

SUBSIDIARY ARRANGEMENT
BETWEEN
THE GOVERNMENT OF AUSTRALIA
AND
THE GOVERNMENT OF PAPUA NEW GUINEA
RELATING TO THE
INCENTIVE FUND PROGRAM

1. GENERAL

- 1.1. This Subsidiary Arrangement expresses the understanding of the Government of Papua New Guinea (GoPNG) and the Government of Australia (GOA) (the “Parties”) and is made pursuant to the terms of Article 7 of the Treaty on Development Co-operation between the Government of Australia and the Government of Papua New Guinea signed at Port Moresby on 7 October 1999 that came into force on 31 July 2000 (the “Treaty”). The terms of the Treaty apply to this Subsidiary Arrangement.

2. DEFINITIONS

- 2.1. For the purposes of this Arrangement:

“The Activity” means the Incentive Fund.

“DNPM” means the Department of National Planning and Monitoring.

“Contractor” means a contractor who may be engaged by AusAID in accordance with paragraph 5.2 to implement certain aspects of the Activity.

“GOA” means Government of Australia.

“GoPNG” means Government of Papua New Guinea.

“Management Group” means the Incentive Fund Management Group as described in paragraphs 9.6 to 9.9.

3. NAME OF ACTIVITY

- 3.1. The name of the activity is the Incentive Fund (“the Activity”).

4. GOAL AND PURPOSE

- 4.1. The Parties will cooperate in implementing the Activity in support of the development needs of Papua New Guinea (“PNG”). A summary program description is at Annex 1.
- 4.2. The goal of the Activity is to deliver significant and immediately tangible economic and/or social development outcomes for men, women and children.
- 4.3. The purpose of the Activity is to strengthen and reward performing Papua New Guinean organisations capable of delivering and maintaining high impact development activities that benefit men, women and children.

5. COORDINATING AUTHORITIES

- 5.1. The Coordinating Authorities for this Activity will be:

For the GOA: The Australian Agency for International Development of the Department of Foreign Affairs and Trade (AusAID).

For the GoPNG: Department of National Planning and Monitoring or such other authority the GoPNG may nominate.

- 5.2. AusAID may engage suitably qualified contractors or organisations to carry out any part of its functions under this Subsidiary Arrangement.
- 5.3. GOA will be represented by AusAID Port Moresby, to manage and oversee implementation of the GOA contribution to the Activity and to carry out any part of its commitments under this Subsidiary Arrangement.

6. DURATION OF THE ACTIVITY

- 6.1. It is anticipated that the Activity will be implemented over four (4) years. This Subsidiary Arrangement covers the initial period of the Activity and may be extended subject to review in accordance with a mechanism approved by both GOA and GoPNG and subject to normal Australian annual parliamentary approval of budget appropriations.
- 6.2. Either party may advise of their withdrawal of participation in or discontinuation of support for the Activity in accordance with Paragraph 19.1.

7. ACTIVITY LOCATION

- 7.1. The Activity will be delivered throughout PNG. Location will not be a constraint provided an applicant for funding under the Activity meets the criteria. The Activity program office will be located in Port Moresby.

8. ACTIVITY DESCRIPTION

- 8.1. The Activity will provide a pool of funding allocated by competitive selection for those PNG organisations that are able to demonstrate that they are

accountable, well managed organisations with a track record of effective service delivery.

- 8.2. The Activity will develop close linkages with and complement other aid activities, including GoPNG's Provincial Performance Improvement Initiative (PPII), AusAID's Sub National Strategy (SNS) and AusAID Democratic Governance Program, in particular the *Strongim Pipol Strongim Nesen* (SPSN) Program that builds on the strengths of the Democratic Governance Transition Program, formerly the Community Development Scheme.
- 8.3. The Activity will have a strong focus on capacity and capacity development. It will further build the capacity of PNG organisations and improve their ability to target the needs and priorities of Papua New Guineans. This is consistent with GoPNG's PNG Commitment on Aid Effectiveness.
- 8.4. The Activity seeks to support activities that reflect the development priorities of the GoPNG and the GoA.

