

PAPUA NEW GUINEA INCENTIVE FUND IV

Investment Design Document

Prepared for

Australian High Commission Port Moresby

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Disclaimer

The views expressed in this investment design document are those of the design team and do not represent the views of the Government of PNG or the Government of Australia.

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Executive summary

The design context

The Incentive Fund Phase IV [IF (IV)] design is an adjustment and update of the Phase III design. IF (IV) fully aligns with Australia's new development policy and the recent Government of Papua New Guinea (GoPNG) and Government of Australia (GoA) aid assessment recommendations, now articulated in the Australian Aid policy: *A New Direction for Australian Aid in PNG*.

This IF (IV) design picks up where the Phase III Program Logic ended. All investment strategies are intended to be driven through a Performance Assessment Framework (PAF) (Table 9) to an end-of-program position confirmed during annual strategic planning processes.

The Incentive Fund has been operating for 14 years and it is the most recognised component of the Australian Aid program. It is popular and it is visible so it has high public diplomacy value. The incentive fund provides technical and funding support. It is flexible in nature and able to reward good performance across PNG. The list of expected contributions to development outcomes from the IF (IV) is impressive. It delivers visible outputs, good human development, strengthens organisations, expands service delivery through partners and can stimulate economic development.

DFAT has directed the IF (IV) design to target health, education, other sectors and economic development without specifying any funding allocations at the design stage. Funding confirmations will come through the start-up strategic planning process which will be informed by an evaluation of Phases I – III and confirm the PAF.

Improvements to targeting demand, selection and implementation have been introduced in the IF (IV) design. Specifics include: conducting a full evaluation of Phases I-III to inform the IF (IV) PAF; options to target demand through concept paper requests; introducing local political economy and operating context assessments; conducting economic analysis of any private sector business plans to be supported; introducing private sector company due diligence; introducing a grievance mechanism; and separating the application process into five stages to allow enhanced analysis of new and effective partners. These refinements will improve risk mitigation strategies and enhance feasibility.

Background and history

During the 1999 Development Cooperation Treaty (DCT) negotiations between GoPNG and GoA, it was agreed that Australia's development cooperation program would include jointly programmed assistance to be known as the Australia Papua New Guinea Incentive Fund (APNGIF). The Incentive Fund mechanism is the only support program specifically named in a bilateral treaty, partnership or agreement and it continues to be named in the Economic Cooperative Treaty signed in April 2014. This confirms both governments' have a strong interest in IF (IV).

The APNGIF was designed to provide funds directly to private and public sector organisations that were efficient and accountable. The emphasis was on obtaining measurable results by targeting performing organisations with project proposals that were 'excellent' in their preparation and aligned with the joint development priorities of GoPNG and GoA.

There were two phases to the initial APNGIF: Phase I from 2000 to 2003 and Phase II from 2004 to 2008. Thirty-nine projects to the value of A\$110 million covering fifteen provinces

were completed and contributed to outcomes in eight areas - health, education, transport, law and justice, water and sanitation, research, agriculture and economic development and vocational training.

The Incentive Fund Phase III commenced in June 2010 and ended in June 2014. Twenty projects to the value of A\$60 million covering nine provinces were successfully completed. These projects were 100 per cent infrastructure, of which 37 per cent contributed to health outcomes and 6 per cent contributed to education outcomes. This design recognises that there are overlaps in the above assessment *e.g.* water and sanitation could be considered as contributing to a health outcome.

Funding PNG's organisations that were performing well was intended to: i) recognise excellence; and 2) provide an incentive to other organisations to improve their performance so they too could seek funding. Phase I and Phase II projects provided broader sector support than Phase III.

In Phase III the 'incentive' changed and was applied to provide the opportunity for PNG service delivery organisations that were assessed as good performers 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. Being assessed as a good performer became the incentive, providing the encouragement and the reward for those organisations. The intent was to incentivise capable organisations with capacity and leadership to aspire to do better. Only organisations that were assessed as good performers and could demonstrate capacity to expand their contribution to development further were eligible.

The relationship between performance recognition, reward and incentives can be applied in various ways. In Phase III, organisations that were performing well were funded to expand their performance. This incentive will be applied in IF (IV). But other incentives will also be required, particularly as DFAT intends to use IF (IV) as a strategic mechanism to increase private sector engagement.

The design terms of reference and short timeframe did not allow for a full assessment of the investment opportunities in each sector. Phase III only invested in health and education infrastructure, so there is a significant amount of knowledge about how to support these sectors. This is not the case in regard to economic development, private sector engagement and other sectors, including governance and law and justice for example.

In the context of DFAT's ongoing consideration of opportunities to invest in economic development activities, DFAT will need to explore how to use IF (IV) to increase engagement with the private sector. There is a need to expand consultations with the private sector to gain joint understanding and to build the relationships required for DFAT to provide appropriate support. IF (IV) will attract private sector attention because of the large funding opportunities. IF (IV) is therefore of significant strategic value because it will enable DFAT to explore and identify a range of economic development support opportunities and to facilitate increased private sector engagement.

IF (IV) is not the mechanism to support and capacity-build an organisation to achieve effective performance. In the health, education and other sectors it will continue to be a mechanism to reward performing organisations and support their expansion and performance further. For economic development IF (IV) will need to adapt to attract private sector participation. With this adaption in mind, this design has placed a greater emphasis on the concept paper request process to allow greater flexibility to excite demand. The function and form of this demand will need to be fully identified during IF (IV) implementation through

the strategic and annual planning processes by DFAT, the Management Group and the Team Leader.

Alignment with Australia's new development policy

This Investment Design Document (IDD) aligns key concepts of the Incentive Fund with Australia's new development policy by:

- rewarding performing organisations that can further contribute to a better enabling environment;
- ensuring that at least 80 per cent of the investments will support empowerment of women and girls;
- understanding local political economy and operating context;
- tightening the linkages to ensure continued operating and maintenance;
- attracting new effective partners, particularly from the private sector;
- assessing actual capacity and further contributions to outcomes likely to be made to determine value-for-money (VfM).

The following factors, drawn from a rapid review of previous phases, informed this design:

- the Incentive Fund is a strong brand and IF (IV) needs to protect it;
- IF (IV) needs to ensure outputs make a contribution to outcomes;
- IF (IV) must only support effective partners;
- IF (IV) needs to be able to determine the application of value-for-money;
- IF (IV) must better understand the local political economy and operating context;
- IF (IV) will target organisations, sectors and geographical areas.

Goal and purpose

The Incentive Fund Phase IV (post program) Goal is:

To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.

The Goal will ensure this large grant funding mechanism is aligned with the new Australian Aid Policy and shifts the delivery of Australian Aid from projects and direct service delivery mechanisms to supporting delivery through effective partners. For over fourteen years the incentive funding mechanism has delivered significant process and output outcomes and infrastructure through a strong partner led delivery process. It remains a relevant delivery mechanism for cross-sector support and to establish improved private sector engagement in Papua New Guinea's development.

The Incentive Fund Phase IV Purpose is:

To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.

The end-of-program position is informed by the Incentive Fund Logic and its achievement will be driven through the Performance Assessment Framework (PAF) and outcome indicators.

DFAT did not confirm any allocation of investments between health, education, other sectors or economic development activities during the design phase. During IF (IV) start-up, and then annually, DFAT, the Management Group (MG) and the Team Leader will need to confirm sector allocations. Changes to sector allocations will be a strategic management decision informed by the PAF and outcome indicators.

End-of-program position

By 2021 Incentive Fund (IV) will have:

- Delivered \$72 million through approximately 26 Incentive Fund Agreements;
- Only delivered investments in the health, education, other sectors and to stimulate economic development and any proportionality will be established through the strategic and annual plans and targeted through the CPRs;
- Ensured that 80 per cent of the investments supported empowerment of women and girls who have had their lives changed in ways that are consistent with the Pacific Women objectives;
- Ensured that at least 20 per cent of investment is delivered by effective private sector partners;
- Ensured that at least 50 per cent (A\$36 million) of the activity investment will have been spent on infrastructure and all infrastructure will have been of sufficient quality, fit-for-purpose, fully operational and will have had a confirmed maintenance schedule and budget;
- Ensured that all the implementing partners were effective and had additional and recognised capacity at the end of implementation to maintain all organisational responsibilities and expand further;
- Ensured that all the implementing partners and managers of any IFA assets are operating appropriate social inclusion procedures informed by appropriate social inclusion policy

Location, duration and funding limits

Projects will be implemented throughout PNG, and staff from the Managing Contractor (MC) will be expected to travel extensively. There is no distribution strategy for projects or funds disbursement, however, the Department of Foreign Affairs and Trade (DFAT) and the Management Group (MG) may decide to strategically focus IF (IV) support at times using various Concept Paper Request (CPR) mechanisms. Eligible organisation location should not be a constraint provided an applicant meets the criteria. The IF (IV) office will be located in Port Moresby.

IF (IV) is planned to be operational in early 2015 for a period of at least six years. It is expected that a DFAT activity support spending stream will be approved for a funding limit of A\$72 million to meet all costs associated with the IF (IV) IFAs and A\$10 million for a new Innovation Fund component. Operational cost and fixed management fees are in addition to the A\$72 million.

The total IFA value from Phase I, II and III was K351 million which today converts into A\$160 million. If we divide this by the 59 IFAs the average IFA would be A\$2.7 million. The expected combined Incentive Fund (A\$62 million) and Innovation Fund (A\$10 million) will establish an IFA budget of A\$72 million of six years. This would suggest that IF (IV) will support approximately 26 projects.

Funding priorities

During design consultations DFAT confirmed that priority sector support for the IF (IV) investments will be aligned with aid assessment Recommendations. Health, education and other sectors will be supported along with activities that stimulate economic development. It is stressed that during the design phase sector or activity support funding allocations were not requested and these will be a strategic decision made at the start of IF (IV) and implemented through the annual planning process.

The IF (IV) will introduce three investment portfolio targets to be met by the end-of-the program:

1. At least 80 per cent of the investments will support empowerment of women and girls, aligned with the Pacific Women objectives and address gender issues during implementation. This will uphold Australian Aid commitments through the 2012 Pacific Leaders' Gender Equality Declaration and Australia's delivery strategy *Pacific Women Shaping Pacific Development*.

2. At least 20 per cent of the investments will target private sector engagement. Setting this target will create the space and opportunity for DFAT to establish greater private sector engagement, understanding, relationships and (ultimately) to support private sector investments in development, including service delivery and/or economic development. It is recommended that current road infrastructure is not included in the attainment of this target because the intent of the Australian Aid policy is to drive expanded private sector engagement.
3. At least 50 per cent of the investments will be allocated to infrastructure. This is consistent with Australia's proposed approaches under the aid assessment to align Australian Aid investments to the Government of PNG's priorities and to help unlock PNGs economic potential.

The five stage application process

Only concept paper meeting strict criteria will advance to a five stage application process:

Stage One: Gateway Screening	The Incentive Fund team carries out desk reviews of Concept Papers (CPs) and organisation self-assessments. Only CPs that pass the gateway criteria screening are transferred to the Sub-Management Group (SMG), which has DFAT and DNPM members, for development priority assessment. At this stage the SMG will also be provided with a summary of all CPs indicating those that are non-compliant.
Stage Two: DNPM and DFAT Development Screening	The SMG coordinate with the sectors, to have input on GoPNG development priorities. The SMG provides its feedback to the Incentive Fund on the CPs that meet or do not meet the development priorities. Independent members of the Management Group (MG) provide feedback on any issues they may have on the gateway criteria selection. Recommendations are put to the MG for review and endorsement. The MG selects organisations to move to Stage 3 and undergo an organisational assessment (OA). If the OA is successful, the organisation may be invited to prepare a detailed proposal.
Stage Three: Organisational Assessment (OA)	Aligned with the high level target of working with the most effective partners, the OAs ensure the organisation has the capacity to deliver the activity and maintain post-activity support. This includes a local political economy and operating context assessment from the organisation highlighting any risks to the on-going operations and maintenance required from the IFA investment, and how risks will be mitigated. Organisations with capacity shortfalls may opt to delay further assessment and decisions until the organisation has had the opportunity to strengthen. OAs are summarised, shared with the SMG and sent to the MG for approval.
Stage Four: Detailed Proposal	Once CP and OA approval is given by the MG, with incentive fund team support a detailed proposal is developed with implementation plan, budget and a clear end of program position. At this point a new process must be identified and introduced so that the incentive fund can conduct a detailed local political economy and operating context assessment.
Stage 5: Agreement	Once satisfied with the proposal, the incentive fund team submit it to the MG for review and approval. If approval is given an Incentive Funding Agreement is confirmed and signed. Following this, implementation may start.

Private sector considerations

Some DFAT programs have enjoyed successful relationships with the private sector for many years. Many of these private sector companies work in the agricultural sector and were funded for economic development activities. IF (IV) and DFAT will need to experiment and be flexible in order to find efficient ways to operate more extensively with the private sector.

The private sector is likely to have advanced skills in business planning around detailed economic activity and this may challenge development administrators. It is logical to assume that business development planning and sector specialists will be required to review a range of concept papers, business plans and undertake economic analysis and internal rates of return etc. Therefore IF (IV) must anticipate making changes in the way that it operates and works

with the private sector. The same applies for DFAT officers. Engaging with the private sector will mean changing the way the development sector has traditionally worked.

IF (IV) should anticipate making changes to all Stages of the application process as it engages in more private sector activity. There is an important opportunity for IF (IV) to lead the way forward in regard to private sector engagement, and this is expected from IF (IV).

Development of the Innovation Fund

Under DFATs aid policy, new aid investments will consider ways to engage the private sector and promote private sector development. Over four years A\$140 million will be provided to trial and test innovation in development assistance. To support this learning Australia will be a founding partner in the Global Development Innovation Ventures program. This should assist to inform and guide the PNG Innovation Fund component of IF (IV). Close coordination will be required between IF (IV), DFATs Innovation Hub team in Canberra and any other relevant innovation funding mechanisms.

Specifically, IF (IV) will be required to design and implement a new Innovation Fund component. DFAT has quarantined A\$10 million for the Innovation Fund and it is anticipated that it will operate through a separately managed mechanism, but still be subject to adjusted IF (IV) assessment processes. As yet there is no confirmed description of the function (what) or form (how and when) that the Innovation Fund will adopt. However, it is anticipated that within the first six months of IF (IV) the Innovation Fund concepts will start to be generated and IF (IV) should be ready to pilot and test discreet innovation funding to DFAT identified partners. DFAT officers in the health, governance, education and gender sectors who were consulted during design consultations mentioned private sector partners they could engage, so potential has already been identified.

Delivering IF (IV)

The design retains the governance and management structures that effectively delivered Phase III. It introduces a grievance mechanism in anticipation of the need to mediate more when working with new private sector partners and through the new Innovation Fund. The concept of a grievance mechanism is not new and it may well expand to serve broader DFAT-Aid purposes.

The design places emphasis on the public diplomacy value of IF (IV); IF (IV) needs to be a public diplomacy giant and will ensure this by introducing strong public relations management. Most significantly, the design insists on a Team Leader who understands the local complexities of working in PNG through a broad range of organisations and activities and who can navigate IF (IV) to the intended end-of-program position through a well-informed knowledge of the local political economy and operating context. To do this a useful functioning monitoring and evaluation system that updates progress at the activity, program and performance management levels, and informs the PAF, will be required.

Acronyms

ABG	Autonomous Bougainville Government
ACR	Activity Completion Report
APNGIF	Australia Papua New Guinea Incentive Fund
APPR	Aid Program Performance Report
CP	Concept Paper
CPR	Concept Paper Request
CSO	Civil Society Organisation
DFAT	Australian Department of Foreign Affairs and Trade
DNPM	Papua New Guinea Department of National Planning and Monitoring
DCT	Development Cooperation Treaty
FBO	Faith Based Organisation
GDP	Gross Domestic Product
FBO	Faith Based Organisation
GoA	Government of Australia
GoPNG	Government of PNG
IF	Incentive Fund
IFA	Incentive Fund Agreement
IFT	Incentive Fund Team
LNG	Liquid Nitrogen Gas
MC	Managing Contractor
M&E	Monitoring and Evaluation
MG	Management Group
NEFC	National Economic and Fiscal Commission
OA	Organisation Assessment
PAF	Performance Assessment Framework
IDD	Investment Design Document
PNG	Papua New Guinea
SMG	Sub-Management Group
SPSN	Strongim Pipol Strongim Nesen
UFU	Unconditional Financial Undertaking
UNDP	United Nations Development Program
VfM	Value for Money
WASH	Water, Sanitation and Hygiene

1 Context

1.1 Current development situation in PNG

The following analysis on the current Papua New Guinea (PNG) country context is as presented in the Aid Program Performance Report (APPR) which forms part of the annual Department of Foreign Affairs and Trade (DFAT) aid management system.

PNG has experienced over a decade of comparatively robust economic development, with expanding formal employment opportunities and strong development in government expenditure and revenues. This economic performance has been driven by high international prices for PNG's exports (including for agriculture), conservative fiscal policies and, more recently, construction activity related to the Liquid Nitrogen Gas (LNG) project. However, economic growth slowed in 2013 (albeit to a still respectable headline figure of 5.1 per cent) due to weaker commodity prices, unfavourable weather conditions particularly affecting mining outputs and agriculture exports, and the winding down of construction activity associated with the PNG LNG project.

PNG's economic growth in 2014 is forecast to be 5.4 per cent. In 2015, GDP growth is forecast to exceed 20 per cent. This large, one-off spike in economic growth is due to exports from the PNG LNG Project. Non-mining GDP growth is projected to be a more moderate 4.3 per cent.

Unfortunately, despite sustained economic growth, the majority of the population has realised few tangible improvements to their quality of life. Over two million people in PNG remain poor and/or face hardship.¹ With around 80 to 85 per cent of Papua New Guineans residing in traditional rural communities, the majority secure their livelihoods from subsistence gardens and small-scale cash cropping. A significant percentage of the population lacks access to health, education, water and sanitation, and basic financial services.

In 2013, PNG was ranked 157 out of 187 countries in the Human Development Index. It remains off track against all of the Millennium Development Goals and its health and education indicators lag behind the rest of the Pacific.² Life expectancy is only 62 years, similar to that of Haiti and Sudan.³

In almost all respects, women and girls in PNG are worse off than their male counterparts. The 2013 UNDP Human Development Report Gender Inequality Index ranked PNG 134th out of 148 countries. Women and girls are 25 per cent less likely than men to be literate, and suffer unacceptably high death rates related to pregnancy and maternal health issues. Studies have shown that at least 60 per cent of women have experienced violence at some point in their lives, with 80-90 per cent of injuries treated at health clinics the result of domestic violence. Women are less likely to be employed in the formal sector, with men twice as likely as women to work for wages (40 per cent compared to 24 per cent of women nationally), and those women in formal sector positions are paid significantly less than men (A\$340 for women compared to A\$700 per month for men). In the private sector, women are less likely to register their business enterprise, and have limited access to the justice system to resolve commercial disputes.⁴ Women occupy few positions of leadership, from the village upwards.

¹ The 2012 Pacific Regional MDG Tracking Report

² International Monetary Fund, December 2013, PNG Staff Report for the 2013 Article IV Consultation; UNDP 2013 Human Development Report, the UNDP Gender Inequality Index.

³ World Health Organisation, Life Expectancy Data for PNG

⁴ UNDP, The 2013 Human Development Report

Of the 76,000 public servants in PNG, only 25 per cent are women and only 12 per cent of executive positions in PNG are held by women (few of which are in the private sector).⁵

Despite the vast development challenges, PNG is seeking to achieve middle-income country status by 2030 (Development Strategic Plan, 2010-2030). Sector priorities, as set out in the 2012 Alotau Accord, include education, health, law and justice, infrastructure and sustainable economic growth. PNG's economic growth agenda focuses upon investments in 'high impact infrastructure' - key roads, ports, power, and hospitals; job skills development; and partnering with the private sector - including supporting its role in service delivery.

