation systems that measure gender differential impacts across the program will need to be developed within successful applicant organizations, supported by the MC, that identify both organisational change as a result of the grant and medium term impact beyond the completion of the IF-financed inputs. At the same time the aggregate results of the Incentive Fund's activities will be captured through routine monitoring and evaluation by the MC and a small research component. Occasional independent reviews will take place, together with regular activity financial audits during implementation.

The MC will need to carefully manage the IF(III) pipeline. A large number of enquiries resulted in only 37 successful grants for APNGIF. A similar result can be anticipated for IF(III).

2.4 Location, duration and management

2.4.1 Location

Projects will be implemented throughout PNG, and staff from the MC will be expected to travel extensively. As noted early in this document location should not be a constraint provided an applicant meets the criteria.

The Incentive Fund's office will be located in Port Moresby.

2.4.2 Duration

This phase of the Incentive Fund should be for five years from 2009, with an option for a further two-year extension. The seven year phase is strongly recommended given the length of time the project pipeline takes from approval to implementation, based on IF II experience

2.4.3 Scale

The Australian and GoPNG governments have agreed that the Incentive Fund will be about A\$15 million annually. Funding can be adjusted depending upon demand and agreement by the governments. The minimum project will be K500,000 total cost.

There was some discussion during consultations with GoPNG's DNPM on the possibility of GoPNG contributing funds into IF(III) through GoPNG's Development Budget. Nothing in this design precludes or prevents such funding if it was to be made available. GoPNG could seek to contribute joint funding to the overall IF(III) pipeline of activities or it could be tagged for specific activities. Decisions will need to be made about the level of Managing Contractor resourcing, the allocation of risk and the prioritisation of activities if GoPNG funding eventuates. The level of GoPNG funding will have a major influence on these decisions.

The level of funding is subject to review by both governments, however any such review should be mindful of the need for the level of grants available to extract value for money out of the fixed costs of the IF III management mechanism.

At an activity level there is evidence from the earlier phases that applicant co-financing (or the provision of resources other than cash) of the activity contributed to successful implementation and sustainability. This design does not recommend that applicant contributions should be made compulsory, however when applications are being assessed in the IF III pipeline those with a significant local contribution should be viewed more favourably.

2.4.4 The Management Group

The Incentive Fund Management Group (MG) will be responsible for:

- a) reviewing and approving Incentive Fund selection processes for openness, fairness and transparency;
- b) approving Incentive Fund marketing, promotion and reporting approaches;
- c) approving or rejecting applications based upon:
 - i. advice from the MC

- ii. a review of all documentation at each stage including the CP, OP and the JOA, the appraisal by the Managing Contractor
- iii. the views of the members of the MG [Note: inputs from GoPNG sectors sectors will be obtained by applicants during the application development process. DNPM and AusAID inputs may be solicited by the MC at various stages of the process with their representatives on the MG maintaining oversight and facilitating coordination];
- iv. the availability of funding, the quality of activities in the pipeline and the budget

d) making on-going funding recommendations after reviewing monitoring reports and the MC's funding recommendations.

The MG will consist of at least three PNG nationals jointly appointed by DNPM and AusAID plus DNPM and AusAID. The three at-large representatives should have experience in CSOs, FBOs, the public sector (not necessarily currently active public servants but persons of standing) and the private sector. It will also have gender equality expertise. Some continuity of membership from IF(II) is desirable.

2.4.5 The Managing Contractor

AusAID will contract an MC for an initial period of five years (with a possible further extension of two years at AusAID's discretion). The MC will manage, under the direction of the Management Group, the Incentive Fund and supervise the implementation of projects under IF(III). The MC will play a direct role in the processing and appraisal of all applications and full proposals and the financing and monitoring of funded projects. The MC will not implement activities under the Incentive Fund. The MC will be responsible for guiding and mentoring applicants with approved CPs to obtain advice and support to complete the final application, and then implementing approved projects.

The MC will also provide the link between all IF(III) stakeholders and therefore must establish and maintain good working relationships with all key stakeholders including the Management Group, AusAID, DNPM and proposing and implementing organisations.

2.5 Eligible organisations

2.5.1 Examples of eligible organisations

Concepts will come from a wide range of PNG organisations, or a cluster of organisations with a lead organisation. Eligible organisations include:

- a. Provincial and local-level governments and their trading organisations;
- b. Statutory non-commercial government authorities e.g.; research organisations, universities, schools and hospitals;
- c. Community organisations including non-governmental organisations, faith based organisations, women's organisations, and local offices of international non-governmental organisations;
- d. Private sector organisations that directly benefit a targeted community – e.g. construction of a market owned by a community through a company formed by urban authorities or a bridge built by a private firm that opens up markets for a large community. This includes corporate entities such as joint ventures,

partnerships and trusts. It also includes unincorporated entities such as clubs, societies, and special interest groups convened under not-for-profit articles of association.

Organisations funded under APNGIF, or IF(II), may re-apply for new projects or the expansion of previously funded ones.

2.5.2 Excluded organisations

Organisations not eligible to be funded are:

- a. National government departments.
- b. Commercial statutory authorities.
- c. Private sector organisations, where the predominant benefits from the activity are accessible by individual shareholders or increased overall organisational wealth.

2.6 Eligible Activities

2.6.1 Aligned with PNG Development Priorities

The IF(III) seeks to support activities that reflect the development priorities of both the GoPNG and the Government of Australia. An activity must be identified as a priority by both governments in order to be assessed as a high development priority.

Development priorities change over time, and it is the responsibility of each applicant to demonstrate that their proposal is in fact a current priority activity.

Applications must clearly aim to contribute to a PNG national development outcome such as income generation, basic education or basic health as outlined in the MTDS, the DCS, and the Millennium Development Goals. The applicants will also need to clearly detail how they will measure, monitor and evaluate those outcomes over time. Concepts showing that applicants have thought about their monitoring systems and how they will evaluate outputs and outcomes differentially for women, men and children, will be favoured over those that have not.

2.6.2 IF(III) eligible activities

IF(III) concepts will vary in nature. It is difficult to make a complete list of those that will be considered.

However, the following are excluded:

- a) New infrastructure or equipment (including houses and vehicles) unless:
 - i. it is an input to a service delivery or income generation objective as the project's largest component;
 - ii. there is a firm undertaking and capacity to meet all recurrent costs, and
 - iii. the investment is appropriate to the operating and physical environment.
- b) Activities providing 'working capital' or direct commercial advantage or profit position over other organisations.
- c) Core or recurrent funding – this is the responsibility of the organisation, other donor support, and/or the GoPNG.

- d) Comprehensive organisational development, institutional strengthening or capacity development activities or projects for organisations that do not have an existing core capacity for service delivery – this should be the responsibility of other PNG public sector reform and sector development programs supported through the PNG Development Budget and AusAID's supporting programs.
- e) Applications promoting religious activities, including the construction and/or maintenance of churches or places of worship.
- f) Applications involving the procurement of land.
- g) Applications where land ownership is in doubt, in dispute or in any way unclear. (Undertakings to obtain 'title' will not be sufficient. History in PNG shows that such unresolved issues can and do seriously delay implementation).
- h) Compensation payments of any type, including land compensation payments.
- i) Mark-ups on inputs provided internally by implementing organisations, or through sub-contracts with related third parties.
- j) Privately registered motor vehicles, privately owned housing, plant or equipment.
- k) Routine maintenance of existing infrastructure (refurbishment of existing infrastructure is a permitted input).
- l) Research of a commercial nature where the beneficial copyright will not directly reside with GoPNG; provincial or local government, or community groups.
- m) International fellowships, study tours and conferences.
- n) Any costs not included in the final contract between IF(III) and the applicant organisation.
- o) Recurrent salary or operational costs after completion of the project.
- p) Emergency relief activities. (This does not exclude reconstruction following a major disaster where all IF(III) criteria are met).

This list can be added to on the recommendation of the Management Group.

2.7 Organisation assessment and entry process

IF(III) will have a greater focus at the initial application stages on the organisation itself and the development concept being promoted. The intention is that only capable organisations with a strong Concept Proposal will be taken forward to develop into a full application. A strong influencing factor in the rationale for this approach is to (a) reduce distraction and cost to potentially unsuccessful organisations, and (b) manage expectations.

Annex E contains a detailed description of the organisation development and entry process for IF(III). It will be used to prepare the key process and management documents for the Incentive Fund including those to be submitted by applicants. The Annex provides guidance on:

- a) Organisational assessment and entry process as described briefly in **Section 2** of this PDD:
 - The four-stage entry process;
 - Organisational Entry Qualifications – rigid 'Gateway Criteria'; and

- The Joint Organisational Assessment – to assess organisation capabilities and capacity to undertake the proposed activity, once the gateway criteria have been met.
- b) Concept criteria including:
 - sustainability
 - value-for-money
 - monitoring and evaluation
 - risk assessment
 - HIV and AIDS
 - gender equality and equity
- c) Some procedural improvements for IF(III) over IF(II).
- d) Meeting the financing agreement requirements.
- e) Creation of public goods.
- f) Compliance with PNG law, codes and standards.
- g) Implementation of activities.

2.8 Activity Implementation

Approved IF III will be implemented following procedures developed in the earlier phases. There is little need to make significant changes, other than improved monitoring and evaluation.

The Incentive Fund Agreements are the key control document in the implementation arrangement between the MC and the implementing organisation. The agreements include the basis for payment, the management obligations and the monitoring (including audit) and reporting arrangements. All payments will be linked to the achievement of activity milestones. Payments will be provided in regular tranches linked to performance and the activity budget sub-components.

Experience in previous phases of IF III, and in other AusAID funded PNG activities, illustrates that using a 'design & build' contracting model is an option that has to be seriously considered as a way of achieving quality results and mitigating risk. This is particularly so when many of the applicants are not skilled in project design and management and are not well equipped to manage other contracting models.

2.9 Marketing the Incentive Fund

The IF(III) Managing Contractor needs to undertake a comprehensive market and awareness campaign.

IF(III) processes and criteria should be marketed with the 'gateway' criteria clearly explained and exposed through media, a website and local community networks. Regional seminars in major centres should also be considered. Management of expectations and discouraging weak applications at an early stage is an important MC role. At these seminars the MC will need to be able to give potential applicants accurate information on, and make referrals to, other AusAID and PNG programs and activities.

It will be especially important that the 'gateway' entry criteria and Stage One requirements are clearly explained in all written material and on the IF III website.

The MC will ensure two advertised and competitive / open funding rounds per year (this may be adjusted depending upon demand).

The marketing and advertising of funding rounds will allow the opportunity for 'targeting' assistance to GoPNG/AusAID identified priority areas or specific population groups like women's groups, although it should be recognised that low performing areas will most likely be host to low performing organisations not capable of reaching IF(III) 'gateway criteria'.

Provincial administrations through the SNS and PPII, and other sector projects, can support promotion of the IF III. The MC should ensure that IF III marketing specifically targets the involvement of provincial-based service delivery organisations.

It is envisaged that the MC and AusAID will need to work closely together to provide time for the sectors to be able to review and provide supporting or non-supporting commentary for concept papers. This was a significant challenge for the APNGIF and overall was a weak and unsatisfactory process that resulted in disengagement and disenchantment by some AusAID sectors in earlier times, and misunderstanding with PNG counterparts. This in turn led to complaints of distortion and distraction by some of the sectors and claims of obstruction and interference from the PNG side. In IF(II) this was remedied significantly, but remains a risk.

GoPNG and AusAID sector inclusion and engagement remains a significant challenge to ensure the success of the IF(III) processes. Success will most likely be achieved by sectors identifying a suitably qualified IF(III) representative capable of and ensuring continued communication between relevant personnel in the sector and IF(III). A single desk reference point in each AusAID sector would assist coordination by the MC.

Complementary communications linkages must be established among the MC, MG, DNPM and AusAID, and the sectors, and particularly SNS. This is essential so that:

- i. CPs can be reviewed by the AusAID sectors. This inclusiveness should be encouraged and facilitated by the MC with AusAID
- ii. CPs can contribute to any reform 'continuum'; and
- iii. DNPM and the relevant AusAID sectors can submit commentary (email notes to the MC rather than extensive memoranda) on CPs for consideration during the approval process.
- iv. Unsuccessful CPs, or sound ones that are better placed in another program, can be referred to other projects/sectors if appropriate.
- v. All unsuccessful applicants are at liberty to reapply in future funding rounds if defects have been remedied.

It cannot be emphasised enough that the MC has a significant responsibility in promoting and facilitating communication with GoPNG and AusAID sectors in two ways. Firstly, by encouraging applicants to do the initial work by ensuring coordination within the GoPNG bureaucracy (applicants should not be seeking AusAID sector approvals), and secondly, by following up on briefs sent to AusAID sectors, both directly and through the IF(III) AusAID activity manager.

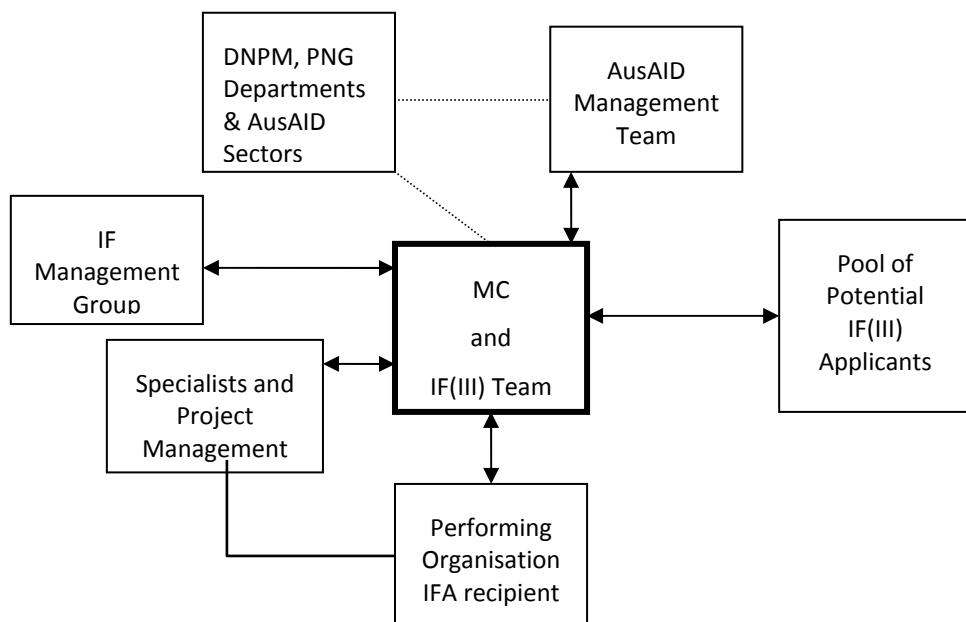
3. MANAGEMENT FRAMEWORK

The Incentive Fund has evolved over a number of years. It has been the subject of a number of comprehensive reviews, more than most projects. The 2007 Review concluded that the APNGIF was well managed with developed systems and staffing expertise capable of serving the demand. The review recommended an evolutionary change rather than a revolutionary change to the next stage of the Incentive Fund.

Rather than create confusion through change and risk lower development outcomes by altering current arrangements radically this design team believes that it would serve everyone well if the current structure of the APNGIF could be built upon, with incremental change in some areas for IF(III).

3.1 Stakeholders, Roles and Responsibilities

FIGURE 1: STRUCTURAL ARRANGEMENT



The management stakeholders in the Incentive Fund are DNPM, AusAID, the Managing Contractor (MC), the Management Group and funded organisations.

3.1.1 Department of National Planning and Monitoring

DNPM will identify a key contact for all aspects of the Incentive Fund, and who will be the counterpart to the AusAID IF(III) activity manager. This person will coordinate DNPM's inputs to meet the following responsibilities:

- a) effective and efficient communication with AusAID and the MC;
- b) joint appointment with AusAID of the additional members of the MG;
- c) internal DNPM and central agency coordination and reporting;

- d) seek advice on Concept Proposals submitted to the MC from relevant GoPNG sectors including national departments, provinces and agencies, or assist the MC to obtain it;
- e) screen CPs submitted by the MC to the MG, and determine in consultation with other members of the MG which project proposals are eligible for funding;
- f) ensure DNPM's regular participation as a standing member of the MG; and
- g) act on recommendations from the MG.

3.1.2 AusAID

The AusAID Post in Port Moresby will identify an activity manager for all aspects of the IF(III). This person will coordinate AusAID's inputs to meet the following responsibilities:

- a) effective and efficient communication with AusAID and the MC;
- b) joint appointment with DNPM of the additional members of the MG;
- c) internal AusAID coordination and reporting plus financial management, including advice on annual allocations;
- d) seek advice on CPs submitted to the MC from AusAID sectors and sectoral programs, or assist the MC to obtain it;
- e) ensure AusAID's participation as a standing member of the MG;
- f) monitor and report on the performance of the MC and Independent Review Team;
- g) act on recommendations from the MG; and
- h) manage the contracts with the MC and the IRT.

3.1.3 The Management Group

Sustained development and change do not come about without strong governance and accountability systems. This is at the heart of all Incentive Fund projects and should be central to the management of IF(III) itself. A strong Management Group, where discussion and debate is open and frank, will be a continuing contributor to the success of IF(III) within the aid program.

The Incentive Fund MG will meet quarterly and should drive not only the Incentive Fund's strategic direction but the core decisions on what concepts are approved and those that are rejected. Based upon consultations with current MG members, and reflections on the similar board in the Advisory Support Facility this design proposes a number of changes as to how the MG works. Primarily, this is aimed at increasing transparency and limiting the opportunity for negative perceptions on process to cloud the overall achievements of IF(III).

There must be genuine ownership and control of the Incentive Fund by the MG. The members of the MG must make it clear to the MC, DNPM and AusAID that they were not about to be relegated to 'rubber-stamp' modality. Members must realise that they indeed control the Incentive Fund, but they do it as a team representing different interests for the good of PNG's development.

Before considering specific changes in operating modality the Management Group's role at each stage is:

- a) The MG will meet prior to each funding decision round for induction and refresher training on agreed procedures. For example they will be encouraged and assisted to assess and score a 'sample' Concept Proposal and Organisational Profile to aid the achievement of consistency.
- b) The MG receives a brief report (applicant, brief description, main defect or exclusionary factor) on all Concept Proposals and Organisational Proposals recommended to progress or for rejection at the first part of Stage One – the 'gateway criteria' assessment. This will aid transparency and accountability. This will be a desktop review by a subcommittee of the MG.
- c) During the second part of Stage One the MG will receive detailed submissions from the MC on CPs that passed through the 'gateway filter' and which have received a detailed review and organisational assessment. At this stage the MC will receive supporting documentation and comments from the GoPNG and AusAID sectors. It is essential that the MC ensures that the MG receives this documentation in sufficient time to allow comprehensive review, consideration and decision-making. This is when the initial competitive screening of applications takes place. The MG will approve organisations to take their application to Stage two, the Joint Organisation Assessment. At this stage they may also give 'in-principle' funding support for the CP, subject to a satisfactory JOA, and also approve funding to develop the detailed plan for the activity. (Applicants that contribute their own funding and resources to plan development will be the norm).
- d) Once the JOA has been completed and the organisation assessed, a sub-committee of the MG should be used to endorse the recommendations of the MC on the JOA.
- e) During Stage Three the MG will review final proposals and budgets for all CPs approved through Stages One and Two. The financing agreement will be negotiated at this point.
- f) There will be no presentations to the MG by submitting organisations. Members need some protection from outside influence.
- g) Stage Four is the formal approval at a full meeting of the MG.

This design recommends a number of procedural steps to be included in the MG Charter and mode of operation:

- a) MG national members should be offered the opportunity to speak on proposals at MG meetings before DNPM and AusAID representatives speak.
- b) AusAID reserves the right to maintain a 'no objection' procedure for all procurements.
- c) The full IF(III) team of development specialists should be available at all MG meetings to answer any MG member questions.
- d) The decisions of the MG will be formally recorded.
- e) A list of approved CPs is publicly available on the website.

A number of practices and ways of working need to be introduced to support the enhanced engagement by the MG in the decision-making process:

- a) The new MG should be assisted to conduct a workshop/brain-storming session early in its existence to decide how it and the MC will address GoPNG and GoA

development priorities, and whether any particular development priorities should be encouraged.

