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IDA/R2017-0162/1

May 22, 2017

<p>Closing Date: Friday, June 9, 2017 at 6 p.m.</p>
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FROM: Vice President and Corporate Secretary

Papua New Guinea - Rural Service Delivery Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Papua New Guinea for a Rural Service Delivery Project (IDA/R2017-0162), which is being processed on an absence-of-objection basis.

Distribution:

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Report No: PAD1934

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR17.0 MILLION

US\$23 MILLION EQUIVALENT

AND A

PROPOSED GRANT

IN THE AMOUNT OF US\$4.5 MILLION

TO THE

INDEPENDENT STATE OF PAPUA NEW GUINEA

FOR A

RURAL SERVICE DELIVERY PROJECT

May 18, 2017

Social, Urban, Rural and Resilience Global Practice
EAST ASIA AND PACIFIC REGION

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2017)

Currency Unit = PGK

PGK3.2077 = US\$1

US\$1.35389 = SDR1

FISCAL YEAR

January 1 - December 31

Regional Vice President: Victoria Kwakwa

Country Director: Michel Kerf

Senior Global Practice Director: Ede Jorge Ijjasz-Vasquez

Practice Manager: Susan S. Shen

Task Team Leader(s): Kosuke Anan

ABBREVIATIONS AND ACRONYMS

ADM	Accountability and Decision-Making
AGO	Auditor General's Office
BOQs	Bill of Quantities
CBD	Capacity Building Division
CDD	Community Driven Development
CDD-SC	CDD Subcommittee
CDW	Community Development Worker
CMCA	Community Mine Contribution Agreement
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CPT	Community Project Team
CQS	Consultant's Qualification Selection
DA	Designated Account
DDA	District Development Authority
DFAT	Australian Department of Foreign Affairs and Trade
DOW	Department of Works and Implementation
DPLGA	Department of Provincial and Local Government Affairs
DPMT	District Project Management Team
DSIP	District Service Improvement Program
ECOPs	Environmental Code of Practices
EOI	Expression of Interest
ERD	External Relations Division of DPLGA
ESMF	Environmental and Social Management Framework
FM	Financial Management
GDP	Gross Domestic Product
GOPNG	Government of Papua New Guinea
GRS	Grievance Redress Services
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IFC	International Finance Corporation
IFR	Interim Financial Report
IPF	Investment Project Financing
IPP	Indigenous Peoples Plan
IRR	Internal Rate of Return
LCS	Lowest Cost Selection
LGS	Local Government Services of DPLGA
LLG	Local Level Government
MIS	Management Information System
MP	Member of Parliament
M&E	Monitoring and Evaluation
NCB	National Competitive Bidding
OP/BP	Operations Policy/Bank Procedure
O&M	Operation and Maintenance
PAD	Project Appraisal Document
PDO	Project Development Objective
PGK	Papua New Guinean Kina
PMI	Performance Monitoring and Improvement Division of DPLGA
PMT	Provincial Management Team
PMU	Project Management Unit

PNG	Papua New Guinea
POM	Project Operations Manual
PPC	Provincial Project Coordinator
PPO	Provincial Project Office
PSC	Project Steering Committee
PSIP	Provincial Service Improvement Program
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RISS	Rural Infrastructure and Safeguards Specialist
RPF	Resettlement Policy Framework
RSDLGP	Rural Service Delivery and Local Governance Project
RSDP	Rural Service Delivery Project
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SMS	Short Messaging System
SORT	Systematic Operational Risk-Rating Tool
SPISG	Subproject Preparation and Implementation Support Grant
SSS	Single Sourced Selection
TF	Technical facilitator
US\$	United States Dollar
WDC	Ward Development Committee
WDG	Ward Development Grant

**BASIC INFORMATION**

Is this a regionally tagged project? No	Country(ies)	Financing Instrument Investment Project Financing
<input type="checkbox"/> Situations of Urgent Need of Assistance or Capacity Constraints		
<input type="checkbox"/> Financial Intermediaries		
<input type="checkbox"/> Series of Projects		
Approval Date 09-Jun-2017	Closing Date 30-Jun-2022	Environmental Assessment Category B - Partial Assessment
Bank/IFC Collaboration No		

Proposed Development Objective(s)

The Project Development Objective is to improve communities' access to basic infrastructure and services in targeted rural areas using inclusive, participatory planning and implementation.

Components

Component Name	Cost (US\$, millions)
Preparation and implementation of sub-projects	15.50
Capacity building of national and sub-national entities	3.00
Project Management	10.00

Organizations

Borrower :	Department of Treasury
Implementing Agency :	Department of Provincial and Local Government Affairs



PROJECT FINANCING DATA (IN USD MILLION)

<input checked="" type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input checked="" type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input type="checkbox"/> IDA Grant <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input checked="" type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
Total Project Cost:		Total Financing:		Financing Gap:	
28.50		28.50		0.00	
		Of Which Bank Financing (IBRD/IDA):			
		23.00			

Financing (in US\$, millions)

Financing Source	Amount
International Development Association (IDA)	23.00
Local Govts. (Prov., District, City) of Borrowing Country	1.00
Papua New Guinea Strategic Partnership	4.50
Total	28.50

Expected Disbursements (in US\$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	0.11	2.93	5.40	5.68	5.07	3.81
Cumulative	0.11	3.04	8.44	14.12	19.19	23.00

INSTITUTIONAL DATA



Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Low
8. Stakeholders	● Low
9. Other	
10. Overall	● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10	✓	
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50	✓	
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

The Recipient shall maintain, at all times during the implementation of the Project, the Project Steering Committee (PSC): (a) chaired by the Secretary of the Department of Provincial and Local Government Affairs (DPLGA); (b) composed of secretaries or their delegates from, inter alia, the Department of Finance; the Department of Treasury; the Department of National Planning and Monitoring; the Department of Implementation and Rural Development; and representatives of other relevant departments or agencies as may be required (IDA Financing Agreement, Schedule 2, Section I.A.1)

Sections and Description

The Recipient shall establish not later than four (4) months after the effectiveness date and thereafter maintain at



all times during the implementation of the Project, the Project Management Unit (“PMU”), within DPLGA with mandate, functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association (IDA Financing Agreement, Schedule 2, Section I.A.2)