Reflecting the PNG Government's ambitious development plans, the past two years has seen a marked departure from the conservative fiscal policies of the recent past. After a big expenditure program in 2013, the 2014 budget appropriations increased by 15.7 per cent to K15.3 billion (A\$6.7 billion). The big increases in government expenditure have contributed to a budget deficit of 7.7 per cent of GDP in 2013 and an estimated 6.9 per cent of GDP in 2014. A Supplementary Budget for 2013 was tabled concurrently with the 2014 Budget with K379 million (A\$166 million) re-appropriated. The majority of these funds came from uncompleted road transport projects, as well as unexpended health and education programs, and was primarily directed towards infrastructure associated with the 2015 South Pacific Games.

The strength in PNG's economy will continue to be dependent on improving macroeconomic management, governance and microeconomic reforms that ensure stability and maintain a business environment to attract foreign investment. The 2013 Heritage Foundation's "Index of Economic Freedom" ranked PNG 132 out of 178 countries. PNG rates 113th out of 189 economies on the World Bank's ease of doing business ranking. It rates particularly poorly in the critical category of 'enforcing contracts' (168th out of 189). Important reforms that signalled to international investors PNG's commitment to good economic governance, such as the establishment of PNG's Sovereign Wealth Fund, stalled during 2013.

In the Autonomous Region of Bougainville, the Autonomous Bougainville Government's (ABG) major undertakings included the establishment of the Bougainville Public Service, further progress on the transfer of powers from the National Government and preparations for negotiations on the reopening of the Panguna mine. This major change agenda will continue to gather momentum with ABG Elections in 2015, and the start of the five year window for a referendum on its future political status.

1.2 Strategic setting and rationale for Australian Aid engagement

The Government of Papua New Guinea development policies are established through:

- Vision 2050
- The Papua New Guinea Development Strategic Plan 2010-2030
- The Medium Term Development Plan 2010-2015
- The Alotau Accord in 2012 which confirmed priorities as education, health, law and justice, infrastructure and sustainable economic growth focused upon infrastructure, job skills development and partnering with the private sector.

The Australian Aid development support priorities are established through:

- Australian aid: promoting prosperity, reducing poverty, enhancing stability
- "Making Performance Count: enhancing accountability and effectiveness of Australian aid" and specifically directing aid investments to the 10 high level strategic targets

⁵ World Bank, UNDP, PNG Government, ADB 2013, Papua New Guinea Country Gender Assessment 2011-12, World Bank, Port Moresby, PNG, p52

- The new Economic Cooperative Treaty signed in April 2014
- The GoPNG and GoA aid assessment recommendations in 2014 have been confirmed in a recent DFAT policy entitled '*A New Direction for Australian Aid in PNG*'.

The following aid assessment recommendations will guide Australian Aid support to PNG:

- 1. Align the aid program with shared political and economic objectives of Australia and Papua New Guinea.** The integration of the former AusAID into the Department of Foreign Affairs and Trade will most directly support this overall objective.
- 2. Reprioritise 30 per cent of the current aid program, over the coming three years, to fund initiatives focused on private sector-led growth and aid for trade.** Savings to fund these new initiatives could be sourced from phased reductions to basic service delivery activities agreed by both Governments. New areas of focus should include improving the enabling environment for business (particularly SMEs and partnering with the private sector), agriculture market investments, strengthening technical & vocational training (TVET), and infrastructure support.
- 3. Maintain priority investments in improving health, education, infrastructure and law and justice systems as they remain fundamental to delivering inclusive, sustainable economic growth and improved human development outcomes.** These investments should maintain a focus on supporting the PNG Government to take greater sovereign responsibility for meeting the needs of its people, including through system strengthening and transitioning out of basic service delivery.
- 4. Increase effective partnerships with the private sector.** This should include increased engagement with business to guide improvements in the legal, regulatory and policy environment and to support more effective service delivery in PNG.
- 5. Expand our support for good governance.** This should include expansion to the Strongim Gavman Program ('SGP'), strengthened anti-corruption and security efforts, and professionalisation of the PNG public service through training and mentoring. There should also be a focus on improved accountability and leadership, improving PNG's ability to lead and undertake critical economic reforms and meet the basic needs of its people.
- 6. Maintain a strong program of support for building the capacity of PNG's police.** This should include support for the Royal PNG Constabulary (RPNGC) to maintain law and order through the deployment of Australian Federal Police (AFP) officers in advisory and mentoring roles and an expansion of the training opportunities for RPNGC members in Australia.
- 7. Expand support to women's empowerment.** This should include increased focus on women's effective participation in the economy through agribusiness, financial literacy, and microfinance; women's leadership in public and community life; and improved security in public and private spaces.
- 8. Increase aid investments in Bougainville as a greater proportion of the bilateral PNG program.** This should include a focus on supporting the effective implementation of autonomy arrangements and building the Autonomous Government of Bougainville's capacity to deliver basic services ahead of the referendum to determine Bougainville's political future; as agreed under the Bougainville Peace Agreement of which Australia was a witnessing signatory.
- 9. Establish clearer, realistic performance benchmarks to assess both our and PNG's performance against set targets, and to drive mutual accountability for agreed actions.** Both value for money and support to shared political and economic objectives of Australia and PNG should be key criteria in assessing effectiveness.

During design consultations, DFAT confirmed support priorities under the IF (IV) investments will be aligned with the aid assessment recommendations. They include health, education and other sectors and to stimulate economic development. As presented in Table 1 these priorities align with the demand from Phase III. It is stressed that the allocation for each

sector was not requested for the design stage; neither was a detailed analysis of the support opportunities within each sector. The design has ensured that sector support allocations are a key strategic decision to be made at the start of IF (IV), and that support will then be approved and implemented through the annual planning process.

Table 1: IF (IV) investment priorities

IF (IV) Priority Sector	Phase III Demand
Health	13%
Education	47%
Economic Development	16%

Aid assessment recommendations have been confirmed by a DFAT policy entitled *A New Direction for Australian Aid in PNG*. The following guidance presented in Table 2 describes how Australia proposes to align aid investments to GoPNG priorities.

Table 2 Alignment of Australian Aid investments to GoPNG priorities

GoPNG priority	Australia's proposed approach
Greater focus on infrastructure	Insufficient or inadequate infrastructure creates significant costs to doing business, and constrains economic growth. Australia's aid investment in infrastructure is currently set to increase from 37% of the program to approximately 50% by 2017. Australia should support the PNG Government's goal of delivering infrastructure that will encourage economic growth. Australia should establish a new Economic Infrastructure Advice Facility to provide advice to the PNG Government on scoping, planning and financing the infrastructure needed to support economic growth, and the required reforms that underpin these efforts. It should also be available to provide advice on private-sector partnerships to leverage domestic and international finance for key infrastructure investment projects.
Australian aid to shift away from direct service delivery as PNG builds capacity to meet the needs of its population	Transitioning Australian aid support away from direct service delivery should occur in a way that does not pose excessive risks to the lives of vulnerable people. Australia should include targeted support for PNG Government to assume responsibility for service delivery in line with Government of PNG's free health and education policies - particularly the provision of basic medical supplies to the vulnerable poor. Australia should shift away from responsibility for text book distribution, payment of education subsidies and the provision of the majority of basic medical supplies.
Job skills development, including greater work-force participation amongst younger citizens	Australia should increase aid investments in TVET and Higher Education, responding to businesses' and government's need for more skilled employees. People-to-people and institutional links between PNG and Australia should be grown. Australia should focus its investments in literacy, technical skills, better quality tertiary institutions, and an enhanced teaching and health workforce. Australian aid should support improvements in the quality of education by investing in teachers and school infrastructure enabling more school leavers to be literate and capable of engagement in the cash economy.
Focus on improving the enabling environment for business, particularly small-to-medium sized enterprises and partnering with the private sector	The aid program's private sector growth initiatives should focus where Australia has a comparative advantage and can achieve the most valuable results. This should include addressing economic and governance reforms important to sustainable growth; dialogue with the private sector to inform improvements to the legal, regulatory and policy environment benefiting the sector; partnering with the private sector for improved delivery of infrastructure, health, education and other services; supporting emerging businesses; assisting women's economic empowerment; supporting rural livelihoods; and investing in technical education and vocational training and improved economic and financial literacy.
Law and justice	Australia should maintain a strong program of support for building the capacity of the RPNGC to manage law & order including through the deployment of AFP officers in advisory and mentoring roles and expanding the training opportunities for RPNGC members in Australia. Australia will continue to support PNG to improve the business enabling environment by supporting PNG's efforts to combat corruption through improving legislative and regulatory frameworks, detection, investigation, prosecution and resistance to corruption initiatives and implementing the recommendations of the Financial Action Task Force (FATF). Australia should focus on promoting a culture of performance in the delivering of cost-effective law and justice services. Australia's aid should continue to strengthen access to justice and local conflict

	<p>resolution mechanisms to promote community safety and stability. Opportunities to build on existing cooperation with the private sector e.g. to increase support for victims of family and sexual violence should be pursued.</p> <p>As a witness to the Bougainville Peace Agreement, strengthening the Bougainville Police Service should be a particular focus for Australia.</p>
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Importantly for IF (IV) *A New Direction for Australian Aid in PNG* provides details of new areas where Australian Aid investment in PNG could support economic development. These are presented in Table 3.

Table 3 Australian Aid support to economic development in PNG

Support area	New area for support
Support to policing	Maintain a strong program of support for building the capacity of the RPNGC to manage law & order including through the deployment of AFP officers in advisory and mentoring roles and expanding the training opportunities for RPNGC members in Australia.
Increased support to Strongim Gavman Program (SGP)	Increased advisory support to strengthen government capacity through strategically placed advisors and enhanced training of public sector leaders. This would include the use of both Australian Government officials and contracted technical advisors to pursue essential economic and public sector reforms, to encourage anti-corruption, support functioning markets, reduce barriers of trade and investment, and improve PNG's service delivery capability. This assistance will aim to build a more effective, transparent and accountable PNG public sector.
Private sector development/Aid for Trade	<p>Upgrade existing arrangements for consultations with business on the aid program, including by expanding the dialogue to encompass the broader economic policy settings in PNG.</p> <p>Increased support for rural livelihoods, in partnership with ACIAR, with a focus on developing markets in the agriculture sector. Opportunities exist to partner with the private sector to provide targeted support to develop markets, generate new economic opportunities and improve access to finance, particularly for women.</p> <p>Targeted aid-for-trade support to build PNG's capacity to deal with cross-border trade issues such as quarantine and customs, to help PNG access international markets, and support for PNG's preparation for hosting APEC in 2018.</p> <p>An innovation fund to encourage social entrepreneurship and business-led investments through a competitive process. The fund would build on the approach of the Incentive Fund and Enterprise Challenge Fund pilot program, aiming to work with well performing institutions and offering innovative solutions to stimulate economic development and support women's economic empowerment.</p>
Increased support to technical vocational education and training (TVET)	<p>Increased support to technical vocational education and training (TVET) for skilled human capital. An enhanced investment in the TVET sector would be welcomed by the private sector and could be a key hub in enhanced collaboration with business. Increased investment in TVET would complement the European Union's expected niche support and Australian aid support for education quality, teachers and school infrastructure enabling more school leavers to be literate and capable of engagement in the cash economy.</p> <p>Targeted investments to improve economic literacy among graduates and local research institutions, to provide the private and public sectors the critical capacity needed to undertake policy-relevant economic inquiry required to drive economic reform at the national level.</p>
Infrastructure	<p>An Economic Infrastructure Advice Facility to provide advice to the PNG Government on scoping, planning and financing the infrastructure needed to support economic growth, and required reforms, including SOE reforms and privatisation. It would also be available to advise on private-sector partnerships to leverage domestic and international finance for key development projects.</p> <p>Shifting aid investments from road maintenance to the reconstruction and upgrading of key economic roads critical to supporting the PNG economy, including the Ramu and Highlands Highways as PNG agrees to increase its funding for road maintenance.</p>
Women's leadership and economic empowerment	Expanded support to women's economic empowerment in PNG, including through the Australia-Pacific Women Parliamentary Partnerships program; supporting access to adequate services for survivors of family and sexual violence; addressing constraints to women's effective participation in labour markets and agribusiness through financial literacy, microfinance, and building markets.
Sports	Harnessing the political leverage, public diplomacy and nation building opportunities through new development-through-sport investment in PNG, including partnering with local communities and the private sector.
Bougainville	Additional funding for a separate Bougainville-specific suite of activities designed to support governance, economic development, the peace process and preparations for the referendum.

1.3 Relevant DFAT policy and guidelines for implementation

The implementation of IF (IV) will be guided by the following DFAT policies and guidelines:

- DFAT Gender equality and empowering women and girls
- DFAT Disability-Inclusive Development / DFAT Accessibility Design Guide
- DFAT Child Protection Policy
- DFAT Economic Diplomacy
- Private Sector development and private sector engagement: guidance note, July 2014
- DFAT Monitoring and Evaluation Standards, June 2014
- DFAT Investment Design Quality Standards

1.4 Origin of the Incentive Fund concept

During the 1999 Development Cooperation Treaty (DCT) negotiations between GoPNG and GoA, it was agreed that Australia's development cooperation program would include jointly programmed assistance to be known as the Australia Papua New Guinea Incentive Fund (APNGIF). The Incentive Fund mechanism is the only support program specifically named in a bilateral treaty, partnership or agreement and it continues to be named in the Economic Cooperative Treaty signed in April 2014. This confirms both governments' have a strong interest in IF (IV).

The APNGIF was designed to provide funds directly to private and public sector organisations that were efficient and accountable. The emphasis was on obtaining measurable results by targeting performing organisations with project proposals that were 'excellent' in their preparation and aligned with the joint development priorities of GoPNG and GoA.

Funding PNG's performing organisations was intended to: i) recognize excellence; and ii) provide an incentive to other organisations to improve their performance so they too could seek funding. This relationship between recognition, reward and incentivisation can be applied in many ways and the IF (IV) will need to explore more broadly how to adopt these principles, and particularly in regard to expanding DFAT engagement with the private sector.

There were two phases to the initial APNGIF: Phase I from 2000 to 2003 and Phase II from 2004 to 2008. Thirty-nine projects to the value of A\$110 million covering fifteen provinces were completed and contributed to outcomes in eight areas - health, education, transport, Law and Justice, WASH, research, agriculture and economic development and vocational training.

The Incentive Fund Phase III commenced in June 2010 and ended in June 2014. Twenty projects to the value of A\$60 million covering nine provinces were successfully completed. These projects were 100 per cent infrastructure of which 37% contributed to health outcomes and 63% contributed to education outcomes.

This design recognises there are overlaps in the above assessment *e.g.* WASH could be considered as contributing to a health outcome, but the point being made is that Phase I and Phase II provided broader sector support than Phase III.

In Phase III the 'incentive' had changed and was applied to provide 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. The actual funding became the incentive, providing the encouragement and the reward for those organisations that attain good performance, with the intent to incentivize capable organisations with capacity and leadership to aspire to do better. Only organisations that are

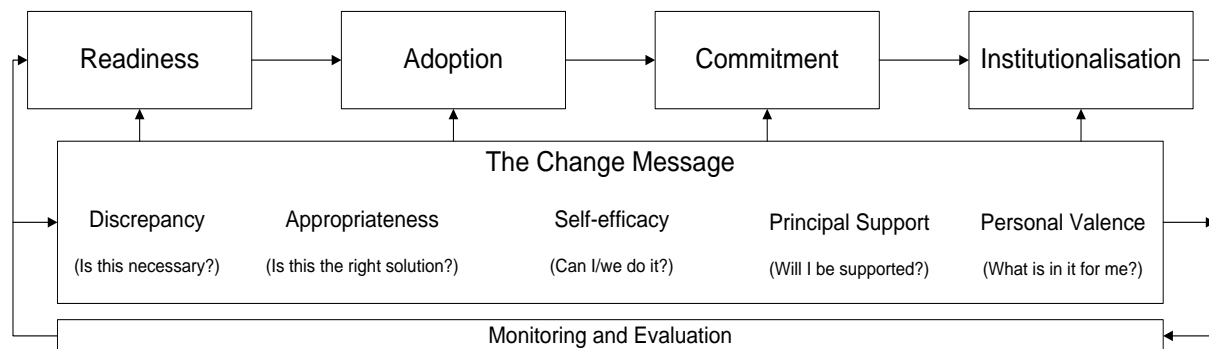
already capable and can demonstrate capacity to expand their contribution to development further were eligible.

Though seemingly subtle, the incentive mechanism shifted considerably between Phases I and II and Phase III from what were believed to be strongly performing organisations who demonstrated ‘*excellence*’ through documentation (and it was assumed they would inspire other organization to do similar) to incentivising organisations actually assessed as being good performers, and which could improve their performance further and expand their contribution to PNG development priorities. This is an important selection change because it allowed DFAT to actively seek and support organisations with demonstrated good performance capability.

Considering the organisational change theory⁶ presented in Figure 1, in Phase I and II the theory behind the Incentive Fund was to reward organisations that had already institutionalised good performance, with the assumption being that they would inspire others to behave similarly. However, there was no or little organisation assessment and performance was assessed upon the presentation of ‘*excellent*’ proposals – the preparation of proposals for some organisations was outsourced so, in practice, this was not a meaningful assessment of excellent performance. Despite no evaluation around the assumption of ‘*inspirational influence*’ it is also generally accepted that other organisations were not influenced, and no examples of inspired organisations have been documented or presented to this design team.

In phase III the opportunity to assess organisations and to then select, support and reward performing organisations was deliberately sought. In practice this seems to have resulted in Phase III supporting organisations that had already committed and institutionalised good performance and that could use funding and technical support to ‘raise their game’ further to expand their institutional capacity, contribute more to development outcomes and strengthen the enabling environment.

Figure 1: Theory of Organisational Change



IF (IV) will continue to assess the governance, management and performance of an organisation to fully understand whether investments are being used to expand entrenched institutional capacity within a well performing organisation, and to then support the organisation to change to a new (institutionalised) level of performance.

Figure 2 presents an overview of organisation performance theory introduced in the Phase III design. This theory was implemented by adopting an organisation assessment developed by DFAT grant mechanisms in PNG, and presented in the Information Handbook.

⁶ Armenakis, A., Harris, S. and Field, H. (1999) Making change permanent: a model for institutionalising change interventions. Research in Institutional Change and Development, Issue 12, pp97 – 128. Stamford, CT: JAI Press Inc. USA.