- b) To ensure gender equality is seriously considered within IF (III), the new MG should participate in gender training that focuses on how IF (III) can support gender equality which leads to more sustainable development for all.
- c) The MC should report to the MG regularly on the expressions of interest that were rejected at an early stage due to non-compliance with basic criteria and seek endorsement of their decisions.
- d) Each meeting of the MG should spend some time to check and recalibrate their approach to assessing applications.
- e) Concepts submitted to the MG by the MC should include a written appraisal by the MC with a draft recommendation.
- f) GoPNG and AusAID sectors should be encouraged to provide written responses on the CPs and those responses should be available to the MG to consider. This will enhance credibility and transparency as well as providing a formal opportunity for input. (Previous iterations of the Incentive Fund have raised significant suspicions and doubts within the applicant community when potential applications were 'vetoed' by either DNPM and/or AusAID 'behind the curtain').
- g) The DNPM and AusAID members of the MG should be encouraged to express their views after those of the other members of the MG. AusAID and DNPM will be instrumental in achieving this enhanced level of ownership by the MG. Their representatives need to be senior people who are not only determined to see the Incentive Fund succeed but who are willing to accept the MG as having the pivotal role. It is recognised that there may times when DNPM and/or AusAID would like to see a particular CP approved, or rejected, but this should cause neither major problems nor panic. Consulting, lobbying and negotiation among the MG members are legitimate strategies and tactics in seeking consensus.
- h) The MG decision-making culture should be Melanesian style, through consensus rather than voting, with all members having the opportunity to argue the case for a particular project on its merits. Compromises will be made, and the competitive nature of the funding allocations should result in compromises between high quality applicants, not a lowering of standards.
- i) In its way of working with the MG, and applicants, the MC will need to demonstrate and show by its performance and way of working:
 - An understanding and experience of working in the PNG environment with government, civil society, churches and others
 - An understanding and experience of capacity development approaches and the ability to utilise a range of techniques to increase the confidence, skills and action of the MG in their work
 - and ability to assess and work sensitively to develop gender equality
 - An ability to assess and work sensitively in a cross cultural context.

Achieving genuine ownership can come about by showing respect, accepting advice and alternative views, and avoiding the 'short-cuts' that undermine commitment and put members in a 'rubber stamping role'. Simple things like holding meetings in other parts of

PNG and not in the MC's office, being flexible about timing of meetings, taking opportunities to meet socially, promoting the GoPNG members as the real Incentive Fund decision-makers, taking a back-seat role wherever possible, providing individual briefings when needed, even having all applications addressed to the Chair rather than to the IF(III) Program Manager are all important.

The five-member MG will consist of three appointed Members, nominated by AusAID and DNPM to serve terms of three years duration, renewable; and two standing Members, being one representative each from DNPM and AusAID.

The chair of the MG will be jointly appointed by AusAID and DNPM. The designers recommend that the current APNGIF chair, Dr Webster of the National Research Institute, be seriously considered for re-appointment under IF (III). This appointment will provide significant benefits in terms of Incentive Fund institutional history, Fund knowledge and process continuity.

The appointed MG members will collect a fee for reviewing working papers and attending the quarterly meetings in accordance with GoPNG guidelines for statutory board membership. The MC will also meet the cost of airfares and accommodation should meetings be held in regional centres.

The current MG Charter should be modified to reflect these changes.

It is important that the appointed and standing members of the MG be identified and meet to discuss their Charter, and in particular, their roles and responsibilities, before the mobilisation of the MC. If possible some continuity of membership from the current MG is desirable. A follow-up meeting will be required at the completion of the pre-implementation strategy, to review the proposals appraised and make initial funding recommendations.

3.1.4 The Independent Review Team

An Independent Review Team (IRT) will be engaged to review all aspects of the IF(III) and provide recommendations to AusAID and the MG on the management of IF III. See below for more details of the IRT role.

3.1.5 Coordination with other donors and AusAID sectors

Coordination of the donors and aid agencies and their sectors is an on-going challenge within PNG. Whilst it is understood that DNPM has initiated a donor coordination group this will be at a high level and no doubt has a long agenda to navigate before it arrives at the operational coordination of sectors and donor projects. This creates an opportunity for the Incentive Fund to provide a degree of cross-sector understanding and harmonisation in its spheres of activity.

The MC needs to take a pro-active role in supporting AusAID to facilitate coordination within AusAID and other donors:

- a) to ensure the Incentive Fund does not distract or distort from other development assistance and GoPNG support.
- b) to avoid thinking and operating in silos. The Incentive Funding mechanism provides a great opportunity to engage with partners that can cut across different sectors at the same time, thus exposing supporters to broader consultation and understanding.

- c) to ensure the “Do No Harm” to their development partners. It is easy to support project activity without recognizing any detrimental effects upon the organization itself, through inadequate administration support for example or by drawing the organization away from its mission and strategic goals, tempted of course by funding.

The MC, with AusAID and DNPM, should consider establishing an annual workshop for AusAID sector activity managers (perhaps inviting relevant donors) to discuss various points of frontline commonality and coordination with the Incentive Fund. The Incentive Fund needs to be marketed to internal GoA and GoPNG stakeholders. This would be an appropriate forum to discuss and inform on:

- i. What IF(III) will fund, will not to fund, and who will be funded;
- ii. IF(III)’s tools, systems and processes;
- iii. Technical management, training and specialist assistance available through the IF(III);
- iv. Ways to use the IF(III) to attract new development partners for sectors or to extend the reach of sector for their most competent of partners;
- v. Ways to use the IF(III) to leverage greater improvements from development partners;
- vi. Mechanisms to coordinate Incentive Fund and sector support; and

It would be desirable for the Incentive Fund to be part of an all-sector service delivery coordination meeting where cross-sector understanding and coordination is fostered. This would ensure that the Incentive Fund is positioned practically as a participatory and useful mechanism to serve the sectors, rather than grand standing in an isolated and even an onerous way as part of the aid program, as currently perceived by some.

If IF III is a demand driven mechanism it will attract interest from partners that AusAID works with and knows as well as from new partners. IF III can also be used by GoPNG to apply Development Budget and Supplementary Budget funding to key development priorities. The Incentive Fund can specifically be targeted to encourage development activities in areas where the sectors are not active or where resources are limited.

The AusAID sectors should seek to understand and use the demand and competition processes of the Incentive Fund to provide an incentive to their development partners and leverage improved performance.

3.2 The Managing Contractor

Annex F describes various aspects of the Managing Contractor arrangements including:

- MC’s Role and functions.
- MC’s IF(III) Team and Personnel Resources (**Annex G** for Position Descriptions)
 - IF(III) Program Manager (PM) - fulltime
 - Incentive Fund Administration Manager (Deputy) - fulltime
 - Financial Manager - fulltime
 - Three full-time Development Specialists - fulltime

- Support Staff - fulltime
- Contract Auditors
- Period contract long and short-term technical advisers
- Documents for MC to prepare.
- MC's Performance and the Role of the IRT.

3.3 Financial management arrangement

The financial arrangements for the Incentive Fund are well settled after seven years of operation and are satisfactory. To the greatest extent possible current procedures should be replicated for IF(III).

Further details are provided in **Annex F Management Arrangements**

For the reasons discussed in Annex F there are sound policy reasons for the MC to continue to operate the imprest account mechanism as provided for in the current Development Treaty between Australia and Papua New Guinea. The imprest account will be subject to annual independent audit.

The MC will prepare and manage a Fraud Control Plan to meet AusAID's corporate requirements.

3.4 Scope of Services and Basis of Payment

The design recommends that the MC's Basis of Payment should be established around a traditional set of inputs and payment milestone type contract arrangement.

A draft Scope of Services and Basis for Payment has been provided to AusAID.

3.5 Australian Identity

As IF(III) will provide funding to organisations throughout PNG, Australian recognition will, in geographic terms, be widespread. The APNGIF is a significant brand within the current Australian portfolio in most of PNG. Although implemented by GOPNG agencies, Australian identity will be maintained through the following initiatives:

- acknowledgement of Australian funding during all publicity of the Incentive Fund;
- acknowledgement of Australian funding on the Information Kits sent to all organisations seeking to submit proposals;
- press statements following the announcement of projects to be funded, and other occasions that provide opportunities for publicity;
- a plaque (or similar acknowledgement) will be placed on major physical structures, acknowledging Australian funding assistance; and
- inclusion of the AusAID logo on all official, program reports.

In addition, it is appropriate for some organisations to acknowledge Australian assistance by constructing signs at the program site, for example, road construction or maintenance, or by attaching stickers (indicating Australian support) to assets that have a high level of public visibility.

4 MONITORING AND EVALUATION

4.1 What is IF III achieving?

In the first two phases of the Incentive Fund the financial and physical monitoring of the projects at activity level seems to have been done well, by the MC, project owners and the IRT. The 2007 Review concluded:

“A snapshot of the M&E processes undertaken with the AMC included review of the outputs and outcomes with the M&E specialist and the development specialists. This snapshot firmly indicated that currently the [Incentive Fund] processes are ensuring efficient delivery of project outputs and, on the whole, these are relevant and delivering effective development outcomes”

However, it was also recognised that while significant efforts were being applied to the verification of outputs there had been less success in documenting medium term development results that were becoming apparent some time after the completion of the main expenditure⁴. In other words more emphasis is required on building an M&E response directed at capturing Fund level outcomes and illustrating how they contribute to PNG’s higher level development outcomes, particularly in the relevant sectors. [As noted earlier IF II is capturing the development achievements during the current transition phase].

The rationale for a new phase of the Incentive Fund is that it gives successful organisations across PNG an opportunity to make an enhanced impact on service delivery or growth which may not be available to them through AusAID’s normal sector programs. In doing so, it provides an alternative to, and reduces the risks associated with, a concentration of most of the remainder of the AusAID program (with some exceptions) on the use of PNG systems to strengthen public sector institutions and service delivery.

Monitoring and evaluation therefore needs to demonstrate:

- that the IF is a viable alternative way of spending around five percent of the aid program and activities chosen are on a sufficient scale to make a meaningful impact on PNG development priorities for men, women and children; and
- where possible, aggregate impacts, e.g. evidence of individual organisations or a class of organisations having improved their performance and capacity.

Table 2 illustrates how monitoring and evaluation should work at each level to contribute to capturing the development outcomes. A completed example is contained in **Annex H** Monitoring & Evaluation.

For each IF III approved activity a framework can be developed as a participative activity during the planning phase for the activity. The applicant, the relevant GoPNG sector agency, key local actors, the MC and the Management Group can all contribute. In the framework below:

1. The text in bold typeface is the fixed IF III Goal, Purpose and Indicators
1. *Italics* text is explanatory material for the particular item

⁴ The design mission found at least one example of a successfully completed output which was nevertheless not allowing the institution to provide the service it hoped for because of external factors.

Table 1: Activity to Purpose M&E Framework

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions and Risk
IF III Goal To deliver significant and immediately tangible economic and/or social development outcomes for men, women and children.	<i>The IF III will report by sector against special goals for the aggregate set of IF III activities for that sector. The indicators addressed will be those contained in the appropriate national strategies e.g. for the education sector, education sector the National Education Plan</i>	<ul style="list-style-type: none"> • IF III Evaluation • IF III Research activities • Sector agency M&E activities • AusAID sector M&E activities • IF III activity reports 	Assumption <ul style="list-style-type: none"> • Sector agencies undertake sector M&E on the relevant national plans
IF III Purpose To strengthen and reward performing Papua New Guinean organisations capable of delivering high impact development activities that benefit men, women and children.	<ul style="list-style-type: none"> • Organisations demonstrate increased capacity to act, to perform and to contribute to their community in their core activities • Organisations providing increase in service delivery by volume, quality, coverage or scope 	<ul style="list-style-type: none"> • IF III Evaluation • IF III Research activities • Individual activity output and evaluation reports • Organisations annual reports to its stakeholders • Stakeholder surveys, interviews and focus groups • IRT reviews 	Assumption <ul style="list-style-type: none"> • Strong MC commitment to implementing M&E • Funded organisation complete activity M&E
Activity Intermediate Outcomes As per the approved activity Incentive Fund Agreement <i>Outcomes are of the intermediate time frame (five to ten years). The outcomes will be developed collectively by key stakeholders and will support the IF III Purpose. Achievement should provide evidence for the two Purpose indicators</i>	<p>As per the approved activity Incentive Fund Agreement</p> <p><i>A careful and judicious selection of</i></p> <ul style="list-style-type: none"> • quantitative indicators; and • qualitative indicators recognising that the latter can be costly and time-consuming to collect. <p><i>The indicators should be reviewed for appropriateness after the baseline has been prepared</i></p>	<p>As per the approved activity Incentive Fund Agreement</p>	Assumptions <ul style="list-style-type: none"> • Strong organisation commitment to M&E • M&E system flexible and appropriate with organisation commitment to strengthen capacity to achieve <p>Risks</p> <ul style="list-style-type: none"> • Data availability • Monitoring skills in province
Activity Outputs As per the approved activity Incentive Fund Agreement for the service and good to be produced	<p>As per the approved activity Incentive Fund Agreement and construction contracts</p> <p><i>Output indicators will be specific and directly related to the service or good physically produced</i></p>	Activity reports Independent completion/milestone certification Audit reports IRT review mission Consultations with local partners and GoPNG sector agencies	

Key Activities and Milestones for Each Output As per the approved activity Incentive Fund Agreement and construction contracts	Inputs As listed • Kx.xx million of grant funding from IF II
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Measurement of the Purpose of IF(III) will require an understanding of the strengths and weaknesses of successful applicant organisations, of the changes in capacity and improve capabilities brought about as a result of implementing the IF(III) grant, and the extent to which they are better able to pursue their core service delivery goals. This implies that the “program period”, and the involvement of the Incentive Fund with applicants will need to be longer than in the past. It will need to extend beyond each project’s formal ‘completion’. The proposed changes to the entry criteria, the compliance with the ‘gateway’ organisational capability questions and the JOA will enable the Incentive Fund to begin the journey with the applicant organisations earlier than in the past. Moreover, the obligation to develop M&E that captures medium term outcomes from the grant will keep up the involvement for some time after the ribbon cutting ceremony.

Very early in IF III the MC will initiate a process with AusAID and GoPNG, through the MG, to develop the overall monitoring and evaluation framework. A key element of the framework will be describing the process by which applicants that reach Stage Three (detailed plan preparation) will establish development outcomes, indicators and baselines that meet the IF III Purpose and the objectives and outcomes of the particular sector strategy (GoPNG and AusAID) that they intend to support. (It is impossible for this design to specify those individual outcomes because it is not known what specific activities are to be undertaken and in what sector). However, the framework will guide applicants as to how they can demonstrate that intended individual activity results, improvements and outcomes must be illustrated as making higher level contributions.⁵

A simple strategic level framework for each activity, as recommended above, will also be useful to the MC for:

- monitoring the interface with other sector strategies
- preparing an analysis of IF III in the context of the GoPNG MTDS and the DCS
- reporting to the MG (and AusAID and DNPM) at the IF III Purpose level; and
- assessing risk and making adjustments to IF III focal areas and its development direction.

At activity level the building blocks of M&E would be:

- Baseline for the organisation (vision, financial soundness, organisational assessment) – using the JOA as a baseline
- Baseline for the impact across genders -- sex disaggregated data as a minimum and qualitative data that analyses these figures
- Baseline for the service or economic activity they aim to influence, again the JOA will be of assistance
- Incorporation of cross-cutting issue approaches

⁵ One useful methodology illustrating how this can be done is Kusak JZ & Rist RC, *Ten Steps to a Results-Based Monitoring and Evaluation System*, (2004) World Bank

- Monitoring and review against baselines
- Financial and physical monitoring
- Evaluation two to three years after the end of the investment and project formal completion.

Activity monitoring and reporting will be carried out or commissioned by the recipient organisation itself. The role of the MC will be to facilitate the process and identify skills where necessary, rather than to do the monitoring itself (though the degree of intervention will vary). Activity M&E should be highly participatory following a design process that is realistic as to capacity, timing and cost. All successful applicants will need assistance from the MC to develop their activity logic, identify key outcomes, indicators, realistic data sources, baselines and analysis approaches for monitoring and reporting. The cost of project M&E should be included in the original project proposal, including for the out-years. Audit that safeguards AusAID's fiduciary interests should of course be additional to activity monitoring and remain under the control of the MC.

One of the MC's permanent advisers will be an M&E/research person with experience in organisational development and measurement of cross cutting issues (or vice versa).

Throughout IF(III) the MC should be responsible for commissioning and managing a small program-wide research activity. When IF(III) commences there will be eight years of previous experience of the Incentive Fund, and initial investigation will centre on what has been learned to date about the impact of the Incentive Fund as a whole. Work in the transitional phase of IF(II) during 2008 will provide a starting point.

This small but significant research activity should explore questions such as:

- Are the assumptions right about the numbers of PNG organisations capable of running significant investments?
- Is there any evidence that classes of organisations are raising their performance to be able to access IF money?
- What support is needed by organisations two, three and five years after this massive investment to sustain the benefits?
- Is the Incentive Fund paying enough attention to economic development?
- Is the Incentive Fund paying enough attention to participation of women? What is the long-term impact of this?
- What links are being made to the GoPNG's development priorities?
- What links are being made to the rest of the Australian aid program?
- What links are being made between grant recipients?
- What evidence is there of successful approaches within IF III to improve coordination and communication between IF III and the AusAID sector programs, and if there are failures, why?
- What effect are we having on public sector resource allocation decisions? AusAID should know whether the Incentive Fund is financing things that would be low priority for public financing, whether it is replacing public financing, or whether it is accelerating results that would be achieved more slowly through public financing. In principle grants should be big enough for this question to matter.

4.2 MC responsible for achieving M&E functionality

The assessment of program impact is a responsibility of the MC, at least in the sense that the MC is responsible for facilitating an integrated M&E arrangement with the recipient organisations that delivers a judgement about outcomes as well as about outputs and the quality of inputs and processes.

The MC will design, facilitate and oversee an integrated M&E arrangement that at:

- a. **activity level:** works with the recipient organisations to deliver a judgment about impact of their activities for all as well as about outputs;
- b. **IF(III) level:** addresses the broader questions relating to differential development impact of the IF(III) as a whole raised in the previous section, and particularly the contribution of IF(III) through the individual projects; and
- c. **implementation and management level:** contributes to an assessment of the MC's performance in managing the Incentive Fund.

Given the importance of performance measurement to both governments this design recommends that 10 percent of the MC's fee is subject to an annual assessment of how well the MC carries out this responsibility.

4.3 Independent Review Team

The IRT should consist of up to three people with skills in accounting/audit, capacity development, performance measurement and project management at a senior level.

Specifically, as requested by the MG, and/or AusAID, the IRT will:

- a) assess:
 - Incentive Fund selection criteria and operating guidelines, including recommendations from the MC and Management Group;
 - performance of the Management Group and MC;
 - the impact of the sectoral, geographic and organisational outcome of the Incentive Fund (i) on the Australian aid program to PNG, and (ii) for the GOPNG;
- b) examine the methodology being supported by the MC at the level of individual grants, and operated by the MC at the level of the Incentive Fund, and the associated results, and provide independent advice on the basis of the evidence on the likelihood of achieving the goal and purpose of IF(III) and on the performance of ongoing or recently completed projects
- c) present findings and recommendations on the above to the MG, and/or AusAID as appropriate; and
- d) review specific items as requested, and develop recommendations.

AusAID or DNPM may direct the IRT to focus on particular issues or examine particular projects or activities in more detail.

It is envisaged that an IRT will be scheduled at the end of Years 1,3 and 4. The IRT's findings and recommendations can be presented to a MG.

The Review missions will also contribute to AusAID annual performance assessment of the MC.

The composition of the Review Team, specific terms of reference and duration of in-country visits should be decided by AusAID in consultation with DNPM. Contractor performance elements are at AusAID's sole discretion.

4.4 M&E detail

Annex H provides further detail on the design of the M&E elements in IF (III).

5. RISK AND FEASIBILITY

5.1 Risks

Annex I contains the Risk Management Matrix.

Many of the risks that have been identified during APNGIF in various reviews have been addressed in this design and the responses incorporated into well established APNGIF operating procedures. The risks assessed as extreme to high in an overall sense are identified in two categories, IF(III) and activity:

IF(III)

- Lack of resources, time from AusAID & GoPNG sectors to review, prioritise and feedback on concepts;
- Inappropriate collusion or insider information during procurement tendering processes;
- Funds misappropriation – risk of fraud or corruption. Misuse of Incentive Funds approved funding support.

Activity

- Insufficient numbers of proficient project managers to assist organisations implement the proposal;
- Insufficient numbers of technical sub-contractors to provide high quality services (specifically infrastructure)

The IF(III) risks can be managed by the MC and AusAID. Applicants can be supported to seek sector inputs; open, transparent and competitive tendering is possible in PNG with the MC overseeing the process at each step; and, rigorous compliance with the financing agreement, auditing and compliance with reporting requirements can and will reduce opportunities for fraud. However, when fraud does occur the MC must follow-up under its fraud control plan.

The underlying infrastructure sector capacity deficiencies in professional services and construction is a reality and will remain in PNG for the next five years and more given the government's aggressive infrastructure projects in key sectors. There is little an individual IF(III) applicant can do about it other than to be realistic about timeframes and cost estimates. Construction cost inflation due to a lack of constructors will be an issue during IF(III).