Sections and Description

The Recipient shall establish not later than six (6) months after the effectiveness date and thereafter maintain at all times during the implementation of the Project, the Provincial Project Offices (“PPOs”) at the provincial level in each of the Participating Provinces (except Central Province, which shall have a PPO consolidated within the PMU), with terms of reference and resources, including qualified and experienced staff in adequate numbers, all satisfactory to the Association (IDA Financing Agreement, Schedule 2, Section I.A.3)

Sections and Description

The Recipient shall execute, not later than ten (10) months after the effectiveness date and thereafter maintain, a Partnership Agreement between the DPLGA, the Provincial Government, the District Administration, and each of the Participating LLGs (IDA Financing Agreement, Schedule 2, Section I.B.3)

Conditions

Type	Description
Effectiveness	The Financing Agreement for the Project shall not become effective until the Multi-Donor Trust Fund (MDTF) Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled. (IDA Financing Agreement, Article IV. 4.01)

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Kosuke Anan	Team Leader(ADM Responsible)	Team Leader	GSU02



Eric Leonard Blackburn	Procurement Specialist(ADM Responsible)	Procurement	GGO08
Robert J. Gilfoyle	Financial Management Specialist	Financial Management	GGO20
Caroline Mary Sage	Safeguards Specialist	Safeguards Specialist	GSU02
Dodi Doiwa	Team Member		EACGF
Duangrat Laohapakakul	Counsel	Project Lawyer	LEGES
Erik Caldwell Johnson	Team Member	Local Governance	GSU02
Faustinus Marius Ravindra Corea	Team Member	Team Member	GSURR
Gayatri Acharya	Team Member	Operations	GSU02
Jessie Tabar Ponce	Team Member	CDD	GSU02
Kaori Oshima	Team Member	M&E	GSUGL
Loren Jayne Atkins	Counsel	Project Lawyer	LEGES
Miki Terasawa	Team Member	Economic Analysis	GFA06
Walai Punena Jacklyn Tongia	Team Member	Team Assistant	EACGF
Extended Team			
Name	Title	Organization	Location



PAPUA NEW GUINEA
RURAL SERVICE DELIVERY PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **Papua New Guinea (PNG) is a resource-rich country of approximately seven million people.** PNG's population is characterized by a diverse number of social groups with over 800 distinct languages, with strong local and clan-based affinities and allegiances. 87 percent of the country's population lives in rural areas. Average national population density is low at about 14 per km². PNG is rich in natural resources, but is subject to extreme weather events and natural disasters. The economy is dominated by agriculture, fishery, and the oil/minerals sectors.
2. **Despite the positive economic performance over the past decade, PNG's human development indicators remain low.** More than 40 percent of children under five years of age suffer from moderate to severe chronic malnutrition. Life expectancy at birth is 63 years, considerably below the Pacific Islands average of 70 years; the infant mortality rate is 48 per thousand compared to a regional average of 26.5; and the maternal mortality rate is very high at 230 per 100,000 live births. The Government of PNG recognizes the lack of infrastructure facilities as a major constraint to economic development and delivery of basic services to the population, especially in the context in which the national population is growing at 2.7 percent each year.

B. Sectoral and Institutional Context

3. **Public service is delivered at several levels in PNG, including Provincial Government, District Administration, and Local-Level Government.** Since the passing of the 1995 Organic Law for Provincial and Local Level Government, the Government of PNG (GOPNG) has been striving to (i) reduce administrative costs of service provision at sub-national levels; (ii) strengthen the ability to make technical and financial decisions regarding development priorities; and (iii) better align public expenditures and priority public services.
4. **Fiscal transfers to sub-national governments have increased substantially over the years, while fixed sector allocations have been largely removed.** The annual capital funding to the Provinces in 2015 included PGK10 million (≈US\$3.3 million) in direct funding per Province under the Provincial Services Improvement Program (PSIP), PGK10 million (≈US\$3.3 million) per District under the District Services Improvement Program (DSIP), and PGK100,000 (≈US\$333,000) per Local Level Government (LLG). Accordingly, Provinces and Districts now play a greater role and also have a greater flexibility in utilizing public funds for addressing local development needs. It requires an effective mechanism and capacity at sub-national levels for consolidating and prioritizing local needs, and for utilizing available public resources to meet them in a transparent manner. Communities, on one hand, need a platform and instruments to voice their needs and formulate their demands in concrete proposals to seek district or provincial funding. Provinces, districts, and LLGs, on the other hand, need a platform that systematically collects the demand of communities, prioritize them in a fair and transparent manner, and respond to them.



5. **A new District Development Authority (DDA) Act, which was passed in late 2014, is expected to further enhance the role of districts in managing public funds at sub-national levels.** Under the act, a DDA was created at every district to control budget allocation priorities and be responsible for service delivery in districts. DDAs are chaired by the open (district) members of parliament (MP), and represented by the head of each LLG in the district. While many of the implementing and operating processes of the DDA act are yet to be established, it is envisaged that the DDAs will play a more prominent role in (a) allocating DSIP funds against priority development needs expressed by LLGs (as the Heads of LLGs form the DDA), and (b) harmonizing the use of DSIP funds and the districts' service delivery plans with the provincial development plans (as the Chairman of each DDA is represented in the Provincial Executive Council, which determines and controls budget allocation priorities and draws up a rolling five-year development plan for the province). Meanwhile, LLGs are expected to continue to play a key role on the ground in directly communicating with the population at ward and village levels, and supporting the provision of services. It is within this context, GOPNG is exploring ways to improve the fiscal transfer system, as well as the processes through which the PSIP, DSIP, and LLG funds can be applied effectively to meet the priority needs at Local-level Government (LLG) and ward levels where resources and staff are limited, and the most basic social and economic services are needed.
6. **The Government is interested in applying the community-driven development (CDD) approach for enhancing the effectiveness of service delivery at local levels.** This approach, currently being piloted under the Rural Service Delivery and Local Governance Project (RSDLGP) by the Department of Provincial and Local Government Affairs (DPLGA) with the support of the World Bank in Central Province and Western Province, has shown promising performance in delivering basic services to rural areas, while increasing community commitment to the sustainability of small scale investments. The approach is increasingly seen by the Government as an effective way to deliver services to rural communities with transparent and accountable systems. The Government is interested in expanding the coverage of RSDLGP to other provinces, with a view of eventually adapting the model in their regular local governance framework—making effective use of sub-national level funds (e.g. PSIP, DSIP, and LLG funds) in response to community-level demands in a systematic way.