Figure 2: Overview of organisation performance theory

								INSTITUTIONALISE	
	Management	Compliance	Personnel	Implementation	Stakeholders	Finance	Administration	COMMIT	
Identify								ADOPT	
								READY	RISK

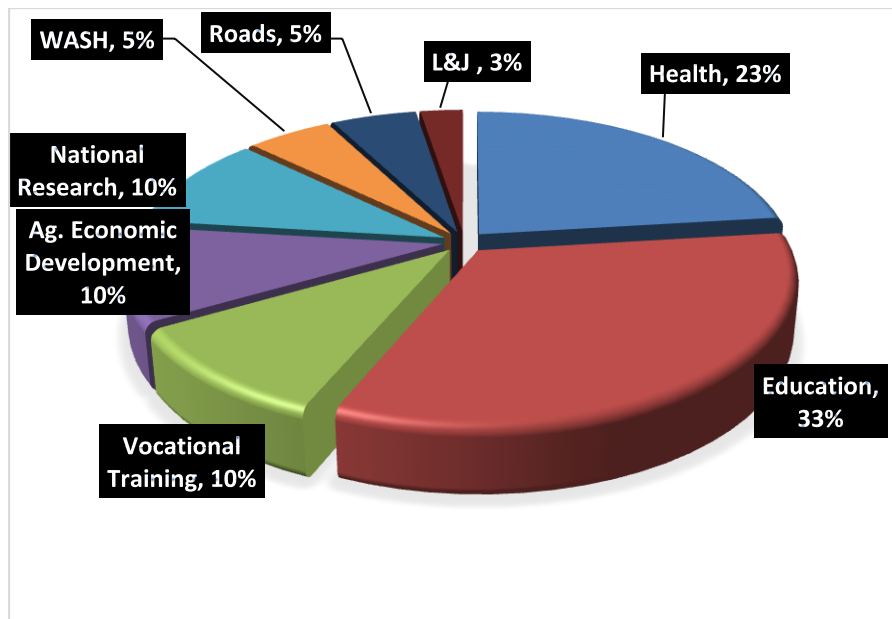
Consider a nascent organisation that is ready to develop in key organisational areas, which may include, but are not limited to: identify; management; compliance; personnel; implementation; stakeholders; finance; and administration. This organisation may not yet be a good performing organisation and it may present greater risk as a partner. Conversely, an organisation that has developed and institutionalised good practice and behaviour in all of these areas is more likely to be a better performing organisation and present lower risk as a partner. Tools such as the joint organisation assessment allow the user to assess whether an organisation has fully committed and institutionalised good practice and behaviour in key organisational areas. This assists the user to understand how well the organisation is performing and the level of risk the organisation may present as a partner.

Programs seeking to support good performing, and presumably effective, partners will try to identify and support only organisations with high levels of commitment and institutionalisation in key organisational areas. Programs that are seeking to support organisational change and improved performance will try to identify organisations that are adopting good practice and behaviour and demonstrate real intention to commit further and fully institutionalise good practice and behaviour.

To confirm, IF (IV) is not the mechanism to support and capacity build an organisation to achieve effective performance. IF (IV) is the mechanism to reward already performing organisations and support them to expand their performance further. This is the incentive.

1.5 Overview of Incentive Fund support

Significantly, in late 2010 an Australian Aid policy was introduced to enhance the delivery of health and education results. This had a demonstrable effect on the targeting and end-of-program outputs and contribution to outcomes provided by Phase III. Comparing Chart 1 and Chart 2 demonstrates how the end-of-program position was significantly altered by specifically targeting the education and health sectors.

Chart 1: Incentive Fund Agreements from Phases I and II

Total K220 million

39 IFAs⁷, value range
K1.07-12.6 million

76% Infrastructure

11 x CSOs/FBOs

5 x PNG Institutions.

12 x Prov. Gov.

2 x Private Sector.

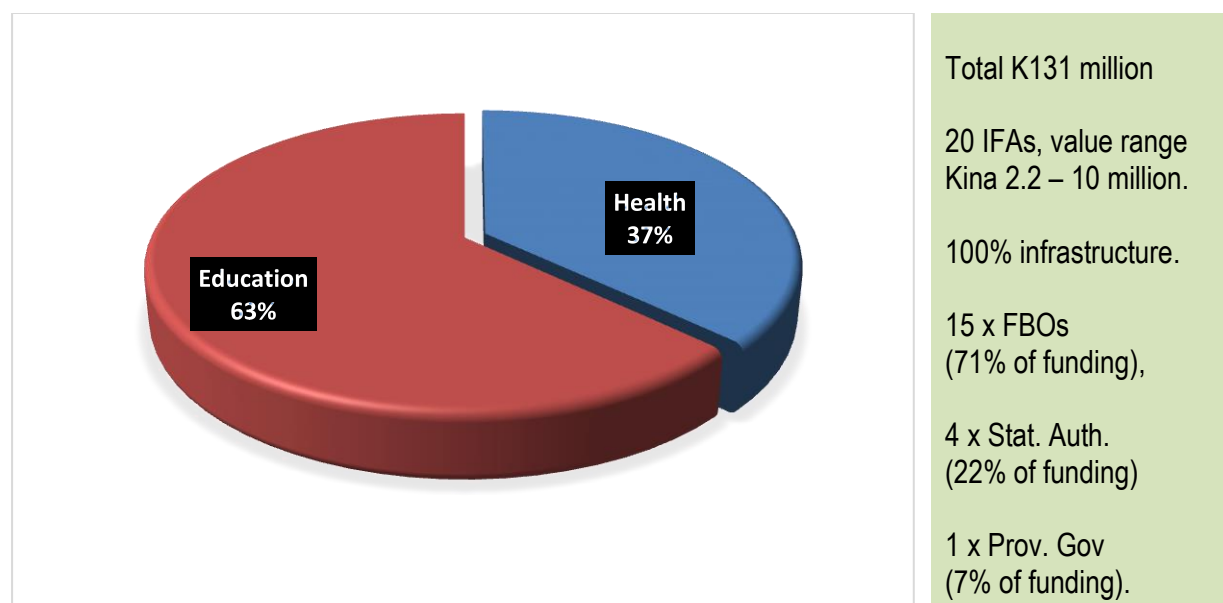
4 x Stat. Auth.

Box 1: Summary of Phase I and II achievements⁸

- New or improved health services in urban, rural and remote areas
- Better access to health services in urban, rural and remote areas
- Improved access to potable water supplies in rural and remote areas
- Improved quality of education provision in urban, rural and remote areas
- Improved educational opportunities for females
- New commercial opportunities
- Income earning opportunities for women
- Economic benefits for wider communities
- Increase in organisations' capacity
- More attractive to new staff
- Ability to attract other funding; and other achievements.

⁷ Incentive Fund Agreements

⁸ Averill, K., Nunns, H., Sent, W. (2008) Evaluation of the Australia Papua New Guinea Incentive Fund Support

Chart 2: Incentive Fund Agreements from Phase III**Box 2: Summary of Phase III outputs⁹****Increased Access to Education from 13 projects:**

Tertiary/research: new accommodation for 296 females and 126 males, 1 new nurse's house and accommodation for 7 visiting scientists

Vocational/technical: accommodation (new) for 48 females and 368 males, 6 new houses for teachers

Secondary: new accommodation for 372 females and 200 males, renovated accommodation for 190 females and 30 males, 27 new and 38 renovated houses for teachers.

Increased Access to Health from 7 projects:

Improved service delivery: 24 new and 4 renovated wards, new accommodation for 116 nurses, 70 new and 6 renovated houses for medical staff, 6 new and 8 renovated specialist clinics and services such as radiology, disability, dental services, 6 new and 1 renovated remote aid post 2 new and 2 renovated rural and remote health centres, 3 new remote health posts and 3 new dispensaries

Improved child survival and maternal health: 10,000 children in rural and remote Madang province immunised, supplementary immunisation for tetanus for maternal care in Madang and 3 new mama waiting haus.

Promote healthy lifestyle: 3 new VCCT clinics, 6 new and 1 renovated patient waiting places also used for lifestyle awareness sessions.

Other improvements to health infrastructure: include seventy-five water tanks, forty-two solar panels and twenty-three solar units, thirty-one staff offices, six generator sets and six incinerators for medical waste, six new kitchens and five new laundries, four security fences, four vehicles, two boats, two local area networks, two renovated reticulated water systems and a hydro system including dam, raceway, penstock gates and turbines.

1.5.1 Delivery of Phase III

The Incentive Fund Phase III was a four year A\$60 million program. The goal and purpose were:

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

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

⁹ Data taken from the Incentive Fund Phase III Activity Completion Report

Recognising the non-extendible four year timeframe to implement Phase III and deliver strong processes and all outputs, Phase III was implemented with a focus on four distinct management areas:

Program Implementation – all funding was allocated in the first 18 months which required the front-end loading of all Incentive Fund Agreements (IFAs). This can be referred to as front-end loading of a grant mechanism. By June 2012 all IFAs were approved and the remaining 30 months were dedicated to the implementation of all grant activities. This early allocation process was greatly assisted by pre-identifying 25% of the final IFAs through a pre-program Concept Paper Request (CPR) round.

New efficiencies introduced through the revised Phase III four stage screening and assessment process were significant and allowed management of a high response to subsequent CPRs. By the end of Phase III the Incentive Fund had received 1,697 enquiries, reduced these to 226 Concept Papers (CP) and then reduced these to 22 detailed proposals and budgets, of which 20 were approved, funded and implemented.

The Incentive Fund Team (IFT) successfully applied implementation pressure and sufficient support to ensure IFAs were managed to completion by June 2014. When a CP is received the organisation submits a self-assessment checklist. 86 per cent of the organisations were rejected because of a failure to produce two years of audited accounts. 54 of these (28%) were from Provincial Governments. This following analysis of Concept Papers (CPs) presented in Table 2 is useful to identify sector support potential for IF (IV).

Table 4: Phase III Concept Paper Requests

Sector	No. of CPs	% of CPs	Value of CPs (PGK) million	% of total value
Education	106	47%	458	50%
Health	30	13%	162	18%
Economic	37	16%	97	11%
CCI	5	2%	24	3%
All other	48	22%	165	18%
Total	226	100%	907	100%

Analysis of the above data indicates that demand in Phase III was significant and that targeted health and education priorities represented 6 per cent of total demand. Despite the fact that 40 per cent of this demand was unsupported, 16 per cent of it came from the economic development sector. The health, education and economic development support areas DFAT has decided to target in IF (IV) proportionally represent 76 per cent of the identified demand from Phase III.

Monitoring and Evaluation (M&E) – Phase III focused upon project level IFA monitoring to ensure the required IFA quality at implementation progress was maintained within the limited timeframe. Evaluation of project level reviews and process to identify lessons learnt and disseminate them to relevant stakeholders presented that 210 project implementation managers and personnel attended workshops. This enabled them to develop their own M&E Frameworks relevant to their specific project objectives. Process evaluations on seven projects, a sample size of 35 per cent, identified key lessons including the importance of: wide consultation in planning and designing the project; user feedback during planning and implementation; engaging a strong project management team; construction skills to ensure quality controls; a dedicated project manager; realistic timeframes which when faced with factors beyond a project managers control *e.g.* weather and supply delivery delays caused by the Physical Planning and Building Board.

Documentation review and limited consultations during the IF (IV) design identified a need for a whole-of-incentive fund evaluation to assess sustainability and identify the extent to which infrastructure projects (which represented 100 per cent of IFAs in Phase III) had been built to sufficient quality specifications, were fit-for-purpose and had secured on-going operational costs and funded maintenance schedules.

Program Performance Management – the key objective was to establish and maintain a relevant management, staff and technical team to deliver Phase III. Performance Management specifically required: identifying and adjusting IFT support as the program shifted from the front-end loading of 20 approved IFAs to implementation to completion in the last 30 months; strong financial predictions and the aggregation of project level cash-flow requirements – financial risks and cash-flows are discussed in Section 3.2.1.

Social Inclusion - importantly, Phase III integrated a compulsory social inclusion planning component into each project to ensure every IFA recipient maintained an appropriate policy setting that included Gender Equality, Child Protection, Disability-inclusive development and HIV and AIDS. Awareness and strengthening activities were supported as part of the IFAs. All 20 organisations funded in Phase III have integrated social inclusion into their organisational policy frameworks. This is a key consideration in IF (IV) where, aligned with GoA policy targets, 80 per cent of the investments will support empowerment of women and girls.

1.6 Conclusions from previous incentive fund support

The following provides a summary of conclusions drawn from a rapid assessment of previous incentive fund phases and design consultations which have informed the IF (IV) design.

- **The Incentive Fund is a strong brand and IF (IV) needs to protect it:** Fourteen years after the demand from both the GoA and GoPNG for an incentive funding mechanism in the 1999 Development Cooperation Treaty (DCT), the Incentive Fund is the most recognised component of the Australian Aid program. It is popular and it is visible, so it has high public diplomacy value. The incentive fund provides technical and funding support and is flexible in nature. It is able to reward good performance across all sectors anywhere in PNG. Australia's new development policy directs Australian Aid to actively work with effective partners, ensure value-for-money and to work with the private sector and this makes the Incentive Fund a highly relevant mechanism to achieve new partners and work in new ways. However, the Incentive Fund must be protected and we can only ensure this by not compromising on the principles that have successfully underpinned the Incentive Fund. Foremost is to only support good performers, no exceptions, and to resist any pressure to deviate from the rigid compliance process that is the incentive funding mechanism.
- **IF (IV) needs to ensure outputs make a contribution to outcomes:** The incentive funding mechanism is a strategic process driven large grant mechanism that leads to the delivery of inputs, activities and outputs by carefully assessed and effective partners. It is the effective delivery of this process that leads to intermediate outcomes *e.g.* improved organisational knowledge, management and practice that drive end-of-program outcomes which contribute to a better enabling environment *e.g.* improved health services reaching more people.
- **IF (IV) needs to be able to determine the application of value-for-money:** An evaluation of a large sample of Phase I, II and III projects is required to understand value-for-money concepts and its application. The following all undermine incentive fund investments and

reduce contributions to outcomes: poor quality construction; poor quality project management; no on-going operational budget or funded maintenance schedule; inappropriate designs (e.g. Phase I water wells no longer working); and poor costing which leads to build reductions and major re-work. If outputs do not convert to outcomes, value-for-money assessments will be poor. The design terms of reference state all Phase III investments represent good value-for-money. This needs to be tested and lessons learned.

- **IF (IV) must better understand the local political economy and operating context:** More needs to be understood in regard to the local context to secure appropriate GoPNG revenues that will ensure the on-going operation and maintenance of public goods delivered by the incentive fund. DFAT and the IF (IV) need to better understand the operating environments, the political economy and how to link to sustainable GoPNG service delivery payment mechanisms. It is not enough to merely promote linkages between the Incentive Fund and health or education sector programs, which was the practice under Phase III.
- **IF (IV) will target organisations, sectors and geographical areas:** Phase III has clearly demonstrated that the incentive funding mechanisms can be used to target specific types of organisations operating in defined sectors and locations. Targeting concept papers requests needs to be used strategically as Australian Aid seeks to support new effective partners, specific sectors and activities, or specific locations.

2 Incentive Fund Phase IV

2.1 Philosophy for IF (IV)

To keep adding value to the current Australian aid program, the IF (IV) 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 all funded process and outputs and make defined contributions to service delivery and/or economic development. 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 IF (IV) support. This Investment Design Document (IDD) subscribes strongly to the concept that improved capacity is something that emerges if an organisation is given the opportunity to grow via processes that are 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.’

Using IF (IV) for capacity development implies at least three interpretations of the application of the incentive principle:

- The organisation has demonstrated an organisational capability to deliver development outcomes i.e. it is performing well in its current scope. IF (IV) is effectively used to acknowledge and reward those achievements and to encourage further improvement in reach, coverage and quality – building greater internal capacity that in turn contributes to a better enabling environment.
- As a result of the improved capacity it can expand its ‘business’ resulting in improved delivery of services or economic development, and ultimately improved development outcomes.
- Other organisations will be encouraged to follow the same path with IF (IV) promoting self-improvement or, used more strategically, DFAT can encourage improved performance from strategic partners which could then be recognised and rewarded through IF (IV).

This IDD aligns key concepts of IF (IV) with Australia’s new development policy by:

- rewarding performing organisations that can further contribute to a better enabling environment;
- ensuring that at least 80 per cent of the investments will support empowerment of women and girls;
- understanding the local political economy and operating context;
- tightening the linkages to ensure continued operating and maintenance;
- attracting new effective partners and particularly from the private sector;
- assessing actual capacity and further contributions to outcomes likely to be made to determine value-for-money (VfM).

All Phase III IFA’s were for health and education infrastructure. Appropriately built, operated and maintained infrastructure makes an important contribution to outcomes, and this is recognised by the GoA and GoPNG who have agreed that more than 50 per cent of IF (IV) investments will be allocated for infrastructure.

There are many good performing PNG and international organisations that do not require and could not safely and effectively deliver K1million of DFAT support to expand activities and contribute more to service delivery or economic development. Whether they can access other Australian Aid and lower grant amounts and then elevate to IF (IV) is not a strategic consideration for IF (IV). Attempts to achieve this in Phase III did not work because the Incentive Fund sought larger, effective partners. Programs, including Strongim Pipol Strongim Nesen (SPSN) for example, had their own governance and approval mechanisms and funding priorities, and they quickly allocated funds without any strategic consideration of the Incentive Fund. IF (IV) is seeking to make a significant contribution to improved development outcomes and is only seeking organisations capable of effectively managing at least K1 million. Eligible organisations that are incentivised to scale-up and improve their performance to secure support to expand service delivery or economic development will be encouraged.

As in Phase III, organisations from remote or non-urban parts of Papua New Guinea with a good development concept that meet the criteria will not be denied support due to the increased costs of implementation at their location. It is not a requirement or priority for IF (IV) to evenly divide funding across the GoPNG's sectors or across provinces, or to promote positive discrimination in favour of remote areas. However, remoteness will not be a disabling factor and good performing organisations working in the health, education and other sectors and stimulating economic development will always be encouraged to apply.

There is some commentary that for a few organisations the Incentive Fund is 'the gift that keeps on giving'. When appropriate, it should. If organisations continue to meet IF (IV) criteria they should not be denied the opportunity. There is a rigid selection process to satisfy and all good performing organisations should be allowed to compete in this space. However, in a situation where there is limited funding available, preference will be given to a newly qualifying partner, rather than provide repeat funding to a previous (or existing) partner.

One strong rationale for IF (IV) is that it gives effective organisations across PNG, and particularly the private sector, access to partner with Australian Aid. IF (IV) can actively target private sector companies and create the space within the Aid program to provide an opportunity to drive private sector engagement, understanding, relationships and (ultimately) to engage in development investment opportunities. Put simply, this is an opportunity for Australian Aid and the private sector to have meaningful engagement which is likely to inform and then assist the development of broader private sector engagement with Australian Aid.

Finally, a new A\$10 million Innovation Fund will be designed and implemented alongside, but operated separately to IF (IV). The Innovation Funds purpose will be to identify new effective partners and new ways for Australian Aid to tackle development problems across sectors and improve service delivery from partners or stimulate economic development.

2.2 Definition of the Incentive Fund Principles

In early 2007 the Department of National Planning and Monitoring (DNPM) and DFAT agreed on the overarching principles to underpin the incentive funding mechanism. This design briefly reviewed these principles during consultations and confirms them as follows:

Incentive: the incentive is a reward for effective partners that make a contribution to deliver significant and tangible human development changes through the expansion of service delivery or economic development.

Flexible funding mechanism: IF (IV) should provide a flexible funding mechanism capable of responding to demand from the health, education and other sectors and to simulate

economic development. It should be able to support the full range of eligible organisations and it should be able to strategically target demand and support through the use of well-designed CPRs.

Demand driven: IF (IV) should be ‘demand driven’ which means funds are potentially accessible by all eligible organisations. All funding should demonstrate intermediate and end-of program outcomes that show the organisation can provide improved service delivery or economic development. Demand is affirmed by ensuring the eligible organisation can qualify with minimum standards and pass the rigid concept paper review and organisation assessment.

Innovation: IF (IV) will actively seek new effective partners, particularly from the private sector. It will also innovate new ways to stimulate economic development *e.g.* through agriculture and communication sectors. IF (IV) provides a dedicated space within the aid program to engage, pilot and test a new Innovation Fund and A\$10 million has been quarantined for this purpose.

Effective Partners: IF (IV) will always conduct organisation assessments on eligible organisations (Stage 4 of the application process) and there can be no exceptions to demonstrating adequate capability – which includes at the management, administration, planning and implementation levels. IF (IV) is not an organisation capacity building program, however, process outcomes are expected as a result of implementing support.