IF III implementation arrangements, and particularly the financing agreement, are sufficiently flexible for the MC to exert strong influence on a funded organisation that does not follow the technical advice of the MC. Experience has shown that the most likely scenario to arise is of a contractor taking advantage of a relatively 'naïve' organisation in supplying poor quality inputs or taking shortcuts. This risk can be mitigated by supporting the organisation to obtain its own independent advice (i.e. a full-time on site clerk of works for infrastructure activities) and regular MC inspections and site visits. The MG should be kept fully briefed on significant risks that arise during the implementation of activities and the corrective actions taken. The MC has a positive obligation to provide advice, direction and to take corrective actions to mitigate risks that have the potential to affect project completion, project success and the Incentive Fund's governance and credibility.

5.2 Feasibility

Overall feasibility of IF(III) is ranked at a high level. APNGIF has been operating since 2000. It was a much watched program and has been the subject of a number of reviews and regular assessment by a review team. The mid-program redesign incorporated many lessons into APNGIF documentation. The 2007 Review has been used as the basis for this design.

This design recommends that IF(III) be based upon APNGIF in its core operating procedures and processes. Some refinements and improvements are recommended that will further reduce risk and enhance feasibility.

However, the feasibility of the individual IF(III) activities will depend heavily on the capacity of the organisations and the technical feasibility of the proposed projects. The overall assessment of feasibility is therefore heavily dependent on an effective appraisal and screening process through the review and appraisals of the CPs and OPS and the JOA of the applicants that reach Stage 2. If the appraisal and screening process is not rigidly adhered to, there is a distinct possibility that projects will not lead to the focused and quantifiable development outcomes as expected, or will cause environmental or other problems.

Effective screening and appraisal is a core MC responsibility and MC performance should be assessed on their ability to do this well.

5.2.1 Technical

Each of the project proposals submitted to the MC will be appraised at the gateway, CP and final stage in terms of their technical feasibility. To be appraised positively the project will have to pass satisfactorily through all three stages. The MC will have significant technical advisory resources available to assess technical and other risk.

Approved CPs will be developed into full project plans by the applicant. The MC will be in a position to provide feedback on weakness including technical risks. Expert advice will be available, if requested in the CP, to address specific design issues, e.g. to engage an engineer, an architect, a social scientist, a communications expert etc.

Availability of contractors and professional consultants may be an issue as recognised above **Section 5.1 Risks** above.

As discussed in **Section 2.8 Activity Implementation** there are strong reasons for promoting the use of the 'design & build' approach for infrastructure and facilities contracts funded under IF III.

5.2.2 Financial

Each of the project proposals submitted to the MC will be appraised in terms of their financial feasibility. Financial commitments made by applicants will be carefully reviewed, both at the initial stage and also annually. This will be the responsibility of the MC. The MC may need to draw on specialist resources to assess engineering and other specialist inputs costs.

Each approved project must address all cost issues including the on-going recurrent costs of sustaining and operation of the investment. IF III will need to be careful to avoid building organisations or creating the need for future financial in-flows that are dependent on unrealistic or unduly optimistic future recurrent funding scenarios, whether from new income –earning sources, government or donors.

The IF(III) financial procedures, MC's financial and audit systems, the requirements on the applicants to account for funds and the project and IF(III) audit systems all strengthen financial feasibility.

5.2.3 Institutional, social and cultural

Institutional feasibility

The Stage One Gateway criteria and Stage Two CP and OP assessment are supported by the Joint Organisational Assessment giving considerable emphasis to the organisation's track record and their capacity to implement the proposed project. A successfully appraised project will contain a commitment to the proposed project from the organisation, the supply of adequate personnel (male and female) and provision of an organisational structure that can successfully implement the project. Alternatively, organisations may subcontract elements of the proposed project to gain specific expertise. Such arrangements are seen as an effective and efficient way to increase the institutional capacity to the required level.

Social and cultural feasibility

The MC will be charged with the responsibility for assessing the social and cultural feasibility of each proposal. A successfully appraised proposal will contain:

- clearly identified targets, male and female beneficiaries, who have been involved in the preparation of the project proposal, and who are therefore, willing participants;
- reference to similar projects implemented by the organisation, and evaluation of these projects that indicates strong community support; and
- clear participation by women in all aspects of the program.

This is an area where IF(III) will seek significant improvement over APNGIF. The clear identification of development benefits and process to monitoring and evaluate them has a high priority in this design.

5.2.4 Environment

Each of the project proposals submitted to the MC will be appraised in terms of their environmental feasibility. The participating organisations will be required to:

- identify potential positive and negative impacts on the physical environment arising from the proposed project and describe their impact and magnitude;
- describe ways to enhance positive impacts and mitigate against negative impacts, describing where appropriate, the additional resources required to address environmental issues (e.g. technical assistance); and
- outline plans to monitor the impact of the project on the environment.

The participating organisations will also be required to identify social and economic impacts. While positive impacts will be described in the proposal under the section on benefits, the organisations will be required to:

- identify any negative social or economic impacts; and
- describe ways to mitigate against negative impacts.

As part of the appraisal of each proposal, the MC will be required to assess the need for an independent environmental assessment. In some cases a desk appraisal may be sufficient,

while in other cases an environmental assessment in the field may be warranted. While the MC will be responsible for identifying this need, their recommendations will be submitted to DNPM and AusAID for endorsement, after which time the MC will organise the required inputs. An environmental assessment of the proposed project will require field investigations and could be conducted by the Department of Environment and Conservation (DEC) or by private environmental consultants. However, the MC will be resourced to provide the necessary environmental expertise to assist in project appraisal as and when required.

5.2.5 Gender

Each and every application must show active support in practical ways for Goals One and Two of the PNG *Constitution* related to integral human development, equity and participation. Gender equality is fundamental to helping people to lift themselves out of poverty. Equality addresses issues related to access to resources, information and decision-making within the organisational change context and at different levels of society. IF(III) needs to support activities designed to address these aspects of equality, with a particular focus on gender equality.

Gender equality and women's participation needs to be an integral part of each and every concept, its preparation, implementation and evaluation. For example: it is not sufficient just to say that women will benefit from a project without any evidence that they agree and have been actively included in the planning. Again, as an example, all organisations need to demonstrate that they have women at the decision making level of their organisation.

AusAID's policy goal is to reduce poverty by advancing gender equality and empowering women. The policy statement *Gender equality in Australia's aid program – why and how* (2007) explains why gender equality is important and seeks four policy outcomes:

- improved economic status of women
- equal participation of women in decision-making and leadership including in fragile states and conflict situations
- improved and equitable health and education outcomes for women, men, girls and boys
- gender equality advanced in regional cooperation efforts.

The overall gender strategy for IF(III) is based on mainstreaming gender in all activities supported by IF(III) and in assisting the applicants and project managers to mainstream gender in their work. Gender mainstreaming requires everyone involved in IF(III) activities to understand and be committed to its achievement. At each point in planning, implementing, monitoring and evaluating the activities, the different needs of women and men, girls and boys, must be considered and addressed with the aim of achieving gender equity. Gender mainstreaming also requires all project specialists and staff to examine the impact of proposed and or existing policies and project outcomes on men and women in order to ensure fair and just outcomes on all members of society.

Gender issues that should be addressed, include:

- equal involvement of women during community consultation;
- potential positive and negative impacts of the proposed project on women and children;

- planned activities to reduce negative impacts on women and children; and
- plans for monitoring the impact of the project on women and children.

An assessment of the impact of each project on women and children will be the responsibility of the MC. To be appraised positively, organisations will need to demonstrate a successful and relevant track record, which shows that women and children have shared in the benefits and have not been disadvantaged or further marginalised as a result of a previous project undertaken by that organisation.

When identifying target beneficiaries during the preparation of the project proposal, and during monitoring and evaluation exercises, organisations will be required to disaggregate data on the basis of gender.

The IF(III) marketing and information material should address gender issues, and should not simply state the need to address gender issues in the project proposal, but provide guidance to organisations on how to enhance proposals (and development impacts) by adequately addressing gender issues and enhancing the positive impact of projects on women and children. All workshops should reinforce the gender messages. Furthermore, the MC's staff should be able to discuss gender issues and provide relevant advice to organisations (over the phone) during the preparation of the proposals.

5.2.6 HIV and AIDS

All AusAID programs and projects are required to be assessed in terms of their potential impact on the spread of HIV/AIDS, either positively or negatively. IF(III) must contribute to limiting the spread of HIV/AIDS by ensuring that HIV/AIDS issues are mainstreamed in all funded activities and projects, especially in the projects' working and operational environments.

Prevention and management requires a multi-sectoral approach within PNG. This will involve the IF(III) developing a systemic response, and practical activities, to answer the following three core questions in each and every case.

- How might the proposed activity contribute to the spread of HIV/AIDS?
- How might HIV/AIDS undermine the achievements of the proposed activity?
- What can the activity do to enhance PNG's response to HIV/AIDS?

All applicants that proceed beyond the Concept Proposal approval will be required to examine their proposed activities to assess how they might contribute to the prevention and reducing the spread of the disease.

A wide range of possibilities exist to support mainstreaming. The MC should encourage applicants to seek national and provincial AIDS council support to build their capacity to strengthen and sustain HIV/AIDS intervention initiatives in the core business and specifically for the proposed activity. Specific initiatives may include developing workplace HIV/AIDS policies and integrating HIV/AIDS activities into the organisation's corporate and annual plans, and including HIV/AIDS into the training curriculums for the staff and beneficiaries of the activity. Agencies may conduct awareness activities at work places for their staff and families. The individual projects should be designed to strengthen and sustain these achievements.

Mainstreaming is also a new concept for many and further training and practical experiences will be needed to build the capacities of the IF(III) beneficiaries. In all cases the

MC will need to be able to identify in applications provision for qualified personnel who can translate knowledge into activities and ensure that these activities are implemented. Vague promises to 'mainstream' or 'include' HIV and AIDS in activities cannot be accepted.

To ensure that this HIV and AIDS strategy is operational all IF(III) marketing material and workshops need to provide direct guidance on mainstreaming HIV and AIDS, sources of assistance and information on project application expectations.

Both governments place a high priority on HIV/AIDS prevention and responding to the epidemic. All concepts will need to have a HIV/AIDS strategy, and resourcing, that is appropriate to both the activity and the organisation. For example as one measure all construction activity might approach the local hospital to run awareness and prevention activities with construction workers, and also ensure application of the internationally accepted FIDIC HIV&AIDS clauses. Concepts need to assess whether the project will reduce the exposure of the community to HIV/AIDS in the long term. The extent to which this issue is addressed, monitored and evaluated will influence how the project is assessed.

5.2.7 Fraud and Corruption

The goal of Australia's anti-corruption for development policy is: *To assist developing countries bring about a sustainable reduction in corrupt behaviour for the purpose of improving economic and social development.* Australia's approach focuses on three mutually re-enforcing elements:

- building constituencies for anti-corruption reform
- reducing the opportunity for corruption
- changing incentives for corrupt behaviour.

The 2007 policy document *Tackling corruption for growth and development*, AusAID, March 2007, delivers an analysis of corruption in the development context with suggestions for specific strategies and actions.

Fraud and corruption will be addressed at a number of levels in IF(III):

- **IF(III):** MC responsible and accountable for operation of the imprest account mechanism and the management of funds. Apart from the specific imprest account documentation the MC will prepare and implement an overall fraud control plan that addresses to AusAID's satisfaction and fraud that occurs with development budget funds.
- **Activity:** each activity will have agreed financial procedures with controls and audit requirements as per the manuals and financing agreement.

Based upon Incentive Fund experience key issues for the MC will be to ensure

- competitive and transparent procurement practices are adopted;
- successful applicants have well resourced accounting and finance sections;
- project accounts are maintained regularly and basic accounting practices are complied with (e.g. bank reconciliations); and
- project audits take place.

Specific MC responsibilities have been discussed in **Annex F Management Arrangements**.

5.3 Sustainability

The very nature of IF(III), to reward and strengthen performing organisations, together with the assessment process and the JOA will encourage the building of capacity within the organisations and medium to longer term sustainability. The whole assessment process looks at technical feasibility and also organisational capacity and IF(III) can afford to be very selective and quite pedantic about selecting only those organisations that already have themselves achieved elements of sustainability in a large measure.

An improvement required in IF(III) is more detailed scrutiny at the CP stage of what is intended to happen after the project outputs are delivered and the project is physically completed. For example:

- If a training facility is built does the organisation have the recurrent budget for the teachers or instructors, or at a minimum a reasonable prospect of getting funding i.e. have they planned to start discussions with the recurrent budget funders?
- Will new students graduating from a learning institution be certified or registered if they are joining a specialist profession;
- Does the organisation have the recurrent budget to sustain a marketing project to attract fee-paying customers, if that is a major premise of the investment in new facilities and infrastructure.

It is natural and understandable to focus on the planning and delivery of the physical output. However, careful and vigorous questioning is needed of the assumptions underlying the development objectives that have been included in the application. Hence this design's strong recommendation that development impact be assessment for two or three years after formal completion.

Sustainability is enhanced by this design's renewed emphasis on significantly greater coordination with the GoPNG and AusAID sectoral programs.

The Incentive Fund is a successful and to some extent institutionalised aspect of the Australian aid program to PNG. It has an identity and its processes are settled. As a mechanism it is sustainable with GoA assistance. It is likely that during IF(III) GoPNG may initiate discussion with AusAID about including GoPNG funding within the mechanism. Officials certainly expressed this desire to the design team as part of government's overall desire to improve service delivery within district and to local communities.

5.4 Australian Capability

APNGIF is a well regarded program with a good reputation. It has shown that an MC can assemble a team with all the required skills in PNG to manage the IF(III). There is no question that Australia has relevant expertise such as project planning, financial management, project design, monitoring and evaluation.

5.5 Complementarity with the Australian Aid program

The Incentive Fund aims to support PNG's performing public and private sector organisations. The remainder of the Australian aid program includes institutional strengthening programs to improve the performance of public sector organisations. It is likely that many of these organisations would not be able to satisfy the selection criteria for the Incentive Fund. As shown in Section 2, there is a logical progression for organisations, from receiving institutional strengthening support to having the capacity to access the

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Incentive Fund. Linkages to sector programs and SNS should be stronger and measures in this design encourage that. Particular care will be needed to ensure that IF(III) and the new Democratic Governance Program are compatible in their approaches and operations.

ANNEXES

ANNEX A: DESIGN TEAM TERMS OF REFERENCE

TERMS OF REFERENCE

**DESIGN MISSION: AUSTRALIA PAPUA NEW GUINEA INCENTIVE FUND
PHASE III**

1. INTRODUCTION

- 1.1 In 1999, the Australia Papua New Guinea Incentive Fund (APNGIF) was agreed with a rationale to provide direct support to all levels of government and community organisations with a demonstrated performance record and innovative development co-operation proposals within agreed priority areas. The APNGIF was structured around two streams-the Program Stream and the Policy Stream. The objective of the Program Stream is to provide a contestable funding mechanism within the Australian Aid Program to support demonstrated effective, efficient and accountable PNG public and private sector organisations, including non government organisations in delivering priority development activities consistent with the development policies of the GoPNG and GoA. The selection criteria, appraisal process and management systems ensure that the operation of the Program Stream is open, fair and transparent. The development impacts should be focused, quantifiable and viable. The objective of the Policy Stream is to encourage PNG public and private sector, including non government organisations to implement GoPNG development policy in key sectoral areas, for example the public sector reforms initiatives. The Policy Stream was in operational in 2001 – 2004. In 2004, the Policy Stream was repositioned to support the GoPNG's Provincial Performance Improvement Initiative (PPII).
- 1.2 The environment within which the APNGIF operates has changed over time. Today there is a Medium Term Development Strategy (MTDS) 2006-2010 which sets out more clearly the development priorities of GoPNG. AusAID has also released a White Paper on the Australian Government's Overseas Aid Program, and developed a new Development Cooperation Strategy (DCS) for PNG. The new DCS includes a Performance Review and Dialogue (PRD) component, in line with a focus on incentive based mechanisms within the aid program and a joint approach with Government to improving aid effectiveness in PNG. The PRD replaces the Policy Stream of the APNGIF.
- 1.3 In April 2006 a joint decision was made by the Governments of Papua New Guinea and Australia to review the Program stream of the APNGIF at the Papua New Guinea-Australia High Level Consultations in Alotau. This meeting noted the imminent completion of the current APNGIF phase and the Government of PNG's request that the review focus on the role of Non State Actors (NSA) in any future APNGIF type program. This review was completed in December 2006 and recommended that a design process be undertaken before progressing to a new phase of the program. The goal of the new incentive based funding mechanism recommended by the review is "To strengthen the contribution of effective PNG private and public sector organisations to contribute to PNG's development;" and the suggested purpose is "To provide funds to support a clear and feasible plan to strengthen organisational capacity to deliver development outcomes."
- 1.4 In addition to the December 2006 review, this design mission will draw on a number of previous reviews of APNGIF (e.g.: Independent Review Team Reviews, Joint Aid Review, Design Review for SNS Support, Procurement Process and System Review, the Mid Term Review and the findings of the monitoring and evaluation program being carried out by the APNGIF managing

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contractor) and the recently completed AusAID Grants Facilities Review, including relevant lessons learnt.

1.5 AusAID and the GoPNG are committed to ensuring that the outcomes of the design process will further strengthen coherence and coordination across AusAID's PNG program, and with similar grant activities being delivered by other donors. Specifically, clear opportunities exist to closely align a future Incentive Fund with AusAID's new sub-national and Democratic Governance Strategies and programs.

2. OBJECTIVE

2.1 Prepare a design for a new incentive based funding mechanism for consideration by both governments. The Design process (and associated documentation) should:

- a) Test the recommendations of the December 2006 review.
- b) Ensure that relevant lessons learned are reflected in the development objectives, monitoring framework, management arrangements and financial aspects of the new phase of APNGIF.
- c) Provide implementation guidelines and packaging of materials suitable to tender.

2.2 In meeting this objective, the design team will be guided by recent agreements by AusAID and DNPM on the overarching principals for a revised APNGIF. They are that:

- d) there is value in retaining an incentive based project funding mechanism within the PNG program;
- e) the principles of being demand driven and flexible should continue to apply;
- f) sustainability should be a key consideration in the assessment process;
- g) to focus on good PNG organisations and on further building their capacity;
- h) equity issue in relation to the allocation and distribution of Australian Aid resources is not a primary objective of the incentive based funding mechanism;
- i) annual funding levels should be in the order of A\$15 million per annum (5% of the program)
- j) close linkages should be developed with the Sub National Strategy (SNS)-Provincial Performance Improvement Initiative (PPII) and AusAID Democratic Governance strategy and programs, including Democratic Governance Transition Project (DGTP) (superseding the Community Development Schemes); and
- k) eligible organisations will include Provincial Governments, PNG civil society organisations and non-commercial statutory authorities (e.g. hospitals, higher education institutions).

3. SCOPE OF DESIGN MISSION

3.1 Under the direction of AusAID and the PNG Government the design team will:

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- a) undertake a review of all of the existing reviews and documentation on the APNGIF to draw out key lessons learned that can be incorporated into the design process;
- b) consult widely with key stakeholders in PNG including the Phases (I) and (II) Management Group and Australian Managing Contractor, AusAID (SNS and Democratic Governance), selected beneficiaries, appropriate PNG Government agencies and potential future beneficiaries and other donors.
- c) examine and amend as necessary the draft purpose and goal of a new APNGIF recommended by the 2006 APNGIF Review, with a view to aligning a revised program to the updated priorities, policies and development programs of both GoPNG and AusAID;
- d) make recommendations as to how the APNGIF could define and measure organisational performance and in doing so explore and make recommendations on the potential for the use of a common organisation assessment tool across AusAID and other development partner programs in PNG (information could be drawn from Democratic Governance Transition Project as well);
- e) make recommendations on the types of activities, programs and/or infrastructure that would be eligible to be funded under a revised APNGIF;
- f) make recommendations on how to strengthen the selection criteria used for APNGIF projects;
- g) make recommendations as to the levels of funding for individual projects;
- h) examine the possibility of developing the APNGIF into a tiered funding system that allowed organisations to access larger pools of funds based on demonstrated performance (including an examination of the viability of using the Joint Organisational Assessment process as a basis for tiered funding);
- i) examine the management arrangements of the activity, including the M&E system and structures to ensure coordination with AusAID-supported programs;
- j) examine the role and compositions of the Management Group and provide recommendations as to how this would work in a revised design; and
- k) Ensure that relevant lessons learned are reflected in the development objectives, monitoring framework, management arrangements and financial aspects of the new phase of APNGIF.

4. MAJOR OUTPUTS

4.1 The major outputs of the design team are:

- a) Aide Memoire for the in-country mission (5 pages) to be presented to GoPNG and GoA (prior to returning to Australia);
- b) Draft Program Design Document for consideration of AusAID and the GoPNG;
- c) Final PDD incorporating comments by AusAID and GoPNG; and
- d) Contracting Strategy including Scope of Services.

