Australian PNG Incentive Fund Review Report

Prepared for

AusAID

PNG

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FIGURES

ANNEXES

Acronyms

AMC	Australian Managing Contractor
BINGO	Big International NGO
DCS	Development Cooperative Strategy
DNPM	Department of National Planning and Monitoring
GoPNG	Government of PNG
IFM	Incentive Funding Mechanism
INGO	Indigenous NGO
JOA	Joint Organisational Assessment
M&E	Monitoring and Evaluation
MEF	Monitoring and Evaluation Framework
MfDR	Management for Development Results
MTDS	Mid Term Development Strategy
ODE	Office of Development Effectiveness
PPII	Provincial Performance Improvement Initiative
SNS	Sub National Strategy
TA	Technical Advisor
TOR	Terms of Reference

Summary

This report follows an extensive desk top review of documentation describing the APNGIF and consultations with AusAID staff, the AMC project staff team, representatives from DNPM, the chairman from the APNGIF Management Group, and other donors held in Port Moresby in December 06. From this review and consultations an Aide Memoire (Annex One) was produced capturing main issues in regard to the current APNGIF which expires in July 07, and options to consider for any future incentive fund mechanism (IFM).

It should be noted that AusAID determined not to produce an issues and options paper as the Aide Memoire sufficiently delivered this component of the TOR.

It is the review teams understanding that the Aide Memoire was circulated and read by both AusAID and GoPNG representatives. Comments were consolidated and AusAID comments were returned to the review team on 16 December 06 and confirmed as representing the comments from AusAID and GoPNG on 19th January 07 (Annex Two).

The format of this report continues the process of reviewing the APNGIF and establishing the design TOR for an anticipated future IFM. As such it is important that this report is read in conjunction with the Aide Memoire.

The main objective of this report is to summarise the recommendations for any future IFM, expand upon specific options for consideration and produce draft TOR for its design mission team.

This report presents four sections:

1. AusAID and DNPM endorsed points from the Aide Memoire, with additional comments and recommendations

2. Additional AusAID comments and recommendations to the specific areas raised for the design team to address, and

3. Suggested Goal and Purpose

4. Recommendations forming draft TOR for the design mission

1 AusAID and DNPM endorsement of the Aide Memoire with additional comments and recommendations

AusAID and DNPM endorse the findings of the review mission and Aid Memoire in regards to the following areas:

Endorsement 1. The findings of positive outputs and outcomes from APNGIF to date;

Endorsement 2. The principle of including in the PNG-Australia Development Cooperation Program an incentive based funding mechanism: being demand driven, flexible and competitive;

Endorsement 3. The proposed change of focus towards supporting good organisations instead of good concept papers and proposals;

Endorsement 4. Equity is not a primary objective of the funding mechanism;

Endorsement 5. The process should encourage competition amongst stakeholders;

Endorsement 6. Ensuring linkages and coordination of activities under this new funding mechanism and the potential complimentary role that this new funding mechanism could support activities within the AusAID PNG program, at the same time strengthen coherence with GoPNG sector priorities and policies, processes and systems (eg: SNS-PPII and Democratic Governance);

Endorsement 7. Increasing the focus of the new funding mechanism on organisational, organisational capacity building supported through a Joint Organisational Assessment (JOA) process and;

Endorsement 8. Consideration of sustainability should be addressed in the assessment process.

Additional comments and recommendations in regard to the endorsements:

A snapshot of the M&E processes undertaken with the AMC included review of the outputs and outcomes with the M&E specialist and the development specialists. This snapshot firmly indicated that currently the APNGIF processes are ensuring efficient delivery of project outputs and, on the whole, these are relevant and delivering effective development outcomes. Furthermore comprehensive evaluations for the APNGIF ARC are currently underway, being managed by an M&E specialist.

There appear to be three main criticisms of the current M&E processes.

i. Performance against the MTDS is being assessed by retro-fitting indicators to the APNGIF MEF; and

ii. Evaluations are being conducted internally by the AMC team.

iii. Post evaluations and assessments of projects are not conducted, particularly in regard to ensuring on-going support, maintenance and sustainability of the program.

Recommendation: The design team should ensure that an MEF is established with a higher degree of connectivity to MTDS (and DCS) indicators. Equally, the MEF should align with the relevant questions being developed by AusAID as part of the Australian Aid Performance Assessment Strategy under the ODE. This will assist to determine any real contribution the IFM is making toward the aid program and development objectives of PNG.

Recommendation: The design team should ensure that any monitoring and evaluation processes are fully understood by the entity being supported, and that the entity is involved in the processes and have ownership of them. This will ensure greater self-evaluation and understanding of the improvements underway.

Recommendations: Appropriate evaluations should be conducted independently of the both the AMC and sub-contractors delivery of outputs. Independent evaluation assessment should verify the delivery of outputs and conduct output to outcome reviews. It is highly likely that a consultative process inclusive of all major stake-holder groups and individuals would serve evaluation needs well, a process being prescribed by the Sub-National Strategy (SNS).

Recommendation: The design team should ensure that the MEF is aligned as closely as possible with the MEFs and M&E systems of other sectors; There are compelling arguments to directly link any IFM to the SNS for example, as well as other sectors through the SNS. So rather than duplicate any IFM could be directly linked to the M&E systems of the other sectors, allowing independent and cross-sector evaluation. This would also support on-going maintenance and sustainability issues.

An **incentive based** funding mechanism can be applied in various ways. The current APNGIF applies the incentive component by requesting that organisations submit an (arbitrary) “excellent” standard of proposal. This approach has not been endorsed to continue because it will skew access to any IFM and only allow entry to organisations already able to deliver a high standard of documentation. It does not serve to truly incentivise organisations to improve.

