

# PNG INCENTIVE FUND

## Lessons Learned from Phase 4 and Recommendations for Phase 5

*December, 2021*

This objective of this review is to highlight and discuss issues emerging from Phases 1 to 4 of the PNG Incentive Fund - with a particular emphasis on Phase 4 - that should be taken into consideration in the design of Phase 5.

### Key Findings and Recommendations

- The Incentive Fund (“The Fund”) is an important and well recognised program that delivers demand driven infrastructure that has benefitted thousands of people across rural and remote PNG. The Fund delivers strong development and public diplomacy outcomes (indeed the latter is dependent on the former).
- While the Fund has generated some significant local level results, more could have been done at the program level to aggregate and communicate Australia’s important contribution to development outcomes in PNG.
- To address the above issue, a number of M&E-related modifications should be considered in the Phase 5 including: a robust cascading program logic (which includes appropriate intermediate outcomes), improved M&E planning, more human and financial resources for M&E, customised support for partner organisations, and enhanced focus on monitoring evaluation *and learning* (MEL).
- There is a need to build on the considerable momentum generated during Phase 4 in the area of gender equality, disability and social inclusion (GEDSI), including progress in terms of GEDSI engagement in decision making and project management as a function of empowerment”. This should also include a much stronger (but not more cumbersome) MEL system to better identify progress, obstacles and lessons, and to better manage GEDSI risks in the next phase. This should include appropriate resourcing for GEDSI.
- The ‘incentive’ logic that underpins the Fund could be better explained. While the name “Incentive Fund” should be retained because of its existing brand recognition through much – although not all – of PNG, the new Program Logic needs to more clearly explain *what* is actually being incentivised, and *how* the Fund seeks to incentivise change in Partner Organisations (PO’s).
- New and innovative ‘hands-on’ approaches to capacity building should be considered for Phase 5: less so for more highly technical and relatively infrequent activities such as architectural designs, and more in terms of building appropriate capacity for POs to monitor, manage, and better sustain the project investment and engage with Government of PNG

and other stakeholders. More resources should be allocated to this in Phase 5 and specific capacity building outcomes should be included in the new Program Logic.

- The Governance arrangements are strong, including, in particular, the role of the Strategic Management Group; this group could be used even more proactively in Phase 5, especially to foster harmonisation between Incentive Fund projects and Government of PNG planning mechanisms.

## Objective

This objective of this review is to highlight and discuss issues emerging from Phases 1 to 4 of the PNG Incentive Fund - with a particular emphasis on Phase 4 - that should be taken into consideration in the design of Phase 5. The paper begins with a brief overview of implementation to date, including a discussion of the inherent logic of an 'incentive' fund; included in that section is a summary of the Fund's results to date. This is followed by a discussion of the persistent and emerging challenges and risks faced by the program, and the implications for the design of Phase 5. The results of research conducted alongside this review is then presented, and this is followed by a conclusion. The methodology employed for this review included the systematic review of key documents, the analysis of data from key informant interviews<sup>1</sup>, a word search of key terms, and the assessment of aid quality scores – see reference list and Annex 1.

## Overview of Implementation

Beginning in 2000 the Incentive Fund ('The Fund') is the longest running Australian aid program in PNG. The first two phases of the Fund provided \$110 million to 39 projects in a wide range of sectors across 15 provinces. Areas of support included: health, education, transport, law and justice, water and sanitation, research, agriculture and economic development and vocational training. During this initial period the focus was on supporting 'strong' organisations who could deliver 'excellent' project proposals as revealed through quality documentation. This was basically rewarding organisations who were already strong performers. There was an explicit assumption that this would incentivise weaker organisations to strengthen their own performance in order to receive grant funding. This is referred to as 'Inspirational Influence' in the organisational change literature. However, this was problematic for a number of reasons, as the quote below from the Phase 4 Investment Design Document (IDD) explains:

*".....there was [under the early phases] 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"<sup>2</sup>.*

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<sup>1</sup> Conducted as part of the Phase 5 design process

<sup>2</sup> Papua New Guinea Incentive Fund Phase 4, Investment Design Document, 6<sup>th</sup> November 2014, p.7

As the above quote highlights, there were issues with two underpinning assumptions under Phases 1 and 2: first, that the delivery of good documentation was a valid proxy for organisational strength, and second that rewarding strong organisations with grants would, in turn, incentivise other organisations to improve their own performance.

Despite these issues there is no doubt that Australia's funding contributed to the achievement of significant results in a wide range of areas in the aforementioned sectors. An evaluation undertaken of the Fund's initial two phases outlined these results in some detail<sup>3</sup>. The Fund directly contributed to improvements in health and education service delivery in urban, rural and remote areas, including improved access to education for females. It also expanded potable water supplies in rural and remote areas, which had important Water Sanitation and Hygiene (WASH) outcomes. The Fund's activities also created commercial opportunities for local communities and businesses who provided supplies and labour. This, in turn, provided income earning opportunities for individuals, which is an important economic outcome particularly in remote areas. On the organisational side, the Fund contributed to improvements in the organisational capacity of PO's, which, in turn, helped such partners obtain funding from other sources.

In 2010, Incentive Fund Phase 3 commenced, and up to June 2014, provided \$60 million to 20 projects across nine provinces. At this time there were some subtle shifts in the logic, targeting and implementation of the Fund. In this design there was a shift to supporting organisations that had demonstrably good performance who could be incentivised to improve further. As noted in the Phase 4 IDD:

*"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"<sup>4</sup>.*

This precipitated a shift in the program to much more of a focus on the assessment of organisational issues such as governance, financial management, project management and delivery capability. It also meant that DFAT could identify and target good performers who could be incentivised to improve further.