C. Higher Level Objectives to which the Project Contributes

7. **The proposed Rural Service Delivery Project (RSDP) would contribute to all three pillars of World Bank Group's (WBG's) Country Partnership Strategy (CPS¹) in PNG.** By assisting local communities to invest in basic infrastructure through participatory and inclusive project planning and management processes, the project is expected to help achieve Pillar 1 (Increased and more gender-equitable access to inclusive physical and financial infrastructure). The project aims to improve rural communities' access to basic services, which are critical to the achievement of Pillar 2 (Gender-equitable improvements in lives and livelihoods). The project will also directly help to operationalize a local development platform designed to support Pillar 3 (Increasingly prudent management of revenues and benefits) at both national and community levels. In addition, the project explicitly seeks to contribute to building a more responsive and accountable state

¹ CPS 2013-2016, extended to June 2018. Report 71440-PG.



through its emphasis on participatory and inclusive development. This is a particular area of concern given the fragile nature of the country and the potential risk of violence that could be triggered by the combination of weak public institutions and non-transparent use of public funds.

8. **The three pillars of the CPS are consistent with the priorities expressed in the Government's Vision 2050 document**, which aims "to reform and align institutions and systems to make Papua New Guinea become a smart, wise, fair, healthy and happy society" through effective service delivery, human resource development, wealth creation and sustainable development of the country's vast natural resources.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

The Project Development Objective is to improve communities' access to basic infrastructure and services in targeted rural areas using inclusive, participatory planning and implementation.

B. Project Beneficiaries

9. **The project is expected to reach about 400,000 beneficiaries² (of whom an estimated 200,000 would be women) in five provinces, covering 19 districts and 20 LLGs³ would benefit from approximately 440 ward grants.** The project would also increase the capacity of: the Department of Provincial and Local Government Affairs (DPLGA); key officials and staff of the five target provinces, 19 districts, and 20 LLGs; and members of the Ward Development Committees (WDCs) and other leaders and volunteers of selected target wards.
10. **The five provinces where the Project will be implemented are: Central, Western, East New Britain, West Sepik, and Simbu.** Central and Western Provinces have been targeted by the ongoing pilot project, and therefore, will continue to build on the pilot. In addition, East New Britain, West Sepik, and Simbu Provinces were selected by applying the criteria of (a) regional equity, (b) provincial financial management performance and (c) provincial fiscal need. Data and indices from the 2016 Budget Fiscal Report of the National Economic and Fiscal Commission were used to rank the provinces in each of the three regions, and the highest ranked province was selected in each region. All three districts in Western Province and all four districts in Central Province will continue to be targeted under RSDP. Four districts will be targeted in each of the three additional provinces. This means all districts in East New Britain and West Sepik will be targeted; For Simbu Province, Kerowagi, Sinasina-Yongumugul, Gumine, and Chuave will be targeted. These districts were selected in consultation with provincial authorities, applying a uniform set of criteria to districts, using

² As the same individuals may benefit from more than one sub-project, the total number of beneficiaries counted in the project may be greater than the total number of individuals benefited by the project, which is estimated to be between 200,000 and 300,000 (some of these individuals may be double counted).

³ The Project targets 19 districts, instead of targeting a small number of districts and covering a greater number of wards in each targeted district. The purpose of targeting a greater number of districts is to facilitate the expansion of the rural service delivery model in the future in a greater number of wards more widely across districts. It is expected that once a district has experienced the delivery model, it would be easier to extend its coverage to other wards within the district. If only a small number of districts are engaged, it would be more difficult to extend the model to the wards in other districts.



indicators such as the execution rate of district service improvement program (DSIP) grants, gross school enrolment ratio, the size of population served per health facility⁴, and the capacity of LLG administrations.

11. **One LLG will be targeted in each of the target districts.** The Target LLGs will be selected by applying a standard set of criteria, which include the following four minimum eligibility requirements: (i) have a physical office with adequate office equipment; (ii) have at least three operational staff (LLG Manager, Finance Officer, Project Office); (iii) have an LLG plan/operational budget; and (iv) be accessible by road (at least from the district administration). Among the eligible LLGs, the target LLG will be selected in each district by applying a combination of the following needs criteria: (v) LLGs experiencing a particular crisis with living conditions that need to be addressed urgently through the provision of basic services are prioritized (e.g. drought, markedly high occurrence of diarrhea, or other health issues compared to other LLGs in the district); (vi) LLGs that have recently experienced particular damages to basic infrastructure due to a natural disaster are also prioritized (e.g. floods or landslides); and (vii) LLGs with a notably higher presence of other projects or investments compared to other LLGs in the district will be given a lower priority.
12. **The selection of target districts may be revised as needed in the process of selecting target LLGs.** In case there are no LLGs in a target district that meet the minimum eligibility requirements of the project, or it was deemed no longer feasible to implement the project in a target district during the selection of target LLGs, the project may withdraw from the district and select an additional target LLG in another target district, applying the same selection criteria.

C. PDO-Level Results Indicators

13. **The following indicators will be used in measuring the achievement of the PDO:**

- (i) Direct project beneficiaries;
- (ii) Percentage of beneficiaries reporting improved access to basic services;
- (iii) Percentage of villages in the targeted wards represented in ward development planning;
- (iv) Percentage of project beneficiaries that feel project investments reflected their needs;
- (v) Percentage of women participating in community decision making meetings in targeted wards.

Indicators (i), (ii), and (iv) will be disaggregated by sex.

⁴ Data were drawn from 2016 National Budget (Volume 1) and NRI Provincial and District Profiles.



III. PROJECT DESCRIPTION

A. Project Components

Component Name	Cost (USD Million)	Comments
Preparation and implementation of sub-projects	15.5	
Capacity building of national and sub-national entities	3.0	
Project Management	10.0	

Project Design and Components

14. **The project will maintain the three components from the pilot Rural Service Delivery and Local Governance Program (RSDLGP)**, which are: (1) Preparation and implementation of Ward Development Grants; (2) Capacity building of national and sub-national government (or non-government) entities, and (3) Project management (including monitoring, evaluation and knowledge sharing). The proposed project will provide two rounds of Ward Development Grants (WDGs) to rural wards in five targeted provinces, which could be used for a wide-range of small-scale social or economic investments and/or services (e.g. classrooms, health aid posts, water supply and sanitation systems, access roads, footbridges, jetties, solar power systems). The specific purpose of these grants would be determined by wards with the support of trained facilitators, and would be approved at LLG level based on agreed-upon criteria that reflect Government policies and any relevant World Bank requirements. Wards will identify their priorities and be responsible for the design, implementation, and maintenance of their investments, as well as reporting on the use of the funds. The mechanism for distributing WDGs may also be used for disaster response, as in other countries, should the need arise and GOPNG wish to formally request using it for such purposes during implementation. The three components are described in more detail below.