By way of example, the experience with organisations such as ADRA and Research Development Foundation highlights how the APNGIF support has created organisational growth but fuelled by an increased dependency on the donor funding. It should be noted that in PNG this is a common issue for any donor support mechanism in PNG and is difficult to avert. Indeed the only real trusted aversion tactic is usually to ensure alternative donor support is available, which is pretty much what the review team prescribes for any IFM when addressing the issue of sustainability.

To add value to the current Australian aid program any IFM must able to provide a real incentive to promote sustainable self-improvement of the management of an organisation to deliver its mandate and for the organisation to deliver improved development outcomes. This implies that capacity development of an organisation occurs and enables improved delivery of its mandate as a direct outcome from the IFM support. The review team subscribes strongly to this concept whilst fully recognising that capacity development is a strategic development that must be managed internally. Capacity development is a long haul not a quick fix[1] . The IFM must be positioned to add value in this context, we explore what types of activities the IFM should probably fund in the next section.

This endorsement of capacity development through the IFM is consistent with the capacity development objectives associated with the emerging SNS and the Major CSO Program of the CDS. It should be noted that at the time of writing this report the CDS is being superseded by the

[1] Refer to Rethinking Capacity Development, Cedric Saldana, Strategic Advisor to the SNS

emerging Demographic Governance program where it is understood this capacity development objective for CSOs will be continued.

Using the incentive fund mechanism for capacity development implies at least two interpretations of the application of the **incentive principle**:

i. That the organisation has demonstrated already an improved organisational capability and delivery of development outcomes, it is performing well so the IFM is effectively used to acknowledge or reward.

And/or

ii. That the organisation can demonstrate that as a result of an IFM grant capacity development will be a likely outcome and result in improved delivery of development outcomes.

In both cases the IMF is better positioned to **promote self improvement** of an organisation and this will also **create demand** from other organisations.

Recommendation: The design team should consider and identify selection criteria to ensure IFM support satisfies the incentive based concept

Recommendation: The design team should consider and identify acceptable capacity development outcomes that need to be achieved to attract support through any IFM.

There are compelling reasons to closely associate or link any IFM with the SNS, most likely through a **referral based system** from the SNS and/or other sectors. Let's explore this concept a little.

Before any IFM support is provided there will be a need to determine the capability of the organisation, its absorptive capacity to develop, and any expected outcome from the IFM grant support – a baseline understanding if you like. One way to achieve this is to focus upon the long-term (or potential long-term) strategic development partners of the sectors and/or other donors. Potentially, the sector or donor can manage the longer term support (sustainability) and assessment obligations to organisations, allowing the IFM to specifically provide capacity development support. For the review team this leads neatly to the principle that the IFM grant should **not provide core funding** or support activities that risk developing organisational dependency upon the IFM. Any IFM should only **contribute to the capacity development and self-sustainability** of the organisation it is supporting, not do it harm and reduce it[2].

Recommendation: The design team should consider NO likelihood of dependency on the IFM as a significant selection criteria. Specifically IFM should support agencies or organisations that do not have identifiable core funding and sustainability mechanisms from other means. The IFM should NOT be used as a core funding or sustainability mechanism.

An objective of the SNS is to coordinate sector support from AusAID and other donors at the sub-national (provincial) level. The SNS should make sense of the myriad of support available to a

[2] Refer to the Analysis and assessment of AusAIDs grant funding mechanisms to PNG written by the author for AusAID DGU in July 2006.

province. The SNS should also guide the provincial administration through the maze of funding and technical support available and the confusion of mostly disharmonised processes and procedures which have the effect of baffling provincial administrations and organisations trying to grapple with entry points and compliance. It's **a riddle that most cannot solve**. Where possible any IFM should align with the SNS in its coordination and capacity development role.

The comparative advantage of the SNS is to **coordinate aid to the provincial administration** and to improve service delivery, and this would be a useful entry point for the IFM. Used effectively the SNS could ensure the IFM **does not distract** the capacity development activities and **does not distort** support to the region by providing disproportional support to one organisation, institution or area, and not another.

In addition, when considering the issue of **dependency**, the SNS mechanisms could for example ensure adequate recurrent budget support is available either through the provincial administration, in the case of any legible GoPNG agency or funded service delivery organisation, or through sector support for NGOs etc. There is real potential for IFM support to be planned, coordinated and implemented through the SNS guided by the budget advisors and TAs, including administering funding through the sub-imprest accounting systems if desired. This is only one option – see section 2.7 for an alternative option.

It is highly attractive to suggest that in provinces that have successfully met the joining criteria of PPII and are receiving SNS support, all IFM support should be referred by SNS or at least approved by the PPII Steering Committee.

Recommendation: The design team should consider and identify mechanisms with SNS that optimise coordination of the IFM through SNS

Recommendation: The design team should review and consider a referral based mechanism whereby SNS, sector and even other donors can directly refer organisations to the IFM for support

However, to link the IFM only and directly to the SNS mechanism will significantly undermine the principles of a **demand driven funding mechanism** by ostracising GoPNG agencies and CSOs operating in non-PPII provinces, effectively denying them access to the IFM.

It should also be realised that there are many organisations within the PPII provinces that do not want to operate through the GoPNG structures, and they are unlikely to want to operate through associated SNS mechanisms. These organisations include churches and NGOs with their own mandates, strategic plans and organisational processes. They provide valuable support and services to civil society, often independent of GoPNG. With so many churches and NGOs acting in a service delivery role it is easy to forget that not all CSOs are comfortable working with, alongside or for the GoPNG. Many organisations are opposed to GoPNG and/or constantly challenging it to serve the people better, in the same way they are committed to serve their people and mandates.