Competitive: IF (IV) is a competitive funding mechanism which applies rigid criteria through the application process. The unashamedly restrictive gateway criteria, concept paper review, organisation assessment, sector endorsements and prioritisation against other concepts and eligible organisations, will reduce the number of potential applicants. IF (IV) will only support organisations assessed as being effective. There are no exceptions to this principle.

Accountability: IF (IV) imposes minimum standards in key organisation and project management areas, which include: financial management and reporting; project planning and implementation management; monitoring and evaluation; progress reporting; gender equality; child protection; disability-inclusive development; social inclusion; anti-corruption practices; and full IFA contract compliance. IF (IV) will provide a reasonable and agreed level of management and technical advice and mentoring including any required information, templates and training as required. However, the eligible organisation is accountable for ensuring full compliance.

2.3 Incentive Fund Logic and expected outcomes

2.3.1 Theory of change

The IF (IV) logic needs to be confirmed at the start-up of IF (IV) through the findings of the Incentive Fund Phase I-III evaluation and then by setting the initial Delivery Strategy and Annual Plan. In summary, the theory of change behind the IF (IV) logic is:

- If, IF (IV) strategically targets, identifies and only supports good performing organisations that are making a contribution to service delivery and/or economic development; and then
- If, the organisation passes strict concept paper and eligibility tests, a proposal is developed and approved and an Incentive Funding Agreement is signed; and then
- If, the activities are managed efficiently and effectively to deliver identified outputs, supported by the incentive fund team, then process outcomes and output outcomes should be delivered that lead to the intermediate outcomes being targeted through the PAF; and,

-
- Through this conversion of outputs to outcomes: relevant contributions to sector outcomes and/or economic development will have occurred; a stronger organisation with a team capable of expanding its development support further should be in place; and there is a better enabling environment for service delivery or economic development.

2.3.2 Goal and Purpose

The Incentive Fund Phase IV (post program) Goal is:

To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.

The Goal will ensure this large grant funding mechanism is aligned with the new Australian Aid Policy and shifts the delivery of Australian Aid from projects and direct service delivery mechanisms to supporting delivery through effective partners. For over fourteen years the incentive funding mechanism has delivered significant process and output outcomes and infrastructure through a strong partner led delivery process. It remains a relevant delivery mechanism for cross-sector support and to establish improved private sector engagement in Papua New Guinea's development.

The Incentive Fund Phase IV Purpose is:

To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.

The Incentive Fund Phase IV will introduce three investment portfolio targets to be met by the end-of-the program:

1. At least 80 per cent of the investments will support empowerment of women and girls, aligned with the Pacific Women objectives and address gender issues during implementation. This will uphold Australian Aid commitments through the 2012 Pacific Leaders' Gender Equality Declaration and Australia's delivery strategy *Pacific Women Shaping Pacific Development*.
2. At least 20 per cent of the investments will target private sector engagement. Setting this target will create the space and opportunity for DFAT to establish greater private sector engagement, understanding, relationships and (ultimately) to support private sector investments in development, including service delivery and/or economic development. It is recommended that current road infrastructure is not included in the attainment of this target because the policy intent for Australian Aid is to drive expanded private sector engagement.
3. At least 50 per cent of the investments will be allocated to infrastructure. This is consistent with Australia's proposed approaches under the aid assessment to align Australian Aid investments to the Government of PNG's priorities and to help unlock PNG's economic potential.

2.3.3 Incentive Fund Logic

The design Incentive Fund Logic is presented in Annex 2 and summarised in Table 5. For illustration purposes the health and education sectors and economic development are presented, and similar logic flows will apply across all supported sectors. The IF (IV) will be confirmed at the start of IF (IV) by an evaluation of Phases I-III and the investment priorities will be set through the Strategic Delivery and Annual Planning process during the start-up,

and then annually. These same processes will inform the identification of the end-of-program position and the establishment of the Performance Assessment Framework (PAF) - refer to Table 9 - to identify progress being made towards the end-of-program position.

Table 5: Design Incentive Fund Phase IV Logic

IF (IV) Goal (Longer-term outcome)	To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.		
IF (IV) Purpose (Longer-term outcome)	<i>To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.</i>		
End of Program Outcomes (2021)	1. Selected IF (IV) grant recipients effectively and efficiently manage, maintain and operate fit-for-purpose health infrastructure and equipment	2. Selected IF (IV) grant recipients effectively and efficiently manage, maintain and operate fit-for-purpose education infrastructure and equipment	3. IF (IV) grant recipients actively engage in local economic development
Intermediate outcomes	1a: Partners are operating and maintaining all their infrastructure and support	2a: Partners are operating and maintaining all their infrastructure and support	3a: Partners are operating and maintaining all their infrastructure and support
	1b: 80 per cent of the investments will support empowerment of women and girls	2b: 80 per cent of the investments will support empowerment of women and girls	3b: 80 per cent of the investments will support empowerment of women and girls
	1c: 100% of Partners using social inclusion policy	2c: 100% of Partners using social inclusion policy	3c: 100% of Partners using social inclusion policy
	1d: Partners have new capacity to implement activities	2d: Partners have new capacity to implement activities	3d: Partners have new capacity to implement activities

Priority support through IF (IV) will be determined by the aid assessment review in 2014 and *A New Direction for Australian Aid in PNG*. In practical terms the sector focus opens IF (IV) up to a wide range of beneficiaries – a range that accounted for at least 76 percent of the demand in Phase III - and a demand that is highly likely to grow as awareness for economic development support is achieved.

IF (IV) support investment allocations will not be front-end loaded, as they were in Phase III. Investment allocations will be reviewed each year and determined through the Delivery Strategy and Annual Planning process. This is strategically important because it will allow IF (IV) to build an investment portfolio over six years of implementation. This will provide greater flexibility to review, adjust and re-focus support priorities, informed by the PAF.

2.3.4 Gender Equality

The investment portfolio targets serve to prioritise Australia's new development policy and performance framework *Making Performance Count*. IF (IV) can make a contribution to achieving all 10 high level strategic targets established by this policy. Specifically it will ensure the fourth target by insisting that 80 per cent of the investments will support empowerment of women and girls. The IF (IV) investment portfolio will maintain this level of contribution to gender equality to effectively address gender issues during implementation.

Box 3: Pacific Women Shaping Pacific Development

In 2012 the GoA, GoPNG and other Pacific Nations signed the Pacific Leaders' Gender Equality Declaration. Australia's delivery strategy is through the Pacific Women Shaping Pacific Development program which is now operational. IF (IV) will establish close operating linkages with Pacific Women to ensure it can make a significant contribution to the gender equality outcomes sought. These are:

1. Women, and women's interests, are increasingly and effectively represented and visible through leadership at all levels of decision-making.
2. Women have expanded economic opportunities to earn income and accumulate economic assets.
3. Violence against women is reduced and survivors of violence have access to support services and to justice.
4. Women in the Pacific will have a stronger sense of their own agency, supported by a changing legal and social environment and through increased access to the services they need.

2.3.5 Infrastructure

The IF (IV) investment portfolio targets serve to ensure that at least 50 per cent of IF (IV) investments will support infrastructure. It is anticipated that demand for infrastructure will remain high, but investment should not be at the previous 100 per cent level delivered in Phase III. Notwithstanding this target, it is important to understand that IF (IV) is not the 'infrastructure fund' as it was (understandably) referred to many times during the design mission. It is equally important to understand that infrastructure can make an important contribution to development outcomes and, whilst there is general consensus that this is the case, the contribution of infrastructure to development outcomes still needs to be confirmed through every project.

2.3.6 Private sector engagement

The investment portfolio targets serve to prioritise Australia's new development policy further by making a substantial contribution to the high level strategic target of ensuring that at least 20 per cent of the investments will support private sector engagement.

Box 4: Private sector engagement

In July 2014 DFAT released the Private sector development and private sector engagement: guidance note. It confirms that private sector development is used to describe DFATs activities that support the private sector to contribute to economic development through three main categories:

- *Building better enabling environments* for business including regulatory and financial frameworks that make it easier for private-sector led economic development
- *Strengthening key markets and sectors that drive economic development or poverty reduction* e.g. by enhancing connectivity along the value chain, improving information availability or supporting business entry through the introduction of new products or services.
- *Maximising the development impact of individual businesses* chosen because of their large impact (to bring about change) in a sector or economy.

The opportunity is for Australian Aid to use this private sector engagement mandate, including A\$10 million of innovation funding, to start to engage with a range of private sector organisations able to make a contribution to health, education and other sectors and/or economic development, and to exchange information, establish mutual understanding and maintain relationships that drive at least 20 per cent of the aid program to be delivered by the private sector.

Importantly, IF (IV) can lead the way in regard to how Australian Aid engages with the private sector. This is an important opportunity for DFAT officers and the MC to grasp, and to literally open doors and create the space to discuss how Australian Aid can engage with private sector companies, encourage them to consider PNG development problems and then incentivise them to deliver PNG development priorities through their normal business activities.

Australian Aid needs to expand private sector engagement and development and IF (IV) provides a highly relevant mechanism to achieve this expansion. Through pro-active engagement and the prospect of significant funding IF (IV) should be attractive to the private sector and encourage constructive engagement and dialogue with DFAT. This engagement can be used to identify common areas of interest and opportunities to work together and support PNG development priorities. DFAT brings influence, networks, credibility, funding and technical assistance. The private sector offers many varied opportunities to tackle economic development and service delivery priorities, in a sustainable approach that goes beyond delivering projects and programs.

Incentivising private sector engagement to address PNG development priorities is an exciting and important challenge for IF (IV) and Australian Aid. It is expected that private sector engagement with IF (IV) will build over the years of operation and significantly more investments will be allocated to the private sector as IF (IV) matures.

2.4 Location, duration and operation

2.4.1 Location

Projects will be implemented throughout PNG, and staff from the Managing Contractor (MC) will be expected to travel extensively. There is no distribution strategy for projects or funds disbursement, however DFAT and the MC may decide to strategically focus IF (IV) support at times using various CPR mechanisms. Eligible organisation location should not be a constraint provided an applicant meets the criteria. The office for managing the IF (IV) will be located in Port Moresby.

2.4.2 Duration and funding limits

IF (IV) is planned to be operational in early 2015 for a period of at least six years. It is expected that a DFAT activity support Pricing Schedule will be approved for an activity

funding limit of A\$72 million to meet all costs associated with the IF (IV) IFAs and A\$10 million for a new Innovation Fund component. Operational cost and fixed management fees are in addition to the A\$72 million.

The total IFA value from Phase I, II and III was K351 million which today converts into A\$160 million. If we divide this by the 59 IFAs the average IFA would be A\$2.7 million. The expected combined Incentive Fund (A\$62 million) and Innovation Fund (A\$10 million) will establish an IF (IV) activity budget of A\$72 million across six years of implementation. This would suggest that IF (IV) will support approximately 26 projects.

2.5 Operating the Incentive Funding Mechanism

2.5.1 The Five Stage Application Process

There is a comprehensive Information Book in regard to all processes and procedures associated with the incentive funding mechanism and its implementation. It will be a start-up priority to fully review and update the Information Book in line with the IF (IV) design.

At the design stage, apportionment of funding between health, education and other sectors and to stimulate economic development was not requested and this will be negotiated at start-up. Gaining consensus on apportionment will require sector analysis to achieve the right balance. Once determined, CPR strategies will need to be designed and implemented, and then the 5 stage application process managed fairly and transparently.

The MC will deliver at least two open competitive funding opportunities for eligible and performing organisations to access funding for projects focused on the Purpose. The minimum project funding will be K1 million and it is worth noting that all of the previous 59 IFAs were above this minimum level. An upper limit of K10 million is proposed and only one previous project has required funding above this maximum limit. With the agreement of DFAT and the Management Group (MG), a process for approving exceptional funding levels above these limits can be established.

The IF (IV) will be a ‘restricted’ access large grant mechanism fund within the wide DFAT portfolio of programs, mechanisms, facilities and activities. It is restricted in the sense that entry criteria will be rigorously assessed and the barrier to entry set deliberately high. IF (IV) will only support effective organisations who demonstrate they are good performers. IF (IV) must adopt a strict no exceptions policy to ensure that only organisations who identify as good performers are supported to protect the delivery of the end-of-program position and the integrity of IF (IV).

The no exceptions policy is important because it will protect the integrity and brand of IF (IV). Any leniency and relaxation of the standards to allow low performing organisations to access support, even if they do have a good concept paper, is contradictory to the intent of the fund. Conversely, incentivising organisations to improve their performance and ‘raise their game’ so they can access incentive funding is entirely encouraged. Put bluntly, IF (IV) is not a convenient ‘catch-all’ funding mechanism.

2.5.2 Strategic use of the concept paper requests

From the implementation of Phase III there is a good understanding of how to support the health and education sectors. IF (IV) will continue to be a mechanism to reward performing organisations within these two sectors, and other sectors, in order to support further expansion of good performers. However, in regard to stimulating economic development there is a need to adapt the incentives to attract greater private sector interest in participating in IF (IV), and more generally within the Australian aid program. With this adaption in mind this design

places an emphasis on the CPR process to allow greater flexibility to excite demand. The function and form of this demand will need to be fully identified during IF (IV) implementation through the strategic and annual planning processes.

IF (IV) must utilise the principle of flexibility to attract the full range of eligible organisations and strategically target demand from organisations and companies. This includes targeting demand from new partners, and especially private sector partners. Which communication and awareness mechanism should be used to advertise for CPRs and attract attention from the targeted partners is a key strategic consideration. The previous phases successfully utilised several mechanisms, including regional stakeholder workshops, the media and restricted applications from referrals by other sectors.

To ensure sufficient flexibility, and mindful that private sector engagement may require a more direct and dedicated approach, IF (IV) should expand CPR mechanisms to include, but not be limited by, the following:

- IF (IV) should manage at least two open and competitive funding rounds. It is envisaged that these would be in early 2015 and early 2017. The public diplomacy intent should be to significantly raise the Australian Aid profile amongst targeted organisations and companies. When and how the competitive funding rounds should be conducted should be determined through the Delivery Strategy, the Annual Plan and the Communications Plan.
- The IF (IV) team and DFAT can establish strategically targeted restricted funding rounds *e.g.* to incentivise and reward quality assurance compliance from tertiary education institutions or attract private sector engagement in specific sectors and districts.
- DFAT can refer effective partners directly to IF (IV) to incentivise and reward good performance. This will encourage greater linkage and engagement between sectors and the IF (IV) team. However, it should be noted that all referred partners must satisfy the strict funding compliance and accountability checks. No exceptions.

Ultimately the strategic function, mechanism applied and the timing of CPRs is a critical program strategy and annual planning consideration.

Once CPRs have been launched by the IFT, applicants will need to refer to the Information Book to determine whether their organisation is eligible and to develop a suitable concept paper. Self-assessment and selection is a critical evaluation process and ensures the submitting organisations are satisfied they will meet minimum requirements and can deliver a relevant concept paper, proposal and, if successful, implement an IFA. Ultimately funding is competitive and selection will be based upon comparative merit. Many good concepts will not be successful. Many organisations will not qualify. As presented in Section 1.4 and Table 7, in Phase III 1697 enquiries converted into 226 concept papers which converted into 22 full proposals and budgets, and only 20 IFAs were issued.

Using an open competitive round CPR, statistically applicants have little over a 1 per cent chance of success. Concept papers passing gateway screening raise their chances of success to nearly 9 per cent. These are useful benchmark indicators of success from Phase III which IF (IV) should monitor to maintain both the efficiency and the integrity of the incentive funding mechanism.

2.5.3 Gateway Screening

Upon submission of a CP the organisation also submits a self-assessment against tough eligibility criteria. The biggest potential risk to IF (IV) is that eligibility criteria are relaxed to allow a non-compliant organisation access. This must not happen. The incentive fund mechanism works on the key principle that IF (IV) only rewards high performing

organisations that are capable of expanding their reach, coverage and quality, and maintain it after expansion.

Note from Table 7 that 86 per cent of the 200 non-qualifying CPs did not qualify because organisations had not submitted audited accounts. Without getting into the reasons why audited accounts were not available, it must be recognised that submitting annual audited accounts is a statutory obligation for all legally registered organisations in PNG and IF (IV) only supports organisations that are compliant with their statutory obligations in PNG. Furthermore, an organisation that is not meeting PNG compliance regulations is unlikely to be able to uphold the key incentive principle and demonstrate that it is a good performing organisations capable of expanding reach, coverage and quality and maintaining good performance after expansion. If these gateway criteria are relaxed in the slightest, the risk to IF (IV) increases significantly. This must not be allowed to happen and the no exceptions policy should apply consistently.

Table 6: Five Stage Application Process

Stage One: Gateway Screening	The Incentive Fund team carries out desk reviews of Concept Papers (CPs) and organisation self-assessments. Only CPs that pass the gateway criteria screening are transferred to the Sub-Management Group (SMG), which has DFAT and DNPM members, for development priority assessment. At this stage the SMG will also be provided with a summary of all CPs indicating those that are non-compliant.
Stage Two: DNPM and DFAT Development Screening	The SMG (DFAT and DNPM) coordinate with their sectors, to have input on GoPNG development priorities. The SMG provides their feedback to Incentive Fund on the CPs that meet or do not meet the development priorities. Independent members of the MG provide feedback on any issues they may have on the gateway criteria selection. Recommendations are put to the MG for review and endorsement. The MG selects organisations to move to Stage 3 and undergo an organisational assessment (OA). If the OA is successful the organisation may be invited to prepare a detailed proposal (DP).
Stage Three: Organisational Assessment (OA)	Aligned with the high level target of working with the most effective partners the OAs ensure the organisation has the capacity to deliver the funded activity and maintain post-activity support. This includes a clear local political economy and operating context assessment from the organisation highlighting any risks in regard to the on-going operations and maintenance required from the IFA investment, and how risks will be mitigated. Organisations with capacity shortfalls may opt to delay further assessment and decisions until the organisation has had the opportunity to strengthen. OAs are summarised, shared with the SMG and sent to the MG for approval.
Stage Four: Detailed Proposal	Once CP and OA approval is given by the MG, with incentive fund team support a detailed proposal is developed with implementation plan, budget and a clear end of program position. At this point a new process must be identified and introduced so that the incentive fund can conduct a detailed local political economy and operating context assessment.
Stage 5: Agreement	Once satisfied with the proposal the incentive fund team submit it to the MG for review and approval. If approval is given an Incentive Funding Agreement is confirmed and signed, following this, implementation may start.

Table 7: Non-qualification

Reasons for not qualifying at Stage 1	Number of Orgs	% of Total
No audited accounts	172	86
Land title issues	5	3
Third party preparation of CP	1	0.5
Activity not eligible	2	1
Beneath funding limit	1	0.5
Over funding limit	1	0.5
Other	18	9
Total	200	100

2.5.4 Further private sector considerations

Some DFAT programs have enjoyed successful relationships with the private sector for many years. Many of these private sector organisations work in the agricultural sector and were funded for economic development activities. The IF (IV) eligibility criteria were mainly established through the Community Development Scheme Phase II (2002-07), as were the organisation assessment criteria. These criteria have served well. Performing private sector organisations generally have no problem demonstrating compliance. However private sector companies may not be used to, or willing to, prepare donor driven documentation in the same way as many Civil Society Organisations, who are familiar with the way that programs and grant mechanisms operate. In this regard IF (IV) and DFAT will need to experiment and be flexible in order to find efficient ways to operate with the private sector in partnership.

IF (IV) will need to adjust the five stage application process to enable the private sector to efficiently access funding. For example instead of concept papers and organisation assessments traditionally used to assess support for Civil Society Organisations (who have generally adapted to working with the donor mechanisms), IF (IV) will need to be equipped to consider business plans, economic analysis to identify rates of return on investments and to establish how to conduct due diligence risk assessment of private sector companies. IF (IV) should not expect the private sector to change the way it does business to meet donor requirements, instead IF (IV) can drive the adaption of Australian Aid to establish suitable approaches and procedures to efficiently engage with the private sector.