Component 1: Preparation and Implementation of Sub-projects

Subcomponent 1.1: Ward Development Grants

15. **This subcomponent will provide grants to wards to finance community-identified subprojects.** Wards will be responsible for the identification and prioritization of community needs. The subprojects will be developed through a participatory planning process that will be integrated into the preparation of Ward and LLG development plans and coordinated with the decisions and budget allocations of provincial and district administrations. Typical subproject grants are expected to include small-scale community infrastructure, technical assistance, and capacity building. Based on the experience of RSDLGP, most common types of subprojects are expected to be water supply systems, classrooms, health aid posts, community halls, solar



power, and footbridges. In order to also help wards to assess and address non-infrastructure needs, ward-level subproject prioritization will involve some socialization and awareness raising activities on them, such as on maternal and child health. The average size of grant provided to wards will be between PGK70,000 (≈US\$23,000) and PGK114,000 (≈US\$38,000) depending on the population and distance from the nearest road. In addition, the project will encourage and support women's groups in preparing and implementing sub-projects in the participating provinces. A women's organization will be identified on a pilot basis using a pre-determined set of criteria detailed in the Project Operations Manual. The selected organization will be supported by community development workers (CDWs) to prepare and implement a subproject project. Each LLG will be allocated an additional amount of approximately PGK70,000 (US\$23,000) – PGK84,000 (US\$28,000) if a subproject by a women's group is approved.

Subcomponent 1.2: Subproject Preparation and Implementation Support Grants

16. **Grants will also be provided to the target LLG administrations to provide support to wards in preparing and implementing subprojects.** The grant (Subproject Preparation and Implementation Support Grant: SPISG) will be used by each target LLG to facilitate and monitor the preparation and implementation of subprojects. The grants would be transferred to the special accounts of LLG to cover the administrative costs of supporting wards in the WDG subproject cycle, including local travel expenses.

Component 2: Capacity Building of National and Sub-national entities

17. **This component will support the strengthening of capacities of national and sub-national government entities as well as community members to manage and implement subprojects, and to improve local governance as it relates to basic service delivery.** At the central level, the capacity of DPLGA will be strengthened. Activities will be carried out to build their capacity in the overall development and monitoring of the project; coordination across the key government stakeholders (including Department of Community Development, Religion & Sports; Department of Implementation and Rural Development; the National Economic and Fiscal Commission); coordination among other donor and international development agencies who are implementing similar programs; and documentation and promotion of good and bad practices of collaboration among provincial administrations, district administrations, LLGs and wards that influence the quality of service delivery. DPLGA staff will be supported to work with districts, LLGs, and wards to review and identify (a) specific capacity and processes required at LLG and District levels to facilitate project planning and implementation at local levels, and (b) effective incentives and arrangements for harmonizing LLG, district, and provincial level plans and budgets (both investments and recurrent costs). DPLGA staff will also be supported to prepare reports of such findings to inform future policies on local service delivery arrangements. At the provincial level, capacity building activities will be conducted to strengthen linkages with the activities being supported in respective district administrations and LLGs. For example, training would be provided on consolidating development needs from communities at the district and provincial levels and analyzing the recurrent costs of new investments. At district, LLG, and ward levels, capacity building will be aimed at increasing their capacity to manage public resources, including improved ward planning, review and evaluation of specific ward plans, grant management to communities, basic financial management and procurement, reporting, and monitoring of community projects. Provincial LLG Advisors



(who are staff members of the provincial administration) and District Administrators would be the key focal points for work at this level. Ward recorders will also be trained to serve as a key member of ward development committees and/or CDD subcommittees. Workshops will also be organized in the target provinces to facilitate learning and knowledge building over time.

18. **This component will also support the updating of tools and training materials.** They will enhance social accountability initiatives (e.g. participatory planning meetings, public education to improve budget literacy, public feedback mechanisms, and participatory performance monitoring) to strengthen downward accountability and responsiveness of service provinces. These tools will be included in the Project Operations Manual (POM) and covered by the capacity building modules explained in the previous paragraph, hence are expected to be applied throughout the ward development grant cycles. Training and capacity building support to help improve the participation and inclusion of traditionally marginalized groups (including women, youth, and persons with disabilities) would be articulated and financed as well. For all activities, data (gender disaggregated) will be maintained and analyzed on a regular basis to understand the levels of participation and effectiveness of the project activities in building local government capacity. Learning workshops will also be organized for relevant staff members of the provincial administrations from provinces that are not directly targeted by RSDP. The workshops will provide them with the information on the key concepts and principles of the CDD approach and the participatory processes of RSDP, in view of facilitating further replication of the RSDP approach in additional provinces in the future. These workshops will take place after the completion of the first cycle of grants, reflecting the lessons learned from it, and allowing the targeted provincial administrations to share their experience.

Component 3: Project Management

19. **The third component will finance incremental costs of the implementing agency for project management, specifically coordination and supervision of implementation activities, financial management, annual audits, and monitoring and evaluation.** The current Project Management Unit (PMU) from RSDLGP is expected to be retained (or re-established in case there is a time gap between RSDLGP closure and the launch of RSDP) and will implement RSDP. The PMU would also be responsible for coordinating funds from other potential sources that may fund the project in the future. Vehicles and office equipment would be purchased for the PMU and Provincial Project Office (PPO) teams to be established in the new provinces. In addition, in response to the experience of RSDLGP in which wards required extensive assistance with the planning, technical design, procurement, and supervision of civil works, this component will recruit and fund two community development workers (CDWs) and a technical facilitator (TF) for each target LLG. They will work as part of the LLG administration. An external firm would be contracted under this component to design and undertake an assessment of the project upon completion, which would include an independent technical audit.