Consider Tari Secondary school in this context. Southern Highlands Province will be a special case province for SNS. Under the APNGIF the Catholic Church was awarded K11million for an infrastructure upgrade. Development outcomes included additional places for 240 students and improved boy to girl ratios due to better security. Teacher retention rates also improved and the school has raised education and health standards, including responses to HIV&AIDS. Good development outcomes. But, the Bishop of the Diocese of Mendi is in constant battle with the provincial government who insist on a politically attractive policy of free-education which is totally non-sustainable. The provincial government condemns the school for charging student fees and effectively cuts off government support. Under SNS would the Tari School upgrade have been possible? Unlikely, as the SNS would be reluctant to upset the provincial relationship and exert pressure to alter politically persuasion. It would be extremely difficult for SNS to support a controversial institution such as Tari School. So would the decision not to develop Tari High School and achieve the development outcomes (which are consistent with the previous MTDS) be satisfactory? Doubtful. It is likely an alternative option would have been preferable so the aid program does not jeopardise PPII/SNS support but can still provide support to an institution independently of SNS if this were both desirable and achievable. Whilst it is understood there are many who would do not like to see separate funding mechanisms because they allegedly distract the work of the ECP or potentially SNS and sectors, the review team fully endorses the maintenance of at least one flexible funding mechanism in the aid program to allow practical independent funding and the delivery of desired development outcomes.

Recommendation: The design team should review and consider how to retain a demand driven structure where concept papers can be considered by the other sectors

The report explores alternative demand driven structures to the SNS for the IFM, and appropriate support, in the next section.

2 Additional AusAID comments and recommendations in regard to the specific areas raised for the design team to address

1. Creating management arrangements suited to the annual level of funding (to be agreed to between AusAID and DNPM)

In the review teams opinion the current AMC is managing APNGIF well. They have developed systems and staffing expertise capable of serving the demand. They are delivering efficient outputs and effective development outcomes. They are making a good contribution to development of PNG. So why change it?

Interim management arrangements: There are practical management reasons why the review team would advise AusAID to focus upon an evolutionary change rather than a revolutionary change to the APNGIF: The current team are managing the programs well; they are completing existing program commitments which stretch into 2009; and they have excellent corporate knowledge. However the contract ends in July 2007. Rather than create confusion though change and risk lower development outcomes by altering this arrangement it would serve everyone well if the current support could be continued, scaled down if necessary, with a hand over when the anticipated design mission and tendering processes is complete.

Recommendation: If possible, AusAID consider novating the current APNGIF management structure into any transition period.

Until we understand what the IFM would support and how it will interact with other sectors and donors it is not possible to exactly determine the funding and management requirements. It was not possible to identify this during the review because all the sectors where still establishing their design and/or tendering processes and had not determined the full support available through their own sector funding mechanisms. It is unlikely this situation will change until mid-2007 by which time the SNS should be ending its inception phase and both the TSSP challenge fund and PAHAP should be operational. Democratic Governance recently announced it will not be fully operational until at least mid-2008.

However, we currently know the following:

- The current level of APNGIF administration and TA support is adequate to manage the current workload and processes, so it would be smart not to undermine this, but to focus upon keeping similar program and funding to staff ratios.
- Demand is often infrastructure focused so the team should anticipate more of the same. Retaining a strong infrastructure project management capacity within any IFM would be advisable, which includes maintaining the ability to administer the highly successful “design and build” sub-tendering approach.
- Sectors and donors are unlikely to have their own infrastructure project management capability and it is not the core business of a school to build classrooms or a hospital to build wards. Maintaining an infrastructure specialisation capacity within the IFM would add value to the aid program by providing a team that other sectors and donors may be able to draw from

technically. This type of cross-sector support should be encouraged as it provides greater understanding, collaboration and should lead to improved development outcomes.

- There are emerging new program approaches and concepts to explore through the IFM and different specialisations will need to be drawn from. Therefore it is logical to maintain an elastic structure, such as the SNS is proposing, which allows for TA support to be recruited on an as required basis. For example, recently in the Simbu School Infrastructure programs Phase I and II the focus has been on regional improvements to all schools, not just one. This program has been received well and is achieving a lot. To plan, coordinate, organise and lead this work across the region is a massive task. It may not be within the capability of the education sector (even with SNS support) to manage this. So for sectors to be able to draw upon additional expertise and resources from the IFM team would add significant value to the aid programme.

In terms of IFM annual funding limits this is for AusAID to determine. If it is in the region of AUD15million per annum (5% of the Aid budget), as suggested in the review process, then current management structures should be able to provide effective administration. Furthermore by capping the amount of funds available we will create an immediate demand and competition for the resources between eligible organisations and institutions. In an ideal situation the sectors would use this demand and competition to incentivise their development partners and leverage improved performance.

Recommendation: If possible, the IFM design process should be deferred until the full support available from the other sectors is determined

Recommendation: The design team should consider and identify a management structure that allows adequate fund management, but specifically allows for the on-going (elastic) provision of TA expertise to assist across the aid program.

2. Ensuring coordination, linkages and coherence with other AusAID sectors (where possible with other donors);

Coordination: Coordination of the aid agencies and their sectors needs strengthening within PNG. Whilst it is understood that DNPM has initiated a donor coordination group this will be at a high level and no doubt have a long agenda to navigate before it arrives at a the operational coordination of sectors and donor programs. This creates a good opportunity to use a cross-sector mechanism such as the IFM to provide a degree of cross-sector understanding and harmonisation.

The review team leader would like to note that he has conducted two reviews for AusAID in regard to funding mechanism, one in July 06 and this one in December 06. On both occasions he spoke with activity managers and other donors. The same general observations were made on both occasions:

- Activity manages are committed but busy people, they do not appear to have or enough time to discuss and coordinate with other sectors and donors at an operational level in the course of their front line management

- Activity managers genuinely seemed to appreciate the opportunity to discuss their program or sector needs and how the IFM could distort or promote their sector goals – they were interested in exploiting advantages and crushing risks

- Most activity managers seemed to be operating in silos, perhaps bigger silios with the shift from projects to sectors. They had little understanding of the other sectors operational intentions. Without this knowledge how can they exploit advantages or eliminate duplications or risk. You don't know what you don't know.