In addition, during Phase 3 there was an effort to align Incentive Fund programming to the overarching priorities of the Australian Aid program at the time, which were strongly focused around health and education. This meant promoting linkages with health and education sector programs in PNG. During Phase 3, 63 percent of all funding was allocated to 'Education' and 37 per cent to 'Health', up from 33 per cent and 23 per cent respectively under Phases I and

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<sup>3</sup> Averill, K., Nunns, H., Sent, W. (2008) Evaluation of the Australia Papua New Guinea Incentive Fund Support

<sup>4</sup> *Ibid* p.8

2. As a result of this sectoral prioritisation and change in incentive logic, Phase 3 was more targeted and strategic than the previous phases.

Phase 3 generated significant results in the education and health sectors. It increased access to education services through 13 activities throughout rural and remote PNG. This included building new accommodation, and improving existing accommodation, for 1,649 students at tertiary, vocational and secondary-level education facilities – 55 % of whom were female. Phase 3 also constructed 51 houses for teachers and scientists at these facilities. In the area of health, Phase 3 improved health service delivery through the renovation and construction of 28 hospital wards, provided new accommodation for 116 nurses, and built 70 new houses for health staff. In addition, the Fund supported the immunisation of 10,000 children in Madang for tetanus and contributed to the smoother operations of hospitals in rural and remote areas by improving the reliability of water and electricity supplies<sup>5</sup>.

Phase 4 maintained the ‘incentive’ logic of Phase 3; it continued to focus on organisational performance assessment, but it was not designed as a capacity building program. Education and health continued to be priority sectors, but ‘other’ sectors that could stimulate economic development were also considered for support, as was support for the private sector.

The protection of the Incentive Fund brand was a particular emphasis of the Phase 4 design. This was important because it influenced other aspects of the design and subsequent implementation of Phase 4. To protect the brand, the design suggested there should be no compromise on the principles that underpinned the Incentive Fund, *i.e.*, it should only support ‘good’ performers and not deviate from the rigid (then five-step, now three-step) compliance process. A focus on better determining the higher order outcomes and Value for Money (VfM) were also prioritised in the design.

Data from interviews with key informants, conducted as part of the Phase 5 design process, highlighted how the changes in the application and compliance process had both positive and less positive consequences. On the positive side, one interviewee said that being successful in an Incentive Fund application process helped unlock financing from other development partners such as New Zealand. This was because other development partners knew that successfully obtaining support from the Incentive Fund involved a rigorous screening process, which, in itself, was a demonstration of organisational capability. On the other hand, several community groups noted that the length of the application process and the long wait for approval was actually a disincentive. This is particularly the case when small community groups had to fund the cost of preparing proposals, including site plans and architectural drawings, without any guarantee that funding would be approved. Indeed, in earlier phases,

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<sup>5</sup> See Incentive Fund Phase 3 Activity Completion Report

the Incentive Fund had been referred to, by some community groups, as the “Disincentive Fund” for that reason.

The Phase 4 design also highlighted a range of challenges and risks that would need to be addressed during implementation, these included:

- the limited number of “high performing” organisations in PNG to implement IF-funded projects.
- the cultural and other barriers to mainstreaming GEDSI.
- the weak project management capacity of many partner organisations, and consequentially, high project implementation risks
- lack of counterpart funding from communities, or funding for recurrent costs from GoPNG agencies
- lack of infrastructure sustainability, due largely to inadequate asset management systems and resourcing
- risk of fraud, especially in infrastructure, and
- lack of M&E as a management tool.

Phase 4 commenced in August 2015 with a budget of \$100m. Between 2017 and 2019 some major changes to the program were undertaken that sought to streamline processes and improve oversight in important areas. Due to the absence of evaluative studies, it is difficult to assess the efficacy of these reforms, but they have important implications for the Phase 5 design so warrant discussion here.

The reforms to implementation undertaken between 2017 and 2019 included:

- revising governance arrangements - including changes to the charter rules and membership of the Strategic Management Group (SMG) in response to requests from DFAT and Government of PNG for a more streamlined approach
- refining and streamlining grant award and management systems and processes - including greater integration and synchronisation with the program’s governance arrangements
- revising the 5-stage grant process to a new 3-stage process – designed to reduce the time between proposal submission and funding approval, which, on average, was taking 17 months (and up to 22 months in some cases)
- improving annual planning by providing a clearer strategic framework for activity planning and reporting
- renewing the approach to GEDSI at the program and project level, and providing more resources for this to support POs.

- enhancing the flexibility and responsiveness of the Fund to enable it to support activities that were of strategic interest to the Australian High Commission
- intensifying financial management oversight, including improved systems for fraud detection and strategies for the recuperation of any funds related to unauthorised and unacquitted funds – in response to some cases of minor fraud, and
- improving project management arrangements to reduce project risks, and increasing project management resources, support, and general project oversight, which was recognised as insufficient and, which, *inter alia*, contributed to delays in project implementation.

After the first two years of implementation, it was clear that aside from those PO's that had accessed funds under previous phases (many of whom were recurrent partners and some of whom had their own performance issues) there were very few other 'well performing' organisations with whom to partner. Many of these partners had weaknesses across the board, from infrastructure development and project management, to M&E, governance, financial management and GEDSI integration. As a result of this, the Fund had to re-arrange its staffing structure, employ more project managers, and intensify all aspects of project monitoring and oversight, especially financial oversight.

As Phase 4 entered 2020 it was, like every other PNG aid program, faced with the extraordinary challenges of COVID-19. Many of the reforms highlighted above were disrupted, as the program needed to focus on how to pivot in response to the pandemic. Data from key informant interviews confirmed that communities faced dual challenges, as on one hand, income earning opportunities for communities dwindled as markets and businesses closed, and on the other hand, COVID-19 led to significant increases in the cost of imported materials, including in particular, building materials.