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5. METHODOLOGY

5.1 Documents: The design team will review relevant documents:

- a) The Design Review Report and the original APNGIF PDD
- b) Relevant documents/reports from other sectors within AusAID (SNS, Democratic Governance Strategy draft and design framework etc)
- c) APNGIF Guidelines and Procedure Handbook (program stream)
- d) White Paper on Australian Governments Overseas Aid program
- e) Development Cooperation Strategy
- f) Medium Term Development Strategy 2006 – 2010
- g) PNG Australia Treaty on Development Cooperation
- h) Other documents as required

5.2 Consultation:

- a) AusAID Port Moresby – Strategic Policy and Coordination Unit, Democratic Governance Unit, Sub National Strategy Team and relevant sectors
- b) APNGIF (Coffey International Development)
- c) APNGIF Management Group Members (former and current members)
- d) GoPNG (DNPM)
- e) APNGIF Past Recipients
- f) Civil Society Organisations as required (especially the larger ones that CDS funded under the Specialised Partners Program)
- g) Other Government Departments and agencies including statutory authorities
- h) Other donor Agencies that provide funding to civil society organisations
- i) Facilitate a discussion session with AusAID Grants Facility Managers (power point presentation of the various findings and recommendations)

6. TIMEFRAME

Description	Timing	Duration
Preparation and Review Documents	23 August	2 days In-Australia
Briefing/Debriefing	27-29 August	3 days In-PNG

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Consultations/Discussions	30 August-10 September	2 weeks In-PNG
Aide Memoire	10 September	To be developed during 2 week mission
Draft PDD	26 September	2 weeks In-Australia
PDD Peer Review	8 October	2 weeks
Final PDD, based on DNPM/AusAID feedback	15 October	1 week

7. REPORTING

- 7.1 An Aide Memoire (of no more than 5 pages) to be provided to DNPM and AusAID at the completion of the in-country portion of the review by no later than 29 July 2007.
- 7.2 Final PDD to be presented to DNPM and AusAID Counsellor, Strategic Policy, Coordination and HIV/AIDS by no later than 7 September 2007, based on feedback provided by DNPM and AusAID regarding the Draft PDD.

8. PERSONNEL

- 8.1 AusAID's Counsellor, Strategic Policy and Coordination and the Director, Aid Policy and Coordination Directorate, Department of National Planning and Monitoring will guide the design team and will be available to consult the team on a part time basis.
- 8.2 The design team will comprise a number of individuals with varying input periods who, between them are able to cover off the following skill sets:

(a) *General Team Skills*

- i. Understanding of PNG Government systems policies, including knowledge of sub-national and civil society issues in PNG;
- ii. Understanding of AusAID policy, guidelines, quality and design requirements
- iii. Strong skills and experience in:
 - Oral and written communication
 - Problem analysis, strategic planning and policy development
 - Negotiation and representation
 - Cross-cultural discussions and negotiations
 - Program and financial management

(b) *Specialist Skills Required*

- i. Project Design Document (PDD) preparation;
- ii. Monitoring and Evaluation of donor funded programs;

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- iii. Experience in planning, monitoring and evaluating incentive based funding mechanisms and grants facilities; and
- iv. Practical experience in capacity building/institutional strengthening in the context of:
 - sub-national governments;
 - civil society organisations; and
 - non-commercial statutory authorities.

8.3 It is envisaged that the Team Leader will be responsible for the preparation and finalisation of the Program Design Document. It is noted that some specialist expertise may not play a full time role in the design process. A senior representative from both AusAID and the GoPNG (DNPM) will support and participate in the design mission. (Refer to the attached annexure for the detail TORs for the individual skill sets)

The Team Composition and Specific Expert Input in the Design Mission

8.4 A senior representative from both AusAID and the GoPNG (DNPM) will support and participate in the design mission. In addition, the design team will comprise the following team members:

Team Leader

8.5 The Team Leader will be part of the core team who will be spending thirty five (35) days over a three months period for the design mission. The role of the TL will be to lead the analysis and development of the design, coordinate the contribution of other team members to the PDD, and take overall responsibility for the PDD including incorporation of GOA/GOPNG comments as relevant. The TL will ensure that relevant GOA/GOPNG policies are appropriately reflected in the design, that appropriate analysis of risk is undertaken and reflected in the proposed strategy and management arrangements. The TL must have the following background:

- a) experience in program/project design as a team leader;
- b) experience in preparation and finalisation of the Project Design Documents (PDD) including Monitoring and Evaluation Frameworks; Risk Analysis; financial costings; and preparation of Scope of Services for tendering;
- c) able to lead and coordinate a team of consultants within a given timeframe to consult and design a PDD;
- d) experience in capacity building and institutional strengthening in a development context;
- e) be able to design an appropriate incentive based funding mechanism in response to development experiences and consistent with the current GoPNG and GoA development policy frameworks;
- f) experience including leading design missions in PNG would be desirable; and
- g) ability to understand the regional and local development issues and challenges in PNG and ensure that these are reflected in the program design.

Capacity Building Expert

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8.6 The Capacity Building (CB) expert will be part of the core team who will be spending thirty five days (35) over a three months period for the design mission. The role of the CB expert will be to contribute to the design of a mechanism/strategy to govern identification and assessment of civil society organisations' capacity to benefit from an incentive based funding mechanism. The CB expert will ensure that the design incorporates a clear capacity building strategy, based on an analysis of capacities of key stakeholders (sub-national government, CSOs etc), existing networks and linkages and that the incentive-based funding mechanism promotes the development of institutional capacities. The Incentive Funding mechanism should also be positioned to promote self improvement of an organisation and create demand from other organisations. The CB expert will contribute to the drafting and finalisation of major sections of the PDD at the direction of the TL.

The CB expert must:

- a) have experience in working with sub-national government systems, civil society organisations and non-commercial statutory organisations in developing countries within the region, preferably with extensive experience in PNG;
- b) have an understanding of the existing capacities of PNG sub-national government systems, civil society organisations and non-commercial statutory organisations;
- c) understand the incentive based principle as a trigger for capacity building and sustainability processes for eligible organisations;
- d) have an understanding of the existing networks and linkages within government systems including sub national government systems, civil society organisations and the non-commercial statutory authorities; and
- e) have experience in program/project design as well as preparation and finalisation of PDDs.

Monitoring & Evaluation Expert

8.7 The Monitoring & Evaluation expert will be required towards the end of the mission for a period of fifteen (15) days to be part of the drafting of the PDD and eventually finalising the document. The M&E expert will ensure that a Monitoring and Evaluation Framework (MEF) is developed that reflects a high degree of connectivity to the MTDS (and DCS) indicators. Equally, the MEF should align with the relevant questions being developed by AusAID as part of the Australian Aid Performance Assessment Strategy. This will assist to determine any real contribution the Incentive Fund mechanism is making toward the aid program and development objectives of PNG. The MEF expert will also ensure that M&E processes are fully understood by the entity being supported and that the entity is involved in the processes and have ownership of them. This will ensure self-evaluation and understanding of the improvements underway. The M&E expert will also ensure that the MEF is aligned as closely as possible with the MEFs and M&E systems of other sectors; there are compelling arguments to directly link any Incentive Funding Mechanism to the Sub National Strategy (SNS), so rather than duplicate, any Incentive Funding mechanism could be directly linked to the M&E systems of the other sectors, allowing independent and cross-sector evaluation. This also allows support to on-going maintenance and sustainability issues. The M&E expert will have primary responsibility for the development and articulation of the MEF, in consultation with other team members, and will also contribute to drafting and finalisation of relevant sections of the PDD under the direction of the TL. The M&E expert must have the following skills:

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- a) demonstrated experience in preparation of program level Monitoring and Evaluation Frameworks as well as of meta-evaluation frameworks (i.e. how program performance, quality of partnerships, etc will be monitored) which will guide the M&E process; and
- b) an understanding of capacity building and institutional strengthening issues in a development context including;
 - i. Capacity development of target groups, systems and processes;
 - ii. Strengthening Government Agencies to effectively use resources (including budgeting, planning)
 - iii. Sustainability focus (including reference to affordability, ownership, pace, cultural context, using and strengthening existing Government systems); and
 - iv. Improved stakeholder engagement (e.g. with central agencies, civil society, communities, internal sector coordination).

Short Term Expertise

8.8 It is anticipated that there may be a need for short term inputs from experts with:

- a) Practical experience in sub-national governments and non-commercial statutory authority systems. The expert will also be able to understand the linkages with the all of government systems and processes and the service delivery mechanisms. This person would be required during the initial part of the mission but would be called upon at certain times as need arises;
- b) The administrative systems and processes of an incentive based funding mechanism. This person would also be able have historical knowledge of the current phase of the Incentive Fund including the program and financial management systems. The expert would be engaged towards the end of the design mission; and
- c) Civil society organisations and the administrative arrangements in PNG. The expert would also be able to understand the incentive based principle as a trigger for capacity building and sustainability processes for eligible civil society organisations. This expert would be required towards the end of the mission.

The short term consultants would be required during various stages of the design phase to add value to the entire design process by contributing specific information/input in the areas of their expertise. Mostly these inputs would be required during the drafting period of the design document. The Team Leader will be responsible for the suitable timing for the engagement of these individual consultants and the timeframe.

9. INPUTS

9.1 The mission will be over three (3) months, individual team member inputs are detailed below. The following table is exclusive of an allowance for 2 days travel time to/from PNG.

	In-Australia	In-Country
Team Leader	Up to 20 days	Up to 15 days

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Capacity Building Expert	Up to 20 days	Up to 15 days
M&E Expert	Up to 15 days	N/A
GoPNG Representative	N/A	Up to 15 days
Short Term Expertise	Up to 10 days	Up to 5 days

10. REPORTING REQUIREMENTS

10.1 The team leader will be responsible for the overall reporting and the compilation of the PDD. Individual consultants responsible for specific tasks will be required to submit respective reports to the core team (headed by the TL) to put together a comprehensive PDD which captures the various aspects of the program areas as identified in the Design TOR. The TL with the assistance from the core team members will present a draft copy of the PDD to AusAID and DNPM for comments and inputs. Based on the comments from the two agencies the Core team will then compile and finalise the PDD for acceptance by both AusAID and DNPM.

ANNEX B: PLACES AND PEOPLE VISITED

Papua New Guinea - Australia Incentive Fund (Phase III)

Names Titles and Organisations

Person	Titles	Organisations
Mosilayola Kwayaila	Director, APCD	DNPM
Karl Sopol	Assistant Director, Bilateral Branch, APCD	DNPM
Ruby Zarriga	First Assistant Secretary, Planning and programs	DNPM
Margaret George Mavu	Program Officer, AusAID Desk, APCD	DNPM
Fr. Jan Zuba, SVD	President	Divine Word University
Richard Coleman	Principal	PNG Maritime College
Sr. Nira Michael	Principal	LSN-Madang
Sr. Gagum Thavung	Deputy Principal	LSN-Madang
Sr. Elizabeth Natera	Lecturer	LSN-Madang
Michael Makap	General Manager	Wamp Nga Holdings
Camillus Kumbi	Deputy General Manager	Wamp Nga Holdings
Raphael Moge Piel	Manager, Mt. Hagen Market	Wamp Nga Holdings
Sr. Margaret Vivette	Principal	Notre Dame Secondary School
Cathy Rumints	APNGIF Management Group Member	Mt Hagan
Dr. Thomas Webster	APNGIF MGM, Director	NRI
David Gunn	Chairman, Mt Hagan Hospital	Port Moresby
Senior medical and administrative Staff	Mt Hagan hospital	Mt Hagan
Fr Brian Cahill	Tapini Catholic Church and High School	Port Moresby
Damien Rapese	Deputy Secretary	Department of Education
James Condon	Chief Secretary, (and six other offers)	Salvation Army Boroko
Edwina Betts	Second Secretary-Education	AusAID
Gaye Moore	Second Secretary-Health	AusAID
Sofia Ericsson	Second Secretary-HIV/AIDS	AusAID
Anna Dorney	First Secretary-SNS/PPII	AusAID
Judith Ugava-Taunao	Senior Program Officer-Democratic Governance	AusAID
Bill Costello	Counsellor-SPCS	AusAID
Margaret Thomas	Minister Counsellor	AusAID

ANNEX C: AIDE MEMOIRE – September 2007

AIDE MEMOIRE

**DESIGN MISSION: AUSTRALIA PAPUA NEW GUINEA INCENTIVE FUND
PHASE III**

PURPOSE OF MISSION

The purpose of the mission is to design a new incentive based funding mechanism for consideration by both governments. The mission worked within recent agreements by AusAID and DNPM on the overarching principals for a revised APNGIF:

- there is value in retaining an incentive based project funding mechanism within the PNG program;
- the principles of being demand driven and flexible should continue to apply;
- sustainability should be a key consideration in the assessment process;
- to focus on good PNG organisations and on further building their capacity;
- equity issue in relation to the allocation and distribution of Australian Aid resources is not a primary objective of the incentive based funding mechanism;
- annual funding levels should be in the order of A\$15 million per annum (about 5% of the program)
- close linkages should be developed with the Sub National Strategy (SNS)-Provincial Performance Improvement Initiative (PPII) and AusAID Democratic Governance strategy and programs, including Democratic Governance Transition Project (DGTP) (superseding the Community Development Schemes); and
- eligible organisations will include provincial governments, PNG civil society organisations and non-commercial statutory authorities (e.g. hospitals, higher education institutions).

This Aide Memoire provides an initial framework for Incentive Fund (III) (IF(III)).

CONSULTATION

The Design Team⁶ started their work on 27 August 2007 in Port Moresby with the initial briefing. They then travelled to Madang and Mount Hagen to visit Incentive Fund I & II activities. Further consultation with Incentive Fund recipients was held in Port Moresby and Kokopo. Organisations consulted included:

- Divine Word University, PNG Maritime College, and the Lutheran Nurses College in Madang
- Wamp Ng Holdings Ltd (Mt Hagen market), Notre Dame High School, Mt Hagen Hospital.
- Salvation Army, Port Moresby
- Kairok Vudal Training Centre at Vudal, ENB province
- DNPM (Aid Coordination and Implementation), NDOE
- AusAID sectors – DG, SNS, Education, Health and Sanap Wantim
- IF(III) Managing Contractor senior staff.

⁶ John Mooney, Team Leader; Keith Tuckwell, Adviser; Keith Lingard, Short Term Adviser; Cedric Saldanha, Short Term Adviser; John Winter, AusAID M&E Adviser; Margaret George-Mavu, DNPM representative; Belinda Conn, AusAID First Secretary and Willie Koi AusAID Activity Manager.

Two members of the team⁷ had extensive experience in the operation of previous phases of the IF.

An extensive portfolio of documents was provided to the team including the original project design document, the mid term review, the 2006 review, independent review reports and the individual activity evaluations. All relevant policy documents from both governments were available.

FINDINGS

A new phase of the Incentive Fund can be justified, designed, contracted and implemented within the Framework attached as an Annex to this Aide Memoire.

Goal:

To deliver significant and immediately tangible economic and/or human development impacts.

Purpose:

To strengthen and reward performing Papua New Guinean organisations to deliver high impact development activities by expanding their delivery of affordable basic services and improving infrastructure.

Incentive Fund III in 'brief'

IF(III) through a managing contractor will provide two opportunities annually for performing PNG organisations to access funding for projects focussed on the Purpose. With about A\$15 million available annually the minimum project will be K500,000. Applicants could include a wide range of PNG organisations that are doing their job well and which meet the 'gateway' entry governance requirements.

A joint PNG/AusAID committee will prioritise and select activities for approval following a two-stage process. Initial Concepts will be carefully and tightly screened for development soundness and organisational capacity. Cross-cutting issues must be addressed. Approved Concepts will be developed by applicants into full applications for final consideration. Any organisational capability weakness will be addressed with appropriate assistance.

Concepts that have been developed within sector frameworks and processes and those linked to both governments' development policies will receive higher weightings. DNPM and AusAID sector engagement in the assessment process will be transparent.

Assessing program impact will be a responsibility of the contractor, at least in the sense that it is responsible for facilitating an integrated M&E arrangement with the recipient organization that delivers a judgment about impact as well as about outputs. Occasional independent reviews will take place.

The IF(III) is unashamedly a 'restricted' access fund within the wide AusAID portfolio of programs, mechanisms, facilities and activities.

It is anticipated that there approximately 15 Concepts being developed into proposals from the initial rounds and by mid-IF(III) 15 projects will be being implemented. It is inevitable that infrastructure will be prominent within the Incentive Fund's activities. The lower entry threshold of K500,000 is specifically targeted at encouraging non-infrastructure applications.

NEXT STEPS

1. Acceptance of the Aide Memoire and Framework as the basis to move forward
2. Completion of draft design document under the terms of reference
3. Peer Review by AusAID and completion of Final design document, by end October

⁷ Lingard and Tuckwell

Papua New Guinea - Australia Incentive Fund (Phase III)

4. Completion of contractual documents, tendering and mobilisation of new managing contractor around mid-2008.

ANNEX D: APNGIF – FULL PROPOSALS APPRAISED 2000-2007

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ANNEX E: INCENTIVE FUND III – APPLICATION PROCESSING

1. Organisation assessment and entry criteria

1.1 Three-stage process of organisational assessment and entry management

IF(III) will have a greater focus at the initial application stages on the organisation itself and the development concept being promoted. The intention is that only capable organisations with a strong concept paper will be taken forward to develop a proposal. A strong influencing factor in the rationale for this approach is to (a) reduce distraction and cost to potentially unsuccessful organisations, and (b) manage expectations.

The Incentive Fund Management Group (MG) will provide strategic direction to the project. Based on analysis and recommendations from the MC, the MG will prioritise and select activities for approval following a three-stage process:

- **Stage One (Gateway Filter and Initial Assessment):** has two steps:
 - (a) the initial assessment against the gateway criteria;
 - (b) a more thorough assessment of the development proposal and the applicant organisational capabilities and capacity.

These steps have been introduced to lower costs, eliminate wasted applicant effort and help manage expectations, especially for unsuccessful applicants.

Initially, the Concept Proposal (CP) and Organisational Proposal (OP) will be assessed by the MC against a set of basic governance and development activity criteria (the 'gateway criteria'). The MC will then make recommendations on each application to the MG. This initial screening is a desktop exercise with strong MC involvement and guidance, conducted largely on the contents of the documents.

CPs and OPs that meet the gateway criteria will be further screened by the MC for development soundness and organisational capacity. Cross-cutting issues will be addressed at this stage. Capability issues and weakness will be assessed at this stage. A decision to approve or reject the proposal will be made by the MG. This is the beginning of the process that builds the IF III pipeline of activities. The MG is not obliged to send all 'complying' CPs to the next stage as it has an obligation to manage the pipeline in terms of the overall balance of the IF III portfolio to PNG's development. CPs should be sent to Stage Two on the basis that the MC and MG believe that there is a high likelihood of the organisation receiving a satisfactory joint organisational assessment and the CP proceeding for funding.

- **Stage Two (Joint Organisation Assessment):** Once the initial CP has been approved by the MG, and the activity is in the pipeline, the specific organisational capability and weaknesses (e.g. project management) of the applicant will be identified. The primary tool for identifying required capabilities and assessing the applicant will be a joint organizational assessment (JOA) using the OP as the review template. Sound development activities promoted by capable organisations should not be discarded because the applicant lacks a particular non-core capability to implement or sustain the project and subsequent activity. Assistance may be provided, if requested in the concept proposal to assist in specialist technical aspects of proposal development

and/or project management, e.g. a school organisation may need support to get plans drawn and accurate costings completed. The organisation is expected to have a core capacity and resources to develop the activity to project plan stage. The JOA will result from this process.

Competitive filtering and assessment of all approved CPs from applicants with an acceptable JOA will now take place. From the list of accepted CPs submitted by organisations that have passed the JOA, the MG, acting on advice from the MC, will construct and manage the IF(III) pipeline of activities. Approval at this stage authorises the applicant to proceed to develop the fully costed activity plan. Approval at Stage Two is a significant event and a strong commitment by IF III to the activity.

- **Stage Three:** approved CPs will then be developed by the applicant into a full application for final consideration by the MG. The MC will assist those who receive a satisfactory JOA to progress their proposal into a detailed application. The MC will not be developing or writing proposals or providing project specific design assistance. Applicants will be expected have a core capacity but it is recognised that they may need assistance addressing specific technical issues that are not their core capabilities. These weaknesses will be identified in the CP (and/or JOA). The MC's role is one of mentoring, guidance and providing advice on how applicants can and should be using third parties to build the quality of the application.

A full activity M&E framework will be developed together with baseline data and a clear exposition of proposed outcomes, targets and intended change. The draft Incentive Fund Agreement (IFA) will be negotiated at this stage including all financing arrangements.

- **Stage Four:** Final approval of the activity plan and the signing of the IFA. In the event that final approval is not forthcoming the MG, via the MC, will provide extensive feedback to the organisation and further assistance, including possible referral to other funding and capacity development mechanisms to address weaknesses. The organisation is at liberty to reapply in future funding rounds.