Citizen Engagement

20. **Applying a community-driven development (CDD) approach, the Project contains various citizen engagement mechanisms.** There are four specific steps through which citizen engagement is facilitated: (a) updating of ward development priorities and preparations of the expressions of interest for ward development grants by Ward Development Committees (WDCs); (b) development of the full subproject



proposals by WDCs; (c) implementation and monitoring of subprojects through CDD subcommittees (CDD-SCs); and (d) development and implementation of the operations and maintenance plan for the subprojects. Community meetings will be organized, especially for steps (a), (b), and (d), and community helpers will facilitate effective participation of community members. The outcomes of these steps will reflect the input and decisions collectively made by community members, and are therefore also expected to close citizen feed-back loops. In order to enhance the engagement of traditionally less influential community members, separate -meetings with women and youth will be organized to strengthen their understanding of the processes, confidence, and voice during the ward-level planning meetings.

B. Project Cost and Financing

21. **The project would be implemented as an Investment Project Financing (IPF).** IDA credit worth US\$23 million will be provided for an implementation period of five years from 2017 to 2022. The Department of Foreign Affairs and Trade (DFAT) of the Government of Australia will co-finance US\$4.5 million to the project through a grant, which will be managed through a trust fund administered by the Bank. DFAT has transferred the grant resources to the Papua New Guinea Strategic Partnership Trust Fund (PNGSPTF) for this purpose. A cross-effectiveness condition has been included in the Project Financing Agreement to ensure that the Papua New Guinea Strategic Partnership Trust Fund (PNGSPTF) Grant Agreement is signed and effective at the same time as the Financing Agreement. However, in case the co-financing does not materialize, the Project will be restructured to promptly commence implementation of the activities and either additional resources will be sought through potentially an IDA additional financing mechanism, or the project will be restructured to narrow the scope of project activities.
22. **Counterpart Contributions.** Counterpart financing of approximately US\$1 million is expected from provincial and district administrations, and if further additional funds are committed and become available, the project may be scaled up in additional LLGs, districts, and provinces. Each District or Provincial administration will contribute matching funds of at least PGK70,000 (≈US\$23,000), which is approximately the value of one subproject, as counterpart contribution. Provinces and districts would be encouraged to contribute more than the minimum requirement. To minimize the risk to subproject implementation if provincial or district funds are not provided, provincial and district contributions will be specifically assigned to fund the full amount required for an individual subproject(s). This way, if funds are not made available, it is only the subprojects which are specifically tied to district or provincial contributions that would be affected, and all RSDP funded subprojects could move forward. On top of this, LLG, district, and provincial administrations are still expected to provide in-kind contributions such as office space (LLG and Province), technical assistance (District Project Management Team—DPMT, Provincial Management Team—PMT), and other resources. For each subproject, communities will also be required to make cash and/or in-kind contributions. While there will be no minimum required amount of contribution, communities will be required to indicate the amount of their cash and in-kind contribution in the expressions of interest (EOIs), which will inform the assessment of the level of community commitment to and feasibility of subprojects. Based on the experience of RSDLGP, communities are expected to contribute at least 15 percent of the costs of subprojects, but it is not a minimum requirement. These arrangements will be incorporated into the Partnership Agreement to be



signed between DPLGA and the LLG, District, and Province as well as in the Subproject Grant Agreement to be signed with the selected wards.

Project Components	Project cost	IBRD or IDA Financing	Trust Funds	Counterpart Funding
Total Costs				
Total Project Costs	28.5	23	4.5	1
Front End Fees	0	0	0	0
Total Financing Required	28.5	23	4.5	1

C. Lessons Learned and Reflected in the Project Design

23. **The design of RSDP reflects the lessons learned from RSDLGP implementation.** They are related to the following aspects: (a) size of Ward Development Grants; (b) community planning processes; (c) capacity, experience, and quality of community participation; (d) processes for appraising and approving subprojects; (e) sustainability; (f) fiduciary management; and (g) monitoring and evaluation. The lessons and their reflection in the design of RSDP are summarized in Table 1 (detailed explanation of the lessons reflected in the project are found in Annex 5).

Table 1: Reflection of the lessons from RSDLGP

Project Aspect	Lesson Learned from RSDLGP	Reflection in RSDP
Size of Ward Development Grants	The average grant provided to wards was usually not enough to meet design needs.	Increase the average grant amount to between PGK70,000 and PGK 114,000 (between ≈US\$23,000 and US\$38,000), from RSDLGP's PGK50,000 (≈US\$17,000).
	It took additional technical expertise to fit the subproject design under the grant ceiling.	Prepare standard designs, bills of quantities and budgets. Screen out subprojects that cannot be implemented with the given grant amount at the EOI stage. Provide additional (top-up) transport grants for remote wards.
	Fixed amount of sub-grants across all LLGs created an inequitable distribution of per capita grant investments.	Provide top-up grants to LLGs with a greater population.



Community Planning Processes	Complexity of ward profiles and plans caused delays in preparing and selecting subprojects.	Do not require submission of a ward profile or a full ward development plan. Require a simple list of priority subprojects recorded from ward planning meetings instead.
Capacity, experience, and quality of community participation	Communities required more extensive assistance with the planning, technical design, procurement, and supervision of civil works.	Increase the number of CDWs and TFs at LLG level. Simplify training materials and references. Provide more thorough training to the LLG team. Produce short, simple, communication materials. Improve participation of women by facilitating separate group meetings for them. Make additional efforts to disseminate information to disadvantaged groups. Use noticeboards and signboards in communities.
Processes for appraising and approving subprojects	Need-based selection was not pragmatic due to scarcity of data. Competitive selection implied some wards that put in considerable amount of efforts, resources, and time ended up not receiving subgrants.	Select subprojects based on the expressions of interest (EOI) received. The selected applicants will proceed to the development of full proposals.
Sustainability	Commitment to staffing and equipping the facilities constructed by subprojects is important.	Require relevant sector agencies to be represented in LLG Development Committees at the time of EOI screening, and in the review of final subproject designs and budgets.
Fiduciary management	Limited technical capacity in PMU resulted in poor record keeping and document management. Volume of transactions often exceeded the capacity of the financial officer to process them in a timely manner.	Contract a procurement specialist and additional financial management assistants to increase the PMU's fiduciary management capacity. Develop and use checklists to improve the consistency of project procurement record keeping. Streamline the procurement procedures by applying the Regional Guidance and simplified bidding templates.
	Weak capacity in some communities, coupled with local market constraints and high logistics costs, required extensive procurement support by PMU and PPOs, including bulk procurement—bulk procurement required mechanisms to ensure PMU's	Clarify bulk procurement procedures for communities' consideration. Incorporate a mechanism for community confirmation of the delivery of bulk purchased items.