COVID-19 also affected the management of the Fund. In March 2020 all international staff left PNG and a state of emergency was declared. The Fund's office was closed from March to June with locally engaged staff working from home. The Team Leader did not return to PNG until December 2020. A COVID-19 grants scheme was developed to support PO's deliver non-medical responses including WASH, community awareness and behavioural responses. Business continuity plans to mitigate the threat from COVID-19 were developed to ensure program implementation and communications were maintained.

The pandemic also disrupted the more intensive, hands-on project monitoring process that the abovementioned reforms initiated. To address this the team employed more short-term resources to provide desk-based oversight and recommendations for PO's; again, due to a lack of evaluation studies it is hard to assess the efficacy of this response. The lack of mobility

also presented challenges for the GEDSI and M&E teams, which was an issue considering the renewed emphasis on these issues.

COVID-19 travel restrictions in PNG also reduced the ability of the Australian High Commission staff to undertake field monitoring of Incentive Fund-supported projects.

Throughout the pandemic the enhanced management support for PO's has remained a strategic priority. The need for such support was reinforced by the assessment of partner capacity undertaken in 2020, which uncovered significant capacity constraints in PO's and a need for Phase 4 to continue to provide support in a range of areas including: project management, financial management support in budgeting and forecasting, procurement, fraud reporting and audits.

All these challenges had a significant impact on the efficiency of the Fund in 2020, as noted in the 2020 DFAT Investment Monitoring Report:

*“Acknowledging the challenges presented by COVID-19, IF4 was not as efficient in 2020 as previous years. Expenditure on grants dropped to the lowest levels of the program to date (AU\$7m) while operational costs remained as per previous years. This, coupled with a change in IF4 personnel, has seen some key strategic projects lose momentum in 2020, delaying completion. There has also been a noticeable lack of capacity within partner organisations to provide the required resourcing to effectively manage projects. IF4 has responded by assuming greater project management responsibilities; while this is both necessary and effective, it takes attention away from projects of higher importance resulting in delays to implementation”<sup>6</sup>.*

Phase 4 has now moved into the final year of implementation. As of July 2021, the Fund has signed 20 Funding Agreements and seven Strategic Project Agreements since its inception in 2015. Two of these agreements were cancelled and two did not proceed due to grant management issues. Thirteen are completed and 10 are ongoing, most of which are on track according to internal reporting.

The priorities over the remaining period of implementation (to June 2022) are to:

- continue to closely monitor and support the uncompleted projects.
- continue to build PO M&E and GEDSI capacity.
- capture lessons from the previous years of implementation to inform Phase 5
- elevate focus on quality assurance across the program.
- fast track new projects, and
- improve the quality of proposals received over the remaining period of implementation.

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<sup>6</sup> DFAT Aid Investment Monitoring Report for 2020, p.5



These priorities are intended to support the smooth transition to Phase 5.

As Phase 4 nears completion it is on track to deliver some significant results. As of early 2021 program reporting states that it has achieved all of its strategic end-of-program targets in the areas of women and girls empowerment, private sector investment and infrastructure provision<sup>7</sup>. It is estimated that by completion, the Fund would have benefitted approximately 167,034 people throughout PNG with improved service delivery and economic development outcomes in the agriculture, education, health, and rural development sectors. As always, however, there do remain important questions as to the actual *sustainability* of those investments. The renewed focus on GEDSI and organisational capacity development has been a feature of this phase that should, importantly, be carried forward in Phase 5.

## **Governance arrangements.**

Data from key informant interviews suggests that one of the strengths of the Incentive Fund is its governance arrangements. The Strategic Management Group (SMG) is made up of senior representatives from the Papua New Guinean Department of National Planning and Monitoring, the Australian High Commission, the Incentive Fund, and four Independent Members. The four independent members are high-profile PNG nationals with extensive and high-level experience in the private sector and academic institutions. The SMG meets up to four times a year to provide strategic direction, assess and approve funding allocation and program activities. The SMG provides a framework for contestability and value addition in terms of what and how projects can “work” in the highly diverse cultural environment of PNG. An important benefit of the SMG is that if proposals are rejected, it is clear that a thorough review process has been conducted, involving senior and experienced PNG nationals, and that such rejection was not solely a decision taken by the Australian High Commission

Given the high profile of the people on the SMG, including in particular the PNG nationals from various backgrounds, there is scope for making even more strategic use of the SMG.

## **Challenges and Risks**

The above review of implementation has flagged a range of challenges and risks that are of direct relevance to the Phase 5 design, some of these challenges have persisted since very early on, while some are more recent. As this is a tightly focused review it is not possible to discuss the many challenges and risks that a program like the Incentive Fund faces, nor is it possible to evaluate the effectiveness of implementation, as this would be a much more significant evaluative task. Instead, the discussion below focuses on those high-level issues that need to be considered in the Phase 5 design to ensure it rests on a sound logic and

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<sup>7</sup> See IF4 (2020) Annual Report, February 2021

includes an implementation strategy that can deliver results in a capacity constrained environment.

### **Capacity Building and Incentive ‘Logic’**

As the discussion above suggests, the experience of implementation tested the ‘incentive’ logic that underpinned Phase 4. Phase 4 was designed to reward those organisations who were already performing at a certain level, incentivising them to improve their performance further. There was an assumption that performance improvements would emerge through the management of an Incentive Fund grant, rather than through direct capacity building activities. In reality, the Fund’s staff had to strongly oversee and basically prop up areas where PO performance was weak, – *i.e.*, in areas such as financial management. A key issue is that Phase 4 was not designed as a capacity building program. While it does have an intermediate outcome which states that “*Partners have new capacity to implement activities*” the theory of how this might occur could have been better explained in the Phase 4 design. The Phase 5 design will need to more clearly explain the key assumptions and theory of change underpinning the Fund, as well as clearly defining key terms.