9. COORDINATION AND MANAGEMENT ARRANGEMENTS

Department of National Planning and Monitoring (DNPM)

- 9.1. DNPM will identify a key contact for all aspects of the Activity who will be the counterpart to the AusAID Activity Manager. This person will coordinate DNPM's inputs to meet the following responsibilities:
 - (a) effective and efficient communication with AusAID and the Contractor;
 - (b) joint appointment with AusAID of members of the Management Group;
 - (c) internal DNPM and central agency coordination and reporting;
 - (d) seek advice on any concept proposals submitted to the Contractor from relevant GoPNG sectors including national departments, provinces and agencies, or assist the Contractor to obtain it;
 - (e) screen concept proposals submitted by the Contractor to the Management Group, and determine, in consultation with other members of the Management Group, which project proposals are eligible for funding;
 - (f) ensure DNPM's regular participation as a standing member of the Management Group; and
 - (g) act on recommendations from the Management Group.
- 9.2. DNPM will provide statistics or data (where it exists) to assist in the development of baseline data against which project progress can be measured. DNPM will also participate in joint monitoring and evaluation exercises.

- 9.3. DNPM will also be part of the Imprest Account management process by providing suitable delegates as a counter-signatory for issuing cheques.

AusAID

- 9.4. AusAID will oversee the Activity to assist to ensure Activity milestones are reached. AusAID will also monitor progress and ensure AusAID's quality assurance and mandatory reporting requirements are met. AusAID's Activity Manager will be responsible for day-to-day operations and communications with the Contractor regarding the management of the Activity.
- 9.5. AusAID's Activity Manager (in Port Moresby) will coordinate AusAID's inputs to meet the following responsibilities:
- (a) effective and efficient communication with DNPM and the Contractor;
 - (b) joint appointment with DNPM of the members of the Management Group;
 - (c) internal AusAID coordination and reporting and financial management, including advice on annual allocations;
 - (d) seek advice on concept proposals submitted to the Contractor from AusAID sectors and sectoral programs, or assist the Contractor to obtain it;
 - (e) ensure AusAID's participation as a standing member of the Management Group;
 - (f) monitor and report on the performance of the Contractor and the Independent Review Team;
 - (g) act on recommendations from the Management Group; and
 - (h) manage the contracts with the Contractor and the Independent Review Team.

Incentive Fund Management Group

- 9.6. The Management Group will provide strategic direction for the Activity. It will prioritise and select activities for approval.
- 9.7. The Management Group will consist of:
- (a) three appointed members nominated by AusAID and DNPM to serve terms of three years duration. These appointments are renewable. The three appointed members will all be PNG nationals (jointly appointed by consensus by the GoPNG's DNPM and AusAID) and will represent experience in community, faith-based and private sector organisations; and

- (b) two standing members, being one representative each from DNPM and AusAID.
- 9.8. For the first 18 months of the implementation of the Activity, the members of the existing management group from the previous phase of the Activity will be reappointed to constitute the new Management Group, for reasons of continuity.
- 9.9. Additional members of the Management Group may be appointed as mutually determined by GoPNG and GoA.

Independent Review Team (IRT)

- 9.10. An IRT will be contracted by AusAID to undertake a comprehensive systems and financial audit and performance assessment of the Activity.

10. SUPPLIES AND ASSETS

- 10.1. Further to Clause 10 of the Annex to the Treaty, the GoPNG will ensure that GoA funded supplies are available for the unrestricted use of the Activity.
- 10.2. Where GoPNG has possession and administrative control over assets purchased using GoA funds under the Activity, GoPNG will be responsible for insurance and / or replacement of such assts including those under any warranty.
- 10.3. On cessation of GoA commitments under the Activity, including completion of the Activity or expiry or termination of this Subsidiary Arrangement, the following will apply:
 - (a) For assets purchased by PNG organisations using the GoA funding: the assets will remain the property of the organisation which purchased them; and
 - (b) For the Contractor's assets: all assets owned by the Contractor will remain the property of the relevant Contractor.