The private sector will have advanced skills in business planning around detailed economic activity, and this may challenge development administrators. It is logical to assume that business development, economists and sector specialists will be required to review a range of business plans and undertake complicated economic analysis such as assessing internal rates of return on investments to secure support.

IF (IV) should anticipate making changes to all stages of the application process as it engages in more private sector activity. There is an important opportunity for IF (IV) to lead the way forward in regard to private sector engagement, and this is expected from IV (IF).

2.5.5 Understanding the local context

The design consultations identified a pressing need to improve understanding of the local operating environment and context in which Australian Aid is investing. Large infrastructure investments, for example, can quickly become white elephants if grant recipients have not secured the required on-going operational and maintenance funds through GoPNG or business mechanisms. It is not enough to connect to other DFAT sectors, IF (IV) must conduct more rigorous local political economy and operating context assessment to ensure linkage to sustainable operational and maintenance funds for public goods, and Australian Aid funded infrastructure.

Box 5: Local political economy and operating context assessment

Much has been considered in regard to how we link infrastructure delivered by IF (IV) and other programs into recurrent budgets to ensure on-going operation and maintenance of assets. Phase III was driven (post-design) to work closely with the DFAT health and education sectors to expand the infrastructure, contribute to expanded service delivery and to secure the required on-going sustainment of any public goods. However, it is clear that this remains a major sustainability factor that may go beyond the ability of DFAT to influence and control. Australian Aid is working in a particularly difficult operating environment. School fees and around Kina 1.39 Billion¹⁰ circulating annually at the sub-national level through the GoPNG Service Improvement Program (SIP) funding may take payment priority.

¹⁰ Figures from Incentive Fund Phase IV concept Paper, August 2014 by Emmanuel V. Federice.

Therefore understanding the local operating environment and political economy e.g. how well political structures are working with the public service to support public goods, is a critical consideration. Australian Aid needs to understand the local context and the extent to which IF (IV) infrastructure, whether delivered by Provincial Government, Statutory Authorities, Civil Society Organisations, Faith Based Organisations or the Private Sector, will be funded for its continued operation and maintenance. Establishing how local political economy and operating context assessments will be delivered in Stages 3 and 4 of the application process will require input from all sectors.

Local political economy and operating context assessments will enable IF (IV) to identify risks and confirm risk mitigation strategies. If risks cannot be clearly identified and managed then investment priority should be diverted elsewhere.

Discussions with a National Economic and Fiscal Commission (NEFC) Adviser identified that the main risks or issues Australian Aid needs to navigate in regard to engaging with significant allocations to SIPs, or navigating around them, include:

- The variety of views and agendas present in the development / capital area.
- The fragmentation and lost linkages between the various levels and units of government. For example, building a classroom or school may seem good and noble and yet it has massive flow-on consequences. The various actors who are responsible for enabling and sustaining the new development may not have been party to the decision to create it.
- Duplication or displacement; with so much development/capital funding flowing it may be difficult for the IF (IV) to remain relevant. Potentially the ‘incentive’ dynamic may have to change. In the past the incentive was dual, being able to access capital funding and project management capacity to implement it. More recently the greater incentive may be the offer of ‘project management capacity to implement’, so linking incentive fund technical capacity to SIP funding could be an opportunity.
- With the SIP funding flowing mainly to the district level there is still an opportunity and need for IF (IV) to support leading service delivery entities in areas such as education, health and economic development. We know there are real issues in education and health and some are hugely strategic, i.e. the declining number of doctors and nurses. So IF (IV) could support strategic high-performing schools, training institutions, clinics, hospitals with capital funding and project management support, on the basis they are less likely to benefit from the localised SIP funding and on the basis these entities are critical ‘leaders’ for others to aspire to.
- Co-funding (Kina for Kina) arrangements are difficult. The concept has obvious merit but how it gets worked out in practice seems to have a sketchy history in PNG. Various parties have tried. Given the challenges, if this is put forward as an IF (IV) concept, it is critical that a background study reviews lessons learned and best approaches for co-funding in PNG. The Asian Development Bank may be investigating co-funding arrangements using SIP funds in the transport infrastructure domain, so there is potentially the opportunity for joint research and analysis.

2.6 Eligible and Non-eligible organisations

2.6.1 Eligible organisations:

There will be a wide range of organisations that meet the ‘gateway’ entry criteria and become eligible to apply for funding. The intent is not to exclude organisations that can make a valuable contribution to achieving the required IF (IV) end-of-program position. As per Phase III, eligible organisations for IF (IV) are expected to include:

- provincial and local-level governments and their trading organisations;

-
- statutory non-commercial government authorities *e.g.* research organisations, universities, schools and hospitals;
 - community organisations including non-governmental organisations (NGO), faith based organisations, women's organisations, and local offices of international non-governmental organisations;
 - in Phase III the following private sector funding was eligible: 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 or district councils. This includes corporate entities such as joint ventures, partnerships and trusts. It also includes unincorporated entities such as clubs, societies, and special interest groups. In IF (IV) confirmation in regard to what types of joint ventures would be allowable will need to be sought. The intent of IF (IV) is to engage the private sector in addressing PNG development priorities through their business practice, which may include for examples support to joint ventures. Precisely how IF (IV) supports the private sector is an emerging consideration for Australian Aid and IF (IV) can actively participate in this discussion and pilot support.

Organisations funded under previous phases of the Incentive Fund may re-apply for funding new projects, but priority will be given to new effective partners.

2.6.2 Non-Eligible organisations

There were three types of organisation that were not be eligible to apply for incentive funding under Phase III and IF (IV) will also continue to exclude two of them from consideration:

- national government departments; and
- commercial statutory bodies.

2.6.3 Activities that will not be funded

Proposals will be varied and it is difficult to make a complete list of those activities that will be considered for funding. At the start of IF (IV) there should be a full eligible and non-eligible activity review, and this will require on-going review as private sector engagement expands. However, the activities and items that were not funded in Phase III should guide the start of IF (IV), and include:

- the cost of preparing the proposal, including any consulting fees;
- the purchase of land;
- compensation payments of any type, including land compensation payments;
- mark-ups on inputs provided internally by implementing organisations, or through sub-contracts with third parties;
- privately registered motor vehicles, privately owned housing; plant or equipment;
- the construction and/or maintenance of churches or places of worship;
- research of a commercial nature where the beneficial copyright would not directly reside with the Government of PNG; provincial or local government, or community group;
- overseas fellowship, study tours and conferences;
- any costs not included in the final contract;
- recurrent salary or operational costs after completion of the project;
- maintenance of existing infrastructure as a stand-alone activity;
- transport infrastructure (roads, bridges, jetties, wharves, airstrips);
- new infrastructure or equipment (including houses and vehicles) unless
 - it is attached to service delivery as the largest component
 - there is a firm undertaking and capacity to meet any recurrent costs
 - they are appropriate to the environment in which they are to be placed;

-
- activities related to sport;
 - theological training, evangelism, missionary outreach, activities generating profits for theological, missionary or evangelical purposes, media or political activities;
 - welfare or emergency relief activities.

2.7 Activity implementation

2.7.1 Approval

Organisations whose Detailed Proposals are approved by the MG are notified in writing by the IFT. This notification is accompanied by a draft Incentive Fund Agreement (IFA) and financial management and reporting procedures. The detail within an IFA is captured in the Phase III Information Book and will be revised at the start-up of IF (IV). The following provides an insight into the tasks that IFA management demands.

2.7.2 Incentive Fund Agreement

Funded organisations are required to sign an IFA with the Managing Contractor. The IFA is subject to Australian law, and includes:

- date of commencement and duration of the project;
- scope of services – a description of the activities for which the funds must be used;
- gender, HIV/AIDS, child protection, disability and environmental considerations;
- performance standards, as applicable;
- schedule of activities, targets and the time-frame in which they are to be achieved;
- project budget;
- basis for payment and the IF quarterly funding projection;
- monitoring, evaluation and reporting;
- organisation's responsibility to produce monthly technical and financial reports and an audited year-end statement for the IF;
- organisation's responsibilities in regard to the maintenance of assets and any limitations on the use of assets;
- audit requirements;
- evaluation requirements;
- procedures for handling disputes;
- specific conditions.

The organisations contracted under an IFA are wholly responsible for the efficient and effective implementation of the grant-funded project. These responsibilities include:

- providing suitably qualified and experienced staff to implement the project effectively;
- identifying or providing a baseline measure for monitoring and evaluation purposes;
- developing and implementing a monitoring and evaluation framework;
- implementing the project in accordance with the Scope of Services and implementation schedules of the IFA and ensuring the project milestones are met on time;
- ensuring that assets and equipment purchased under IF (IV) provide value for money and accord with the agreed purchasing guidelines and procurement processes;
- meeting their responsibilities in regard to the maintenance of assets and any limitations on the use of assets;
- managing the project budget;
- preparation of monitoring, cash flow and other reports as required by the IFA;
- arranging external audits as required by the IFA;
- preparing a project completion report and a subsequent expected development outcomes evaluation, as agreed with the IF (IV);

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- providing any other information requested by IF (IV), including information requested on follow up monitoring after the project is completed;
 - telling IF (IV) about any issues that arise on the project;
 - ensuring project activities do not contravene PNG law or internal organisational policy.
 - participating in evaluation activities which may be undertaken after the project is completed.

2.8 Development of the Innovation Fund

Under DFATs aid policy, new aid investments will consider ways to promote private sector engagement and private sector involvement in development. Over four years A\$140 million will be provided to trial and test innovation in development assistance and to support this learning and Australia will be a founding partner in the Global Development Innovation Ventures program. This should assist to inform and guide the PNG Innovation Fund component of IF (IV). Close coordination will be required between IF (IV), DFATs Innovation Hub team in Canberra and any other relevant innovation funding mechanisms.

Specifically, IF (IV) will be required to design and implement a new Innovation Fund and DFAT has quarantined A\$10 million for this Innovation Fund. It is anticipated that the Innovation Fund will operate alongside but separate to the incentive funding mechanism, but still be subject to adapted IF (IV) assessment processes. As yet there is no confirmed description of the function (what) or form (how and when) that the Innovation Fund will adopt. However, it is anticipated that within the first six months of IF (IV) the innovation fund concepts will start to be generated and IF (IV) should be ready to pilot and test discreet innovation funding to DFAT identified partners. Consulted DFAT sectors mentioned private sector partners they could engage so real potential has already been identified.

Innovation Fund design questions will include:

- What are the investment options and models for the Innovation Fund to consider?
- Will the Innovation Fund operate as a separate funding mechanism with its own principles, criteria and targets?
- Who will the Innovation Fund support? Is this the right mechanism to encourage private sector engagement?
- What activities will the Innovation Fund support, will funding limits be imposed and which activities will not be supported?
- What are realistic expenditure predictions for the Innovation Fund and can it allocate, implement and fully acquit A\$10 million by closure in 2021?
- How will IF (IV) and DFAT promote the Innovation Fund?

2.9 Communicating the Incentive Fund Phase IV

At start-up the MC and IFT will engage with the DFAT Public Diplomacy team at Post and identify early opportunities to promote Australia through IF (IV). For example the MC will be required to assist DFAT's on-going engagement with the PNG Business and Development Working Group and to establish new ways to improve engagement with the private sector.

IF (IV) requires a public relations communications strategy and communication plan. Regular review of the communication plan will be scheduled and a library of useful media, photos and stories will be established. The Public Relations personnel will work closely with the monitoring, evaluation and reporting teams of IF (IV) to identify new opportunities to promote Australia and lift the profile of IF (IV). One key consideration discussed during the design consultations was whether to establish some early CPs through DFAT sectors and fast-

track proposals and approvals to enter an early implementation phase. This should be given careful consideration at IF (IV) start-up.

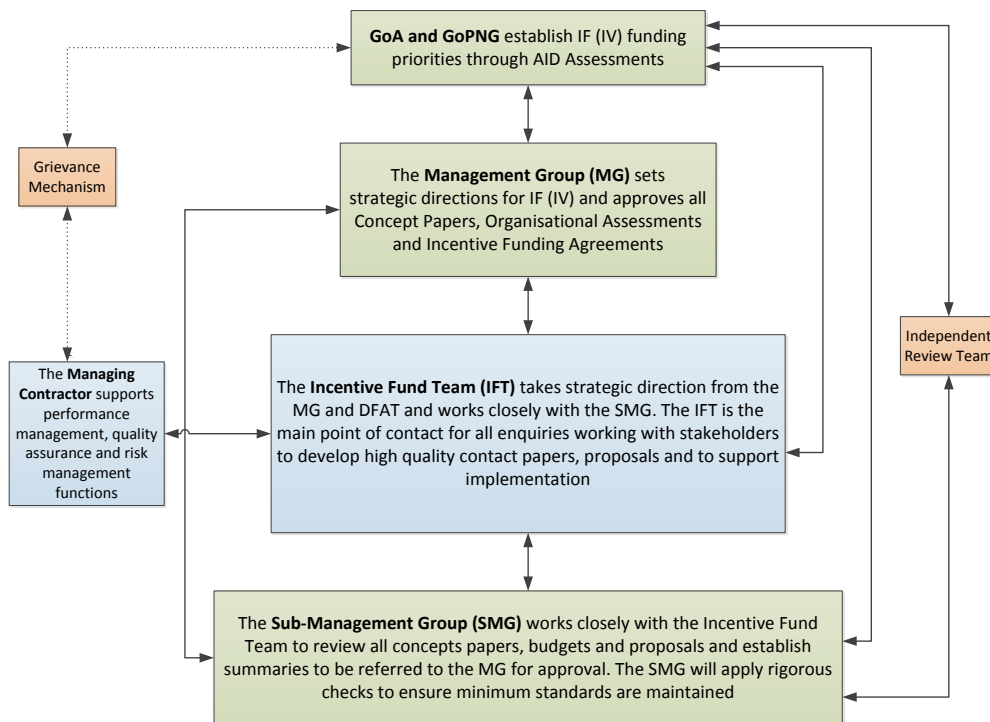
3 Management Arrangements

3.1 Stakeholders, Roles and Responsibilities

Figure 2 provides an overview of the key governance and management structures required to successfully operate IF (IV). Advancing the Phase III design, during its implementation Phase III introduced a Sub-Management Group (SMG) which increased connectivity between the IFT and DFAT and DNPM. It also played a valuable quality assurance role to pre-filter and quality check concept papers, organisation assessments and proposals ahead of the Management Group review and decision making. The SMG will remain.

In addition a grievance mechanism will be introduced. The intention is to introduce this function through the incentive funding mechanism and it may well expand its role to support other programs. An Independent Review Team will also be introduced to confirm the PAF and the progress being made towards the end-of-program position.

Figure 3: IF (IV) Management Organisation and Responsibilities



3.1.1 Department of National Planning and Monitoring

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

- effective and efficient communication with DFAT, the MG, the SMG and the IFT;
- joint appointment with DFAT of the additional members of the MG and SMG;
- internal DNPM and central agency coordination and reporting;
- seek advice on Concept Proposals submitted to the IFT from relevant GoPNG sectors including national departments, provinces and agencies, or assist the MC to obtain it;
- ensure DNPM's regular participation as a standing member of the MG;
- act on recommendations from the MG.

3.1.2 DFAT Post in Port Moresby

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

- effective and efficient communication with DFAT and the IFT;
- joint appointment with DNPM of the additional members of the MG and SMG;
- internal DFAT coordination and reporting plus financial management, including advice on annual allocations;
- seek advice on CPs submitted to the IFT from DFAT sectors and sectoral programs, or assist the IFT to obtain it;
- ensure DFAT participation as a standing member of the MG and SMG;
- monitor and report on the performance of the MC and Independent Review Group (IRG);
- act on recommendations from the MG;
- manage the contracts with the MC and the IRG.

3.1.3 Management Group

Effective performance and change requires strong governance and accountability systems. These will be central to all IF (IV) projects and should continue to be central to the management of IF (IV) itself. A strong MG where discussion and debate is open and frank, will be a continuing contributor to the success of the incentive funding mechanism within the aid program.

In Phases I, II and III the MG successfully provided a strategic governance oversight and approval mechanism. This MG function will continue. The MG will prioritise and select activities for approval following a revised five-stage process. Relevant members and strong leadership of the MG is essential and in Phase III this was ensured through the MG Charter and Code of Conduct. These need to be reviewed at start-up and continued in IF (IV).

The MG will consist of at least three PNG nationals jointly appointed by DNPM and DFAT, plus DNPM and DFAT members. Two of the representatives should have experience in CSOs/FBOs and the public sector (not necessarily currently active public servants but persons of standing) and one member should have substantive experience in the private sector. DFAT should ensure the MG has access to gender equality expertise and fully understand Australia's commitment to ensuring 80 per cent of the IF (IV) investments will support empowerment of women and girls, why and how this may be achieved. Some continuity of membership from Phase III is desirable and leadership of the MG must be strong to protect IF (IV) and block any attempt to diminish the rigid assessment criteria.

The IFT will establish full terms of reference, performance charter and code of conduct with the MG at start-up. The MG will be responsible for:

- Reviewing and approving IF (IV) selection and assessment processes for openness, fairness and transparency;
- Approving IF (IV) marketing and promotion strategies, and especially CPRs;
- Approving, or rejecting applications, Concept Papers (CPs), Organisational Assessments (OAs) and proposals based upon:
 - a review of all summary documentation at each stage including the CP, OA and proposal
 - advice from the IFT and SMG
 - the views of the members of the MG or SMG
 - the availability of funding, the quality and scope of activities in the pipeline and the budget.
- Making ongoing funding recommendations after reviewing monitoring reports and dealing with any ad-hoc concerns or recommendations from the MC or SMG.

3.1.4 The Sub-Management Group

The Sub-Management Group (SMG) was a highly successful addition to the Phase III design and formed a strong working bond between the relevant DFAT officers, and through them DFAT sectors, the DNPM officers and through them GoPNG, and the IFT and MC. The core function of the SMG is to provide quality assurance for the MG and review all CPs, OAs and final proposals and budgets prior to the MG. This function frees the MG to focus on strategic governance and approval decision making.

Three important new functions for the SMG will be required in IF (IV):

- To lead on establishing the mechanisms to ensure that local political economy and operating context assessments are conducted diligently. This will mean working closely with all DFAT sectors and economic development staff as well as other DFAT programs, most likely the Provincial and Local Government Program, and the NEFC.
- To guide on establishing stronger private sector engagement, ensuring that the IFT is informed of other private sector engagement activities underway at Post.
- To guide on DFAT's establishment of the Innovation Fund. The function and form of Innovation Fund is currently being considered by DFAT. The SMG should ensure that the IFT is included in relevant discussions on the innovation fund and are informed of other relevant innovation fund concepts and engagement activities underway by DFAT.

3.1.5 The Incentive Fund Team

The IFT will manage the implementation of all projects under IF (IV) and play a direct role in the processing and appraisal of all applications including: CPs / business plans; OAs/private sector due diligence; full proposals; and the financing and monitoring of funded projects. The IFT will not directly implement activities under IF (IV), however, they will be responsible for guiding and mentoring applicants with approved IFAs to obtain professional advice and technical support to complete the final application, and to then implement approved projects.

It is the responsibility of the MC to determine the structure of the IFT, the skills sets required and how they will be assured. This means that whilst some functions such as the Team Leader and Deputy Team Leader Infrastructure require key individuals with appropriate experience, management capability, technical skill sets and understanding of the local context, other functions may be provided through the MCs internal resources. The intent is to provide the MC with the opportunity to provide value for money options when establishing the required IFT.