	accountability to communities.	
	Procurement and financial management training modules and materials often caused more confusion.	Simplify the training modules and materials for CDD Subcommittees.
	Auditor General's Office did not have the capacity to conduct and deliver audit reports in a timely manner	Provide financial report preparation training and a new project financial reporting template. Contract a private audit firm to conduct audits of RSDP's annual financial statements.
Monitoring and evaluation	MIS development lasted over two years, due to complications in adopting an existing MIS platform to RSDLGP processes. An excel-based MIS used in the meantime was prone to errors and inconsistencies.	Initial updates to the MIS will focus only on essential, simple adjustments. Other functions will be added only after a functional MIS has started running for RSDP. Additional results data would be collected by a simple data-base program.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

24. **The main counterpart for the RSDP would continue to be DPLGA.** The DPLGA is the most suitable focal point for such an undertaking given its central role in supporting sub-national governments and promoting service delivery through these decentralized structures. In addition, it has proven its capability to manage RSDLGP. Day-to-day operation of the project will be managed by the RSDP PMU whose office will be based at DPLGA. The Project Manager will report to the Deputy Secretary – Performance Monitoring and Improvement, who acts as the RSDP Project Director, through the Director of the LLG Services Division. The PMU would consist of contract staff including (a) Project Manager; (b) Deputy Program Manager; (c) Coordinator for Central Province; (c) Capacity Building Specialist; (d) CDD/Safeguards Specialist; (e) Monitoring and Evaluation (M&E) Specialist; (f) Finance Officer; (g) Procurement Officer; (h) two Finance Assistants; (i) Executive Assistant, who will also be responsible for external communications; (j) Administrative Assistants; and (k) two Drivers. PMU will also assume the functions of the PPO for Central Province. Technical officers from relevant DPLGA divisions will be assigned to work closely with their counterparts in the PMU to build their capacity with the scope of adapting the project's CDD approach into the mainstream operations of the department.
25. **A multi-agency Project Steering Committee (PSC) put in place by RSDLGP will be sustained.** This is expected to maintain appropriate levels of coordination and to oversee and guide project preparation and implementation, given the multi-sectoral nature of the RSDP and overlapping functional issues (regarding planning, fiscal transfers and performance monitoring of sub-national governments). The PSC, which will be chaired by the Secretary of DPLGA will comprise representatives of: (a) the Department of Finance; (b) the Department of Treasury; (c) the Department of National Planning and Monitoring; and (d) the Department



of Implementation and Rural Development. Other agencies may be invited into the PSC as deemed necessary by RSDP.

26. **The project will retain the project management unit (PMU) and the provincial project office (PPO) for Western Province.**⁵ The PPO for Central Province will be merged with the PMU. New PPOs will be established for each of the new provinces to be targeted by RSDP. Each PPO will comprise (a) Provincial Coordinator; (b) Finance Officer; (c) Procurement Officer; (d) Rural Infrastructure and Safeguards Specialist (RISS); and (e) Administrative Assistant. In addition, two community development workers (CDWs) and a technical facilitator (TF) will be contracted for each LLG, who will be funded by RSDP, but work as part of LLG administration with the LLG Manager, Project Officer, and Financial Officer to facilitate and monitor the preparation and implementation of subprojects. To facilitate the work of CDWs, TSs and LLG staff in support of the project activities, subproject preparation and implementation support grants (SPISGs) will be transferred to special LLG accounts. The SPISG will cover the administrative costs of supporting wards in the WDG subproject cycle. An initial advance of approximately PGK6,600 (≈US\$2,200) will be transferred to the LLG account, and subsequent disbursements will be made to replenish the account up to the same ceiling amount (approximately PGK6,600 or US\$2,200) upon acquittal of expenses.

B. Results Monitoring and Evaluation

27. **The PSC will meet at least on a semi-annual basis to monitor progress in project implementation and provide necessary guidance.** DPLGA will submit Semi-annual Progress Reports to the PSC and the World Bank highlighting project accomplishments, challenges and difficulties, as well as recommendations for policy and program adjustments.
28. **PPOs, together with LLGs, CDWs, and TFs will assist in timely and accurate quarterly progress reporting by CDD-SCs.** CDWs and TFs will monitor subprojects, provide technical assistance, as well as collect and validate CDD-SC reports. PPOs will consolidate subproject reports at the provincial level, which will then be consolidated by the PMU at the national level.
29. **A Management Information System (MIS) will be used to monitor activities related to community subprojects.** The MIS will include baseline data for each ward including gender and age disaggregated population data. It will be based on the MIS that was developed for RSDLGP, which is designed to be a centralized system with a web-based user interface and tablet computers for data collection in the field. Field visits by project staff as well as by CDWs and TFs at ward level will be the main points of data collection and input. When fully operational, the MIS will be capable of generating the required periodic reports as well as supporting ad hoc queries for specific information about subprojects or wards. Subproject progress will be monitored and resources deployed to assist communities that may be facing difficulties.

⁵ The PMU and the PPO for Western Province will be re-established in case there is a time gap between the closure of RSDLGP and the launch of RSDP.



30. **A set of evaluation studies may be conducted to assess Project impacts, efficiency and effectiveness, subject to the availability of external resources.** Other studies may be conducted to understand specific aspects of project as performance, such as the inclusiveness and impacts of participatory processes, women's empowerment, technical construction quality and cost-effectiveness, operations and maintenance, subnational governments' responsiveness to community needs, or the institutionalization of the community-driven development model.