11. PROJECT PERSONNEL

GOA

- 11.1. The GoA will provide accommodation, travel costs and remuneration for all internationally and locally engaged technical assistance and Contractor personnel assigned to the Activity. The GoA will also nominate a representative to be a standing member of the Management Group and any sub-committees of the Management Group

GOPNG

- 11.2. The GoPNG will nominate a representative to be a standing member of the Management Group and any sub-committees of the Management Group and for relevant activities in accordance with specific approved activities.

12. FINANCIAL CONTRIBUTIONS

GOA

- 12.1. The total GoA contributions to the Activity are estimated to be up to A\$87 million over four years. GoA funding contributions will cover:
- (a) The cost of professional and other services required for the Activity including the cost of the Management Group, excluding the cost of the GoPNG member;
 - (b) Costs for funding proposals approved by the Management Group;
 - (c) The cost of ongoing review of the operations of the Activity by the Independent Review Team; and
 - (d) The cost of implementation, management and monitoring of the Activity and other related activities.
- 12.2. The provision and disbursement of the GoA's contribution to the Activity will be subject to the normal Australian annual Parliamentary approval of appropriations.

GOPNG

- 12.3. GoPNG funding contributions will cover the counterpart costs related to the implementation, management and monitoring of the Activity and related activities, provide budget resources to enable counterparts to participate fully in activity related activities such as staff, office and other administrative costs necessary for efficient implementation.

13. MONITORING, REVIEW, EVALUATION AND REPORTING ARRANGEMENTS

Monitoring and Evaluation

- 13.1. The Contractor will monitor and evaluate the Activity. Evaluation and review of progress in the implementation of the Activity may be made at times arranged between, and mutually convenient to, the Parties to measure progress against mutually decided performance indicators.

Reporting Arrangements

- 13.2. The Contractor will present quarterly monitoring summaries to DNPM, AusAID and the Management Group on progress and issues with each project

implemented under the Activity. This will be the basis for ongoing funding recommendations.

- 13.3. While the reporting/funding system is based on a quarterly cycle, the Contractor will have a responsibility to report any major problems, or potential major problems, to DNPM and AusAID immediately.

14. INTELLECTUAL PROPERTY

- 14.1. Despite any other clause in this Subsidiary Arrangement, all Intellectual Property rights attached to the Activity, and which are vested in the GOA, will be retained by the GOA.

15. SETTLEMENT OF DIFFERENCES

- 15.1. This Subsidiary Arrangement is neither a treaty nor an instrument of treaty status. Consequently, difference which may arise concerning the interpretation or application of this Subsidiary Arrangement will not be subject to adjudication or arbitration by any national or international court or tribunal but will instead be dealt with in an amicable way as the appropriate method of achieving the peaceful settlement of those differences.
- 15.2. At the same time, the GoA wants to confirm not only its clear intent to participate in the Activity but also its desire to implement the provisions of this Subsidiary Arrangement in good faith.

16. AMENDMENTS

- 16.1. This Subsidiary Arrangement may be amended at any time through an Exchange of Letters signed by the Parties.

17. ANTI-CORRUPTION

- 17.1. Consistent with both Parties' commitment to good governance, accountability, and transparency, each Party reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Activity.

18. UNDERTAKING TO PREVENT FINANCING OF TERRORISM

- 18.1. Both parties are firmly committed to the international fight against terrorism and, in particular, the financing of terrorism consistent with United Nations Security Council (UNSC) regulations relating to terrorism, including UNSC Resolution 1373 (2001), 1267 (1999) and related resolutions.
- 18.2. Both Parties reaffirm their commitment to the principles of the International Convention for the Suppression of the Financing of Terrorism (New York, 9 December 1999).

18.3. The Parties will cooperate to ensure that no Activity funds are used, directly or indirectly, to provide support to individuals or entities associated with terrorism.

18.4. If, during the term of the Subsidiary Arrangement, either Party discovers a link between any organisation or individual associated with terrorism it will inform the other party.