While Phase 4 was not primarily designed as an organisational capacity building program, that is what it has ended up doing a lot of, as the quote below highlights:

*“.....the relatively short project time frames, and the intention to ‘attract, identify, and incentivise good performing organisations’ mean that IF4’s capacity contribution can be perceived as skewed towards physical capacity – buildings and capital items, rather than organisational capacity. However, as this case study shows, IF4 also makes considerable investment in the latter, and as it draws towards its final year has learned much from this<sup>8</sup>”.*

The capacity building case study conducted by the program in 2020 is a very useful and instructive document for the Phase 5 design. It unpacks the various capacity issues and makes a number of recommendations relating to the remainder of Phase 4, but also into Phase 5, these include:

- the need to work harder to broaden the pool of applications, particularly in under-served areas, by implementing regional workshops for high potential but unsuccessful applicants at the concept stage to help them understand what is needed for organisational readiness.
- continuing to provide enhanced financial management support in relation to budgeting and forecasting, procurement, fraud reporting and audits to ensure POs, who would not normally meet the Gateway Criteria, can be awarded an IFA.

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<sup>8</sup> IF4 (2020) Annual Report – Capacity Building Case Study – Annex 9 p. 81

- including program logic development in proposal writing sessions for organisations at the beginning of the detailed proposal stage to address M&E weaknesses.
- exploring larger scale strategic partnerships with GEDSI service providers that can implement a structured multi-level (community, organisation, service) capacity development approach on site for remote POs.
- consider a more structured approach to increasing the capacity of smaller PNG infrastructure management and architecture service providers as a localisation and private sector engagement strategy, and
- continuing to refine the inception workshop process, including a more modular approach to avoid information overload.

In addition to building on and considering the above suggestions, as the Phase 5 design process unfolds, a number of important capacity development and program logic-related issues will need to be resolved. At a conceptual level this will involve interrogating the underpinning ‘incentive’ logic, and determining whether that logic remains relevant, and, if not, what a new overarching program logic (and assumptions) should look like. Associated with this is the need to explicitly outline how, and the extent to which, Phase 5 will directly support capacity building activities and a more hands-on approach.

### **Monitoring, Evaluation and Learning (MEL)**

The Incentive Fund has, throughout its history, faced some M&E-related challenges. M&E resourcing could have been higher, and there should have been a greater focus on capturing program-wide outcomes in all phases of the Fund.

The quote below captures the first issue:

*“The Review Team consider the IF is under-resourced to perform its wider M&E functions particularly at a time when there is more demand to document more process orientated results.”<sup>9</sup>*

This quote from an ODE in 2012 review captures the second point<sup>10</sup>:

*“Many of the innovations in performance assessment reported in this case study, such as the use of assessments for organisational baselines, are located at the project level. Significant challenges remain for the Fund to aggregate, represent and report its achievements at the program level”.*

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<sup>9</sup> 2012 Independent Review of the Incentive Fund

<sup>10</sup> DFAT (2012) Good Practice in Performance Management: Lessons from the Australia-PNG Incentive Fund, Office of Development Effectiveness, August 2012, p.7

It is beyond the scope of this paper to thoroughly review the existing Phase 4 M&E system (or the M&E systems of other phases) and suggest improvements, but there are lessons for the design of Phase 5, so it is important that any suggested improvements to M&E be highlighted here, these include:

- 1) **M&E 'Framework'**– the overarching document that describes Phase 4's M&E system is referred to as an M&E 'Framework' when in fact it could more usefully be termed an M&E Plan. An M&E Framework is an organising framework for the collection of data against outcomes. It is usually presented as a table that includes information on outcomes, indicators (at the different outcome levels), activities, baseline, targets, data sources etc. It helps ensure the results of a multitude of activities can be aggregated to tell a story of program-wide performance. An M&E Plan describes how the M&E system functions, it includes a program logic; it defines monitoring, evaluation and research; asks key questions in all these areas; provides details of how data will be collected; outlines roles and responsibilities; includes an annual M&E workplan (amongst other things); and includes an M&E Framework (usually as an appendix). Phase 4's M&E 'framework' (i.e., Plan) has some of these elements but not others.
- 2) **Program-level development outcomes** - the Phase 4 MEF (i.e., 'Plan') is too focused on the collection of process-level data and project monitoring and not enough on determining program-wide higher order outcomes, which is a criticism which could also be directed to previous phases. A range of things contribute to this including: a poorly defined program logic/theory of change, the absence of a proper 'MEF' that identifies indicators for higher order outcomes and enables aggregation, limited explanation of methodological issues and data collection methods, and the absence of impact assessments.
- 3) **Evaluation** - as noted in other sections of this report there is not a lot of evaluative material considering the size of the investment and its many moving parts. An overview of available project documentation suggests that independent or external reviews of the program were only undertaken in 2002, 2004, 2007 and 2012. There also appears to be limited thematic evaluation for such a long-running program (i.e., on gender, organisational performance, disability inclusion, private sector engagement etc) - this should be an area for focus in the next phase. This is also a lost opportunity because there would have been some significant transformations in some organisations and in their service delivery capacity over time.
- 4) **Lessons** – there could have been a greater focus on capturing learning and facilitating critical reflection on the strengths and weaknesses of the Fund's implementation approach. There have been some advancements in this area in recent program

reporting. Further, there does seem to have been much effort expended on facilitating POs to share their lessons with each other, which would be highly valuable in the PNG context – again something Phase 5 needs to consider.