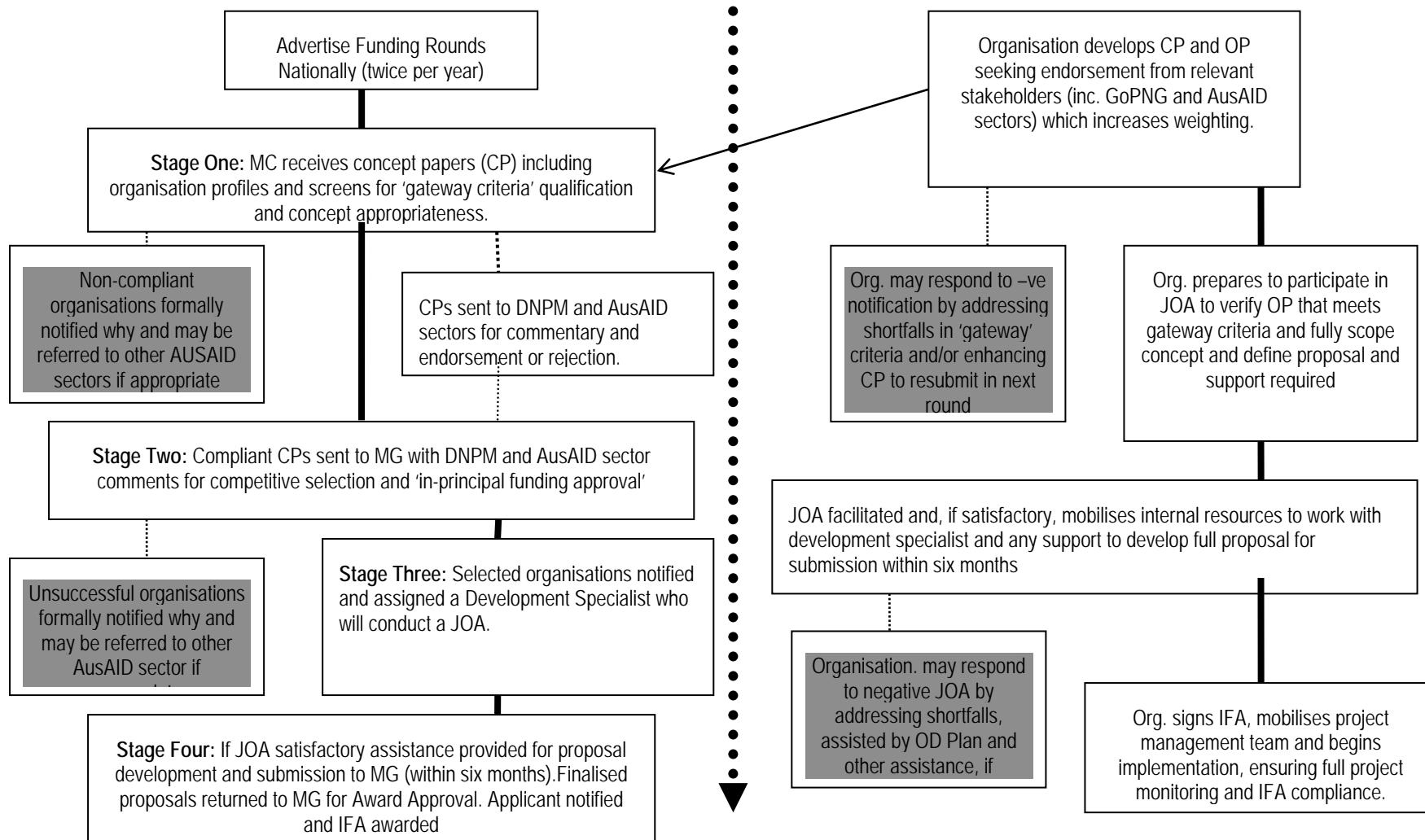
There will be no appeal for unsuccessful concepts – organisations can reapply to future funding rounds.

The overall process is illustrated in Figure 1.

Figure 1: IF(III) AWARD FLOW CHART

Award Process

Organisational Response



1.2 Organisational Entry Qualifications – rigid ‘Gateway Criteria’:

IF(III) will be seeking to fund “organisations of substance”. These organisations will be determined through meeting restrictive ‘gateway criteria’ which will be a mixture of non-negotiable formal ‘tick-the box’ compliance requirements plus a subjective organisational capability assessment. It is envisaged that some organisations may seek initial assistance from other AusAID sector programs to meet these criteria prior to applying to IF(III).

CPs and OPs can and should be modelled on the current Incentive Fund formats and former Community Development Scheme Agency Profiles. These documents will allow desk-top assessment of the applying organisation assessing its identity, purpose, capability and the impact of any Incentive Fund Agreement upon it as an organisation. This initial assessment will assist the MC and MG to understand the organisation, its record, its achievements and its capabilities. Field visits to applicants that pass the initial screening are essential.

IF(III) is specifically looking for:

- vi. Clear Vision, Mission and organisation purpose
- vii. Continuity in committed leadership and governance
- viii. Clear exposition and evidence of organisational, administrative and financial capability
- ix. Track record of service delivery
- x. Three years of audited annual accounts and reports demonstrating transparency
- xi. Reliable networks and partnerships
- xii. Committed staff team with demonstrated organisational performance
- xiii. Approach to compliance with environmental law, policies and best practice for PNG
- xiv. Approach and possible strategies for cross-cutting issues including HIV and AIDS, and gender mainstreamed in practice and in policies.

All applicant contributions and co-financing needs to be disclosed.

Applicants should also disclose any previous or current applications (accepted and declined) to other donors or financing institutions for the proposed or other significant activities.

1.3 The Joint Organisational Assessment

All applying organisations that match the ‘Gateway Criteria’ move to stage two and ‘competitive filtering’ of the OPs and CPs will be sent to the relevant GoPNG and AusAID sectors for review and comments. This is a crucial step allowing support or rejection of the application to occur. Once comments are consolidated by the MC they pass to the MG. The MG competitively assesses the OPs and CPs to select preferred applicants.

Selected organisations move forward to a rigorous Joint Organisational Assessment (JOA). The objective of the JOA is to establish a relationship and greater understanding of the organisation, its capabilities, and specifically the consequences of the Incentive Fund Agreement upon it.

It is envisaged the JOA will be based on the CDS Joint Organisational Assessment and/or the ACCESS⁸ Organisational Capacity Assessment Processes which create understanding of the organisation and produce a determinate baseline assessment and subsequent capacity indicators. These assist to measure any resulting change within the organisation attributable to the Incentive Fund Agreement.

⁸ ACCESS is an AusAID activity in Indonesia designed to develop and implement an effective approach to sustainable and equitable community development

The JOA process will contribute to establishing a relationship built upon understanding and trust between the IF(III) staff and the organisation's management and staff. This will greatly assist in delivering the desired project and development outcomes.

Project or service delivery site visits are an essential part of the JOA to verify the activities that the organisation is capable of undertaking and the expected outputs and outcomes it could achieve. This is also a good opportunity to check the facts in the CP, gauge local participation and commitment from stakeholders and assess environmental issues etc.

Consideration should be given at this stage to phasing sound applications if some doubts exist about capability or capacity to implement an otherwise sound concept. This will allow an organisation access to progressive or tranches funding, based upon the successful delivery of previous activities in stages.

However, if the JOA establishes that the organisation is unsatisfactory in critical areas then the process ceases, the organisation is informed why and they may be referred to other projects for technical or funding assistance. They are welcome to reapply to subsequent IF(III) funding rounds, if the weaknesses have been addressed.

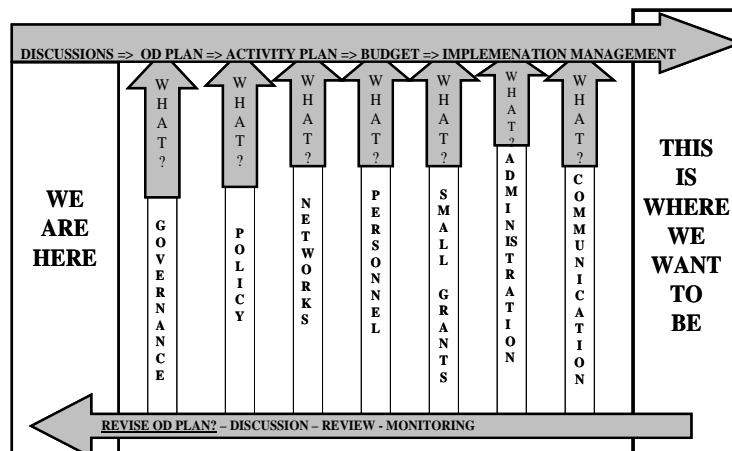
If the JOA confirms the organisation as satisfactory, the full proposal application/development may progress.

The MC will make a recommendation to a sub-committee of the MG (AusAID, DNPM and one other member) whether the JOA was satisfactory or not, and whether the application should proceed or not. This can be completed as a desktop exercise with either a teleconference or meeting required to resolve any questions or disagreements. An application will only proceed if both DNPM and AusAID endorse the JOA as satisfactory.

It will be the responsibility of the MC to ensure an appropriate JOA process and provide trained staff capable of competent facilitation. Remember the JOA acts as an organisational capacity assessment and baseline, repetition or evaluation at the end of the project will refer to this baseline to assist identifying any organisational capacity developments attributable to the Incentive Fund Agreement.

The flowchart below outlines the JOA process. Various JOA-type tools can be adapted, as required, by the MC. Discussions and assessments usually review seven key areas (though these may vary depending upon the nature of the organisation): governance, administration systems, networks, personnel, finance, policies and, communications.

Figure 2: Joint Organisational Assessment Process



The JOA Report and the completed detailed project application are ultimately submitted to the MG for review, finalisation and funding approval.

2.0 The applications

2.1 Concept Criteria

Concepts can come from a wide range of eligible PNG organisations, or a cluster of organisations with a lead organisation. In addition to the OPs being assessed during stage one and stage two, the assessment and prioritisation of CPs will be a highly competitive process.

Concepts should meet MTDS/DCS PNG development objectives, and include:

- i. Expected development outcomes that are clearly visible
- ii. Clear outputs
- iii. Initial thoughts on possible cross-cutting approaches
- iv. Concepts and proposals for monitoring and evaluation strategies
- v. Possible future outcomes for the organisation (i.e. improved potential for financial stability and growth)
- vi. Possible replication and/or 'trickle across' effects of implementation processes, outputs and outcomes by either direct or indirect beneficiaries

Concepts must have evidence of consideration of linkages to sectoral strategies. At this stage applicants should have consulted with relevant GoPNG agencies, but not AusAID sectors. The stronger the endorsement from the GoPNG sectors the more likely a concept is to be approved. This is a deliberate mechanism to ensure IF III activities do not lead to any distraction or distortion within PNG development projects.

Concepts should fully identify capacity building of the organisation through delivery of IF(III) support. This includes determining that there will be sustainable levels of funding, staffing and organisational management during and after the implementation.

Concepts will be assessed more favourably if organisations demonstrate their own investment in the proposed IF(III) supported activity, and sound sources of recurrent and maintenance funding support. This means that the more an organisation contributes to the concept and proposal development and the actual activity to be funded through the Incentive Fund Agreement (both costs and in-kind), the greater the chance there is of their concept being approved.

Concepts from local level government, district and provincial governments and will be more favourably viewed if they clearly demonstrate local ownership, skills or experience, allowing them to:

- a) learn and build capacity from the process
- b) provide any possible technical expertise
- c) provide any required recurrent budgets
- d) provide additional maintenance.

Concepts will be assessed more favourably if organisations involve local communities to provide labour and technical expertise which can generate local ownership, skills, experience, or income.

Concepts where the applicant and its management are closely involved in the proposed design, project implementation and management will be ranked significantly higher than those compared to

a 'promoter' or agent where the main proponent of the application is an external party that may have written the CP, promoted it, and then proposes to implement it for financial reward. This is a preliminary assessment of the overall approach. Detail examination of capabilities will take place in Stage 3, the joint organisation assessment. Several IF(I) & (II) activities show that this approach is a significant constraint to sustainability. Notwithstanding this, engaging local site and project managers for construction type work is an acceptable and sensible practice.

2.2 Sustainability

Firm undertakings must be obtained in relation to meeting ongoing costs, and in particular, running and maintenance costs of any assets, buildings, plant, equipment or vehicles purchased through IF(III) funding. These costs are called recurrent costs as they are on-going and must be met after the project activities have stopped. Depending on the situation, commitments to meet recurrent costs should be:

- i. included in the annual budgets of a provincial or local government or its agency;
- ii. included in the annual budget of a cooperative or similar community organisation; or
- iii. met from a levy or user fees imposed on the users and managed by a formally established community management group.

2.3 Value-for-money

At Stage One it is unrealistic to expect detailed and 100 percent accurate budgets. However, all concepts must attempt to present realistic cost estimates based upon current and expected costs for inputs. At Stage Three firm budgets and much more detail will be expected on financial costs. In many cases competitive market bids may be appropriate or estimates prepared by an architect or quantity surveyor. Given that PNG's development needs are great and resources scarce, in assessing expenditure proposals an over-riding requirement for the PNG Government is value-for-money. Construction costs are rising in PNG today and many services such as architects, engineers and construction are in short supply given the funding available in other sectors. Local implementation capacity needs to be assessed realistically.

The value-for-money consideration applies not only to procurement policy but also to the per-unit cost of service delivery. For example, at Stage Three an education or health concept should try to demonstrate that the unit cost per beneficiary is in line with acceptable national standards. (Note: detailed cost-benefit analysis is not required in every case, but attempts should be made to show that using the IF III maximises benefits. A relatively expensive education concept that demonstrates engagement with few beneficiaries (e.g. the target group of students is small) is unlikely to be approved at Stage One.

2.4 Monitoring and evaluation

The proposed arrangements for IF(III) and individual project M&E are discussed in some detail in Section 4 and **Annex H Monitoring and Evaluation**.

Sound arrangements are in place under the current APNGIF to undertake input and output M&E for each project. This aspect has generally worked well.

Section 2.1 of this PDD refers to the intention of the original design to capture overall impact and lessons learned from the use of alternative aid delivery organisations through the Incentive Fund. These are aspects that need to be improved in IF(III).

2.5 Risk assessment

Each project has a number of inherent risk factors. All concepts must identify those risks and determine how they will be managed. Key risks should be identified at Stage One with more detail risk analysis required during the JOA (Stage Two) and detailed plan preparation (Stage Three).

Risk management for the IF(III) itself is discussed in **Section 5 Risk and Feasibility** and **Annex I Risk Matrix**.

2.6 HIV and AIDS

All AusAID programs and projects are required to be assessed in terms of their potential impact on the spread of HIV/AIDS, either positively or negatively. IF(III) must contribute to limiting the spread of HIV/AIDS by ensuring that HIV/AIDS issues are mainstreamed in all funded activities and projects, especially in the projects' working and operational environments.

Prevention and management requires a multi-sectoral approach within PNG. This will involve the IF(III) developing a systemic response, and practical activities, to answer the following three core questions in each case.

- How might the proposed activity contribute to the spread of HIV/AIDS?
- How might HIV/AIDS undermine the achievements of the proposed activity?
- What can the activity do to enhance PNG's response to HIV/AIDS?

All applicants that proceed beyond the Concept Proposal approval will be required to examine their proposed activities to assess how they might contribute to the prevention and reducing the spread of the disease.

A wide range of possibilities exist to support mainstreaming. The MC should encourage applicants to seek national and provincial AIDS council support to build their capacity to strengthen and sustain HIV/AIDS intervention initiatives in the core business and specifically for the proposed activity.

Specific initiatives may include developing workplace HIV/AIDS policies and integrating HIV/AIDS activities into the organisation's corporate and annual plans, and including HIV/AIDS into the training curriculums for the staff and beneficiaries of the activity. Agencies may conduct awareness activities at work places for their staff and families. The individual projects should be designed to strengthen and sustain these achievements.

Mainstreaming is also a new concept for many and further training and practical experiences will be needed to build the capacities of the IF(III) beneficiaries. In all cases the MC will need to be able to identify in applications that provision has been made for local inputs by qualified personnel who can translate knowledge into activities and ensure that these activities are implemented. Vague promises to 'mainstream' or 'include' HIV and AIDS in activities cannot be accepted.

To ensure that this HIV and AIDS strategy is operational all IF(III) marketing material and workshops need to provide direct guidance on mainstreaming HIV and AIDS, sources of assistance and information on project application expectations.

Both governments place a high priority on HIV/AIDS prevention and responding to the epidemic. All IFAs will need to have a HIV/AIDS strategy, and resourcing, that is appropriate to both the activity and the organisation. For example as one measure all construction activity might approach the local hospital to run awareness and prevention activities with construction workers, and also ensure application of the internationally accepted FIDIC HIV&AIDS clauses. Concepts need to assess whether the project will reduce the exposure of the community to HIV/AIDS in the long term. The extent to which this issue is addressed, monitored and evaluated will influence how the project is assessed.

2.7 Gender equality

Each and every application must show active support in practical ways for Goals One and Two of the PNG *Constitution* related to integral human development, equity and participation. Gender equality is fundamental to helping people to lift themselves out of poverty. Equality addresses issues related to access to resources, information and decision-making within the organisational change context and at different levels of society. IF(III) needs to support activities designed to address these aspects of equality, with a particular focus on gender equality.

Gender equality and women's participation needs to be an integral part of each concept, its preparation, implementation and evaluation. For example: it is not sufficient just to say that women will benefit from a project without any evidence that they agree and have been actively included in the planning. Again, as an example, all organisations need to demonstrate that they have women at the decision making level of their organisation.

AusAID's policy goal is to reduce poverty by advancing gender equality and empowering women. The policy statement *Gender equality in Australia's aid program – why and how* (2007) explains why gender equality is important and seeks four policy outcomes:

- improved economic status of women
- equal participation of women in decision-making and leadership including in fragile states and conflict situations
- improved and equitable health and education outcomes for women, men, girls and boys
- gender equality advanced in regional cooperation efforts.

The overall gender strategy for IF(III) is based on mainstreaming gender in all activities supported by IF(III) and in assisting the applicants and project managers to mainstream gender in their work.

Gender mainstreaming requires everyone involved in IF(III) activities to understand and be committed to its achievement. At each point in planning, implementing, monitoring and evaluating the activities, the different needs of women and men, girls and boys, must be considered and addressed with the aim of achieving gender equity. Gender mainstreaming also requires all project specialists and staff to examine the impact of proposed and or existing policies and project outcomes on men and women in order to ensure fair and just outcomes on all members of society.

Gender issues that should be addressed, include:

- equal involvement of women during community consultation;
- potential positive and negative impacts of the proposed project on women and children;
- planned activities to reduce negative impacts on women and children; and
- plans for monitoring the impact of the project on women and children.

An assessment of the impact of each project on women and children will be the responsibility of the MC. To be appraised positively, organisations will need to demonstrate a successful and relevant track record, which shows that women and children have shared in the benefits and have not been disadvantaged or further marginalised as a result of a previous project.

When identifying target beneficiaries during the preparation of the project proposal, and during monitoring and evaluation exercises, organisations will be required to disaggregate data on the basis of gender.

The IF(III) marketing and information material should address gender issues, and should not simply state the need to address gender issues in the project proposal, but provide guidance to organisations on how to enhance proposals (and development impacts) by adequately addressing gender issues and enhancing the positive impact of projects on women and children. All workshops

should reinforce the gender messages. Furthermore, the MC's staff should be able to discuss gender issues and provide relevant advice to organisations (over the phone) during the preparation of the proposals.

3.0 Some procedural improvements for IF(III) over IF(II)

Proposal development process points:

- a. Applicants will have a fixed time of eight months within which to submit the full proposal following CP approval. This allows two-months for the JOA and six months after that to prepare the detailed proposal. Failure to submit within the eight months will result in CP approval lapsing.
- b. A demonstrated capacity, by applicant organisations in the use of own resources and commitment to proposal development, with MC guidance and mentoring as required, will be a positive factor in the CP decision-making process. The JOA will expose an applicant's core capacity strengths and weaknesses. APNGIF experience has demonstrated that the most successful projects were those where the applicant's leadership team got heavily engaged in owning and driving the development of the project plan. APNGIF applications that were 'outsourced' to a very large degree to professional project designers and project managers were less successful.
- c. IF(III) will provide, as necessary, concept to proposal development support to enhance technical and implementation feasibility in areas not the specialisation of the applicant. Some concepts may be well thought out and sound in a development sense, but their sponsoring organisation may not have the capability to develop the full application and plans. Additional assistance may be available from IF(III) to prepare technical aspects of the proposal, if identified in the initial CP and OP. This will be at the sole discretion of the MG and approved at the Stage 1 decision point.