C. Sustainability

31. **RSDP aims at scaling-up the coverage of RSDLGP to all four regions in the country, in order to further demonstrate the applicability of the CDD approach to public service delivery in PNG.** For this purpose, RSDP's institutional arrangements are designed with the scope of eventual adaptation by the government's regular structure. Staff members from DPLGA, for example, will be trained on the RSDP's approach and processes, and will work closely with the PMU and be involved in the implementation of the project. More specifically, staff members from the LLG Service Division, Provincial Capacity Building Division, Performance Monitoring and Improvements Division, and the IT Directorate will be assigned to work with the PMU's CDD/Safeguards Specialist, Capacity Building Specialist, and M&E Specialist, respectively. Each division will be assigning at least four staff members (each staff assigned to a region) to work with the respective counterparts of the PMU. Provincial, district, and LLG-level government staff members will also be trained on the RSDP's approach and will be involved in the subproject appraisal and approval processes. This will strengthen their capacity to make decisions on development projects on a demand-driven basis, and in alignment with the development strategies and plans at sub-national levels. LLG administration, which will take a key role in providing subproject preparation and implementation support to wards, would have sufficient experience to continue assuming these roles after the project. CDWs and TFs, who will be funded by RSDP, but work as part of LLG administration, are also expected to gain the skills to be readily absorbed by LLG administrations, should the RSDP's approach become the government's regular program.
32. **As there may be demand, as has already been seen in Central Province, for Districts (Members of Parliaments and District Development Authorities) to extend RSDP coverage within their districts, support could be provided by DPLGA either outside or within the context of the project.** If District or Provincial Administrations would like to provide full financing for extending the coverage of the RSDP project area into additional Districts in provinces where the project is active or to add LLGs in Districts where the project is active, project support can be provided after reviewing the feasibility, and subject to the availability of project resources. The support to be provided by the project may include community support by existing CDWs and TFs, training of LLG staff as well as new CDWs and TFs, and overall sub-project cycle management and monitoring.
33. **At the subproject level, sustainability will be enhanced by:** (a) requiring relevant sector agencies such as the Department of Education and the Department of Health to be represented at the LLG Development Committee Meeting at the time of EOI screening, and in the review of final subproject designs and budgets; and (b) ensuring that CDD-SCs will have appropriate operations and maintenance plans and resources, depending upon the type of facility or service provided. Most subprojects such as water supply, transport



infrastructure (i.e. footbridges and jetties) and community halls will rely on community financing for sustainability, which may be collected from the service users and managed by operation and maintenance (O&M) committees. The operations and maintenance plans can include a community level monitor who would report on the use of and damage to facility. Reports can be in the form of photographs with captions, which can be uploaded to the MIS. For the types of subprojects that will entail recurrent costs to sector agencies (e.g., costs of health workers and drugs for aid posts, teachers for classrooms), written commitments by relevant sector agencies to fund these recurrent costs will be required at the EOI stage. The participation of provincial and district staff at LLG Development Committee meetings is also expected to facilitate and verify the incorporation of these recurrent costs in the provincial and district plans. It is expected that the regular development plans and budgets at provincial and district levels be also informed by the ward profiles, ward development plans, or the summary of priority subprojects recorded from the Ward Planning Meetings. Therefore, the subprojects to be supported by RSDF are expected to be harmonized with the regular provincial and district level development plans and budgets.

D. Role of Partners

34. **The Australian Department of Foreign Affairs and Trade (DFAT) will provide grant co-financing for the project in the amount of US\$4.5 million.** The DFAT contribution will be managed through an existing trust fund administered by the World Bank. DFAT will also be providing financial support for the assessment of the project, which will be executed by the World Bank.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

35. **The overall risk rating for the project is Substantial.** There are a number of risks associated with this scale-up as identified in the Systematic Operations Risk-Rating Tool (SORT). These include (i) loss of Government commitment after the elections in 2017; (ii) fiscal pressures due to the fall in commodity prices resulting in a shortage of government resources to effectively implement the project; (iii) weak management and administrative capacity of Government offices/counterparts; (iv) fiduciary risks particularly at the local level; (v) institutional capacity constraints at the local level; and (vi) the high persistence of traditional patronage systems that could lead to elite capture and political interference.
36. **Political and Governance: Substantial.** There is currently a high level of political commitment for RSDP and its implementation. However, the term of the current government will end in 2017 and there are associated risks of policy and commitment changes. The senior management team of DPLGA as well as the members of the PSC will work together to maintain the Project's alignment to the Government's policies and priorities. Adjustments to the Project design may be proposed and considered as necessary throughout the duration of the Project.



37. **Macroeconomic: Substantial.** There has been positive macroeconomic performance in recent years. However, stagnating non-resource GDP growth, increasing public expenditure in recent years, anticipated fiscal pressures due to the fall in commodity prices, and increasing inflation and unemployment will present challenges. With the fiscal pressures building-up, future cash-flow issues may affect the level of support and contribution expected from all levels of the Government. While the Project encourages contributions from all levels of the Government, and is designed to leverage them, it is designed to achieve the PDO with limited contributions of the Government.
38. **Sector Strategies and Policies: Substantial.** Details of the implementing and operating processes of the District Development Authority (DDA) act are yet to be established, and the new Government might approach it differently from the current Government, which could create a disconnect between the local government regulations and the RSDP's CDD-model. In order to mitigate the risk of disconnect, the Project's tools and processes are designed to allow for flexible adaptation by new funding and operational processes. The Project is designed to increase social accountability (both in terms of the authorities' ability to take responsibility for their actions and the citizens' ability to hold them accountable) and the communities' capacity to formulate demands for public services in general, which is transferrable, regardless of the source of funding.
39. **Institutional Capacity for Implementation and Sustainability: Substantial.** The preparation and implementation of Ward Development Grants require a substantial level of capacity at local levels, particularly at the ward level. There may be wards, especially where the access to education and literacy levels have been low, that do not possess sufficient capacity to develop grant proposals and follow project implementation procedures. In order to mitigate this risk (a) training materials and references especially those being provided to the communities will be simplified in shorter, simpler, and picture-rich formats; and (b) additional CDWs and TFs will be hired at LLGs levels, who will receive intensive training to support communities. The intensive training will run for three weeks and encompasses the whole RSDP Operations Manual. Particular emphasis will be given to (a) the project cycle and implementation stages, (b) the RSDP Field Implementer's Guide, and (c) all the forms and templates that the CDWs, WDCs, and CDD Subcommittees will need to use.
40. **Fiduciary: High.** As the transactions made with Ward Development Grants will be managed by a number of designated CDD-SC members, there is a risk of corruption or fraud between CDD-SC members and suppliers. In addition, a high degree of social stratification and persistence of traditional patronage systems can create a risk of elite capture and political interference in the process of subproject preparation and selection at the local level. In order to mitigate this risk, WDCs and CDD-SCs will be required to consist of members that represent (a) all villages in the ward; (b) men and women; and (c) youth. Participatory rural appraisal sessions and sub-meetings for women, men, and youth will also be organized and facilitated during ward development planning meetings to help them participate in the decision-making process more effectively. In addition, capacity building activities to be implemented under Component 2 will have an increased focus on social accountability (e.g. public education to improve budget literacy, public feedback mechanisms, and participatory performance monitoring). An adequate internal control framework will also be maintained, including internal controls over the community grants (as detailed in the Project Operations Manual). For



example, ward account checks will require a counter-signature by the RSDP's Provincial Project Coordinator (PPC).