- 5) **Program logic** – there are some issues with the Phase 4 program logic. For example, the last outcome statement under Results Area 2 states “*High performing organisations have been rewarded for their strong records, incentivising continuing high performance in future years and encouraging others to reach the standard required for funding*”. This is not an outcome statement; it is a conflation of the two assumptions that underpin the incentive approach. The Phase 5 design will need to develop a much clearer program logic including well defined high-level outcome statements, substantially more detail of intermediate-level outcomes, and indicative outputs and activities.
- 6) **PO’s and M&E** – as noted above, there are weaknesses in PO-level M&E capacity, which has resulted in them measuring the wrong things and generally being confused about their role in the M&E process. Further, more M&E capacity development support for partners is needed, as is clearer guidance on what to measure, and how, through the use of specified indicators and more hands-on training in data collection and monitoring processes.
- 7) **M&E resourcing** – there does not appear to be enough human and financial M&E resources for an investment of this size and for one that works with so many partners. There is only 1 M&E Coordinator and a part-time M&E Manager, this is quite low for such a large program, particularly noting the weaknesses in PO M&E capacity. Under-investing in M&E has implications for effectiveness, efficiency, equity, relevance, risk management, value for money and lesson learning. Given the high-risk nature of a demand driven, community-based program operating in rural and remote areas of PNG with organisations that have limited experience in program management, the MEL funding should be around 7% of the total investment budget: a level within the recommended range of the latest (September 2021) DFAT Aid Programming Guide.
- 8) **Value for Money** – there does not seem to have been any systematic attempt to incorporate DFAT’s VfM criteria into the Fund’s investment decision-making or into M&E. The Phase 5 design will be required to explain how VfM will be incorporated into decision-making and M&E processes.

### **Gender Equality, Disability and Social Inclusion**

The Phase 4 IDD elevated the status of GEDSI compared to the previous phases. One way it did this was by mandating that 80 per cent of investments needed to support the empowerment of women and girls. The assessment of this then became part of the overall

grant assessment process, which was absent from previous phases of the Incentive Fund. This was a good outcome.

Despite the primacy of GEDSI issues in the design, and the stated intention to ensure investments directly empower women and girls, there have been a range of challenges that have precluded the elevation of GEDSI to the level that was intended in the design, and is necessary considering the widespread issues with gender equality in PNG, these include:

- 1) **GEDSI and M&E** – the issues with M&E system noted above have implications for monitoring and evaluating GEDSI outcomes. The GEDSI case studies developed by the program provide good examples of how projects have considered and addressed GEDSI, but it is not clear how these have led to project-level improvements. The weaknesses in PO-level M&E, and the lack of experience with collecting gender disaggregated data at various stages in the project cycle presents a range of problems. A review of program documents suggests that PO's state they are empowering women and people with disabilities through their projects, yet it is unclear how the current MEL system measures 'empowerment' and the extent to which gender norms and unequal power relations are being addressed, or whether women and people with disabilities are actively participating in decision-making across all stages of a project. The Phase 5 design needs to very clearly explain the minimal sufficient requirements for the better treatment of GEDSI issues in Phase 5 M&E. It is important to *then* track the extent to which those improved GEDSI indicators are *used* as an active tool in program management.
- 2) **Human Resourcing** - as with M&E, there has been limited human resourcing for GEDSI throughout the course of implementation – although this has improved recently. Limited in-house human resourcing for GEDSI mainstreaming has meant that PO's have not been provided with the hands-on support they need to consider GEDSI at all stages of the project cycle. This is important as many PO's have little or no awareness of how GEDSI issues are relevant to their projects. Again, the Phase 5 design needs to ensure there is ample investment in GEDSI resources, while also identifying new ways that local level (i.e., PO) capacity can be built.
- 3) **Impact of GEDSI step-up** - there has been a significant step-up in many GEDSI-related areas since the GEDSI internal review in 2018. As highlighted in the previous section, GEDSI became a major strategic objective of the program for the first time in 2019, and this led to a raft of improvements, including: the refinement of GEDSI tools and processes to better support PO's, increased GEDSI training for IF staff, a small increase in human resources for GEDSI, stronger administrative procedures to identify

and address gaps and opportunities during the grant making process, and clearer guidance on GEDSI in the Organisational Assessment process. These were necessary improvements. However, to start to address this major issue in a meaningful fashion only after four years of implementation is highly problematic. The majority of IF's funds have already been allocated to projects, with more substantive support earlier on these projects may have had better GEDSI outcomes, not to mention the GEDSI issues that may have been exacerbated early on due to an absence of oversight in this area.

- 4) **GEDSI risks** – there will be an ongoing need to continue to mitigate GEDSI risks such as those observed during 2019 and into 2020, which included the perpetuation of harmful gender stereotypes, the unintentional exclusion of women and more marginalised groups from application processes, discrimination and risk in facility design, and equity issues resulting from the exclusion of less connected groups from realising project benefits. The holistic treatment of such risks needs to be a strong focus of Phase 5. Phase 5 also needs to have a stronger focus on the risk of gender-based violence, with mitigation strategies identified at the proposal stage and implemented throughout the course of a project.
- 5) **Disability** – there have been some strong outcomes on the physical infrastructure side, as all new infrastructure has to comply with Australian design standards for disability access. There are also examples of some good local-level innovation that may assist those with poor literacy and/or with disabilities to navigate infrastructure, however Phase 4 has not engaged with Disabled People's Organisations to any great degree, which is something that could be improved in Phase 5. The lack of any evaluation in this area means there is a lack of knowledge of best/good practice in this area.

### **Sustainability of infrastructure**

Another key issue that has emerged throughout the Fund's history are issues to do with the sustainability of infrastructure in PNG. Feedback from key informant interviews supports the widely held view that the management of capital assets in PNG, including in IF projects, is often deficient; and that infrastructure is at high risk of deteriorating prematurely because of insufficient and late maintenance, repairs, and renewals. The functionality of assets often drops off ahead of their intended design life. The risk is higher in remote locations. Contributing factors include poor planning and design, poor quality construction, and deficient asset management systems and resourcing. Buildings and facilities in PNG are susceptible to normal wear and tear, and to climate change-related conditions. Moreover, infrastructure that is not fit-for-purpose in the first instance, will be challenging to sustain over its intended economic life. This ultimately reduces the effectiveness, and the efficiency

(including value for money) of the investment. It also reduces equity when infrastructure in poorer rural areas deteriorates more quickly than it otherwise should. Unfortunately, the Fund's the Monitoring and Evaluation systems have (to date) not been able to adequately capture the full extent, or specific root causes of poor sustainability practices. This needs to change in Phase 5. A stronger monitoring, evaluation, research, learning and adaptation program (MERLA) for Phase 5 should include case studies that capture the extent to which poor sustainability practices have a real - but often unseen and overlooked - financial cost to the communities involved and also to the development partner: in this case the Australian Government's aid program.