- Most activity managers had not given much or any consideration to their CSO development partners; who they were; their strengths and weaknesses; their needs for organisational as well as program support; the resources required to provide this support; where to find the types of people you need to provide this support etc.

AusAID could consider establishing a workshop for AusAID sector activity managers (perhaps inviting relevant donors) to discuss various points of frontline commonality and coordination. For the IFM this would be an appropriate forum to establish:

- What to find, what not to fund, who will fund what;

- Tools, systems and processes developed by CDS and APNGIF that could novate to the new sector funding schemes and improve harmonisation through coordination of processes;

- Technical management, training and specialist assistance available through the IFM;

- Ways to use the IFM to attract new development partners for sectors;

- Ways to use the IFM to leverage greater improvements from development partners;

- Mechanisms to coordinate IFM and sector support.

It is understood there is currently no regular frontline sector coordination meeting that this could occupy, if this is the case, perhaps this workshop could lead to a schedule of regular cross-sector coordination meetings.

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

In addition to the above coordination meetings the IFM could be used as day to day mechanism to provide on-going contact and collaboration though all the sectors and other donor programs. It has the comparative advantages of: providing cross-sector support; establishing relationships and experiences with many diverse and dispersed organisations; holding technical tools and specialists; providing alternative funding support; providing additional project management support; and being flexibility.

Demand driven: If the IFM can remain a demand driven mechanism it will attract interest from partners we know and work with already and from new partners. So the IFM can be positioned as a good entry point to new partners for all sectors and donors. The IFM could specifically be targeted to encourage development activities in areas where the sectors are not supporting.

As mentioned in section 2.1 the sectors should seek to understand and use the demand and competition processes of an IFM to provide an incentive to their development partners and leverage improved performance.

What's in a name?: In PNG a lot. The incentive fund is well known and a good brand. It is perceived as one of the few aid modalities that provides direct benefits to civil society, so it is popular. It is also popular amongst the politicians who benefit from visible development. To change the name will lead to confusion, frustration and, because of its popularity, perhaps even resentment, especially within GoPNG. The review team would suggest re-naming the APNGIF to the Incentive Funding Mechanism (IFM). It retains the notion of incentive funding but adds the mechanism component; mechanisms for attracting new partners; mechanisms to provide incentive; mechanisms for leveraging greater performance improvements; mechanisms for cross-sector and donor collaborations; mechanisms for providing additional funding and technical expertise; independent mechanisms for flexible support.

Alignment with SNS: The involvement and participation of the GoPNG in the determination of the IFM will need to be reviewed. If the IFM is positioned to align more closely with the SNS, or another sector or donor, the supervisory scrutiny, management oversight and approvals currently provided by the Management Group may be provided more effectively by the PPII Steering Committee and/or sector management groups / advisory committees. This would further ensure coordination of the IFM and management of any distraction or distortion. In effect ultimate approval for IFM funding could come from the sectors themselves. This would relieve the burden of having an independent IFM Management Group.

Recommendation: The design team consider and identify how the IFM would be positioned to assist understanding and coordination across the aid program sectors, including other donors.

Recommendation: AusAID considers an appropriate name might be the Incentive Funding Mechanism.

Recommendation: The design team considers dismantling the current GoPNG Management Group structure and instead use sector and SNS based mechanisms for approvals and oversight.

3. Types of activities, programs and/or infrastructures to be funded;

What is currently funded: A good starting point to addressing this question of what activities the IFM should fund is to ask two questions : why place limitations on what you want to fund – in effect why not leave the demand driven door open and see what comes though it; and what activities or organisations would we specifically NOT fund.

The following list is indicative of the types of projects funded by the APNGIF. Assuming that inter-sector coordination issues are addressed and they serve to make the selection processes inclusive of all sectors (averting likelihood of distortion or distraction) the review team sees no reason why support for these program types could not continue:

- Infrastructure: schools, hospitals, aid posts, organisational buildings
- Market Places

- Roads and Bridges: provincial, district and community
- Regional programs: schools, aid posts, agriculture
- Training establishments: nursing, teaching, libraries, vocational centres
- Government infrastructure: provincial / district administration and resources

As prescribed above and below, it would be better for the individual sectors to take a request or concept to the IFM support, funding and management of some activities with ultimate approval for IFM support remaining with the sectors.

Economic growth: This is one area the DNPM specifically requested be reviewed. Through the demand driven mechanism the IFM is well positioned to support development innovation, particularly in the area of economic growth, a priority area for GoPNG but a potential high risk area for donors. The review teams believes that risk can be managed and ultimately economic growth is the key to national development. It is also recognised that educating and training people is a great investment but it can lead to frustration if there are no businesses and jobs. A lack of economic growth also leads to greater dependency upon donors and resource companies such as the mining sector, PNG typifies this description. Greater consideration is required in the area of economic growth. Careful consideration should be given to questions such as:

- Would the aid program fund small medium enterprises (SME) if it could be shown they would create sustainable employment?
- Would the aid program fund the establishment costs of an organisation that could add value to the aid program (such as AusAID has done with CARE Australia)?
- Would the aid program fund sustainable joint ventures that assist an entire region develop environmentally friendly bio-fuel programs to literally drive generators, boats, schools, hospitals and community based income generating activities?
- Would the aid program fund vocational training to prepare people for employment?
- Would the aid program fund the capacity development of private organisations, such as road contractors, to improve the delivery of the aid program?
- Would the aid program fund a regional income generating initiative such as developing businesses associated with serving trekkers along the Kokoda trail (an increasingly popular track and commercial venture)
- How well are SMEs really served by micro-finance models and the commercial banks in PNG?