IF(III) team assistance is available to assist with the proposal development process and the sourcing of expertise. If an organization of substance with a high quality CP and OP needs assistance to prepare the final detailed proposal they can apply for funding and technical assistance within the CP/OP submission. A quote and terms of reference will be required with the CP submission detailing any required external support. At the Stage Two approval the MC and MG will need to establish funding limits and criteria. This will go some way towards levelling the playing field for indigenous NGOs and others. The MC is not expected to be the prime source of technical expertise to applicants. However, the MC team must be able to provide initial scrutiny and guidance to applicants. Additional resources can be procured to contribute to the detailed screening every six months. In the initial phase of IF III the MC will conduct a period offer tender to secure these resources. This should enable them to be mobilised quickly. Where possible this short term technical assistance should be contracted from local PNG sources for reasons of cost effectiveness, access and to contribute to building local capacity.

In addition, the MC should be encouraging applicants to use a design-build approach to infrastructure contracting. This has a good record of success in PNG.

- d. Budgets will be approved at 'Net Cost' with GST charged and returned to central fund.
- e. Projects will receive a fixed financing budget, including GST. Budgets will be allocated to specific project components. The MG should be able to allow applicants to re-allocate sub-component budgets within the original total approved amount when savings are made to a particular sub-component provided the integrity of the activity is not compromised. It makes no sense to reduce the scope of one sub-component (i.e. building half a secure fence around a school instead of the whole fence) because costs are higher than budgeted for unexpected

reasons, and then to return unspent monies in other sub-components to the Incentive Fund from savings made. Delivering the sound development project within total budget, on time and value-for-money is the overall objective. Re-allocation should not be permitted to expand the original scope of an approved project.

- f. Contingency allowances will be removed from the approved project financing agreements. It is recognised that contingency is an integral part of a project's costs. In its widest definition is it an allowance for unforeseen costs within the project's defined original scope. Within APNGIF the inclusion of contingency in the financing agreement sometimes resulted in expectations that the contingency may be available as additional funding, an unfortunate situation not helped by confusing and inconsistent administration.

To ensure development outcomes are not compromised due to financial limits the MC shall manage the provision for contingencies across the portfolio of IF(III) activities. The MC shall have discretionary powers, acting on expert advice if required, within usual contracting guidelines and accepted construction practice to provide additional funding to fund contingencies.

It will be up to the MC to provide a definition of 'contingency'. The amount of the contingency allowed in each project, in the MC's financial planning, will depend on the status of design, procurement, and construction; and the complexity and uncertainties of the component parts of the project. Contingency is not to be used to avoid making an accurate assessment of expected individual project cost.

- g. IF(III) will ensure, and fund as necessary, project management and implementation support structures and costs.
- h. No appeal will be allowed for unsuccessful proposals.

4.0 Creation of public goods

All assets created by IF(III) must be legally owned or held by publicly owned or charitable entities for the common good in perpetuity.

Proposals will not be supported where assets created with IF(III) resources are owned or beneficially held by an individual or a for-profit company.

The detailed proposal must explain what measures will be taken to ensure that all assets created under Incentive Fund Agreement will be properly used, and specify the final ownership of assets. If land is involved, ownership must be clearly identified via land title or land use agreements (25-99 years) obtained from the landowners, and copies of these agreements attached to the detailed Proposal.

5. Compliance with PNG law, codes and standards

All projects must comply with the laws of Papua New Guinea, and also the laws of Australia.

If construction or other infrastructure development is included as an IF(III) activity it will be necessary to attach statements confirming that all designs and construction activities will conform to PNG law, building codes and any other applicable regulations or standards.

The IF(III) contractor must have available:

- an extensive range of standard designs and technical drawings. IF(III) proposals can utilise these to save considerable time and money for new designs.
- a set of standard tender and contract documents to funding recipients.

All procurement undertaken as part of a proposal will need to comply with the Government of Papua New Guinea Procurement *Good Practice Manual* published by the Central Supply and Tenders

Board. Both the CP and the detailed project application must contain a commitment to comply with these procedures. Any activity with a value over K300,000 will need to be tendered using the Central Supply and Tenders Board or a Provincial Supply and Tenders Board (for government agencies) or other approved procurement process that gives confidence that procurements will be transparent, competitive and value for money.

6. Implementation

6.1 Implementation of Projects Funded Under IF(III)

The MC on behalf of the MG will confirm in writing those proposals approved for funding to successful organisations. This notification will be accompanied by a draft Incentive Fund Agreement (IFA) and financial management and reporting procedures.

Organisations will be required to sign an Incentive Fund Agreement with the Government of Australia. The Incentive Fund Agreement, includes:

- i. date of commencement and duration of the project;
- ii. scope of services – a description of the activities for which the funds must be used;
- iii. performance standards, as applicable;
- iv. schedule of activities, their targets and the time-frame in which they are to be achieved;
- v. project budget;
- vi. basis for payment and the funds disbursal profile;
- vii. monitoring and reporting requirements;
- viii. undertaking to produce monthly financial statements and an audited year-end statement for the APNGIF;
- ix. organisation's responsibilities in regard to the maintenance of assets and any limitations on the use of assets;
- x. audit requirements; and
- xi. procedures for handling disputes.

6.2 The Implementing Organisation

The organisations contracted by the Incentive Fund Agreement are wholly responsible for the efficient and effective implementation of the project. Depending upon the core business of the organisation contracted by the Incentive Fund Agreement and the nature of the funded project, the organisation may itself take direct management responsibility for the project, or elect to sub-contract project management of the project. This will be incorporated into the proposal and Incentive Fund Agreement.

Implementing agency responsibilities include:

- i. providing suitably qualified and experienced staff to implement the project effectively;
- ii. implementing the project in accordance with the Scope of Services and implementation schedules of the Incentive Fund Agreement and ensuring the project's milestones are met on time;
- iii. ensuring that assets and equipment purchased under the (IF(III)) provide value for money and accord with the agreed purchasing guidelines and procurement processes;

- iv. meeting their responsibilities in regard to the maintenance of assets and any limitations on the use of assets;
- v. managing the project's budget;
- vi. preparation of monitoring, cash flow and other reports as required by the Incentive Fund Agreement;
- vii. arranging external audits as required by the Incentive Fund Agreement;
- viii. preparing development outcomes evaluation and project completion reports;
- ix. providing any other information requested by the IF(III) including information requested on follow up monitoring after the project is completed;
- x. Ensuring project activities do not contravene PNG law or internal organisational policy; and
- xi. Participating fully in evaluation activities which may be undertaken after the project is completed.

The Incentive Fund Agreement recipient must provide these financial management arrangements:

- a) Accountant: Each project is required to keep detailed financial records for the project. This generally requires the services of a qualified accountant. If funded an organisation will need to either have an accountant on staff or engage an accountant to keep its financial records, or engage an accounting firm to undertake this task on its behalf.
- b) Audits required: Each project will be required to undertake annual independent audits of the project accounts. This cost will be included in the proposal.
- c) Computerised accounting system: Each project will need to keep computerised financial records.

ANNEX F: MANAGEMENT ARRANGEMENTS

1. MC's Role

The MC will:

- a. manage the IF(III) according to AusAID's developmental and contractual requirements;
- b. establish and maintain an office and facilities in Port Moresby;
- c. conduct a tender for period contracts for short term advisory assistance that may be required during IF III
- d. conduct a tender for period contracts for organisations and/or individuals to conduct the JOAs during the life of IF III
- e. prepare a draft M&E Framework and organise with the MG, AusAID and DNPM in a participative process for the design of (i) a methodology for all funded applicants to prepare activity M&E frameworks that meet the objectives explained in Section 4 and Annex H of the design document (Monitoring and Evaluation), and (ii) a higher level set of specific outcomes that will provide a framework against which the MC can report at IF III Purpose level. This latter task will require some flexibility so as to be adapted to the specific sectors within which IF III ends up working in.
- f. provide the secretariat to the MG;
- g. prepare a plan to market IF(III) to potential participating organisations;
- h. prepare and maintain and up-to-date an Information Kit and a website (including a summary of the sectoral focus of the GoPNG and the GoA PNG Development Cooperation Strategy, Partnerships for Development and a description of AusAID's policies on poverty alleviation, gender, disability, the environment, HIV and AIDS, child protection, fraud and corruption and aid effectiveness);
- i. design an enquiry response system, train staff in this system and implement the system;
- j. conduct regular workshops throughout PNG to facilitate IF(III) marketing and proposal preparation;
- k. prepare a detailed financial handbook on the approved financial management and reporting requirements under an IFA
- l. provide training to any organisation receiving a grant on the requirements of the Incentive Fund Agreement.
- m. establish a database and maintain records on enquiries, CP and OD registrations, concepts and full applications, and project monitoring and evaluation processes;
- n. conduct the Stage One analysis of project applications for compliance with the 'gateway' criteria advising applicants the outcomes;
- o. submit CPs and OPs to DNPM and AusAID for initial screening by relevant departments and sectors with feedback to be included in the package of material for consideration by the MG;
- p. investigate and appraise CPs and OPs according to the IF(III) selection criteria, and submit appraisal reports to the MG;
- q. organise the JOAs and complete the JOA assessment report for the MG;
- r. prepare and distribute agendas and working papers, including (i) proposal status report, (ii) proposals and funding recommendations, and (iii) monitoring and evaluation reports to the Management Group prior to each Management Group meeting;

- s. organise Management Group meetings, be available with long term advisers to give advice and further information to the MG during their deliberations, record minutes of the meeting and distribute them along with up-dated funding schedules;
- t. notify successful organisations and prepare Incentive Fund Agreements (IFAs) with project-specific Scopes of Services and Basis of Payment;
- u. sign the IFA (as the agent of the Commonwealth);
- v. monitor projects and enter monitoring reports to the database;
- w. conduct field visits/analyses, review project audit reports and analyses of project reports undertaken in order to validate project progress;
- x. design and implement a comprehensive monitoring and evaluation arrangement for the IF(III) as a whole, the individual projects and the quality of the MC's inputs and outputs. The assessment of IF(III) impact is a responsibility of the contractor, at least in the sense that the MC is responsible for facilitating an integrated M&E arrangement with the recipient organisations that delivers a judgement about impact as well as about outputs.
- y. prepare Summary Monitoring Reports and recommended funding disbursements and submit to DNPM/AusAID and the Management Group;
- z. analyse and summarise IF(III)-End Evaluation Reports (prepared by implementing organisations) and enter them to the database and submit them to the Management Group on a quarterly basis where applicable;
 - aa. design and implement an IF III communication and media strategy;
 - bb. design and manage the IF(III) imprest account mechanisms including the central funding account and project sub-accounts;
 - cc. prepare, Annual Plans, Quarterly Progress Reports and a IF(III) Completion Report and submit to AusAID;
 - dd. provide information, support and coordination to the IRT;

2. MC's IF(III) Team and Personnel Resources

This design supports the 2007 Review's conclusions that:

- The current level of IF(II) administration and technical support was adequate to manage that current workload and processes, and are an adequate guide for IF(III).
- Demand in previous phases was infrastructure focused. Future MCs should anticipate more of the same. Retaining a strong infrastructure project management capacity within the MC is advisable, including maintaining the ability to support applicants in "design and build" sub-tendering approaches. Maintaining an infrastructure specialisation capacity within the IF(III) team will add value to the aid program as a whole by providing a resource knowledgeable about construction across PNG that other sectors could draw upon for advice if required.

Based upon the experience of the last seven years the MC will field a relatively small team (based in Port Moresby) but also draw on short-term assistance from a multi-disciplinary team of technical and managerial specialists.

The core MC team, known as the "Management Team" will consist of:

- a) **IF(III) Program Manager (PM):** The in-country team will be led by the IF(III) Program Manager who will responsible for the coordination and delivery of all inputs and activities. Particular duties include contract compliance, marketing, quality management and

reporting, facility management, stake-holder liaison, mentoring and support to Management Group, DNPM and AusAID. The PM will be expected to provide strategic and operational direction for the Incentive Fund and be AusAID's primary point of contact for IF(III)-related issues. The IF(III) Manager will work full-time for the contract term and will be responsible for day-to-day management of the IF(III) and effective liaison with all stakeholders. The IF(III) Manager should have a strong background in development activity and senior management.

- b) **Incentive Fund Administration Manager (Deputy):** Day-to-day management, long term and short term development specialist recruitment (supported by the MC's home country office), mobilisation, support and performance monitoring.
- c) **Financial Manager:** Manage activity imprest, sub-imprest and operational accounts, financial reporting to stake-holders, organise audits and dealing with any fraud issues and audit responses.
- d) **Three full-time Development Specialists:** Review and screen concept papers, respond to submissions and/or refer to sectors, prepare submissions to management groups, identify specialist requirements and establish terms of reference, manage specialists performance, monitor all activities.

The development specialist's primary personal professional experience will be:

- organisational development – one full-time person
- construction/procurement – one fulltime person
- performance management, M&E and research – one fulltime equivalent.

The development specialists, long term and short term, will assist with the provision of advice in the development of proposals and mentor the applicants and the dedicated project managers and/or teams to manage the financed projects. As discussed in the previous Annex (Application processing) the MC team will not have a hands-on role in preparing or writing applications or concepts. If an applicant requires specialist assistance to prepare the detailed Stage Three activity plan that should be identified through the earlier phases and especially the JOA.

The number of development specialists can be elastic to increase or decrease depending upon the workloads created by the Incentive Fund pipeline.

The Management Team will be supported as required by a pool of short term contracted local and international personnel, known as the "Advisory Pool". The advisory pool needs to include 2 gender positions: one long term adviser with short term inputs with overall responsibility on gender equality through the program, and one short term input to develop quality gender training for the management group and project teams and where appropriate successful organisations. The MC will establish under a period offer arrangement a panel of international and national experts who could be engaged on an 'as required' basis to support the assessment of CPs and ODs, the development of plans and activity implementation as required. It is envisaged that there will be intense periods of activity after applications close. Short term advisers could assist with this workload, particularly the verification and checking of credentials and responses to the key criteria and site visits. Skills may be required in the following areas:

- technical appraisal of concepts and proposals
- specialist technical areas for particular activities, e.g. health, education, infrastructure
- gender, HIV/AIDS mainstreaming
- contract preparation
- communications and media

- contract supervision and employer's representative roles during implementation, e.g. on site clerk of works
- environmental management
- design and implementation of publicity and/or communication projects; and
- project evaluation.

Some of these experts may be required in the initial establishment phase and from time-to-time thereafter.

At the Request for Tender stage prospective MC's should be asked to indicate types and/or sources for short term advisers only, not specific individuals. Once mobilized the MC can organize an open tender for period contracts in appropriate specialities. If included at tender stage MCs will simply 'lock up' a very limited pool of PNG individuals and organizations capable of doing this work. It serves no useful purpose at the AusAID MC tender phase.

Other resources to be contracted by the MC:

- **Support Staff** - as determined by MC including drivers, administration officers, and finance clerks, likely to be about five to six people.
- **Contract Auditors** – contracted by MC to conduct the independent annual audit of the Incentive Fund and the MC's financial systems and processes.

There will be distinct advantages for the IF(III) if the long and short-term technical specialists include Papua New Guinean advisers and/or consultants from PNG organisations that can be mobilised quickly and efficiently as and when required. Local consultants will in many cases, have the advantage of local knowledge, which may include technical knowledge such as PNG construction standards, or previous experience with the organisations submitting proposals.

The MC will nominate a MC's representative who will be AusAID's primary point of contact for contractual and staff performance issues.

3. Documents for MC to prepare

As far as is possible the IF(III) procedures should be based upon those as at the completion of IF(II) except to the extent modified by this design document. Continuity of processes and procedures is highly desirable.

The MC will need to prepare the following documents for IF(III), based upon a review of existing documentation:

- a. Annual Plan for Year One
- b. Monitoring and Evaluation Framework
- c. Comprehensive IF(III) Introduction and Guidelines
- d. IF(III) Awareness Media and Communication Strategy
- e. MG Constitution and Operating Guidelines ("Charter")
- f. Guidelines for preparing a Concept Paper including:
 - i. Concept Paper Format
 - ii. Guidelines for preparing an Organisational Profile
 - iii. Organisational Profile
 - iv. Guidelines for providing support for proposal development

- iv. CP and OP Stage One 'Gateway' Filter and Assessment Criteria for MC
- v. Stage One CP and OP Screening Summary Sheets – for use by MC/MG and AusAID Sectors.
- vi. Unsuccessful CP and OP feedback sheets
- vii. AusAID Sector CP and OP commentary and feedback sheets
- g. a gender training manual for activity teams and the MG
- h. Joint Organisation Assessment Procedures, and tender for services to conduct the JOAs
- i. Stage Three activity format including
 - i. Guidelines for preparing an activity proposal format
 - ii. Guidelines for preparing an activity budget
 - iii. Guidelines for preparing a Development Work Plan to implement the activity
Proposal Assessment Criteria and Format
- j. Incentive Fund Agreement
- k. Incentive Fund Agreement Management and Reporting Procedures
- l. PNG standards and technical specifications
- m. Standard tender and contract documentation
- n. Financial Management Handbook
- o. Program Fraud Control Plan
- p. A Period Offer Request for Tender for the required short term advisers and consulting firms.

4. MC's Performance and the Role of the IRT

The capacity of the MC to undertake the role outlined above will be crucial to the overall success of the Incentive Fund. As a result this IF(III) will place considerable emphasis on the quality of the MC's performance. The MC's performance will be assessed by AusAID annually and there will be emphasis on continuous improvement.

Continuous improvement will be achieved through a range of contractual obligations and the use of governance, strategic management and M&E implementation indicators as detailed in Section 5.5.1. The MC's performance indicators are largely qualitative and will be set out in the contract to provide a pre-determined mechanism for payment of 30 percent of the fees according to performance.

AusAID will use a variety of sources of information to assess the level of performance the MC has achieved. The IRT, during its reviews, will play a key role in providing advice to AusAID on the quality of the MC's performance according to the identified indicators.

5 Financial Management Arrangements

5.1 MC controlled Imprest Account Mechanism

The financial arrangements for the Incentive Fund are well settled after seven years of operation. To the greatest extent possible current procedures should be replicated for IF(III).

There are sound policy reasons for the MC to continue to operate the imprest account mechanism as provided for in the current Development Treaty between Australia and Papua New Guinea. It is appreciated that there is a trend within the AusAID programs and programs for increasing use of GoPNG systems and processes in the administration of imprest accounts. However, given the

workload, the diverse nature of the recipients and the fact that funding is going to go to a number of organisations, many outside the government system, it is considered that the MC is best placed to administer the imprest account, as provided for in the Treaty. The MC will have administrative, financial and audit arrangements in place to ensure that funding is released to projects in a timely and efficient manner. The MC is best placed to enforce accountability and to audit compliance on a daily basis within the financing agreements and IF(III) procedures. Finally, DNPM the IF(III) counterpart agency is not well positioned to operate and manage the individual project accounts.

Within the current trust instruments for the PNG Incentive Fund Imprest Account it should be possible for DNPM to assist the MC to work with Treasury and the Department of Finance to open new bank accounts. The actual accounts relating to IF(II) can then be closed out, reconciled and audited as the final project ends.

All grant funds to be allocated to organisations will be paid into this new central IF(III) bank account on a quarterly basis. This is basically a transit account, with funds distributed to project organisations with minimal delay, provided financial agreements are adhered to.

Each organisation will be required to establish a separate sub-imprest account for their project:

- GOPNG agencies, including provincial and local-level governments, will be required to establish a Subsidiary Imprest Account; and
- other organisations will be able to establish an ordinary bank account.

Whether a Subsidiary Imprest Account or normal bank account, funds will be paid into the accounts each quarter. However, the initial release of funds will cover a period of three months, after which point in time, progress reports (prepared by the MC, based on monthly reports presented by the implementing organisations) will be required to trigger additional releases of funds each quarter. The initial funding and all subsequent funding cash flows should be strongly linked to the planned activity milestones and sub-components with payments out of the Subsidiary Imprest Account only on the completion of certified activities or outputs.

The request for funds for the next quarter will only be processed once:

- the monthly reports for the previous quarter have been submitted to the MC;
- the MC is satisfied that progress is satisfactory; and
- in line with the Management Group endorsed activity budget and IFA.

The IFA will take an inputs-based approach, in that funds will be reimbursable.

There is a risk that organisations receiving AusAID funding may free up other capital to undertake activities which may be exploitative in nature and/or not in accordance with the development policies of PNG and Australia. Accordingly, the design team recommends that the MC's monitoring and evaluation of IF(III) performance also consider the on-going nature of an organisation's overall business activities based upon the initial JOA baseline.

Consequently, organisations receiving IF(III) grants will be expected to initially state and then annually declare that they exercise the highest degree of probity; and carry out all of their business activities in accordance with the development policies of the PNG Government. Organisations need to be cautious about starting further new significant activities while implementing their IF(III) financed project. The monitoring and evaluation requirements will support this detailed review of on-going business activities; as should proposal preparation documents. The IFA disclosure requirements, the annual audits, and other third-party accountability tests, will assist the MC to verify this on-going status of the organisation.

In addition, it may be useful to include in the initial advertisements for IF(III) the following statement:

“Organisations receiving IF grants will be expected to exercise the highest degree of probity; ensure that their accounts and/or performance are audited, or externally examined annually, and carry out all of their business activities in accordance with the development policies of the PNG Government.”