19. COMMENCEMENT AND TERMINATION

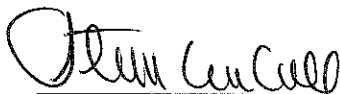
19.1. This Subsidiary Arrangement will take effect on signature by both Parties.

19.2. Either Party may terminate this Subsidiary Arrangement by giving written notice of its intention to terminate to the other Party. In the event that written notice of termination is given, this Subsidiary Arrangement will terminate three months after the date that the other party receives that notice of the intention to terminate.

Signed at Port Moresby in duplicate, this 4th day of may 2010

For the Government of Australia

For the Government of Papua New Guinea



Signature of representative



Signature of representative

Stephanie Copus-Campbell

Printed name of representative

Joseph Leley

Printed name of representative

Minister Counsellor ANSAD PNG

Official title of representative

Secretary - DONAM

Official title of representative

INCENTIVE FUND SUMMARY PROGRAM DESCRIPTION

1. The Incentive Fund seeks to support activities that reflect the development priorities of both the Government of Papua New Guinea (GoPNG) and the Government of Australia.
2. The 'incentive' is in the opportunity for Papua New Guinea (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. The 'incentive' is the encouragement and the reward factor for well performing organisations and those with capabilities that seriously aspire to do better. Only organisations that are already capable and can demonstrate that they have the capacity to expand their development impact are eligible.
3. 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. This phase of the Incentive Fund builds on this sound foundation and incorporates recommendations of the 2007 Incentive Fund Review and lessons learned in previous phases.
4. The Incentive Fund is demand driven. Its focus will be on good PNG organisations which are delivering services of value to people, and on further building their capacity. This phase of the Incentive Fund will build on the gender equality work started in earlier phases of the Incentive Fund and strengthen approaches to sustainability and monitoring and evaluation.
5. The Incentive Fund will provide a pool of funding allocated by competitive selection for those organisations that are able to demonstrate that they are accountable, well managed organisations with a track record of effective service delivery.
6. The Incentive Fund will develop close linkages with and complement other aid activities, including GoPNG's Provincial Performance Improvement Initiative (PPII), AusAID's Sub National Strategy (SNS) and AusAID Democratic Governance Program, in particular the *Strongim Pipol Strongim Nesen* (SPSN) Program that builds on the strengths of the Democratic Governance Transition Program, formerly the Community Development Scheme.
7. The Incentive Fund has a strong focus on capacity and capacity development. The Incentive Fund will further build the capacity of PNG organisations and improve their ability to target the needs and priorities of Papua New Guineans. This is consistent with the two AusAID programs most closely related to the Incentive Fund, SNS and the new demographic governance program, *Strongim*

Pipol Strongim Nesen. It is also consistent with GoPNG's PNG Commitment on Aid Effectiveness.

Program Components

8. The Incentive Fund has three components: Program implementation; Monitoring and evaluation; and Program management.

Component 1: Program implementation

9. The Incentive Fund will provide grant funding to eligible PNG organisations. The funding threshold for each project will be K500,000. The upper limit of K10,000,000 is currently set for the Incentive Fund.

A wide range of PNG organisations that meet the funding criteria are eligible to apply to for funding including provincial and local level governments and statutory non-commercial bodies. A key focus of the Incentive Fund is to work with selected organisations to strengthen capabilities.

Component 2: Monitoring and Evaluation

10. Under the Incentive Fund a monitoring and evaluation approach will be developed to enable measurement of progress at individual and program wide levels against the goal and purpose of the Incentive Fund.

Research and Lessons Learned

11. Under the Incentive Fund a small program-wide research activity will be developed that will draw on eight years of previous operations of the Incentive Fund. The research will include analysis of sustainability, capacity development, gender issues and development outcomes.

Component 3: Program Management

12. A Contractor will be appointed to establish and manage an office and office systems in Port Moresby that will facilitate the efficient and effective delivery of the Incentive Fund. The Contractor will support and work closely with the Incentive Fund Management Group.