The review team found both support and resistance to directly funding SMEs and many activities. But arguments were largely individual and greater review and consideration should be given to the subject, it is too easy and unimaginative to simply say no, when unemployment in PNG is inextricably linked to the development solution.

Recommendation: Whatever is funded by the IFM should be consistent with delivering the expenditure priority area of the MTDS. It should also be funded with the approval of the relevant sectors.

Recommendation: The design team consider and identify the full range of economic growth activities to support identifying risks and possible benefits

Recommendation: The design team consider and identify with the sectors and other donors the full range of activities that could be funded and specifically identify areas that should NOT be funded

4. **Levels of funding per applicant, linked to a tiered approach and if necessary to different types of eligible organisations;**

More funding mechanisms through the sectors and other donors means there are going to be a variety of funding levels and criteria. The CDS experience has been to revise caps on funding levels on at last three separate occasions. The current limit is Kina300,000. However this can be circumvented by awarding successive grants of up to Kina 300,000, so in effect the grants become an elaborate tranching mechanism. Although this is a sensible way to ensure performance and accountability it does undermine the objective of a funding cap. So why cap in the first place, it is better to consider needs and benefits and support what is required. Risk associated through poor performance and lack of accountability can be managed through tranching.

Recommendation: Do not cap funding limits. Allow demand to be considered and the IFM to fully support what is approved. Impose funding limits through performance based tranching.

The major problem with the current APNGIF is that it imposes a minimum limit of K1million per annum, so it attracts only larger organisations and funding programs. The effect has been that 80% of the programs supported under the APNGIF are infrastructure. In many ways it would have been more practical to simply call the APNGIF the infrastructure fund, especially when considering the application of the word incentive, which seemed to be defined by “excellent” standards of documentation.

More concerning is that many organisations that do not require K1million in support expand their proposals to get what they want. CDS often encountered organisations that requested assistance to do just this – they saw the APNGIF as the “jackpot”. It shifted their focus away from what they really needed to do towards strategising how they would get to the APNGIF money. This remains a very negative distraction and needs to be crushed.

By re-aligning the concept of the IFM as described in section one, the question to be considered by organisations, sectors and other donors will become **“how can we best use the IFM to build real and sustainable capacity within the organisation”.** This would be a good place to reach.

The sectors should be best placed to assist determine funding limits for organisation and the activity and capacity development. And, like CDS they will no doubt seek mechanisms to provide limits with flexibility.

The likelihood is that development partners will continue to request infrastructure and there will be many cases where the sector agrees to these requests. For example under CDS requests for new offices and staff facilities were received from Lutheran Development Services, Nikana Matara, ICRAF, Baptist Union of PNG, CELCOR, MNCL, Help Resources and FORD and many more organisations. Requests were considered in all cases but not all supported because it was felt that this would be seen as too giving too much under the CDS mechanism to one organisation and open the flood gates for requests. However in most cases there is little doubt the infrastructure would have built the administrative facilities to better support their programs. There is also little doubt that by providing the infrastructure the organisations would have become more sustainable, significant office rents would have been eliminated and the organisation would have a real asset. CDS enjoys strong and practical links with the APNGIF and explored the option of deferring the organisations to the APNGIF. However no organisations successfully attempted and made the referral, often it was because they simply could not reach the “excellence” required or the minimum funding required was too high.

Recommendation: The design team should consider not imposing any minimum limits of support from the IFM

Tiered assistance is an interesting concept, particularly if it can be applied consistently across the aid program. But tiering is only possible if we first understand the organisation, its capability, its development gaps, the factors behind its development gaps and how to address these gaps to develop its capacity. This requires a process such as the joint organisational assessment (JOA) – see section 2.6. By understanding the amount of funding already provided, the capacity of the organisation and its operational costs a determination of sustainability can be made and support can be determined. For example, ADRA receives funding from various streams of AusAID funding including CDS, APNGIF, ANCP. Once CDS understood its funding, organisation and program arrangements significant support was provided to ADRA to boost its organisational human resource management systems and strategic planning capability. This lead to improved program delivery capability across all its sectors. CDS and other funding streams then continued supporting various programs.

The JOA is a recently adopted process and its use (or the use of similar approaches) is not widespread through the sectors or other donors. Often funding is provided based on a proposal which does not incorporate understanding of the organisation.

During the funding mechanism review in July 06 it was not possible to identify from any internal AusAID mechanism the total funding that AusAID provided or what activities it had funded for ADRA or any other CSOs. There is no central database or management information systems. As standard procedure CDS requests funding information from the organisation and contacts the funding activity managers to determine how much funding support has been provided and how effective the funding support has been. This serves to assist CDS identify where its support would be best place and how much support to provide. The point to make here is that IFM will need to rely on sector or other donor assessments or conduct its own assessments as part its process.

Once an organisational assessment has been made support can be determined. Support can also be tiered or staged and linked to capacity development improvements. So for example if an organisation was referred to the IFM by a sector and needed/requested staff training, refurbishment of offices and increased staffing for its programming the IFM and sector may decide that IFM will support the provision of staff training and office refurbishment and the sector will continue supporting the programming activities including additional staff. The IFM could either make a determination that it will provide the training but only provide office refurbishment once the staff training and increased programming support has demonstrated measurable improvement in organisational performance. Alternatively, it may be determined that performance improvements would only be likely if the office refurbishment was provided immediately. AusAID sectors and IFM need to understand the organisation to make these determinations.

Recommendation: The sectors and IFM adopt an organisational assessment approach similar to the JOA before determining if and how to support an organisation.