### **Additionality and Substitution**

Another issue that has arisen through the course of the Fund's implementation is the extent to which the infrastructure delivered is genuinely additional to, or a substitute for, the Government of PNG's own public expenditure effort at national, provincial or district level. This is important for several reasons. First, if the Fund displaces Government of Papua New Guinea expenditure that would have taken place otherwise (i.e., "fungibility") then the true, actual, impact and effectiveness of the Fund *is what that displaced funding is then spent on*. If it is spent on prestige projects and white elephants then that is, in public finance terms, the actual *true impact* of the Incentive Fund. Second, displacing what would - or should - have been planned, funded, and managed by the government of Papua New Guinea can lead to atrophy and hollowing out of the government's own systems for planning, procurement, and maintenance. Third, and importantly, if the Incentive Fund financing dilutes, or worse, *replaces*, the link between communities and their own national and local government representatives then communities may see Australia as the solution to their problems not their own governments. That undermines the very nature of development.

Data from key informant Interviews suggests a mixed picture as to whether the Fund is additional to, or a substitute for, Government of Papua New Guinea public expenditure. On the one hand several interviewees emphasised that there is such a lack of essential infrastructure in a place like Papua New Guinea that "there is actually nothing to displace, and that is the problem". On the other hand, other interviewees made it clear that they thought the government "did not have skin in the game". More specifically, community groups said that they had sought and obtained letters from the provincial or district government confirming that recurrent costs such as nurses' salaries, teachers' salaries, ongoing electricity charges, ongoing maintenance fees etc would be paid by the government, but the funding was never provided.

A key focus for Phase 5 is to ensure there is more purposive engagement between PO's, DFAT and GoPNG agencies at various levels, particularly in the planning of infrastructure, in



order to improve the impact and sustainability of investments. This should include aligning to Government of PNG planning cycles and leveraging finance at district and provincial levels where such opportunities exist.

## **Summary of Findings from Complementary Research**

This review and the development of the Investment Concept Note for Phase 5 have been informed by complementary research as outlined in Annex 1. This included the systematic review of program documents, an analysis of Aid Quality Scores and a key word search review. In the first area it should be noted that the review team experienced some significant constraints accessing historical information. The storage and accessibility of key documents is patchy at best, making it hard to analyse shifts in program implementation and performance. The lack of key evaluative material compounds this problem.

The word search analysis examined the frequency of words (and therefore concepts) in key documents over the period of implementation. This search provided some broad insights into what the priorities of key stakeholders at certain times during implementation, and what was perhaps not high on their agenda. The high frequency of words such as 'Gender', 'Inclusion' and 'Capacity', signify the efforts that were made by DFAT and the program to focus attention on these issues, and the gaps in doing so. The limited focus on issues such as 'poverty' and 'service delivery' are potentially indicative of a lack of focus on high level outcomes. The lack of focus on 'sustainability' is also worrying noting how a lack of sustainability has been a long-standing issue in the Incentive Fund (and other programs), and so clearly undermines overall effectiveness and efficiency, and value for money of Australia's – and the communities' – investments.

The analysis of aid performance scores in Annex 1 also provided some important insights. The key point to note is that there is limited variation in the scores across the past decade of program implementation. M&E, sustainability and effectiveness scores have generally improved in Phase 4. This is despite the significant M&E issues noted in this report. There is a surprisingly high and almost consistent score of 5/6 for GEDSI, which does seem surprisingly high for a country like PNG, and noting the issues raised in this review. Sustainability also scores surprisingly high throughout the period.

## **Conclusion**

The Incentive Fund delivers highly relevant, demand driven infrastructure that is fit for purpose and has demonstrable local level impacts. Over time, the Fund has directly contributed to building the capacity of PNG POs to deliver and manage local infrastructure, this has, in turn, enabled such POs to access other sources of finance. The governance mechanism that

oversees this competitive grant process is transparent. All these features of the Fund should be retained, along with its name.

Over the course of the last 20 years the Incentive Fund's underpinning logic and activities have been modified to reflect organisational realities in PNG. The hands-off approach to capacity building adopted in the early phases has been replaced with a much more hands-on approach during the latter stages of Phase 4. During Phase 5 there will be a need to further embed this approach. This should include delineating the levels of support needed for project conceptualisation and management, M&E, GEDSI, and organisational performance improvement. There is also need to engage more purposively with government counterparts at national, provincial and district levels so that Incentive Fund projects are additional to, and not a substitute for, the government's own public expenditure efforts. These issues will become particularly stark as the Fund moves into new geographies and works with new and less capable partners. In order to manage the manifold risks associated with working with such partners there will be a need to directly support capacity building activities, and new and innovative approaches in this area will be needed. There will also be a need to learn from the lessons of Phase 4 and to develop, very early on, robust, but simple systems and processes that are customised to local conditions, while ensuring there are adequate human resources to support a more hands-on approach.