The key functions and skill sets that DFAT must have in the IFT structure are:

- Team Leadership
- Deputy Team Leadership Infrastructure
- Monitoring and Evaluation Management
- Public Relations Management

Key Functions of the Team Leader

The team leader must understand the local context and political economy. Local political economy and operating context assessments are introduced in this design. PNG is complex and about to become more complex. Past incentive fund partners are still operating but in a new context where, for example, approximately K1.39 billion of funding is available each year at the local, district and provincial governments levels. Management, planning and implementation capabilities that IF (IV) can offer will be in demand. Positioning IF (IV) support will require a high degree of understanding around the local context and political economy. Equally an understanding and instinct for how the private sector works will be required so IF (IV), and broader DFAT, can engage meaningfully.

The Team Leader must advocate for gender equality at all levels and through all opportunities. Lasting gender equality change requires commitment from all leaders to lead by example and demand change. Leadership driving gender equality and change must be seen and felt. *Pacific Women* is uniting many DFAT programs to achieve change and improved gender equality. The opportunity to engage through the social inclusion mechanisms of IF (IV) is significant and real, and IF (IV) effective partners present real potential for an effective gender equality coalition.

The team leader must ensure the integrity of the IF (IV). The fund has a high profile and a popular legacy and reputation to protect. IF (IV) must only work with effective partners. This may on occasion mean defending the entry criteria and not relaxing them under pressure. Protecting the integrity of the fund protects the incentive principle – in effect the original concept of excellence remains. The incentive fund should remain the program of excellence which only supports proven effective performers; partners who may be considered *elite* in the PNG context. Subsequently it rewards those partners that aspire to and have achieved *elite* status. There is an interesting context to this. Traditionally grant mechanisms have worked hard to avoid *elite capture*. With the incentive fund it could be argued that we are attracting *elite capture*. IF (IV) requires a Team Leader who understands this and can navigate the complexities of a range of organisations to fund suitable partners.

The Team Leader should efficiently manage the incentive fund mechanism. This is a complex system in that it creates demand through communication and awareness mechanisms. The design stage has not apportioned funding between the health, education and other sectors and stimulating economic development and this will be negotiated at start-up. Gaining consensus on apportionment will require analysis and understanding of the sectors and strategic skills to achieve the right balance. Once determined, appropriate CPR strategies will need to be designed and implemented, and then the 5 stage application process managed fairly and transparently.

The team leader must ensure an appropriate team structure and that the right people are recruited, inducted, trained, mentored and performance managed. Technical skills are important, communication ability is essential and being able to work alongside a range of stakeholders from national government to communities, faith-based organisations to successful private sector businesses is critical. It is expected that the IF (IV) team will lead by example, it is anticipated that IF (IV) will be the place where people wanting to work on a *program of excellence*, will gravitate.

The key role of the Team Leader is to deliver the end-of-program position. This means staying loyal to the agreed IF (IV) logic and delivering the Performance Assessment Framework results through the implementation of appropriate annual plans.

Key Functions of the Deputy Team Leader, Infrastructure

IF (IV) will assist design, and deliver infrastructure to the value of more than A\$36 million through sub-contract management arrangements controlled by more than 13 partners. The deputy will have visibility of all stages with each partner and manage a team of technical support to ensure quality, fitness-for-purpose, sustainable operational costs and maintenance schedules, and demonstrated value-for-money.

IF (IV) will be able to mobilise significant project management capability and process outcomes from this capability are expected and need to be delivered. Utilisation of this capability both to deliver IF (IV) funded infrastructure and to support other infrastructure delivery *e.g.* leveraged through matched funding mechanisms and potentially inter-program initiatives in health and education, is to be expected.

Supporting and building a cadre of new project managers and linking these to professional bodies will be a key function. Phase III has demonstrated that project management process outcomes were significant and many partners have new project management capabilities which they are using to continue to build their own infrastructure and outsource to assist others and generate new income streams. Partners used Phase III to train youth in technical construction and management skills. This is a valuable process outcome that creates new income earning opportunities for individuals and organisations and it is a good example of how IF (IV) can stimulate and support economic development.

Key functions of the Monitoring and Evaluation Manager

IF (IV) must be managed in a fully informed way that keeps the PAF and progress being made towards the agreed end-of-program position highly visible and foremost in consideration when incentive fund sector allocations are being confirmed. The monitoring and evaluation functions need to be consistently managed to ensure they are efficient and effectively delivered at all times. Delivery will be confirmed through an approved and resourced Monitoring and Evaluation Plan which is the responsibility of the monitoring and evaluation management to establish, review, update and deliver. This is a critical IF (IV) management function.

Monitoring and evaluation management must deliver a quality evaluation of Incentive Fund Phases I-III. This evaluation is essential to inform the establishment of the first PAF and the evaluation should be conducted within the first four months of IF (IV) and consistent with DFAT Monitoring and Evaluation Standards.

Monitoring and evaluation management must work closely with DFAT and the Independent Review Team (IRT) to agree and establish the first IF (IV) PAF and then support its annual testing and any adjustment to confirm the end-of-program position and progress being made towards its achievement.

Monitoring and evaluation management is responsible for ensuring all monitoring and evaluation functions of IF (IV) are established and being delivered by qualified people. The Monitoring and Evaluation Manager will support and performance manage all people involved with delivering IF (IV) monitoring and evaluations activities at all times. Key monitoring and evaluation functions are presented in Section 4 of the IDD and include: program level monitoring functions; activity level monitoring functions; and performance management monitoring functions.

Finally, Monitoring and evaluation management must ensure that all delivery of IF (IV) is guided by the DFAT Monitoring and Evaluation Standards.

Key functions of the Public Relations Manager

IF (IV) is high profile and supports large scale projects which make a difference and can make change happen. IF (IV) could be a public diplomacy giant in the aid program and could be used as a key example of what Australian Aid is achieving. To achieve this status, IF (IV) needs to keep DFAT updated on the support it is providing and any changes being made. It will be essential for the public relations management to maintain a close working relationship with the DFAT Public Diplomacy office.

80 per cent of the investments will support empowerment of women and girls. IF (IV) therefore has a responsibility to highlight gender equality issues consistent with *Pacific Women* and constantly and actively promote: women in leadership at all levels of decision-making; economic development opportunities for women; the reduction of violence against

women; and the importance of a stronger women's agency where women have greater access to social services and economic opportunities.

Engaging with the private sector is going to require strategic communications and media and the public relations management needs to have significant understanding of the private sector and how to produce professional media and communication material that will appeal to the sector. It is anticipated that this material will be used by DFAT more broadly so it will be essential to maintain close working relationships with DFAT teams involved with private sector engagement.

The principles of good governance, strong management and effective performance need to be made visible more broadly across PNG. Web-based forums, national and local media and a range of PNG forums can be utilised to achieve this and signal that effective performance management is critical to the development of PNG. IF (IV) can highlight the need and demonstrate examples of how it can be achieved. It can also promote the fact that eligible organisations achieving good performance can be rewarded through IF (IV). To incentivise through influence and example, the public relations management will play a key role in reaching the required audience.

3.2 Grievance Mechanism

During start-up the MC and DFAT will discuss the function and form of a grievance mechanism. This is a new design initiative anticipating that increased engagement with the private sector, economic development activities and new innovation may require taking a different approach when it comes to the resolution of issues, concerns and disputes. This mechanism is signalling that it is not business as usual and IF (IV) will engage in new areas and manage higher levels of risk.

3.3 Contract Management

All DFAT fraud and anti-corruption policies and strict adherence to zero-tolerance principles apply. Notwithstanding recommendations from the Independent Progress Report to continue the highly efficient imprest account mechanisms and despite zero cases of reported fraud in Phase III, advice from DFAT Accounts is that no new imprest accounts will be set up.

3.3.1 Financial Management and the Pricing Schedule

The DFAT Pricing Schedule is presented in Annex 4 and replaces the previous Basis of Payment.

It is possible for IF (IV) to operate a normal prepayment and reimbursable arrangement for the grant activity and operations account. This should be implemented because operationally it will work as efficiently as an imprest account.

There is no requirement for any GoPNG entity to be a signatory on IF (IV) activity and operational accounts. This will remove some potential for inefficiency when managing cash-flows.

Fixed management fees will be subject to a negotiated payment schedule, presumably quarterly payments, based on specific performance delivery as stipulated in the contract.

There is a requirement for an Unconditional Financial Undertaking (UFU) by the Managing Contractor. Whilst this should not reduce a competitive tender process, DFAT should be prepared to consider reasonable cases during the tender process for any options to relax or

remove the UFU requirements. It is beyond the scope of this design to make recommendations on UFUs but there are more efficient and equally secure methods to protect funds. In practice, the UFUs protect funds whilst they are in the control of the MC so realistically the risk of fraud or mismanagement is negligible. UFUs do not protect funds when they have been disbursed to grant recipients. If a cost to risk management analysis was conducted in regard to UFUs on grant management mechanisms, the UFU would almost certainly not deliver value-for-money.

The operational issues with UFUs are significant. A UFU of A\$5 million only allows the MC to hold this amount in its combined Australian and PNG activity and operational accounts. It takes up to 30 days to replenish accounts when DFAT receives an invoice. Therefore in any given month if combined activity and operational expenditures exceed A\$5 million IF (IV) will have insufficient funds to operate, imposing significant cash flow and potentially costly implementation delays for projects. This will obviously generate justified complaints for the IFT and DFAT to address. Delays in implementation, additional costs and additional workload and time to management complaints would not satisfy value-for-money assessments.

Whilst IF (IV) will be able to make reliable activity and operational cash flow forecasts and invoice efficiently, it is highly improbable that IF (IV) will be able to plan IFA disbursements to keep every months expenditure below the UFU. Specific consideration in regard to the use of UFUs needs to be given during contract negotiations to explore the use of a flexible and scalable UFU or move to other instruments more commonly used in the private sector, such as parent company guarantees.

3.3.2 Scope of Requirements

The DFAT Scope of Requirements is presented in Annex 3 and replaces the Scope of Services.

DFAT will contract a Managing Contractor (MC) for an initial period of four years, with an intended extension of two years at DFATs discretion. The MC will define a DFAT approved team structure and recruit, train, mentor and performance manage the IFT.

The MC will maintain a direct strategic, performance management and quality assurance support role to the IFT through a nominated Contractors Representative. This will enable the MC to directly add value and to risk manage IF (IV) and support the Team Leader and IFT.

In summary the MC will deliver the following scope of requirements:

- Ensure the efficient and effective delivery of IF (IV) management and operations;
- Establish and deliver a successful IF (IV) grant mechanism and Innovation Fund mechanism;
- Ensure that all governance mechanisms of IF (IV) are fully supported to be effective;
- Ensure all monitoring and evaluation plans and systems are relevant and drive IF (IV) to an MG approved end-of-program position through the PAF;
- Ensure the delivery of all contracted deliverables as presented in Section 3 of the final Scope of Requirements;
- Ensure that all meetings detailed in Section 4 of the final Scope of Requirements are supported, occur as specified and deliver their terms of reference;
- Ensure that the IFT structure is relevant, that confirmed positions descriptions exist for all positions and that all positions are filled by qualified people with relevantly experience and character to successfully deliver IF (IV). The MC must ensure strong performance management of all IFT members.

- Ensure the delivery of all reports detailed in Section 6 of the final Scope of requirements are delivered on time and to satisfactory standards.

Table 8: Key documentation to deliver

Documentation		Delivery Timeframe	Reviewed
1	IF (IV) management structures and meeting schedules	1 month	Annually
2	IF (IV) Delivery Strategy	2 months	Annually
3	Annual Plan	2 months	Annually
4	Risk Management Plan	2 months	Quarterly
5	Financial budget, expenditure variance analysis and payment predictions	3 months	Monthly
6	Management Group Terms of Reference and Charter	3 months	Annually
7	Financial Management Operations Manual	3 months	Annually
8	Evaluation of previous IF projects	5 months	
9	Monitoring and Evaluation Plan	4 months	Annually
10	Confirmed Incentive Fund Performance Assessment Framework	4 months	Annually
11	Confirmed Incentive Fund Logic	4 months	Annually
12	Public Relations Strategy and Communications Plan	4 months	6 Monthly
13	Review and update the Information Book and procedures	4 months	Annually
14	Gender Equality Action Plan linked to Pacific Women	6 months	Annually
15	Social Inclusion Action Plan	6 months	Annually
16	Six monthly progress reports	6 months	6 Monthly
17	Grievance mechanism operating manual	6 months	Annually
18	Design confirmation for the Innovation Fund	8 months	
19	Independently audited accounts for IF (IV)	12 months	Annually

4 Monitoring and Evaluation

4.1 What has the incentive funding mechanism achieved?

This section should be read after review of the Incentive Fund Logic provided in Annex 2 and the Performance Assessment Framework (PAF) presented in Table 9. Before answering the question what is IF (IV) going to achieve it is valuable to briefly consider what did Phase I, II and III achieve. The overviews provided in Section 1 combine Phase I and Phase II investments. No formal whole-of-incentive fund evaluation of Phase I, Phase II and Phase III projects has been undertaken and this design insists a whole-of-incentive fund evaluation is conducted at the start of IF (IV) to assist set strategic targets. Notwithstanding this, the evaluations, progress reports and activity completion reports that were provided agree that the incentive fund is probably making contributions to outcomes (defined as a verifiable change in behaviour or practice) which can be summarised and described as:

Phase I and II

- Improved access to potable water supplies in rural and remote areas
- Improved quality of education provision in urban, rural and remote areas
- Improved educational opportunities for females
- New commercial opportunities
- Income earning opportunities for women
- Economic benefits for wider communities
- Increase in organisations' capacity
- More attractive to new staff
- Ability to attract other funding; and other achievements.

Phase III

- Increases in the number of people receiving health services
- Decreases in infant child and maternal deaths in four districts of Madang, Alotau and Milne Bay Province
- Improved maternal and child health treatment in Kokopo, East New Britain
- Increase in attended births and ante-natal care and post-natal care in 4 Districts in Madang
- Improvement immunisation of children
- Reduced number of TB drug resistance cases and increase in TB compliance rates in Milne Bay Province
- Improved patient nursing outcomes through increased number of single nurses accommodation available at Alotau, Vanimu and St Mary's hospital for emergency and other wards
- Improved hospital care in MBP, Sandaun, ENB, WHP, Jiwaka
- Staff, patients and key stakeholders in all health projects have a better understanding of and provide improved services in the areas of HIV/AIDS, gender, child protection and disability
- 400-500 new places available in senior secondary schools for young women, including TVET and academic courses
- Improved academic performance on part of young men and women leading to increased graduation to tertiary and trade education in Central, WHP, ENB, MBPD, NCD
- 400-500 new places in senior secondary school/TVET opportunities for young men
- Improved access to tertiary education in Divine Word and Pacific Adventist University
- Improved access by employers to business graduates for PNG organisations
- PNGMC continues to provide world class training to Pacific Island seafarers

- Increased economic activity among smallholders and men and women farmers in New Guinea Island region and whole of PNG as a result of agricultural research, advice and information from NARI (*i.e.* diversity of crops and better yield).

The list of expected contribution to outcomes is impressive. It is a good human development story, a good organisational development story, a good PNG service delivery story, a good economic development story and a good public diplomacy vehicle for the Australian government and bilateral relationship. But this all needs to be verified and confirmed, and DFAT can then tell the consolidated story.

Importantly, a Phase I-III evaluation of the incentive funding mechanism will likely confirm what DFAT believes - that the design strategy from Phase III remains relevant.

Two documented evaluations in the Phase III Activity Completion Report (ACR) identify that Phase I WASH projects revealed water wells were no longer functioning but gravity systems were maintained, and that Mount Hagen Market management changes had 'commenced a gradual market decline in service delivery in the market'. Stakeholder consultations for this design also revealed lower cost and poor quality project sub-contractors resulted in greater end costs through re-work and poor construction costing. Concerns were also raised that materials used were of lower quality than expected, increasing on-going maintenance costs, and that build scope was less than planned due to poor costing, reducing the intended infrastructure and end utility. This signals that all infrastructure outputs may not be operating or maintained as expected and would therefore not be contributing as significantly to the expected outcomes.

This design heard from DFAT officers the importance of understanding the local political economy and operating context to operate and maintain public assets. However, we do not know if this is happening for all existing incentive fund investments so we should revisit them and confirm where assets are fully functional and where they are not. If they are not we need to find out why not, and then try to understand if there is anything DFAT can do to realise the gains from previous investments to: i) make them functional; and ii) ensure IF (IV) and other programs do not make similar mistakes.

There are significant gaps about what is understood in regard to the contribution that outputs from Phases I-III have made to outcomes and to what extent these contributions are being sustained. This understanding needs to be addressed and an evaluation of Phases I-III should inform the strategic investments that IF (IV) will prioritise and the lessons it can learn from previous phases.

Using DFAT Monitoring and Evaluation Standards 4, 5 and 6, IF (IV) should commission an evaluation of a selected sample of Phase I, II and III IFAs. The evaluation should focus on the unknowns in the PAF and address the following questions:

- To what extent are investments operating and being maintained (disaggregated by infrastructure and non-infrastructure IFAs)?
- How many people benefitted (disaggregated by sex and age) from incentive fund investments (disaggregated by sector), and how?
- What range of economic development activities have been supported through the incentive fund, to what extent are they on-going and how many people are benefitting, especially women and girls. Economic analysis should be conducted on these to confidently determine returns on investments.
- What was the level of private sector involvement and what lessons are there to learn to assist position private sector involvement in IF (IV)?
- To what extent have previously supported partners expanded their activities a result of the new management and technical skills they developed with the investment fund?

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- To what extent have previous partners institutionalised social inclusion policy and procedures, and what changes have occurred because of them?

4.2 What will IF (IV) achieve?

This design acknowledges the Phase III Information Handbook, ACR and in particular the information and analysis provided by the comprehensive monitoring and evaluation systems that informed the Phase III implementation and ACR. They served this design well and should be read in conjunction with the IF (IV) design.

The Phase III program logic makes clear linkages between efficiently delivered project outputs and the expected contribution they will make to post-investment outcomes. Those expected outcomes are listed above, and a comprehensive evaluation at the start of IF (IV) will confirm to what extent outputs converted to outcomes.

This IF (IV) design picks up where the Phase III Program Logic ended, and consistent with required Australian Aid practice IF (IV) will deliver all investments through a Performance Assessment Framework (PAF) (Table 9).

DFAT directed the IF (IV) design to target health, education and other sectors and to stimulate economic development without specifying any proportionality to each sector or providing confirmation in regard to which organisations and activities should be supported within each sector. It is to be expected that support can be broad and will be confirmed through the Delivery Strategy and annual planning processes, and investments will be targeted through CPR's.

Regardless of which sectors the investment is supporting, the design insists that all IV (IF) investments specifically identify how they can demonstrate alignment with the following funding criteria:

- How will the effective partner ensure that this IF (IV) funded infrastructure or support is of sufficient quality, fit-for-purpose and will continue to operate and be maintained post investment? This will drive an output outcome.
- How will the effective partner ensure 80 per cent of the investments will support empowerment of women and girls who will benefit from the IF (IV) investment and how will this benefit change their situation? This will drive both a process, output and a target outcome.
- How will the effective partner ensure both commitment and institutionalisation of social inclusion policy and procedure? This will drive a process outcome.
- If a private sector company, how will IF (IV) ensure it will be an effective partner? This will drive a target outcome.
- How will effective partners be able to expand their activities further and implement new initiatives? This will drive a process outcome.

The Incentive Fund Logic in Annex 2 and an indicative PAF (Table 9) demonstrate that (compliant with DFAT M&E Standards), from the start, IF (IV) is deliberately driving an end-of-program outcome position that should ensure the post program goal to improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea. Three points are worth confirming:

- The Phase I, II and III evaluation will significantly inform relevance of the IF (IV) design, and lessons learned will confirm the Incentive Fund Logic, PAF, investment targeting, implementation and risk management.
- The PAF in effect reverses Phase I, II and III targeting, because the end of program position is not just a consequence of the sum of the IFA outputs. The end-of-program position for IF (IV) will be identified and delivered through the PAF.