5.1 Fraud Control

Fraud is a generic category of crime which involves an individual or group of individuals dishonestly obtaining property or some financial advantage by means of deception. Perpetrators of fraud may seek to gain money, property, time or information and the means used are as varied as are the opportunities which arise.

AusAID has strong policies on dealing with fraud and corruption. The MC’s IF(III) Fraud Control Plan must reflect AusAID’s policies so as to provide guidance for staff, contractors and project implementers on fraud control, prevention, detection, investigation and reporting processes and procedures that comply with the Commonwealth of Australia’s Fraud Control Guidelines.

The plan must apply across all projects and organisations under the Incentive Fund. The plan will be part of the IF(III) Administrative Manual and made available to all project staff and senior counterparts. IF(III) staff are to be made aware of:

- a) what constitutes fraud or corruption;
 - a) AusAID’s zero tolerance approach to fraud and corruption; and
 - b) the existence and content of the plan.

Staff and contractors should be encouraged to discuss the issue openly and promote fraud and anti-corruption awareness where possible

ANNEX G: POSITION DESCRIPTIONS

Position:	1. Program Manager	Duration:	Full time in Port Moresby
Works with:	AusAID, APNGIF Management Group, GoPNG including the Department of National Planning and Monitoring, APNGIF applicants, and as required national government agencies, civil society and provincial and local levels of government.		
Location:	Port Moresby with travel to provinces as required	Reports To:	Program Director
Qualifications and Experience:	<ul style="list-style-type: none"> • Proven ability to lead and manage a large multi-disciplinary team in a complex project management environment. • Proven ability to manage complex change management processes in a multi-cultural (preferably developing country) multi-agency environment. • Significant experience in strengthening organisational-level strategic planning, accountability and performance management processes. • An understanding of and experience in public sector management and reform. • Experience in development assistance, preferably the Pacific and PNG, and operating within AusAID policy and practice. • Executive-level management experience in implementing a major development activity is highly desirable. • Demonstrated understanding and experience of the performance management cycle of planning, implementation, monitoring and reporting. • Demonstrated understanding and experience of capacity development approaches and the ability to utilise a range of techniques to increase the confidence, skills and action of colleagues and team members. • An understanding of gender inequalities, child protection, disability, HIV&AIDS and fraud and corruption issues and a preparedness to mainstream these into development activities. • Ability to assess and work sensitively in a cross cultural context. • Excellent interpersonal skills. 		
Key Responsibilities:	<p>The Program Manager (PM) plays the lead role in managing the implementation of the APNGIF in accordance with the Program Design Documentation.</p> <p>The PM's key tasks:</p> <ul style="list-style-type: none"> • Lead and manage the APNGIF team in Papua New Guinea to ensure the program progresses according to the design and annual plans, on schedule, within budget, in line with AusAID and GoPNG policies, with excellent communications and problems being solved. • Manage all APNGIF technical inputs and resources, personnel, program assets and the in-country office. 		

	<ul style="list-style-type: none">• Mentor and guide the Management Group as they seek to implement the APNGIF portfolio of activities.• In collaboration with the Management group and the APNGIF team to ensure all assistance is planned and delivered in a manner consistent with the Program Design Document, approved operating procedures and the Contract.• Provide strategic and technical inputs to the in-country team to ensure consistency with the APNGIF purpose and objectives and the mainstreaming of gender and HIV and AIDS.• Support and implement APNGIF Monitoring and Evaluation including regular monitoring and reporting of activities and inputs, making adjustments as necessary, to ensure objectives are met.• Identify and schedule APNGIF inputs, activities and required tasks in a timely manner.• Manage liaison and effective communication with AusAID Port Moresby, MG, IRT and key stakeholders.• Prepare:<ul style="list-style-type: none">– Annual Program Plans.– Quarterly and Six Monthly Reports, including agreed financial statements.– Documents and information requests from AusAID.– Program Completion Report.
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Position:	Administration Manager (Deputy Program Manager)	Duration:	Full time in Port Moresby
Works with:	APNGIF Management Group, APNGIF applicants, and as required national government agencies, civil society and provincial and local levels of government.		
Location:	Port Moresby with travel to provinces as required	Reports To:	Program Manager
Qualifications and Experience:	<ul style="list-style-type: none"> • Demonstrated experience in managing the procurement and mobilisation of quality inputs into a major development project. • Demonstrated experience in the recruitment and management of development specialists or similar senior technical personnel. • Extensive managerial experience in establishing and managing processes and systems that demonstrates the ability to manage APNGIF in its engagement with multiple stakeholders, the tracking of documentation and contacts, the processing of funding applications, the checking of compliance and the overall imposition of quality control into the APNGIF project cycle. • Experience in development assistance, preferably the Pacific and PNG, and operating within AusAID policy and practice. • Executive-level management experience in implementing a major development activity is highly desirable. • Demonstrated understanding and experience of the performance management cycle of planning, implementation, monitoring and reporting. • Demonstrated understanding and experience of capacity development approaches and the ability to utilise a range of techniques to increase the confidence, skills and action of colleagues and team members. • An understanding of gender inequalities, child protection, disability, HIV&AIDS and fraud and corruption issues and a preparedness to mainstream these into development activities. • Ability to assess and work sensitively in a cross cultural context. • Excellent interpersonal skills. 		
Key	<ul style="list-style-type: none"> • Contribute effective and efficient administration of APNGIF, its processes and systems and the quality of its communications with stakeholders. • Establish, manage and monitor, with the Program Manager and Administration Manager, APNGIF's proposal and project tracking and management system. 		

	<ul style="list-style-type: none">• Contribute to the joint organisational assessment of applicants (i.e. governance and corporate systems and their health) that pass the approval of the Concept Proposal and gateway criteria.• Prepare capacity development strategies to support successful applicants in enhancing their administrative and personnel administration systems and processes to strengthen project management and implementation of their activities.• Mentor, support, facilitate and monitor successful applicants in the administrative and personnel management of their activities according the approved project plan and financing approval.• Mentor and provide accurate and timely information to the Management Group, on the procurement of quality inputs for the program as a whole.• In collaboration with the Management Group and the APNGIF team ensure all assistance is planned and delivered in a manner consistent with the Program Design Document, approved operating procedures and the Contract.• Provide financial and audit inputs to the team to ensure consistency with the APNGIF purpose and objectives.• Identify and schedule APNGIF inputs, activities and required tasks in a timely manner.• Maintain effective communication with AusAID Port Moresby, MG, IRT, applicants and key stakeholders.• Participate in the marketing of APNGIF.• Contribute to the preparation of:<ul style="list-style-type: none">– Annual Program Plans.– Quarterly and Six Monthly Reports, including agreed financial statements.– Documents and information requests from AusAID.– Program Completion Report.
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Position:	Development Specialists (three positions)	Duration:	Full time in Port Moresby
Works with:	APNGIF Management Group, APNGIF applicants, and as required national government agencies, civil society and provincial and local levels of government.		
Location:	Port Moresby with travel to provinces as required	Reports To:	Program Manager
Qualifications and Experience:	<ul style="list-style-type: none"> • Proven ability to work in a large multi-disciplinary team in a complex project management environment. • Proven ability to manage complex change management processes in a multi-cultural (preferably developing country) multi-agency environment. • Significant experience in strengthening organisational-level strategic planning, accountability and performance management processes. • An understanding of and experience in public sector management and reform. • Experience in development assistance, preferably the Pacific and PNG, and operating within AusAID policy and practice. • Executive-level management experience in implementing a major development activity is highly desirable. • Demonstrated understanding and experience of the performance management cycle of planning, implementation, monitoring and reporting. • Demonstrated understanding and experience of capacity development approaches and the ability to utilise a range of techniques to increase the confidence, skills and action of colleagues and team members. • An understanding of gender inequalities, child protection, disability, HIV&AIDS and fraud and corruption issues and a preparedness to mainstream these into development activities. • Ability to assess and work sensitively in a cross cultural context. • Excellent interpersonal skills. <p>These positions cover three required skill areas that have to be covered within this team of three persons:</p> <p><u>Construction and procurement</u></p> <ul style="list-style-type: none"> • Solid on site experience in infrastructure development, especially civil construction, facilities management, construction and maintenance programs, and major building and civil refurbishing and maintenance projects; a sound knowledge of the tendering and awarding of major contracts; and, comprehensive planning, scheduling and implementation of facilities works programs. 		

	<ul style="list-style-type: none"> • The ability to advise on, evaluate and supervise the design, contracting, management and implementation of construction activities funded by APNGIF within the framework of development projects and PNG systems and processes. • Civil construction and facilities works experience and good knowledge of Papua New Guinea Public Service procedures highly desirable. <p><u>Organisational Development</u></p> <ul style="list-style-type: none"> • Extensive experience in directing, supporting and assessing the effectiveness of planning, organisational and risk management processes particularly in smaller single purpose organisations. • Demonstrated capacity to critically evaluate proposals, propose appropriate solutions and assist in implementation of change and capacity building strategies to address weaknesses and minimise risks. • Proven managerial ability, with the ability to assist in the design and implementation of activities. • Influencing, networking and strategic skills of a high order. • Senior management in a community based organisation or social services delivery organisation will be an advantage. <p><u>Performance management, M&E and research</u></p> <ul style="list-style-type: none"> • Experience in the design and implementation of inclusive performance monitoring and evaluation systems including identifying key performance indicators and data collection required. • Experience in analysing data, both qualitative and quantitative, to provide reports of performance and impacts and advice for future activities. • Direct experience in setting up on-going research activities aimed at measuring outcomes in a developing country environment will be an advantage. • Ability to quickly become familiar with data collection constraints and the capacities of PNG organisations.
Key Responsibilities:	<p>The Development Specialists, working with short term specialist technical advisers contracted on an as required basis will:</p> <ul style="list-style-type: none"> • Contribute technical skills, advice and capacity building approaches in their particular areas of expertise. • Manage the assessment and evaluation of all proposals received by the APNGIF. • Organise and contribute to the joint organisational assessment of applications that pass the approval of the Concept Proposal and gateway criteria. • Prepare capacity development strategies to support successful applicants in strengthening project management and implementation of their activities. • Mentor support and facilitate successful applicants in the project management of their activities according the the approved project plan

	<p>and financing approval.</p> <ul style="list-style-type: none">• Design and implement the APNGIF monitoring and evaluation framework.• Mentor and provide advice to the Management Group as required.• In collaboration with the Management Group and the APNGIF team to ensure all assistance is planned and delivered in a manner consistent with the Program Design Document, approved operating procedures and the Contract.• Provide strategic and technical inputs to each other to ensure consistency with the APNGIF purpose and objectives.• Identify and schedule APNGIF inputs, activities and required tasks in a timely manner.• Maintain effective communication with AusAID Port Moresby, MG, IRT, applicants and key stakeholders.• Participate in the marketing of APNGIF• Contribute to the preparation of:<ul style="list-style-type: none">– Annual Program Plans.– Quarterly and Six Monthly Reports, including agreed financial statements.– Documents and information requests from AusAID.– Program Completion Report.
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Position:	Financial Specialist	Duration:	Full time in Port Moresby
Works with:	APNGIF Management Group, APNGIF applicants, and as required national government agencies, civil society and provincial and local levels of government.		
Location:	Port Moresby with travel to provinces as required	Reports To:	Program Manager
Qualifications and Experience:	<ul style="list-style-type: none"> • Demonstrated knowledge of PNG public sector financial systems. • Demonstrated experience of accounting principles, reconciliations, financial, compliance and efficiency/effectiveness audits, financial monitoring and risk management. • Tertiary qualifications in accounting, and experience in the development and implementation of financial systems. • Extensive accounting, financial management and auditing skills and experience - preferably in both public and private sector environments. • Experience in organisational development and change management. • Experience in development assistance, preferably the Pacific and PNG, and operating within AusAID policy and practice. • Executive-level management experience in implementing a major development activity is highly desirable. • Demonstrated understanding and experience of the performance management cycle of planning, implementation, monitoring and reporting. • Demonstrated understanding and experience of capacity development approaches and the ability to utilise a range of techniques to increase the confidence, skills and action of colleagues and team members. • An understanding of gender inequalities, child protection, disability, HIV&AIDS and fraud and corruption issues and a preparedness to mainstream these into development activities. • Ability to assess and work sensitively in a cross cultural context. • Excellent interpersonal skills. 		
Key Responsibilities:	<ul style="list-style-type: none"> • Contribute financial, accounting and audit expertise to the competent implementation of APNGIF. • Establish, manage and monitor, with the Program Manager and Administration Manager, APNGIF's financial management systems including the imprest account mechanism and individual project account mechanisms for approved activities. • Contribute to the joint organisational assessment of applicants (i.e. 		

	<p>financial systems and health and audit compliance record) that pass the approval of the Concept Proposal and gateway criteria.</p> <ul style="list-style-type: none">• Prepare capacity development strategies to support successful applicants in enhancing their financial systems and processes to strengthen project management and implementation of their activities.• Mentor, support, facilitate and monitor successful applicants in the financial management of their activities according the approved project plan and financing approval.• Mentor and provide accurate and timely financial reports and advice to the Management Group, on the program as a whole and individual activities.• In collaboration with the Management Group and the APNGIF team to ensure all assistance is planned and delivered in a manner consist with the Program Design Document, approved operating procedures and the Contract.• Provide financial and audit inputs to the team to ensure consistency with the APNGIF purpose and objectives.• Identify and schedule APNGIF inputs, activities and required tasks in a timely manner.• Maintain effective communication with AusAID Port Moresby, MG, IRT, applicants and key stakeholders.• Participate in the marketing of APNGIF.• Contribute to the preparation of:<ul style="list-style-type: none">– Annual Program Plans.– Quarterly and Six Monthly Reports, including agreed financial statements.– Documents and information requests from AusAID.– Program Completion Report.
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ANNEX H: MONITORING AND EVALUATION

1 Monitoring and Evaluation

1.1 What is IF III achieving?

In the first two phases of the Incentive Fund the financial and physical monitoring of the projects at activity level seems to have been done well, by the MC, project owners and the IRT. The 2007 Review concluded:

“A snapshot of the M&E processes undertaken with the AMC included review of the outputs and outcomes with the M&E specialist and the development specialists. This snapshot firmly indicated that currently the [Incentive Fund] processes are ensuring efficient delivery of project outputs and, on the whole, these are relevant and delivering effective development outcomes”

However, it was also recognised that significant efforts were being applied to the verification of outputs while there had been less success in documenting medium term development results that were becoming apparent some time after the completion of the main expenditure⁹.

The rationale for a new phase of the Incentive Fund is that it gives successful organisations across PNG an opportunity to make an enhanced impact on service delivery or growth which may not be available to them through AusAID's normal sector programs. In doing so, it provides an alternative to, and reduces the risks associated with, a concentration of most of the remainder of the AusAID program (with some exceptions) on the use of PNG systems to strengthen public sector institutions and service delivery.

Monitoring and evaluation therefore needs to demonstrate:

- that the IF is a viable alternative way of spending around five percent of the aid program and activities chosen are on a sufficient scale to make a meaningful impact on PNG development priorities; and
- where possible, aggregate impacts, e.g. evidence of a class of organisations having improved their performance and capacity.

Measurement of the purpose of IF(III), will require an understanding of the strengths and weaknesses of successful applicant organisations, of the changes brought about as a result of implementing the IF(III) grant, and the extent to which they have been better able to pursue their goals. This implies that the “program period”, and the involvement of the Incentive Fund with applicants will need to be longer than in the past, and to extend beyond each project's formal ‘completion’. The proposed changes to the entry criteria, the compliance with the ‘gateway’ organisational capability questions and the JOA will enable the Incentive Fund to begin the journey with the applicant organisations earlier than in the past. Moreover, the obligation to develop M&E that captures medium term outcomes from the grant will keep up the involvement for some time after the ribbon cutting ceremony.

This need for post ribbon cutting M&E was clearly illustrated by the story from Sister Mary Vivette of Notre Dame Girls High School in Western Highlands Province related in Section 2.8. Section 4.1 contained an illustrative M&E framework for IF III activities. A completed example based upon the Notre Dame High School project is at the end of this Annex.

At activity level the building blocks of M&E would be:

⁹ The design mission found at least one example of a successfully completed output which was nevertheless not allowing the institution to provide the service it hoped for because of external factors.

- a) Baseline for the organisation (vision, financial soundness, organisational assessment) – using the JOA as a baseline
- b) Baseline for the service or economic activity they aim to influence, again the JOA will be of assistance
- c) Monitoring and review against baselines
- d) Financial and physical monitoring
- e) Evaluation two to three years after the end of the investment and project formal completion.

Monitoring and evaluation should be carried out or commissioned by the recipient organisation itself. The role of the MC will be to facilitate the process and identify skills where necessary, rather than to do it (though the degree of intervention will vary). The cost of project M&E should be included in the original project proposal, including for the out-years. Audit that safeguards AusAID's fiduciary interests should of course be additional to activity monitoring and remain under the control of the MC.

One of the MC's permanent advisers will be an M&E/research person with experience in organisational development (or vice versa).

Throughout IF(III) the MC should be responsible for commissioning and managing a small program-wide research activity. When IF(III) commences there will be eight years of previous experience of the Incentive Fund, and initial investigation will centre on what has been learned to date about the impact of the Incentive Fund as a whole. Work in the transitional phase of IF(II) during 2008 will provide a starting point.

This small but significant research activity should explore questions such as:

- a) Are the assumptions right about the numbers of PNG organisations capable of running significant investments?
- b) Is there any evidence that classes of organisations are raising their performance to be able to access IF money?
- c) What support is needed by organisations two, three and five years after this massive investment to sustain the benefits?
- d) Is the Incentive Fund paying enough attention to economic development?
- e) What links are being made to the rest of the Australian aid program?
- f) What links are being made to the GoPNG's development priorities?
- g) What links are being made between grant recipients?
- h) What effect are we having on public sector resource allocation decisions? AusAID should know whether the Incentive Fund is financing things that would be low priority for public financing, whether it is replacing public financing, or whether it is accelerating results that would be achieved more slowly through public financing. In principle grants should be big enough for this question to matter.

1.2 MC responsibility

The MC will design, facilitate and oversee an integrated M&E arrangement that at:

- **activity level:** works with the recipient organisations to deliver a judgment about impact of their activities as well as about outputs;

- **IF(III) level:** addresses the broader questions relating to development impact of the IF(III) as a whole raised in the previous section, and particularly the contribution of IF(III) through the individual projects; and
- **implementation and management level:** contributes to an assessment of the MC's performance in managing the Incentive Fund.

Given the importance of performance measurement to both governments this design recommends that 10 percent of the MC's fee is subject to an annual assessment of how well the MC carries out this responsibility.

1.3 Activity Level

The specific M&E obligations for each project will be documented in the respective IFAs. Implementing organisations will be required to conduct regular monitoring and project-end and subsequent evaluations, based on specific indicators and a methodology outlined in the IFA.

1.3.1 Activity Results

Participating organisations will be required to provide physical and financial monitoring reports to the MC on a regular basis to answer these questions:

- Were outputs delivered on time?
- Were the intended outcomes achieved?
- Were the funds fully acquitted?
- What lessons were learned?
- Was the activity well managed?
- What contributed to all of the above either working or not working as intended?

Following on from IF(II), and the various reviews, the formats and procedures for this analysis are well established. Minimal changes will be required to capture inputs and output measures. In general, reports will be submitted to the MC on a quarterly basis. Organisations will be required to monitor and report against areas of high risk. A monitoring and reporting framework will be finalised by the applicant with the MC and included in the Incentive Fund Agreement (IFA) prior to signing. Simple frameworks are required with a suitable mix of quantitative and qualitative indicators.

The range of funded activities may be diverse and as such tailored approaches to M&E are required that take into account the cultural context and environment of each activity. Monitoring and evaluation of capacity development will primarily address change at the organisational and institutional, particularly in the ability to meet development objectives such as improved and increased core service delivery.

In April 2006 an interesting and insightful synthesis of traditional and innovative approaches to capacity, capacity development and its measurement was published. David Watson's, *Monitoring and evaluation of capacity and capacity development*, (Discussion Paper No 58B, European Centre for Development Policy Management), reviews the literature on this topic. He points out that there are very few examples of the monitoring of 'capacity' itself. However, monitoring of performance is being adopted as one way of formulating conclusions as to the capacities that are being developed. Innovative approaches to program M&E are needed with the following common characteristics:

- Structured interaction and reflection by stakeholders – something successfully used within the Electoral Support Program.
- The approach is not concerned primarily with quantitative measurement or analysis, but with creating a consensus as to what represents qualitative improvements or 'contributions'

towards achievement of broad development goals, without attempts to attribute changes to specific inputs. Quantitative assessment does still have an important place as part of the overall basket of measures, especially in matter of money, timeliness and physical quality.