## **References**

The following documents were reviewed:

DFAT PNG Annual Program Performance Reports 2016-2020

DFAT PNG Aid Investment Monitoring Report and Aid Quality Checks 2017 – 2021

IF3 Project Design Document

IF4 Investment Design Document

IF4 Annual Reports 2017-2021

IF4 Annual Plans 2017-2020

IF4 M&E Framework and Program Strategies

IF3 Completion Report

IF3 Independent Progress Report

IF4 Statement of Requirements

2012 Independent Review of the Incentive Fund

## Annex 1

### Incentive Fund 4 Light Touch Review — document sourcing and availability; “key word search” and “aid quality check” and scores,

*Prepared by Ashlee Betteridge*

This Annex covers three issues all, of which helped inform the Investment Concept Note and which also informed the light touch review report. Those three issues are:

- The methodology and document search process used for the document review, including the availability – and lack of availability – of key documents.
- A “key word” search to see how frequently – or *infrequently* – key words were used in documents over time
- The nature and possible changes in AusAID and DFAT aid quality scores for the Incentive Fund over time

This section briefly outlines the **methodology and document search process for the Light Touch Review of IF4.**

- A selection of Phase 4 documents was provided by DFAT/the Managing Contractor. These included Annual Reports and Annual Plans for Phase 4, the most recent Investment Management Report, relevant GoPNG strategies and plans, current bilateral agreements between Australia and GoPNG, relevant strategic documentation such as the Foreign Policy White Paper and COVID-19 Development Response Plan, the Phase IV design, Phase 3 completion documentation, and the 2012 Independent Review of the Incentive Fund. Recent case studies on gender and social inclusion were also provided by the Managing Contractor.
- A search of the DFAT website provided very minimal additional documentation. The DFAT website only hosted the 2011 Incentive Fund Annual Report, and the Phase IV design document from 2014. The 2012 Independent Review was also able to be located through the website search. PNG Aid Program Performance Reports (APPRs) for the last decade were available on the DFAT website, and these were added to the documentation for review.
- On the Incentive Fund website, two synthesis documents outlining achievements and learnings from Phases I, II and III were added to the review. There were no other easily locatable evaluative/learning materials or accountability materials on the website, which mostly focuses on public diplomacy and application materials.
- A general search through Google and Google Scholar brought up mostly press reports on Incentive Fund launches and projects. However, an impact evaluation of the Mt Hagen market redevelopment in 2006 published in an academic journal was added to the documents for review.
- A search of the National Library of Australia found that the original Incentive Fund program design was held by the library. As the library is closed due to lockdown, this document was not able to be included in the review. Only one other Incentive Fund document appeared to be available via the library, the Phase I&II synthesis report already located on the Incentive Fund website.
- As the document review progressed, older documents on the Incentive Fund that we did not have access to were cited or noted. These documents are unavailable publicly. They may be available internally within DFAT; however, we are not certain of this. These documents included:
  - The 2012 Independent Review cites other program reviews in 2002, 2004 and early 2007. These documents were not able to be located.
  - GoPNG independent review of Incentive Fund in May 2012 through the PNG Office of the Prime Minister (this was also noted in the 2012 review and referred to as the Hamblin review). We were not able to locate this document.
  - The 2012 Independent Review cites other program reviews in 2002, 2004 and early 2007. These documents were not able to be located.

- GoPNG independent review of Incentive Fund in May 2012 through the PNG Office of the Prime Minister (this was also noted in the 2012 review and referred to as the Hamblin review). We were not able to locate this document.
- The Phase IV design noted an evaluation was planned/envisioned for Phases I-III of the Incentive Fund. We could not find this evaluation, and it may not have gone ahead as it was not noted in any APPRs or future Annual Reports.
- From the review, there is limited documentation available on the Incentive Fund prior to Phase IV, which could indicate institutional knowledge management issues. Public-facing documentation is particularly limited.

**Conclusion and recommendation.** One of the conclusions from this document review approach and methodology is that storage and accessibility of key documents is patchy at best. That is potentially troubling for two reasons. First public accountability: the Incentive Fund has invested over significant taxpayer funds over the last 21 years. It is therefore problematic if key documents cannot be easily found or accessed. Second, there are important lessons that could – or should – be learned about previous phases of the Incentive Fund, including from community groups in Papua New Guinea. It is always difficult to access documents online from within PNG. But that is all the more reason why key documents should be made available in some more accessible format for the citizens of PNG. It is also worth mentioning that it is quite surprising there was only one academic article available on the role of the incentive fund after more than 20 years of operations. Perhaps there is scope for DFAT to commission some field based operational research using the PNG National Research Institute, possibly teamed with some Australian universities, to generate independent practical and useful field level findings that can be shared with stakeholders in PNG and the region.

Each of these issues will find a corresponding recommendation as the phase 5 design evolves.

## Keyword search of selected documentation

Prepared by Ashlee Betteridge

This keyword search is intended to complement the light touch review to provide some insight into topics of priority for the fund over the program life and its various phases.