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- Maintaining the exceptionally high standards of the incentive fund principles, ensuring good due diligence when selecting partners and concept papers (and applying a no exceptions policy) is critical.

Table 9: INDICATIVE IF (IV) Performance Assessment Framework**HEALTH**

Post IF (IV) Goal	<i>To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men f Papua New Guinea.</i>									
Purpose	To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.									
1: Intermediate Health Outcomes	End-of-program outcome indicators (2015-2021)	Data source and baseline	Target	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	From Phase III
1a: Partners are operating and maintaining all their infrastructure and support	Proportion of IF (IV) funded health facilities fully functional, maintained and operating	Progress reports, Project monitoring, MIS, end-of-program evaluation, local health facility data	Targets leading to 2021 will be confirmed at start-up when strategic targets are set Phase I-III evaluation will inform IF (IV) targets							Not known
	Number of medical staff working in medical IF (IV) constructed facilities									116 nurses/ Not Known
	Number of children being immunised through IF (IV) support									11,421
	Number of patients accessing clinical services through IF (IV) support									9688/ Not Known
1b: 80 per cent of the investments will support empowerment of women and girls	Proportion of women and girls accessing health facilities built with IF(IV) resources									Not Known
1c: 100% of Partners are using social inclusion policy	Proportion of IF(IV) health partners with social inclusion policy and implementing procedures									Assumed 7/20
1.d: 20% of IF (IV) Partners are from the private sector and effective	Proportion of IF (IV) funded health facilities managed by private sector partners									Zero
1e: Partners have new capacity to implement projects or activities	Proportion of partners practicing project management skills and knowledge obtained through IF(IV) to build new health facilities									Not Known

EDUCATION

Post IF (IV) Goal	To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.										
Purpose	To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.										
2: Intermediate Education Outcomes	End-of-program outcome indicators (2015-2021)	Data source and baseline	Target	2015–16	2016–17	2017–18	2018–19	2019-20	2020-21	From Phase III	
2a:Partners are operating and maintaining all their infrastructure and support	Number of women and girls / men and boys accessing education facilities built with IF(IV) resources	Progress reports, Project monitoring, MIS, end-of-program evaluation, local health facility data	Targets leading to 2021 will be confirmed at start-up when strategic targets are set Phase I-III evaluation will inform IF (IV) targets							858 girls and 356 boys	
	Proportion of IF (IV) funded education facilities fully functional, operating as intended								Not known		
	Number of education staff working in education facilities because of IF (IV) support								72 teachers		
2b: 80 per cent of the investments will support empowerment of women and girls	Proportion of women and girls accessing new education facilities because of IF (IV) support									71%	
	Number of women and girls with increased educational attainment results from IF (IV) support									Not Known	
2c: 100% of Partners using social inclusion policy	Proportion of education partners with social inclusion policy and implementing procedures										Assumed 20/20
2d: 20% of IF (IV) Partners are from the private sector and effective	Proportion of IF (IV) funded education facilities managed by private sector partners										Zero
2e: Partners have new capacity to implement projects or activities	Proportion of partners utilising new project management capacity to renovate or build new education facilities										

ECONOMIC DEVELOPMENT

Post IF (IV) Goal	<i>To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.</i>									
Purpose	<i>To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.</i>									
3: Intermediate Economic Development Outcomes	End-of-program outcome indicators (2015-2021)	Data source and baseline	Target	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	From Phase III
3a: Partners are operating and maintaining all their infrastructure and support	Increased infrastructure for economic development activities	Progress reports, Project monitoring, MIS, end-of-program evaluation, local health facility data	Targets leading to 2021 will be confirmed at start-up when strategic targets are set Phase I-III evaluation will inform IF (IV) targets							6/20 ¹¹ IFAs and 803 people
	Proportion of IF (IV) funded economic development activities performing as expected									Not Known
3b: 80 per cent of the investments will support empowerment of women and girls	Proportion of women and girls involved in economic development activities									Not Known
3c: 100% of Partners using social inclusion policy	Proportion of economic development activities with social inclusion policy and implementing procedures									Assumed 6/20
3d: 20 % of IF (IV) Partners are from the private sector and effective	Proportion of IF (IV) economic development activities funded through the IF (IV) private sector partners									Zero
3e: Partners have new capacity to implement projects or activities	Proportion of partners utilising new IF (IV) project management capacity to expand economic development activities further									Not Known

¹¹ Figures from the ACR combine numbers for technical, vocational, maritime, trade and teachers training that could lead to employment

4.3 Responsibilities for functional M&E

The following is provided to guide consideration around the monitoring and evaluation (M&E) functions and requirements of IF (IV) and DFAT. DFAT expects the MC to be able to present relevant approaches and systems, compliant with DFAT Monitoring and Evaluation Standards June 2014, to deliver the form that M&E systems take to deliver these functions.

The MC is responsible for delivering all IF (IV) M&E functions and to ensure through the PAF that IF (IV) is making progress towards the end-of-program position described in Box 6.

Box 6: Description of the IF (IV) end-of-program position

By 2021 Incentive Fund (IV) will have:

- Delivered \$72 million through approximately 26 IFAs
- Only delivered investments in the health, education and other sectors and to stimulate economic development and any proportionality will have been established through the strategic and annual plans and, targeted through the CPRs
- Ensured that 80 per cent of the investments will support empowerment of women and girls who will have had their lives changed in ways that are consistent with the Pacific Women objectives
- Ensured that at least 20 per cent of the investments will have been delivered by effective private sector partners
- Ensured that at least 50 per cent (A\$36 million) of the activity investment will have been spent on infrastructure and all infrastructure is of sufficient quality, fit-for-purpose, fully operational and has a confirmed maintenance schedule and budget
- Ensured that all the implementing partners were effective and had additional and recognised capacity at the end of implementation to maintain all organisational responsibilities and expand further
- Ensured that all the implementing partners and managers of any IFA assets are operating appropriate social inclusion procedures informed by appropriate social inclusion policy

4.3.1 Program level monitoring functions

The end of program position, IF (IV) Goal and Purpose drive the IF (IV) strategic, annual and implementation plans. DFAT and the MG, supported by the Independent Review Team (IRT), will determine any proportionality of investments between health, education and other sectors and to stimulate economic development, and this proportionality may well change during implementation. If the sector support allocations of IF (IV) do change then change should be a strategic management decision informed by the PAF and outcome indicators.

The MC is responsible for identifying potential sector investments and revising the PAF to ensure the sector targets are agreed, that contributions to the end-of-program position are identified across the yearly implementation targets and that suitable outcome indicators are established and able to be monitored to ensure, through the PAF, that the end-of-program position is being delivered.

The MC will ensure that appropriate monitoring systems are established to continually aggregate and present data from CPs and implementing IFAs to inform the PAF indicators. This is a critical function because the MG, DFAT and the Team Leader need to understand current progress being made towards the end-of-program position and identify any strategic adjustments that need to be made *e.g.* if the PAF outcome indicators show that less than 80 per cent of the investments support empowerment of women and girls then more priority will need to be given to attract and invest in CPs that will achieve the target.

The proposed annual IRT should be positioned ahead of Delivery Strategy and Annual Plan confirmations and confirm the current progress being made towards the end-of-program position. They will confirm the PAF and that the Incentive Fund Logic is still relevant and recommend any adjustments. Program level aggregated data will be essential to enable the IRT to make these assessments.

IF (IV) will be a public diplomacy giant in the aid program. Accurate information in regard to the delivery of outputs and processes, levels of benefits being provided, and where, and the numbers of direct and indirect beneficiaries, disaggregated by gender and age, must be maintained through a Management Information System (MIS) which can be easily accessible through web-based media, or upon request.

Whilst this public diplomacy function should not be underestimated, the MIS is an important performance management tool to efficiently inform the Delivery Strategy, Annual Plans, progress reports, monthly updates and the (to be expected) numerous extraordinary requests from DFAT, including APPRs.

At the program level there will be high demand for aggregated data and information and the MC is expected to meet this demand. The MIS is expected to be used as a decision making tool assisting to confirm whether IF (IV) is on track to reach its end-of-program position, and not merely a collection of historic data.

4.3.2 Activity level monitoring functions

At the activity level the MC is responsible for delivering a range of planning, costing, technical and project management support across PNG and monitoring the delivery of this support is a key M&E function. The MC is specifically responsible for the following implementation and monitoring functions:

- Planning and monitoring the implementation of all CPR rounds to determine where demand originated, in what sectors, for which activities and by what type of organisation. This information is essential to enable IF (IV) to understand the level of demand and how to target this demand.
- Planning, budgeting and scheduling all the activities and inputs required to deliver selected concept proposal development, through to detailed proposal establishment, approval and then implementation of an IFA. This must be a detailed and fully costed planning and implementation support function over a period of time expected to be approximately two years for each IFA. This level of information is essential to ensure annual plans and work plans are fully resourced and that sufficient cash flows are in place to deliver all IFA support functions.
- Capturing and managing all information in relation to the delivery cost of inputs and activities and confirming all output delivery is critical. Expenditure data will be required constantly and the Financial Management System will be linked to monthly reports to understand expenditure trends and facilitate variance analysis *e.g.* explaining why expenditure rates are lower (or higher) than predicted.
- Variance analysis is essential to enable accurate forecasts and expenditure predictions. Section 3.2.1 highlighted the expected cash-flow risks associated with implementing through a UFU and accurate management of cash-flows will be critical to manage this problem.
- Review of Phase I, II and III highlights difficulty in assessing the conversion of outputs to outcomes, and the real contribution investments are making to service delivery and/or economic development. One function that will improve are end-of-project evaluations. All IF (IV) projects will have an independently facilitated end-of-project evaluation and evaluation questions should align to confirm the relevant PAF outcome indicators. Phase III grant recipients consulted by the design mission all confirmed that they struggled with the completion reports and information. At best reporting was restricted to efficiency level reporting (inputs, activities and outputs). To determine the end-of-program position IF (IV) is going to have to 'raise the game' in regard to the reporting of effectiveness and the conversion of outputs to outcomes. IF (IV) requires strong project level reporting to

meaningfully aggregate data and information to a program level and to be able to report against the intermediate outcomes, end-of-program outcomes, purpose and goal.

- All projects will be required to use independently available local GoPNG data to confirm their contribution to outcomes *e.g.* time-series health data at supported medical facilities should be used to confirm any expanded capability as a result of the IFA support.
- Value-for-money (VfM) determinations can only be accurately applied if we can establish the delivery costs of outputs and their conversion to making a contribution to outcomes. Cost and conversion are intrinsically linked in a grant funding mechanisms. It is recognised that both output to outcome conversion and accurate VfM determinations are often the blind spot in grant mechanisms. It was not possible for the design to make any VfM determinations from previous phases due to time constraints and not having access to sufficient delivery data. It is expected that IF (IV) will be able to present VfM analysis on a regular basis to compare the different delivery mechanisms and the efficiency of different effective partners.

4.3.3 Performance management monitoring functions

The MC is responsible for monitoring and reporting against a number of core program performance management functions, which include the following:

- Performance of the governance structures of IF (IV) must be managed well and this can be monitored through ensuring the delivery of key review and decision making functions. At the program level the MG meetings should be scheduled, supported by the IFT and delivered with minutes confirming the agenda, discussions, decisions and further actions. Failure to deliver this function means IF (IV) will lack the strategic direction required from the MG and could severely jeopardise IF (IV) confirming and achieving an end-of-program position agreed by GoPNG and GoA.
- At the IFT level there will be a number of performance management groups which require regularly scheduled meetings, and these will include, but are not restricted to: the executive management team responsible for strategic decision making, which is confirmed through the annual plan; the senior management team which is responsible for the operational planning and implementation to deliver the annual plan; the financial management team which is responsible for budget and expenditure confirmations, conducting variance analysis and preparing financial reports to inform implementation; and the technical management team which is responsible for planning and implanting IFA delivery support to partners. All meeting forums should be formal, scheduled and monitored for delivery confirmed by minutes, updated plans or exceptional reporting, and detailing the agenda, discussions, decisions and further actions. The risk of any of these management mechanisms not functioning properly is high because it will impact immediately on the delivery of approved annual plans and impact on progress being made towards the end-of-program position.
- All the deliverables presented in Table 8 are essential to the delivery of a successful incentive funding mechanism. On-time, high quality deliverables with little or no rework is expected. The delivery of these key documents will be closely monitored by DFAT because their non-delivery will increase the risk of delayed or insufficient strategic planning, making poor investment decisions and delaying the implementation of IF (IV). All of which will impact on delivering a relevant end-of-program position within the IF (IV) timeframe.
- The MC, and the IFT it is responsible for performance managing, will be assessed by their ability to formulate appropriate strategies, plan and set budgets, organise resources, monitor and control implementation and manage any variances. This should be verified through annual plans and progress reports with performance management process confirmed through monitoring of the above governance and management structures. MC

and IFT performance will require on-going monitoring by DFAT and holding the MC to account for all deliverables. Performance will be assessed annually through the IRT. If DFAT and the IRT fail to objectively ensure strong performance management by the MC there is a high risk that a satisfactory and agreed end-of-program position will not be achieved.

- IF (IV) delivery management that produces no surprises and seeks to add value to find new opportunities will ensure IF (IV) is delivered effectively. IF (IV) seeks good performers who can expand sustainable service delivery and economic development. It is correct to insist that the performance management of IF (IV) itself demonstrates the same commitment, culture and good performance.

4.4 Independent Review Team

As presented in Figure 3 the IRT should report to DFAT and GoPNG through the SMG. As above, the role of the IRT will be to confirm strategic directions, update the PAF, ensure the Incentive Fund Logic is still relevant, and recommend any adjustments for MG approval. The IRT will also conduct quality at implementation spot checks on small pre-selected samples of IFAs to confirm quality at implementation, the quality of reporting and the quality of MIS data.

It is proposed that the IRT members be independently selected by DFAT because they are safeguarding the IF (IV) mechanism and DFAT investments by confirming the end-of-project position and that flow-through investments are appropriate. It is suggested that the IRT consist of at least two members. One should be an M&E specialist and one should be expert in the PNG sub-national environment and operating context. The IFT would contract and support the IRT as required and this should be incorporated into operational costs.

4.5 The function of the M&E standards

The function of the DFAT M&E Standards¹² is not to act as a check list. The standards are meant to present what a quality monitoring or evaluation product ought to look like. These standards will apply to both IF (IV) as a funding mechanism, and to each IFA within the mechanism. The standards will need to be integrated into the Information Book *e.g.* into all concept papers, proposals and reporting templates. The standards will be an imposed process and will assist to better M&E ability and practice amongst partners, and therefore deliver an M&E process outcome through the implementation of IF (IV). The Standards are:

Standard 1: Investment Design

Standard 2: Initiative M&E systems

Standard 3: Initiative Progress Reporting

Standard 4: Terms of reference for Independent Evaluations

Standard 5: Independent Evaluation Plan

Standard 6: Independent Evaluation report

Standard 7: Monitoring visits.

All seven Standards will assist the quality implementation of monitoring and evaluation for IF (IV). In addition the DFAT Investment design Quality Standards (IDSQ) will also be useful for confirming quality IF (IV) proposal designs.

¹² See: <http://aid.dfat.gov.au/publications/Pages/dfat-monitoring-evaluation-standards.aspx>

5 Risk and Feasibility

5.1 Risks

5.1.1 Risk Matrix

Table 10 identifies the main risks associated with IF (IV) from a design and operating perspective. This combines the risks that actually occurred in Phase III (presented in the ACR) with risks identified in the short design consultation phase. This is not a complete risk matrix but it does highlight the main risks to be managed and mitigation strategies. All the risks have the potential to be managed down significantly and Phase III appears to have incurred negligible risk impact throughout implementation, the highest impact was caused by bad weather delaying construction.

5.1.2 Fraud

DFAT has a policy of zero tolerance towards fraudulent activity or behaviour. This applies to departmental staff (including locally engaged staff at overseas posts) and external parties that receive Australian Government funds, including all aid program funds. Accordingly the policy applies to contractors, third party service providers, non-government organisations and other funding recipients.

The Fraud Policy Statement states that fraud is defined as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means'. This definition extends beyond the legal definition of fraud to include benefits obtained that can be both tangible and intangible. It thus encompasses activities or behaviours broader than the misuse or misappropriation of monies or assets.

Examples of fraud include:

- Misappropriation of funds
- Altering documents
- Falsifying signatures
- Misuse of Commonwealth assets
- Providing false information to the Commonwealth
- Unauthorised disclosure of confidential information
- Theft of aid program funds or assets.

The DFAT fraud policy statement can be found on the DFAT-AID website.¹³

It is noted that Phase III had no confirmed cases of fraud and the MC in IF (IV) is expected to operate rigid fraud management procedures to maintain this zero fraud status. This emphasises the requirement to only support good performing partners and good development concepts and not to compromise the high IF (IV) process and delivery standards.

5.2 Feasibility

5.2.1 Program feasibility

Based upon 14 successful years of implementation the overall feasibility of IF (IV) is ranked at a high level.

¹³ http://aid.dfat.gov.au/Publications/Pages/7618_6876_7414_705_9251.aspx

In regard to the design feasibility, this design is adhering to the principles that underpinned all previous phases and is ensuring that IF (IV) implementation is based upon the Information Book process, procedures and forms that evolved from Phase I and II and through the Phase III design, and served Phase III well.

Introduced refinements include: local political economy and operating context assessments; conducting economic analysis of any private sector business plans; introducing appropriate due diligence assessments for private sector companies; introducing a grievance mechanism; and separating the application process into five stages to allow specific analysis of new and effective partners, anticipating private sector partners may (initially) take longer to assess. These refinements should improve risk mitigation further and enhance feasibility.

5.2.2 Project feasibility,

Successful implementation will depend upon the capacity of the organisations and the technical feasibility of the proposed projects. The overall assessment of feasibility is therefore dependent upon a sensible and deliverable opportunity being accurately assessed through the CP (Stages 1 and 2) and organisations being properly assessed as being effective and capable of delivering the CP (Stage 3). If the appraisal and screening process is rigidly adhered to, then there is less possibility that projects will not deliver relevant outputs that convert into the intermediate and end-of-project outcomes. Should the screening mechanism be undermined there is a much higher probability that the project will not deliver outputs that convert into the required outcomes which undermines the achievement of the end-of-program position, the purpose and the (post program) goal. This design puts in place safeguards and warnings to ensure undermining the screening process does not occur.

5.3 Sustainability

Only activities that can demonstrate sustainability through the provision of all on-going operation and maintenance costs will be funded.

The very nature of IF (IV), to reward and strengthen performing organisations, together with the CP and OA processes encourages 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 (IV) can afford to be highly selective and pedantic about selecting only those organisations that have already, by themselves, achieved elements of sustainability in a large measure and demonstrated effectiveness.

An assessment improvement that successfully delivered Phase III was greater detailed scrutiny of CPs by the SMG (Stage 1 and 2). This detailed what is intended to happen after the project outputs are delivered and the project is physically completed. This IF (IV) design goes further by introducing a Phase I-III evaluation to determine the extent to which infrastructure or support was of sufficient quality, fit-for-purpose and will continue to be operated and maintained post investment and post program. Lessons will be employed.

IF (IV) is also introducing more comprehensive local political economy and operating context assessments to ensure local context and that the political economy is better understood, refer to section 2.5.5. The IF (IV) design is insisting that a qualified Team Leader is engaged who can understand the local context, can navigate risks and protect IF (IV) investments in this diverse operating environment.