An alternative approach to consider in regard to tiering might be to restrict funding to apparent developmental significance. So a small indigenous NGO (INGO) supporting 2000 community members may be restricted to say K200,000 or support whilst a big international NGO (BINGO) with multi provincial coverage and serving say 200,000 people may be provided K1million +. The problem with tiering in this way is that it could be miss-directed support without understanding the organisation or its performance. The CDS experience has demonstrated that some heavily funded BINGOS are very capable of producing poor development outcomes and even community conflict, and conversely small indigenous NGOs are capable of producing disproportionately large development outcomes on a shoestring. Logically we would want to focus support on the INGO, not the BINGO.

Therefore tiering should be based upon the principle of demonstrated performance and the likelihood and desirability of improved performance. Both of which require organisational assessments to determine.

If tiering is based upon performance demonstration or likelihood of improved performance we are proposing that a known entity should be able to attract greater funding and support because there is less risk of not achieving the desired outcome. Placing a maximum limit on funding may seem like a practical and simple measure to take, but again it places an uninformed ceiling on the funding. By categorizing organisations into say performance levels A,B and C with corresponding funding limits of K1million, K500,000 and K100,000 respectively we immediately restrict real potential for organisation A to significantly improve its development capacity and all category A organisations are likely to target the K1million – as they do in the current APNGIF. Once again the money limits are distracting us from meaningful assessment and possibly the resources required to achieve a desired outcome.

Recommendation: Tiering should be based upon the principle of tranching support based upon an organisations demonstrated performance and the likelihood and desirability of improved performance.

It should be noted that if performance based progressive support is provided then organisations may need to access the IFM more than once.

Recommendation: The design team considers that need for an organisation to access the IFM more than once and whether multiple submissions are allowable

5. Suggested types of eligible organisations: (i) civil society organisations - subject to JOA criteria to be determined in the design; (ii) provinces - subject to PPII criteria; and (iii) non-profit statutory authorities - linked to their performance against legislated corporate governance requirements in their Acts (again to be determined in the design).
   Suggested types of non eligible organisations: national departments, commercial organisations and public enterprises;

Page 8 of the APNGIF Guidelines and information defines eligible organisations as:

- Public organisations such as government departments at all levels and statutory authorities.
    - Entities established under a separate Act of Parliament such as the Commercial Statutory Authorities of the PNG Government, the Universities, national provincial and local level government bodies, and some Church agencies are also eligible.
- Private organisations that can be registered with the PNG Investment Promotion Authority (IPA) The IPA registers two types of organisations:
    - Corporate entities, such as companies, joint ventures, partnerships and trusts which are required to submit financial statements in accordance with the provisions of the PNG Companies Act.
    - Unincorporated Associations, such as clubs, societies and special interest groups convened under a not for profit Article of Association. These entities are established under the provisions of the Unincorporated Associations Act.

Eligible organisations will therefore include:

- national, provincial and local-level governments;
- statutory government authorities;
- research organisations and universities;
- community organisations such as NGOs and church based organisations; and
- private sector organisations.

The difference between this and AusAIDs suggested eligibility is that AusAID proposes not to support national departments, commercial organisations and public enterprises, and provinces not part of the PPII

The review team did not specifically review the types of organisations to be supported but did receive feedback from AusAID management although not from the individual sectors or other donors. The review team accepts the AusAID suggestion in regard to the types of eligible organisations and would recommend the design team researches this list with the organisations, sectors, GoPNG and other donors more thoroughly to confirm organisational non-eligibility to the IFM.

The review team identifies that some commercial organisations, such as food wholesalers, have non-profit arms for community outreach training. CDS has successfully supported Alele for example and reintroduced the potato to over 200 farmers in the Highlands by funding Alele's outreach training. There may be other examples where industry and commercial organisations can provide valuable aid assistance in this way. We would also be excluding potential joint venture partners in community development programs and the development of road sub-contractors, specifically requested by AusAID infrastructure sector.

Recommendation: The design team reviews and considers the proposed eligibility of organisations to access the IFM

Recommendation: The design team specifically reviews and considers the eligibility of commercial organisations and whether there are areas where IFM support may be acceptable

6. Implementation issues around selection criteria, process, management, including monitoring and evaluation.

Above we already have determined that to be selected for IFM support an organisation must:

- Be an eligible type of organisation
- Have demonstrated performance, and/or
- Demonstrate likely and desirable organisational performance as a result of the IFM support
- Produce development outcomes that contribute to the expenditure development outcomes of the MTDS
- Have undergone a comprehensive organisational assessment
- That support be approved by the relevant sector
- Demonstrated sustainability independent of IFM is fully established

The review team reconsidered the current APNGIF selection (eligibility) criteria and whether they should be accepted or rejected under any re-positioned IFM:

Accept: Does your proposal focus on one or more development priorities listed in the PNG Medium Term Development Strategy and the AusAID PNG (Development) Country Strategy Paper?

Accept: Does the Organisation have the support of national/provincial/local government, the Organisation's executive body, and the community for the program?

Accept: Is the proposed program consistent with the Organisation's normal activities and management?

Accept: Does the Organisation have a good track record in development activities? Does this record include working with communities? Has the Organisation appropriate technical experience?

Accept: Does the Organisation have an appropriate organisational structure and staffing establishment to manage and implement the scope of the proposed program?

Accept: Is the Organisation registered in PNG under government legislation or with an appropriate authority?

Accept: Do the Organisation's procurement procedures demonstrate how value for money will be achieved and is in line with the PNG Financial Management Act?

Accept: Has the Organisation obtained community agreement with the goal and objectives of the program?

Accept: Can the Organisation demonstrate that it has good financial management and control; that it complies with its accounting and auditing procedures; has no undisclosed debts, compensation demands, or tax assessments; has the ability to establish a separate program bank account; and has formal procurement and tendering procedures?

Accept: Can the Organisation provide a detailed analysis of its budget and expenditures for the last two years, which clearly shows the ratio of management and overhead costs to total expenditure

Accept: If assets are created under the proposal, will ownership of assets/ beneficial ownership of assets rest with a government body or community based organisation?