- Rarely make reference to detailed, pre-determined outcome indicators, but are more likely to reflect emerging themes based upon day-to-day practical experience. The intended change statements in the CPs and final plans should provide this guidance.
- 'Work stories' generated by a range of actors can be vehicles for 'sense-making' of what is happening, and with what effects. These usually involve dissemination of information about 'what happened' and cause there to be critical reflection and analysis of the experience.
- They attempt to demystify and de-professionalise M&E and allow clients – including the most vulnerable – to have a voice in periodic reflection on achievements and learning to date. This is most probably the most significant challenge for the MC in mentoring and assisting applicants to undertake useful and meaningful M&E. Listening to a wide range of project stakeholders is the most important entry point for this form of enquiry.
- There is a strong need to develop capacities for analysis, debate and consensual decision making among stakeholders and the staff of implementing organisations as part of the overall capacity building associated with the use of the funding. For most if not all successful applicants this will be an exciting adventure, at least that is what many of the APNGIF applicants told the design team. Making it fun to report, analyse and understand why this or that worked or did not work is very important to building capacity for PNG individuals and organisations to take risks, manage risks and to get things done in a proper way.

During the finalisation of the IFA, the MC will need to assist the organisations to identify indicators, tools and techniques that will be useful for monitoring and evaluation purposes for that project. The indicators chosen must:

- provide an adequate indication of project progress (on which to base on-going funding recommendations); and
- provide a detailed and thorough assessment of the impact of the project (quantifying and measuring both positive and negative developmental outcomes). Indicators should try to address and contribute to the relevant sector indicators within the GoPNG MTDS PMF and the AusAID PNG Development Cooperation Strategy.

Some key performance indicators will reflect the areas where project risk is highest and early warnings of non-performance will have the greatest benefit to MC monitoring and reporting practices. The purpose is to target aspects of project implementation where early remedial action conducted jointly by the MC and the organisation would lead to a successful project outcome.

Satisfactory reporting and positive appraisal of reports and implementation progress by the MC, are prerequisites for ongoing funding of projects.

The MC will need to support the organisations during planning and implementation to build their capacity to undertake planning monitoring, evaluation and reporting as they go about implementing the activity, and managing the investment. In the absence of an effective M&E approach by any particular project organisation the MC will take a direct M&E role, preferably through a capacity development approach, so as to be able to report to AusAID and GoPNG on the impact of the funding being provided.

Completion reports will be submitted to the MC within two months of the official project completion date (which is also to be stipulated in the Incentive Fund Agreement). The MC will present a summary project-end evaluation report to DNPM, AusAID and the Management Group, based on the organisation's self-evaluation and any other investigations that the MC regards as necessary and

beneficial. Project evaluations should be made available publicly via the Incentive Fund's website to be accessible to future applicants and to encourage learning.

1.3.2 Financial Audit

Engaging and funding either public or private organisations that are willing to be held to third party accountability standards is a key aspect of the Incentive Fund monitoring and accountability strategy. Participating organisations will be required to provide external audit reports to the MC. Interim systems audits (six monthly) will also be required from organisations with weaker track records in the area of financial management. Other forms of third-party accountability could also be accepted by the Incentive Fund and applied to organisations.

Further, organisations would also be required by the IFA to voluntarily submit their audited financial statements for their general, or non-IF project, operations. This latter step is to enable the MC to promptly identify whether the tendency for large, donor funded projects to "displace" recurrent activities and/ or expenditure is being experienced within organisations implementing an IF project.

The MC will be responsible for appraising proposals, and reporting during project implementation, on the level of compliance with the population and family planning guidelines. Such reports will be submitted to DNPM and AusAID.

1.4 IF(III) Outcomes

This element of the IF(III)'s monitoring and evaluation framework (MEF) should ensure that at the IF(III) level M&E is established with a high degree of connectivity (even if remote or indirect) to the Medium Term Development Strategy, its Performance Measurement Framework and the performance framework for the Development Cooperation Strategy.

The MC is responsible for initiating and implementing a set of specific activities to address these issues and those raised above (see Section 1.1). The MC may choose to contract out some or all of these research questions (i.e. those beyond individual project M&E) but they will still be part of its deliverables.

Within six months of the commencement of the IF(III) the MC, MG, DNPM and AusAID will agree an MEF that documents the extent of this medium term IF(III) evaluation activity.

1.5 Quality of MC management & reporting

1.5.1 IF(III) governance, strategic management and implementation of M&E

The MC's performance can be assessed by AusAID annually against a framework based around three broad sets of strategic management indicators, and sub-categories within each:

Governance:

- Financial management – imprest account management, audit, fraud control
- Personnel recruitment and management – timeliness, quality, management
- Communications – timeliness, quality, provision of solutions
- Fund management – timeliness, quality of support to applicants
- Procurement and subcontracting – value for money, timeliness, use of appropriate systems, management of risks

Strategic performance:

- Context analysis - policy advice to MG, AusAID and DNPM

- IF(III) positioning – quality marketing of the Incentive Fund, responsiveness to enquiries, levels of complaints,
- Relationships with stakeholders – DNPM, MG, AusAID, IFA holders, potential IF III organisations
- Key strategies (gender, capacity development, child protection, disability, fraud control, HIV and AIDS etc) integration into projects, mainstreaming etc
- Systems for learning and innovation.

Annually, the Independent Review Team should contribute to AusAID's contractor performance assessment by preparing a commentary against each indicator in a written report to AusAID after assessment of the evidence from the MC's routine reporting and M&E processes, supplemented if necessary by interviews and other information gathering, including stakeholder interviews (the IRT will concentrate on independent analysis of data rather than independent collection of data). Sound auditing and evaluation process principles should guide the completion of the review, including giving the MC an opportunity to address likely significant adverse findings that arose during the IRT enquiry phase. Subsequently AusAID will submit to the MC in writing the performance assessment giving the MC time to respond.

It is recommended that:

- 20 percent of the MC's fee should be subject to the annual performance assessment of governance and strategic management; and
- 10 percent of the MC's fee should be subject to the annual performance assessment of the implementation of monitoring and evaluation.

Monitoring and Evaluation

- The Monitoring and Evaluation Framework – support for the completion and operationalisation of the MEF
- Project or activity monitoring, evaluation and reporting – effectiveness of individual project M&E and the MC's support for it
- Overall IF(III) M&E – establishment and operation of activities designed to support medium term impact evaluation of the whole IF(III) including research activities.
- MC reporting – quality and timeliness of reporting.

1.5.2 Quarterly & Annual Reporting

The MC will present quarterly monitoring summaries to DNPM, AusAID and the MG on progress and issues with each project. This will be the basis for ongoing funding recommendations.

While the reporting/funding system is based on a quarterly cycle, the MC has a responsibility to report any major problems, or potential major problems, to DNPM and AusAID immediately. This can be done, in the first instance, by phone and/or email, and followed up by a written report outlining, for example, the problem, potential impact, options available, and recommended action/time-frame.

In addition, the MC will be required to present IF(III) Quarterly Progress Reports (QPR) to the MG, DNPM and AusAID, which will include:

- a narrative summary of the main achievements during the quarter;

- a description of the main problems or issues that are impeding progress or have the potential to impede progress;
- a detailed analysis of physical progress based on indicators and targets as per individual project M&E frameworks – one to two page tabular summary being an assessment, of key indicators for:
 - the appropriateness of the objectives and the design;
 - the likely achievement of objectives;
 - component performance;
 - management performance; and
 - project sustainability;
- a summary of financial management for IF(III) including the funding schedule;
- a simple financial summary (one page) by project against budget;
- a brief overview of the main activities to be undertaken during the following quarter, the IF(III) pipeline;
- Brief analysis of unsuccessful concepts to allow an appreciation of demand and also some commentary upon any successful referrals to other support mechanisms; and
- a commentary against each of the strategic management Indicators.

The Funding Schedule should support an analysis of funding commitments, specifying, for example, funding commitments by:

- sector;
- type of organisation; and
- province.

Physical and financial progress should be monitored against targets specified in the most recent, approved Annual Plan.

1.5.3 IF(III) Completion Report

The MC will complete a draft IF(III) Completion Report (PCR) three months before the end of the MC's contract period, containing an evaluation of the Incentive Fund, based on the objectives at the goal, purpose and component levels. Six months before the end of the MC's contract period AusAID based upon IRT advice should provide direction to the MC as to any specific contents and focus for the PCR.

EXAMPLE SUMMARY FRAMEWORK FOR IF III FUNDED ACTIVITY TO DEVELOP M&E ARRANGEMENTS NOTRE DAME HIGH SCHOOL UPGRADING UNDER INCENTIVE FUND II			
(For each IF III approved activity this framework will be developed as a participative activity during the planning phase for the activity with inputs from the applicant, the relevant GoPNG sector agency, key local actors, the MC and the MG)			
Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanism	Assumptions and Risk
IF III GOAL <p>To deliver significant and immediately tangible economic and/or social development outcomes for men, women and children.</p>	<p><i>At an aggregate level by sector IF III activity outcomes linked to national strategies,</i></p> <p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <ul style="list-style-type: none"> • PNG National Education Plan 1996-2004 "establish an additional secondary school in each province to offer Grades 9 to 12." • Target: increase access to Grades 11 and 12; increase female participation in education to 50%; contribute to increase in girls in upper secondary from 37% to 45% in period 2005-2014 	<p><i>IF III Evaluation</i></p> <p><i>IF III Research activities</i></p> <p><i>Sector agency M&E activities</i></p> <p><i>AusAID sector M&E activities</i></p> <p>EXAMPLE</p> <p>Notre Dame High school IF II</p> <ul style="list-style-type: none"> • NDOE reporting on PNG National Education Plan 1996-2004 • WHP education data • IF II reports 	Assumption <ul style="list-style-type: none"> • Sector agencies undertakes sector M&E on the national plans
IF III PURPOSE <p>To strengthen and reward performing Papua New Guinean organisations capable of delivering high impact development activities that benefit men, women and children.</p>	<ul style="list-style-type: none"> • NDHS demonstrate increased capacity to act, to perform and to contribute to Western Highlands as a key provider of education services • NDHS providing sustained increased in Grade 11 and 12 education by number, quality, coverage and scope 	<p>IF III Evaluation</p> <p>IF III Research activities</p> <p>Individual activity output and evaluation reports</p> <p>Organisations annual reports to its stakeholders</p> <p>Stakeholder surveys, interviews and focus groups</p> <p>IRT audits</p>	Assumption <ul style="list-style-type: none"> • Strong MC commitment to implementing M&E • Funded organisation complete activity M&E

<p>ACTIVITY INTERMEDIATE OUTCOMES</p> <p><i>As per the approved activity Incentive Fund Agreement</i></p> <p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <p><i>(actual NDHS outcomes)</i></p> <ul style="list-style-type: none"> Increased enrolment of females by 50%: i.e. significant improvement in access for female students seeking Grade 11 and 12 in the Highlands Region Increased access and participation in science, technical education and expertise in information technology Increased sanitation and feeling of well-being by females: Better access and provision for female health Increased self-worth for females and self esteem General satisfaction for teaching staff, including higher retention rates and increased performance by teachers Improvements in academic performance (MRI) Increased respect for property, increased general well-being Improve facilities attracts more qualified teachers to ND 	<p><i>As per the approved activity Incentive Fund Agreement</i></p> <p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <p><i>(actual NDHS outcomes)</i></p> <ul style="list-style-type: none"> Increase NDHS contribution to females enrolled in Grades 11 and 12 in WHP and PNG Confidence of Year 12 graduates in learned skills, improved life choices including employment and tertiary education Extent of growth in use of NDHS facilities by local communities Impact of NDHS program as narrated by provincial, NDOE and Provincial Council of Women (PCW) Increased transition of NDHS women graduates to tertiary education or gaining formal employment Outcomes are sustained beyond 'ribbon-cutting' 	<p><i>As per the approved activity Incentive Fund Agreement</i></p> <p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <p>Activity evaluation report</p> <p>School and provincial enrolment statistics</p> <p>National examination results</p> <p>School initiated surveys of graduates</p> <p>External reports from WHP, NDOE and PCW</p> <p>Interview data from WHP officials and PCW</p> <p>School records on community use</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Strong organisation commitment to M&E M&E system flexible and appropriate with organisation commitment to strengthen capacity to achieve <p>Risks</p> <ul style="list-style-type: none"> Data availability Monitoring skills in province
<p>ACTIVITY OUTPUTS</p> <p><i>As per the approved activity Incentive Fund Agreement for NDHS the seven components:</i></p> <p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <ol style="list-style-type: none"> Project management Infrastructure <ul style="list-style-type: none"> 6 x duplexes for teachers 2 x double story classrooms 1 x library 1 x agriculture block Refurbish existing <ul style="list-style-type: none"> sewing rooms, classrooms and clinic Security Renewable energy system 	<p><i>As per the approved activity Incentive Fund Agreement and construction contracts</i></p>	<p><i>Activity reports</i></p> <p><i>Independent completion/milestone certification</i></p> <p><i>Audit reports</i></p> <p><i>IRT review mission</i></p> <p><i>Consultations with local partners and GoPNG sector agencies</i></p>	<p>EXAMPLE</p> <p>Notre Dame High School IF II</p> <p>Risks</p> <ul style="list-style-type: none"> Land owner compensation claims Requests for employment during construction Security of building materials Local liaison consuming project manager's time <p>Assumptions</p> <ul style="list-style-type: none"> Available local contractor NDHS engages and manages clerk of works Timely and within budget

6. Paths and Walkways 7. Community Maintenance Training			implementation of IFA
KEY ACTIVITIES AND MILESTONES FOR EACH OUTPUT <i>As per the approved activity Incentive Fund Agreement and construction contracts</i>			INPUTS <i>As listed</i> EXAMPLE Notre Dame High School IF II <ul style="list-style-type: none">• <i>K8.231 million of grant funding from IF II</i>• <i>NDHS site for facilities, senior management as project manager</i>

ANNEX I: RISK MATRIX

Area & Type of Risk	Impact on the program	L	I	R	Responsibility to manage	Risk management strategy
Lack of resources, time or commitment from AusAID and GoPNG sectors to review, prioritise and feedback on concepts	Inclusion in determining which organisations are supported will be undermined. This will lead to a lack of coordination and synergy between the IFM and the sectors, creating probable distortion and distraction outcomes	H	H	E	AusAID and GoPNG sectors and Managing Contractor	It is imperative that a robust concept screening process is devised that allow all AusAID sectors to participate. It is essential that the MC produces timely concept papers for review by each sector and MG members so they can assess thoroughly. To achieve this the MC will need to manage an efficient concept paper pipeline to ensure requests for concepts, receipt of concepts and initially filtering of concepts (based on organisation and 'gateway criteria') is managed. It is envisaged additional advocating for inclusion of sectors and/or further support may be required
Applicants waste significant time, money and resources developing unsuccessful concepts	As per APNGIF there is a huge potential for organisations to commit excessive resources to win a grant. This can lead to disappointment and in some cases be of significant detriment to the applying organisation. It is estimated that over K20 million was spent on unsuccessful applicants in APNGIF and this would have created a major distraction for organisations, detrimental to development.	M	H	H	Managing Contractor	<p>It is envisaged minimum funding rounds (one or two per year) as opposed to a constant open door process will provide competition and interest within a specific timeframe, this will encourage organisations to be more considered in regard to their application and deter them from viewing IF as a long term organisation support strategy.</p> <p>A two fold focus at the application stage involving 1) a simple organisation / agency profile and 2) a simple concept paper will allow appraisal against rigid 'gateway' criteria and should allow quick and uncompromised screening. Standard feedback within a short timeframe will assist the organisation reassess itself and the concept,</p>

Area & Type of Risk	Impact on the program	L	I	R	Responsibility to manage	Risk management strategy
						and possibly reapply in future funding rounds.
Insufficient numbers of proficient project managers to assist organisations implement the proposal	Capable project management has been a key component of the success of the APNGIF. Identifying, engaging and supporting project managers for an envisaged 15 implementing projects, including support staff, is going to be a significant challenge and the delivery of quality project outputs (particularly remote infrastructure work) could easily be compromised through poor project management	H	H	E	Managing Contractor	The MC will be required to demonstrate access to networks of well trained and experienced project managers. It is envisaged that in addition to suitable project managers from phase one, sub-contract arrangements with appropriate NGO and Private organisations will be managed to provide this service. Of particular interest will be organising developing this capacity through phase one support.
Insufficient numbers of technical sub-contractors to provide high quality services (specifically infrastructure)	Low quality sub-contracting is a very real challenge within PNG, particularly for large-scale infrastructure. The delivery of quality project outputs could easily be compromised through the engagement of incompetent sub-contractors	H	H	E	Managing Contractor	The MC should be able to assess the capability of sub-contractors from phase one and identify a list of the more competent ones to engage. They should also be able to identify from others works, including within the AusAID program, the more competent sub-contractors. It is envisaged that thorough assessment of all sub-contractors be undertaken before tendering and that tendering may be restricted to sub-contractors with proven capability.
Exchange rate rises	Exchange rate rises and falls	H	E	H	Managing	It is essential that projects adversely effected by exchange

Area & Type of Risk	Impact on the program	L I R	Responsibility to manage	Risk management strategy
inflate material and transport costs on approved IFA budgets	are inevitable and directly impact on the cost of materials and transport, particularly to remote areas. If budgets are not carefully monitored and revised, exchange rates will compromise the ability to deliver the expected development outcome.		Contractor	rate fluctuations are carefully considered
Insufficient numbers of technical specialists to conduct Joint Organisation Assessments (JOA's) and assist develop concept papers to proposals	This is an area that could bottleneck the concept to proposal pipeline which would impact on the number of IFAs from a funding round and also the follow-on funding round. It is anticipated that approximately 7 JOAs and concept papers will be developed from each funding round but there may be more if funding amount requests are lower.	M H M	Managing Contractor	The MC will be required to confirm JOA and proposal processes and formats and then identify, engage and train a sufficient number of facilitators to draw from. It is envisaged that this could be achieved by working in conjunction with the Democratic Governance Program and adopting sub-contract arrangements with appropriate NGO and Private organisations to supply qualified facilitators.
Inappropriate collusion or insider information during procurement tendering processes	Tendering for construction contractors can lead to favoured suppliers who are placed in an advantageous and commercially stronger bidding position if they receive inside	M H H	Managing Contractor	The 'design and build' approach should greatly reduce corrupt commercial practices. Rigor should be given to adherence to both GoPNG and Australia's procurement guidelines and the anti-corruption objectives of AusAID. IF should practice and been sent to practice a 'zero tolerance' approach to corruption and all allegations

Area & Type of Risk	Impact on the program	L I R	Responsibility to manage	Risk management strategy
	information from a grant recipient – including financial. This undermines IF, AusAID, GoPNG and Commonwealth procurement guidelines and the integrity of the IF.			should be investigated and where necessary legal action pursued.
Funds misappropriation – risk of fraud or corruption. Misuse of Incentive Funds approved funding support.	The Incentive Fund will provide millions of dollars to assist an organisation so there is a real danger of abuse if funds are not managed expediently and this will compromise the ability to deliver the expected development outcome.	M E H	Managing Contractor	The MC must adopt robust fund management procedures, including specifically proven anti-corruption devices, to ensure the careful monitoring and security of funds. It envisaged that sub-imprest accounts, careful JOA selection processes, the use of proven project managers and sub-contractors, careful monitoring of payments and zero tolerance in regard to abuse will minimise any risk.
Rubber stamping by Management Group undermines effective key-stakeholder engagement	The Management Group is the key point of management of the incentive fund for both DNPM and AusAID. If members send unqualified representation they will erode their ability to determine the development outcomes from the IFM and also the ability to monitor and manage against the MTDS/DCS.	H M M	AusAID, DNPM and the Managing Contractor	AusAID needs to ensure sufficient AusAID/DNPM/Private sector representation within the MG to allow qualified review of concept papers and a prioritised selection process aligned with other sectors and MTDS/DCS priorities.

Area & Type of Risk	Impact on the program	L	I	R	Responsibility to manage	Risk management strategy
Security or political disruptions	Mobilisation resources and implementation inputs may be disrupted delaying delivery and/or diminishing the development outcome.	H	H	H	Managing Contractor	Onsite security and protection of inputs needs to be managed carefully with costs identified and built into the proposal. Selection of concept papers and delivery of projects needs to consider political influences and possible interferences
Project evaluation data and post-completion evaluation data inadequate to assess program purpose achievement	The identification of high level achievements and development outcomes aligned with the MTDS/DCS priority areas may not be realised.	M	M	M	Managing Contractor and AusAID	The MC is responsible for ensuing robust and independent evaluation data that has integrity and confirms whether effective management for development result systems is being achieved.
Performance monitoring information inadequate to assess MC performance	This could lead to disputes between the MC and AusAID, aggregated by different opinions in regard to performance measures, which could be linked to milestones, reports and payments.	M	M	M	Managing Contractor and AusAID	Robust monitoring and reporting is the responsibility of the MC and will confirm whether effective management of the IFM is being achieved. It is envisaged that MC monitoring will be verified independently.