Table 10: IF (IV) Risk Matrix

Notes and Key: EMI = Estimated Management Influence on ratings. (D)ominant = the most direct control; (P)artnership = has some influence, in partnership with others; (S)light = can recommend, but others decide. Risk rating is before and after implementing mitigation strategies. Ratings are: **P** = Probability (1 = Rare, 2 = Unlikely, 3 = Possible, 4 = Likely, 5 = Almost certain); **C** = Consequence if risk eventuates (1 = Negligible, 2 = Minor, 3 = Moderate, 4 = Major, 5 = Severe); **R** = Risk Level – the sum of P and C (10 = Extreme, 2 = Very low).

Potential Risk	EMI	Potential Impact	Risk before			Risk Mitigation Strategies Management	Risk After		
			P	C	R		P	C	R
As a high profile mechanism any failure to effectively deliver IF (IV) commitments could result in reputational damage to DFAT	D	At the extreme, broken commitments could affect bi-lateral relationships and embarrass Australia, more probable is that pressure will be applied to secure additional funding to fix any poor delivery	4	4	8	Emphasises the requirement to only support good performing partners and good development concepts and not to compromise the high IF (IV) process standards	1	2	3
Partners are not effective	P	As the risk of poor implementation delivery becomes higher, the conversion of outputs to expected outcomes will become lower undermining the investment and the end-of-program position. This would be a wasted investment and opportunity by supporting an inappropriate partner.	4	4	8	Emphasises the requirement to only support good performing partners and good development concepts and not to compromise the high IF (IV) process standards	2	2	4
Partner fraud	P	Misuse of funding support will badly damage the reputation of the partner, IF (IV), the MC and potentially DFAT. It will also reduce the conversion of outputs to expected outcomes and undermine the end-of-program position. This could be a wasted investment and opportunity by supporting an inappropriate partner.	2	4	6	Emphasises the requirement to only support good performing partners and good development concepts and not to compromise the high IF (IV) standard of implementation and financial monitoring processes	1	1	2
Infrastructure investments do not have on-going operating and maintenance cost covered so outputs do not convert into expected contributions to outcomes in service	P	Unmet service delivery and economic development demand, reputational damage to partner and DFAT, unnecessary strain on relationships, additional work,	4	4	8	Need to assess and understand the local political economy and operating context to ensure the on-going operation and maintenance of assets. Evaluation of Phase I, II and III will assist to understand how we effectively deliver these	2	2	4

Potential Risk	EMI	Potential Impact	Risk before			Risk Mitigation Strategies Management	Risk After		
			P	C	R		P	C	R
delivery or economic development		further potential distortion in areas of low political economy				assessments			
Unsuccessful and disappointed organisations complain about their lack of support and success	P	Potential reputational damage to IF (IV) and DFAT	2	2	4	Ensure strong process and transparency to only support good performing partners and good development concepts and not to compromise the high IF (IV) process standards. Ensure good communication of the process to all applicants. This creates a defensible position. In difficult cases refer the applicant to the grievance mechanism.	1	2	3
IF (IV) and project cash-flows are disrupted by the UFU	D	IF (IV) cannot mobilise support, projects activities delayed, sub-contractors walk away, costs rise	4	4	8	Cash-flow planning and efficient forecasting can only ease some risk. Non-use of easy flexibility and scalability in the UFU limits is required	1	1	2
<i>For reimbursable payment arrangement</i> – The capacity of the contractor to fund projects diminished with increased number of projects being funded.	P	IF (IV) individual project implementation schedules are disrupted resulting in delays in completion of projects hence reputational damage to DFAT	4	4	8	Efficient forward planning to ensure that most large value grant processes don't overlap from the same pool of funds. The UFU would need to be able to scale up when required, recognising that this will have a higher cost to DFAT.	2	2	4
<i>In a prepayment payment arrangement for a grant funding mechanism</i> – Cases of fraudulent activities at the project implementation level	P	DFAT's integrity to manage commonwealth resources in an effective and ethical manner is compromised. IF reputation and track record as a good performing program will change.	3	3	6	Ensure strong financial management and reporting processes are in place and supported by the Managing Contractor. The IF agreement signed by the MC and the project beneficiary provides the requirements for all management, reporting and evaluation of the financial management of the projects. The Financial Manual at the program level will need to be robust enough to cover these risks and be able to be reviewed and updated as required.	1	2	3
Less than 80 per cent of the investments will support empowerment of women and girls	D	Women and girls continue to suffer, high level Australian targets unmet, wasted opportunity	4	4	8	The five stage assessment process needs to confirm 80 per cent of the investments do support empowerment of women and girls. Monitoring at implementation must confirm the PAF and end of program evaluation confirms	1	1	2

Potential Risk	EMI	Potential Impact	Risk before			Risk Mitigation Strategies Management	Risk After		
			P	C	R		P	C	R
Less than 20 per cent of investments are delivered by effective private sector partners	D	Private sector engagement is reduced and conversion of service delivery to private sector is not working effectively	4	4	8	DFAT and IFT have to energise private sector relationship building and engagement and utilise the full potential of the Incentive Fund and the Innovation Fund	1	1	2
Poor sub-contract management and construction reduces quality and increases cost	D	Infrastructure does not meet minimum quality, fit-for-purpose and maintenance standards reducing application of VfM	4	4	8	Evaluation of phases I,II and III will identify the scale and impact of this risk, and the reasons why they occurred, to allow enhanced due diligence	1	1	2
Delays mean unfinished programs which require IF (IV) support beyond six years	D	Places pressure on partner to complete and could result on lower quality outputs and outcomes, increased costs	4	2	6	The requirement to manage outstanding commitments has occurred in every phase so early manage down of IF (IV) or early succession or hand-over strategies should be agreed	2	1	3
IF (IV) processes are ignored to fund non-compliant projects	D	Integrity of IF damaged. DFATs reputation damaged and investments compromised.	3	3	6	Implement no-exceptions policy. Strong Team Leader and MG required to defend IF (IV). IRT will respond accordingly.	2	2	4

ANNEX 1 removed

Annex 2

Incentive Fund Logic

Annex 2 – Incentive Fund Logic

Goal (post program): To improve the capacity of organisations to meet the service delivery and economic development needs of the women, children and men of Papua New Guinea.			
Purpose: To attract, identify and incentivise good performing organisations to expand the reach, coverage and quality of their contribution to service delivery and/or economic development in Papua New Guinea.			
End-of-program outcome 1: Health (2021) Selected IF (IV) grant recipients effectively and efficiently manage, maintain and operate fit-for-purpose health infrastructure and equipment	End-of-program outcome 2: Education (2021) Selected IF (IV) grant recipients effectively and efficiently manage, maintain and operate fit-for-purpose education infrastructure and equipment	End-of-program outcome 3: Economic Development (2021) IF(IV) grant recipients actively engage in local economic development	
Intermediate health process and output outcomes 1: 1a: Partners are operating and maintaining all their infrastructure and support 1b: 80 per cent of the investments will support empowerment of women and girls 1c: 100% of Partners are using social inclusion policy 1d: Partners have new capacity to implement projects or activities	Intermediate education process and output outcomes 2: 2a: Partners are operating and maintaining all their infrastructure and support 2b: 80 per cent of the investments will support empowerment of women and girls 2c: 100% of Partners are using social inclusion policy 2d: Partners have new capacity to implement projects or activities	Intermediate economic development process and output outcomes 3: 3a: Partners are operating and maintaining all their infrastructure and support 3b: 80 per cent of the investments will support empowerment of women and girls 3c: 100% of Partners are using social inclusion policy 3d: Partners have new capacity to implement projects or activities	
<ul style="list-style-type: none"> Independently confirm outputs are of sufficient quality, fit for purpose and able to be maintained and project was value-for-money Partner confirms through completion report that end of program outputs and contribution to enabling environment, and that at least 80 per cent of the investments will support empowerment of women and girls Support quality at end of implementation evaluation Increased partner project management and sub-contract management capacity Support implementation monitoring, procurement, sub-contract management, and any disputes Support any partner sub-contract management arrangement, including sub-contracts Increased partner planning and budget capacity MG approve proposal (<i>Stage 5: Incentive Funding Agreement signed</i>) Support full proposal, budget, implementation and funding predictions completion with partner (<i>Stage 4: proposal development</i>) Identify social inclusion plan with partner (<i>Stage 3: organisational assessment</i>) Identify partner risks and any strengthening or risk mitigation required (<i>Stage 3: organisation assessment</i>) Identify current performance levels (<i>Stage 3: organisation assessment</i>) Confirm concept paper has a relevant theory of change, activities and investment levels (<i>Stage 2: SGM screening</i>) 	<ul style="list-style-type: none"> Independently confirm outputs are of sufficient quality, fit for purpose and able to be maintained and project was value-for-money Partner confirms through completion report that end of program outputs and contribution to enabling environment, and that at least 80 per cent of the investments will support empowerment of women and girls Support quality at end of implementation evaluation Increased partner project management and sub-contract management capacity Support implementation monitoring, procurement, sub-contract management, and any disputes Support any partner sub-contract management arrangement, including sub-contracts Increased partner planning and budget capacity MG approve proposal (<i>Stage 5: Incentive Funding Agreement signed</i>) Support full proposal, budget, implementation and funding predictions completion with partner (<i>Stage 4: proposal development</i>) Identify social inclusion plan with partner (<i>Stage 3: organisational assessment</i>) Identify partner risks and any strengthening or risk mitigation required (<i>Stage 3: organisation assessment</i>) Identify current performance levels (<i>Stage 3: organisation assessment</i>) Confirm concept paper has a relevant theory of change, activities and investment levels (<i>Stage 2: SGM screening</i>) 	<ul style="list-style-type: none"> Increased number of private sector partners engaging in economic development activities Independently confirm outputs are of sufficient quality, fit for purpose and able to be maintained and project was value-for-money Private Sector Partner has increased capacity to plan, manage and implement economic development projects Partner confirms through completion that end of program outputs and contribution to enabling environment, and that at least 80 per cent of the investments will support empowerment of women and girls Support quality at end of implementation evaluation Increased partner project management and DFAT performance management requirements Support implementation monitoring, procurement, sub-contract management, and any disputes Support any partner sub-contract management arrangement, including sub-contracts Increased partner DFAT planning and budget requirements capability MG approve proposal (<i>Stage 5: Incentive Funding Agreement signed</i>) Support full proposal, budget, implementation and funding predictions completion with partner (<i>Stage 4: proposal development</i>) Identify social inclusion plan with partner (<i>Stage 3: organisational assessment</i>) 	

<ul style="list-style-type: none"> • Confirm concept paper returns on investment through (<i>Stage 2: economic analysis</i>) • Confirm of 80 per cent of the investments will support empowerment of women and girls (<i>Stage 2: assessment of beneficiaries</i>) • Identify the local political economy and operating context (<i>Stage 2: political economy assessment</i>) • Identify good performing eligible partners and concepts (<i>Stage 1: concept papers</i>) 	<ul style="list-style-type: none"> • Confirm concept paper returns on investment through (<i>Stage 2: economic analysis</i>) • Confirm of 80 per cent of the investments will support empowerment of women and girls (<i>Stage 2: assessment of beneficiaries</i>) • Identify the local political economy and operating context (<i>Stage 2: political economy assessment</i>) • Identify good performing eligible partners and concepts (<i>Stage 1: concept papers</i>) 	<ul style="list-style-type: none"> • Identify partner risks and any strengthening or risk mitigation required (<i>Stage 3: organisation assessment</i>) • Identify current performance levels (<i>Stage 3: organisation assessment</i>) • Confirm concept paper or business plan has a relevant theory of change, activities and investment levels (<i>Stage 2: SGM screening</i>) • Confirm concept paper or business plan returns on investment through (<i>Stage 2: economic analysis</i>) • Confirm 80 per cent of the investments will support empowerment of women and girls (<i>Stage 2: assessment of beneficiaries</i>) • Identify the local political economy and operating context (<i>Stage 2: political economy assessment</i>) • Identify well-performing private sector partners and concepts (<i>Stage 1: concept papers</i>)
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Annex 3 & 4 - removed

Annex 5

Design Methodology and Consultations

Annex 5: Design Methodology and Consultations

Incentive Fund Phase IV Design PNG based Consultation Schedule September 2014

Day	AM	PM
Monday 22	Kanu Negi –First Secretary DFAT Australian High Commission Port Moresby Belinda-Maree Gara - Activity Manager DFAT Australian High Commission Port Moresby Steve Hogg – Counsellor- DFAT Australian High Commission Port Moresby Justice Gua and Lisania Boletu – Incentive Fund Phase (III) Managing Contractor	James Hall – Minister Counsellor – Australian High Commission Port Moresby and Cathie Hurst – Counsellor – Australian High Commission Port Moresby Tony O'Dowd - Australian High Commission Port Moresby Economist Ilma Gani – A/First Assistant Secretary DNPM - GoPNG
Tuesday 23	Belinda Conn – First Secretary DFAT Australian High Commission Port Moresby	Workshop with select IF (III) recipients: 1. Sr. Angela Taylor, Principal, and Monica Keanga Deputy Principal Marianville Secondary School. 2. Taupo Tani , Support Services Director PAU 3. Bro. Antony Swamy, Principal Lasalle Hydro 4. Esther Mwayemwana A/Principal Caritas Technical Secondary School 5. Gerhard S. Business Manager, Archdiocese of Madang DFAT Gender Team
Wednesday 24	DFAT Health Team Andrew Gavin Public Diplomacy	Ed Vrkic – DFAT Operations Don Manoa – IF Phase III Management Group Chair DFAT Education Team
Thursday 25	Dr Thomas Webster – Director National Research Institute Port Moresby	
Friday 26		Aide Memoire Presentation – James Hall, Cathie Hurst and other Counsellors and IF Team

Methodology to complete the design

This design methodology, plan and Contents table meets DFAT Monitoring and Evaluation Standard 1 and the DFAT Investment Design Quality Standards (IDQS).

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5.4 Australian Capability	8
5.5 Complementarity with Australian Aid program	8

This is stage one of the design process for the Incentive Fund Phase IV [IF (IV)]. With limited time and analytical scope it will update the Phase III design. Later, stage two will introduce an Innovation Fund component. The Program Design Document Contents headings above identify the question areas for this design mission. The approach is to question, confirm answers and positions, identify important DFAT narrative, and rearticulate as required. Design principles and context, and any repositioning, will be presented in the Aide Memoire.

Design Team Inputs				
Activity	16 Sep - 30 Oct	Days	Output	Date
Establish Methodology and Plan	<div></div>	1	Design methodology and plan	19-Sep
Pre-PNG meetings and document review	<div></div>	2		19-Sep
Travel and document review	<div></div>	2		21/27 Sep
In PNG consultations	<div></div>	5	Aide Memoire	26-Sep
In Australia drafting	<div></div>	8	Draft PDD	6-Oct
In Australia finalisation	<div></div>	2	Final PDD	30-Oct
	Total days	20		

Key documents provided by DFAT:

- Design Terms of Reference
- DFAT Changes to the Aid Management System
- IF4 Options Paper August (2014)
- PNG Aid Assessment recommendations
- Aid for trade notes
- Private sector development and private sector engagement: guidance note (July 2014)
- Incentive Fund Phase III Project Design Document
- Incentive fund Phase III Activity Completion Report
- Incentive Fund Independent Progress Report November 2012
- Changing Attitudes: Stories from the Incentive Fund Phase III 2010-2014

- Incentive Fund Information Book 2011 – 2nd edition

Document Review and Consultation Process

DFAT has already committed to use the Phase III design as the basis for stage one of the IF (IV) design. The design team will conduct a review of the key documents and undertake limited semi-structured interviews and focus group consultations with DFAT (Canberra, Post and Innovation Hub), GoPNG officers, Managing Contractor staff (tbc), the Management Group and selected stakeholders.

Design Questions and Confirmations

These questions will serve the design team to reconfirm key aspects and functions and to identify any repositioning or required change.

Incentive Fund Phase IV country situation and development context

1. What is the current development situation in PNG and what narrative is DFAT using to describe this context, including the PNG Aid Assessment Recommendations.
2. How did the development context affect efficiency and effectiveness of previous Incentive Fund investments, and to what extent did IF outputs and outcomes affect the context?
3. What are the priority lessons to influence future IF (IV) investment areas?
4. To what extent can IF (IV) align with the four investment strategic tests and 10 high level strategic targets of Australian Aid?

Confirm the Incentive Fund Phase IV Function

5. The 'incentive' is a reward to performing organisations, should this change?
6. Indicated IF (IV) funding limits are \$80m Incentive and \$10million Innovation, which is AUD22.5million per year over 4 years. Confirm the time period and funding limits and any flexibility to be expected. Anticipate lower start-up and close down period expenditures.
7. Flexibility v's Ear-marking: Identify any required fund quarantining or limits for sectors *e.g.* Education (63%), Health (37%), other sectors (?), Innovation (10%), women's empowerment (80%) and service providers *e.g.* Faith-Based Organisations (75%), private sector engagement (30%), Aid for Trade (20%) and achievement of value for money (85%).
8. To what extent are the Phase III design principles still relevant, and what reinforcement or change, if any, should occur:
 - the incentive is a reward to performing organisations
 - investments should expand service delivery of well performing organisations
 - IF is a demand driven flexible funding mechanism
 - funds are not allocated equitably, competitive restricted access is applied
 - investments link to specific GoPNG and Australian development programs
 - designs and M&E standards should reinforce sustainability
 - annual funding limits are approximately 5% of the Australian Aid program

Confirm a description of the Incentive Fund Phase IV (Form)

9. Identify useful case study examples of eligible organisations and activities for all relevant sectors *e.g.* infrastructure, health, education, governance, agriculture, etc.
10. Identify any organisations or activities that should not be eligible.

11. Identify any limits in regard to investing in organisational change, vis-à-vis ensuring efficient project management team performance to deliver expanded performance.

Confirm Incentive Fund Phase IV management arrangements (Delivery)

12. What adjustments, if any, are needed to the four stage application mechanism – could this expand to 6 stages:
 - Enquiries (e.g. 1697 received in Phase III) – this is a public diplomacy opportunity for Australian Aid, so how solicited and how filtered?
 - Stage 1 Concept Proposals (Gateway Screening – e.g. 86% received had no audited accounts)
 - Stage 2 Development priorities assessed through Concept Proposals – more sector scrutiny?
 - Stage 3A Organisational Assessments - useful?
 - Stage 3B Detailed Proposals developed with MC support
 - Stage 4 IF Agreement approved by Management Group
13. Does DFAT require a cost ratio between activity costs to deliver outputs: reimbursable programming costs for a competitive grant fund: and management fee?
14. Identify a preferred time-line for IF (IV) implementation.
15. How satisfactory was the Management Group membership and function, and the sub-Management Group. Are there any opportunities for improvement?
16. How satisfactory was the previous implementation team structure and its performance management. Does DFAT want to be prescriptive or flexible in regard to team structure?

Confirm Monitoring and Evaluation systems

17. Was DFAT, GoPNG and the Management Group satisfied with:
 - Activity level reporting?
 - Output level reporting?
 - Performance management reporting?
 - Reporting on the end of program position?
 - Reporting on the conversion of outputs to PNG development outcomes?
18. Identify examples of IF projects that particularly delivered value for money – why?

Confirm Incentive Fund Phase IV Risk and Feasibility (Risk Management)

19. What are the practicalities in regard to the use of a prepayment basis of payment using an Unconditional Financial Undertaking?
20. What are the acceptable trade-offs between development risks and fiduciary risks?
21. What is a sufficient level of funding to maintain year-on-year over four years?
22. To what extent do grants have to finalise by the end of the IF (IV) contracted period and what is an acceptable approach towards transferring post IF (IV) outstanding commitments?
23. How can DFAT ensure sustainability of investments post project and program? This includes identifying mechanisms to manage outstanding commitment, re-work or additional support.

Keith Tuckwell, 21 September 2014

Annex 6 removed