Accept: Does the organisation have title or long term lease over any land involved in the proposal or legal authority for the use of the land?

Reject: Is the required funding for the proposal within the Fund limits, that is above K1 million and below K 7.5 million?

Accept: Is the proposal an approved activity under the Incentive Fund arrangements? (i.e. it is not one of the items included on the list of prohibited activities)

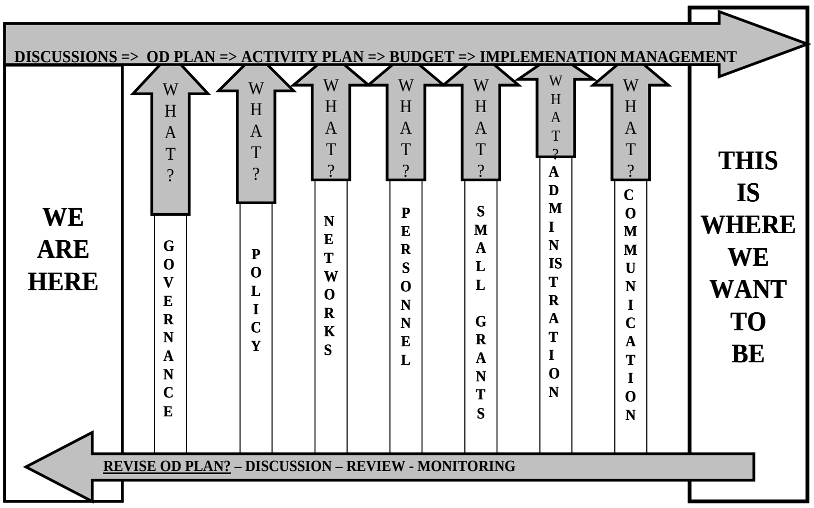
Reject: The Organisation does not have a contract, partnership agreement, Memorandum Of Agreement or sub-contractors agreement to supply? This is rejected on the grounds that many organisations are will be service providers funded by the GoPNG.

Recommendation: The design team reviews and re-confirms selection criteria once parameters of the IFM are fully confirmed

Process: In regard to process there are two major alterations that the review would suggest to the current APNGIF processes; organisational assessment; and concept development.

Organisational Assessment: The review team recommends the introduction of a standard organisational assessment process as prescribed in section 2.4. Assessments can be conducted by the appropriate sector or, if an organisation is unsupported by a sector, by the IFM team. The CDS JOA may be an appropriate mechanism for this and the diagram below shows how the process is facilitated to allow on-going self-assessment of the organisation itself, thus empowering it to review and identify strategies for self improvement and monitor its achievement of this.

Figure 1: Joint Organisational Assessment Process



The JOA is also a performance assessment tool and discussions are tailored to meet the needs of the organisations so the discussions categories could change. The JOA has been effectively used with many PNG based CSOs and was recently adopted by the Solomon Island Forestry Department to assist with their strategic development. The JOA is the process and the organisational development plan (OD Plan) is the guiding document created from the process. In practice IFM support would be identified on the OD plan as part of the process.

Recommendation: The design team considers and reviews organisational assessment approaches through the sectors and other donors to establish whether they have adequate organisational assessment and performance monitoring processes to serve the IFM needs and what assessment and performance monitoring process would best serve the IFM (i.e JOA?).

Concept paper development: This is an area discussed at length with the APNGIF team and it is agreed that the current process of reviewing a simple concept paper is informative, efficient and easy for any agency or CSO to complete and submit, particularly if referred or supported through a sector or donor. Greater emphasis should be placed on the process of refining an activity plan and proposal for support. If a concept is approved then the sector and/or IFM team should be able to work with the organisation to assist them understand their needs and the solution and develop a proposal and budget that can be supported by the IFM and/or sector. The process of moving from concept to proposal should be seen as an entry point for organisational capacity development.

During such a process all stake-holders would be consulted to confirm roles and responsibilities and the effect should be greater understanding and collaboration from all the stake-holders and improved development outcomes and sustainability.

> Recommendation: Emphasis shift from an excellent proposal to approving concepts that can be developed into proposals with the process acting as a collaborative capacity development activity.

> Recommendation: The design team consider and determine a suitable concept paper approval and support processes inclusive of all relevant sectors and stakeholders.

IFM Management processes: A change in IFM management would be required to focus more delivering an improved entry process which includes organisational assessment and concept paper development. These activities need to be bought into the IFM management responsibility and be inclusive of the relevant sectors and/or other donors involved in supporting the organisations. This will lead to greater time being spent getting to fully understand the organisation and how the various stakeholders are working together to support the organisation – greater collaboration should yield improved Management for Development Results (MfDR).

Monitoring and Evaluation recommendations are made in section one.

3 Suggested Goal and Purpose

Suggested Goal: To strengthen the contribution of effective PNG private and public sector organisations to contribute to PNG's development; and

Suggested Purpose: To provide funds to support a clear and feasible plan to strengthen organisational capacity to deliver development outcomes.

The review team has no problems with the Goal, it is Specific; Measurable; Achievable and appropriate; Relevant to the Aid program; and Timely. It is a SMART goal.

One consideration in regard to the Purpose is whether it is specific enough. An alternative purpose to consider would be:

"To provide an incentive based funding mechanism that works closely in collaboration with the AusAID sectors and other donors to clearly and feasibly strengthen organisational capacity to deliver development outcomes".

Recommendation: The design team review and confirm an appropriate and popular goal and purpose for the IFM with GoPNG and AusAID.

4 Recommendations forming draft TOR for design mission

The review team makes the following recommendations consisting of the recommendations made in the report specific to the design endorsements by AusAID and DNPM, and additional process recommendations. These recommendations are presented in two parts; design process recommendations; and specific endorsements and recommendations to create the TOR of the design team.