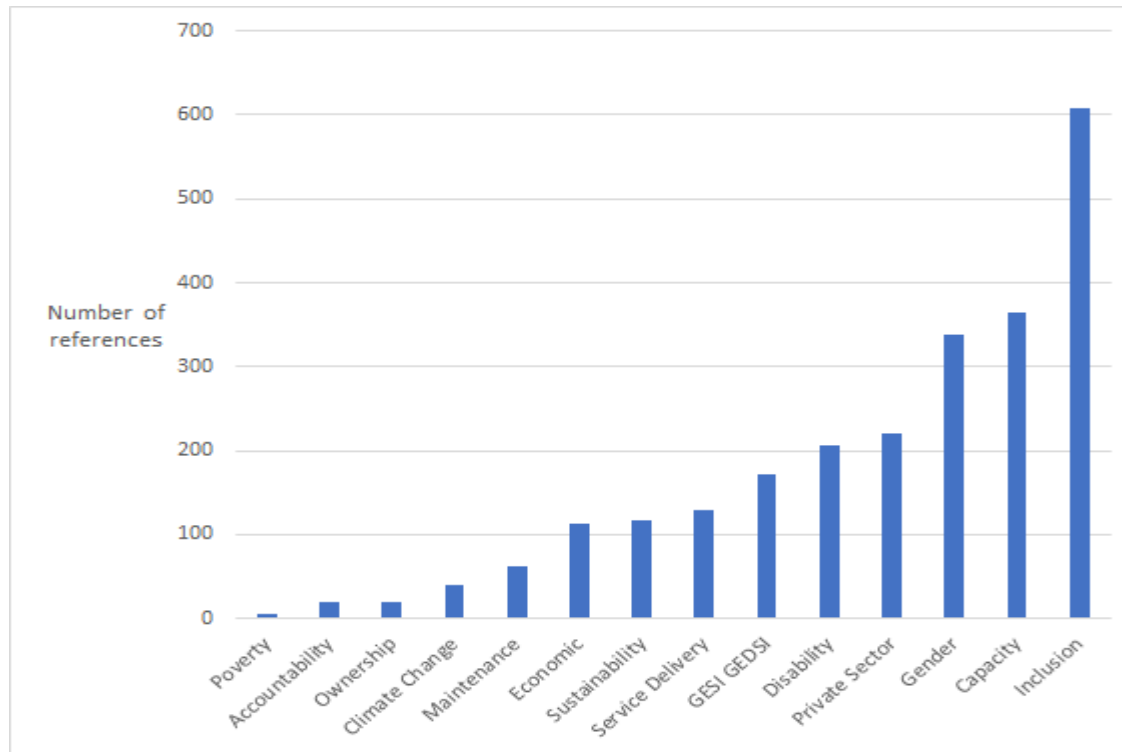
The table below shows the occurrences of certain keywords in a selection of program documents. While it is a limited instrument, as terminology shifts over the course of a program and document length and focus has an impact on the keyword count, this keyword analysis provides some view into changes in priorities or focus. The design team would reiterate and emphasise that counting the number of times a particular word is used in a document is a crude - even simplistic – approach. Nevertheless, it does provide some broad insight into what was capturing the attention of key stakeholders at the time, and what was perhaps not high on their agenda.

Some areas to note are the significant focus on the private sector and economic development in the Phase 4 design document. These terms appear far less frequently in Phase 4 reporting than areas such as gender, disability and social inclusion do, which have very limited mentions in the design. Mentions of the private sector begin to increase in recent years of Phase 4. Climate change was only mentioned in very recent years as a small climate change grants program became part of the Incentive Fund, whereas climate-resilient infrastructure should be an increasing focus in line with various Australian and GoPNG strategic plans and PNG’s vulnerability to natural disasters. The focus on disability has increased significantly since Phases 1 and 2. “Inclusion” dominates reporting documents during Phase 4, with a strong presence in Phase 3. (note: the ‘Changing Attitudes’ synthesis report had an exclusive focus on gender and inclusion, hence the very high counts, however the holistic Phase 3 completion report also demonstrated a significant emphasis on inclusion). There is a surprising lack of specific references to the word “poverty”. It is only mentioned six times in the seven documents reviewed. The three most frequently found words were, in order, inclusiveness (608 times in total); capacity (364 times) and gender (332 times). These three least frequently used words were poverty (6 times in total); accountability (20 times) and ownership (20 times)

Keyword	Maintenance	Poverty	Accountability	Ownership	Gender	Disability	Inclusion	GEDSI / GEDSI	Economic development	Service delivery	Capacity	Private sector	Climate change	Sustainability
2020 Annual Report	9	0	4	0	24	15	35	111	10	10	95	30	36	4
2017-18 Annual Report	1	0	0	0	47	2	35	60	6	1	10	28	3	6
Phase III Completion Report	19	1	6	8	56	68	208	NA	0	21	89	7	0	39
Changing Attitudes (2010-2014)	1	1	0	2	100	80	261	NA	0	8	8	2	0	5
Phase IV design (2014)	25	2	6	0	28	6	27	0	90	50	66	142	0	9
Incentive Fund Independent Report 2012	6	0	2	9	56	36	42	NA	1	39	74	7	0	46

Changing Lives: 2008	2	2	2	1	27	0	0	NA	6	1	22	4	0	8
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The following provides a graphical representation of the frequency of particular words throughout these seven documents.



## Aid Quality Check/Aid Quality at Implementation scores for Incentive Fund 2010-2020

Prepared by Ashlee Betteridge

Source document	Phase	AQC year	Relevance	Effectiveness	Efficiency	M&E	Sustainability	Gender equality
<b>IF IMR 2020</b>	IV	2020	NA	5	4	NA	NA	5
<b>PNG APPR 2018-19</b>	IV	2019	NA	5	5	NA	NA	5
		2018	6	5	4	5	5	5
<b>PNG APPR 2017-18</b>	IV	2018	5	4	6	5	5	5
	IV	2017	6	5	5	5	5	5
<b>PNG APPR 2016-17</b>	IV	2017	5	6	5	5	5	5
	IV	2016	Exempt	Exempt	Exempt	Exempt	Exempt	Exempt
<b>PNG APPR 2014-15</b>	III	2015	5	4	4	4	4	5
<b>PNG APPR 2013-14</b>	III	2013-14	5	4	5	4	4	4
	III	2012-13	5	4	3	4	4	4
<b>PNG APPR 2012-13</b>	III	2012	5	4	5	4	4	4
	III	2011	6	5	5	5	5	5
<b>PNG APPR 2011</b>	III	2010	6	5	5	5	5	5

These scores have been compiled from PNG Aid Program Performance Reports (APPRs) available on the DFAT website, with the exception of the 2020 score, which is from the 2020 Investment Monitoring Report, provided to the review team by DFAT. Note that there were some discrepancies in scores between APPRs for 2018 and 2017, so we have included both versions of the scores in the table above.

All scores are out of six.

The key point to note is that there is limited variation in the scores across the past decade of program implementation. M&E, sustainability and effectiveness scores have – according to this self-scoring - in general improved in Phase 4. There is a surprisingly high and almost consistent score of 5 out of 6 for gender equality which does seem high for a country like PNG. Sustainability also scores surprisingly high throughout the period.