Recommendations specific to the design process:

1. Recommendation: AusAID considers adopting the name of the Incentive Funding Mechanism.

2. Recommendation: If possible, the IFM design process should be deferred until the full support available from the other sectors is determined.

   However;

3. Recommendation: With the PNG national elections approaching in June 2007 it is highly preferable that the IFM design process be completed, and approval given by AusAID and DNPM by the start of the elections. This will prevent any disruption to the flow and agreed endorsements of the IFM and process due to the election and its outcomes.

4. Recommendation: The design team should have expertise that understands the current sector directions and can engage comprehensively with the sectors to determine their needs from the IFM. It should include the strongest possible participation from both AusAID and DNPM staff and management so the process itself builds understanding of the IFM and how it strengthens and adds value to the overall aid program. It would be appropriate for senior AusAID and DNPM staff to head up the design mission process, supported by any required technical advisors.

5. Recommendation: The review team strongly recommends that the approach to the design mission be positioned so that it is clearly understood the objective is to construct a mechanism that serves and enhances all sector (and donor) activities. It is NOT another program.

6. Recommendation: If possible, AusAID should consider novating the current APNGIF management structure into any transition period.

Recommendations specific to the design process endorsements:

7. Recommendation: The design team review and confirm an appropriate and popular goal and purpose for the IFM with GoPNG and AusAID.

8. **Recommendation:** The design team should ensure that an MEF is established with a higher degree of connectivity to MTDS (and DCS) indicators. Equally, the MEF should align with the relevant questions being developed by AusAID as part of the Australian Aid Performance Assessment Strategy under the ODE. This will assist to determine any real contribution the IFM is making toward the aid program and development objectives of PNG.

9. **Recommendation:** The design team should ensure that any monitoring and evaluation processes are fully understood by the entity being supported, and that the entity is involved in the processes and have ownership of them. This will ensure greater self-evaluation and understanding of the improvements underway.

10. **Recommendations:** Appropriate evaluations should be conducted independently of the both the AMC and sub-contractors delivery of outputs. Independent evaluation assessment should verify the delivery of outputs and conduct output to outcome reviews. It is highly likely that a consultative process inclusive of all major stake-holder groups and individuals would serve evaluation needs well, a process being prescribed by the Sub-National Strategy (SNS).

11. **Recommendation:** The design team should ensure that the MEF is aligned as closely as possible with the MEFs and M&E systems of other sectors; There are compelling arguments to directly link any IFM to the SNS for example, as well as other sectors through the SNS. So rather than duplicate any IFM could be directly linked to the M&E systems of the other sectors, allowing independent and cross-sector evaluation. This would also support on-going maintenance and sustainability issues.

12. **Recommendation:** The design team should consider and identify selection criteria to ensure IFM support satisfies the incentive based concept.

13. **Recommendation:** The design team should consider and identify acceptable capacity development outcomes that need to be achieved to attract support through any IFM.

14. **Recommendation:** The design team should consider NO likelihood of dependency on the IFM as a significant selection criteria. Specifically IFM should support agencies or organisations that do not have identifiable core funding and sustainability mechanisms from other means. The IFM should NOT be used as a core funding or sustainability mechanism.

15. **Recommendation:** The design team should consider and identify mechanisms with SNS that optimise coordination of the IFM through SNS.

16. **Recommendation:** The design team should review and consider a referral based mechanism whereby SNS, sector and even other donors can directly refer organisations to the IFM for support.

17. **Recommendation:** The design team should review and consider how to retain a demand driven structure where concept papers can be considered by the other sectors.

18. Recommendation: The design team should consider and identify a management structure that allows adequate fund management, but specifically allows for the on-going (elastic) provision of TA expertise to assist across the aid program.

19. Recommendation: The design team consider and identify how the IFM would be positioned to assist understanding and coordination across the aid program sectors, including other donors.

20. Recommendation: The design team considers dismantling the current GoPNG Management Group structure and instead use sector and SNS based mechanisms for approvals and oversight.

21. Recommendation: Whatever is funded by the IFM should be consistent with delivering the expenditure priority area of the MTDS. It should also be funded with the approval of the relevant sectors.

22. Recommendation: The design team consider and identify the full range of economic growth activities to support identifying risks and possible benefits.

23. Recommendation: The design team consider and identify with the sectors and other donors the full range of activities that could be funded and specifically identify areas that should NOT be funded.

24. Recommendation: Do not cap funding limits. Allow demand to be considered and the IFM to fully support what is approved. Impose funding limits through performance based tranching.

25. Recommendation: The design team should consider not imposing any minimum limits of support from the IFM.

26. Recommendation: The sectors and IFM adopt an organisational assessment approach similar to the JOA before determining if and how to support an organisation.

27. Recommendation: Tiering should be based upon the principle of tranching support based upon an organisations demonstrated performance and the likelihood and desirability of improved performance.

28. Recommendation: The design team considers the need for an organisation to access the IFM more than once and whether multiple submissions are allowable.

29. Recommendation: The design team reviews and considers the proposed eligibility of organisations to access the IFM.

30. Recommendation: The design team specifically reviews and considers the eligibility of commercial organisations and whether there are areas where IFM support may be acceptable.

31. Recommendation: The design team reviews and re-confirms selection criteria once parameters of the IFM are fully confirmed.

32. Recommendation: The design team considers and reviews organisational assessment approaches through the sectors and other donors to establish whether they have adequate organisational assessment and performance monitoring processes to serve the IFM needs and what assessment and performance monitoring process would best serve the IFM (i.e JOA?).

33. Recommendation: Emphasis shift from an excellent proposal to approving concepts that can be developed into proposals with the process acting as a collaborative capacity development activity.

34. Recommendation: The design team consider and determine a suitable concept paper approval and support processes inclusive of all relevant sectors and stakeholders.

Annex 1

Annex 2

Annex 3

Annex 4