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

41. **The main expected benefits of the project are improved living conditions and welfare of rural population in targeted provinces.** More specifically, benefits may include better access to health and education facilities, drinking water, electricity, among others, which would have impacts on health conditions, school enrolment, and reduction in water-borne diseases. The project is also expected to have long-term benefits of reduced future costs of public service delivery, resulting from the introduction of new processes, capacity, and tools for managing public resources and services with increased transparency, accountability, and community ownership. The costs of realizing these benefits are generally associated with the financing of (a) sub-grants; (b) transportation of supplies for subproject implementation; (c) capacity building courses and workshops; (d) community facilitation and technical assistance for project planning and management; and (e) overall project management, including monitoring and evaluation.
42. **The base case internal rate of return (IRR) is estimated at 20 percent, while the base case net present value of the project's net benefit stream would be US\$70.5 million⁶.** Based on the experiences from the on-going RSDLGP, the economic analysis focused on financial viability of typical subprojects, such as health aid post construction, classroom construction, and water catchment treatment. The financial analysis indicates increases in gross and net returns from each model compared with and without project situation (detailed in Annex). Annual quantifiable benefits per subproject on average is estimated at US\$34,124. Monitoring of quantifiable benefits during the implementation of the project will improve ex-post analysis.

B. Technical

43. **The mechanisms for implementing small-scale community infrastructure have been tested and refined over the course of RSDLGP.** Standard designs will be updated with the support of the Department of Works to fit within the size of sub-grants and used when possible, which will be reviewed by relevant departments (e.g. Departments of Education and Health). These updated standard designs benefit from RSDLGP's accumulated cost information and good practice in design. Community development workers (CDWs) and technical facilitators (TFs) will provide a higher level of technical support to ward development committees and CDD subcommittees. In addition, PMU will include an engineering advisor who will review or spot check selected designs before final approval and backstop provincial technical support, particularly on higher complexity subprojects. Technical certification at the time of completion will continue to identify critical

⁶ Discounted at 10 percent



improvements before operations and more minor improvements that can enhance the sustainability of subproject facilities. Communities will also be trained in operations and maintenance approaches and tasks.

C. Financial Management

44. **The financial assessment conducted for DPLGA concluded that the financial management (FM) arrangements are acceptable to the Bank and provide reasonable assurance that project funds will be used for the intended purposes, following the implementation of agreed risk mitigation measures.** DPLGA has experience in implementing World Bank-financed projects, through a Project Management Unit (PMU) established within DPLGA to implement RSDLGP. The main risks of the project are potential non-compliance and delays due to scale-up in the volume of transactions that will be flowing through the various levels— from wards, LLGs, provincial project offices, and at the PMU. This will place pressure on internal controls and resources, potentially leading to errors and improper use of funds; incorrect or missing substantiating documentation (mainly grant acquittals); funds flow shortages; or delays in reporting and audits.
45. **To mitigate the risks, technical assistance will be provided under the project to strengthen FM functions.** Two additional Finance Assistant positions will also be established at the PMU to cover the increased accounting and reporting needs arising from the scale-up of operations to other provinces. In addition, target LLGs will be selected on the basis of them meeting pre-defined FM criteria, such as the presence of an LLG Finance Officer. Clear and concise FM instructions (including templates) have been developed and applied for RSDLGP and will be adapted for RSDP. Training and capacity building will be provided by within the project components, together with support from the World Bank, including training on World Bank policies and procedures. An adequate internal control framework will be maintained, including internal controls over the community grants (as detailed in the Project Implementation Manual).

D. Procurement

46. **As is the case for financial management, PMU currently managing RSDLGP will continue to operate under RSDP using the same procurement arrangements.** The World Bank's new Procurement Framework is not applicable to this project, as the project's Concept Note Review took place prior to July 1, 2016 when the new framework entered into effect. Therefore, the previous procurement guidelines will be applied to both the IDA and Trust Fund financing. To further strengthen the Project's procurement management, a procurement officer will be contracted to work as part of the PMU. A procurement assessment was carried out by the Bank team, mainly focusing on an assessment of PMU's existing capacity, experience and practices for managing procurement. The overall procurement risk is rated substantial. A summary of the procurement assessment including risk mitigating actions and procurement arrangements are in Annex 2.



E. Social (including Safeguards)

47. **The overall social impact of RSDP is expected to be positive.** The project's benefits may include better access to health and education facilities, drinking water, electricity, among others, which would have positive impacts on health conditions and education outcomes. No potential indirect and/or negative long term impacts are expected. Proposed subprojects that pose social risks will be screened out at the expression of interest (EOI) stage to avoid any adverse social impacts (e.g. involuntary resettlement).
48. **RSDP triggers the World Bank's social safeguards policies on Indigenous Peoples (OP4.10), and Involuntary Resettlement (OP4.12).** The Bank safeguard policy on Indigenous Peoples is triggered, as project will be located in areas where Indigenous Peoples are the sole or the overwhelming majority of direct project beneficiaries. In accordance with the provisions of OP 4.10, the elements of an Indigenous Peoples' Plan (IPP) are included in the overall project design, including steps for an inclusive engagement, participatory community needs assessment process, screening criteria, and forms to document broad community support and consensus on the selected priority subprojects. The participatory planning process is aligned to the principles of free, prior and informed consultation and ensure that the subproject will provide benefits that are culturally appropriate to the people. As such, a separate Indigenous Peoples' Plan (IPP) is not required under Bank policy and a free standing IPP was not prepared. Recommendations from RSDLGP's Social Assessment relevant to indigenous peoples were also addressed and incorporated into project design and approach. For subprojects requiring structures to be built for the benefit of participating communities, customary land will be primarily utilized via voluntary donation process as guided by the involuntary land donation protocols of the project's Resettlement Policy Framework (RPF). Land will be identified and land agreements will be verified at the EOI stage.
49. **The project has a number of mechanisms to enhance the participation of traditionally marginalized groups.** The use of sub-meetings with women and youth is particularly expected to strengthen their voice during the ward development planning meetings. The composition of WDCs and CDD-SCs, half of which need to be women, include youth, and represent all villages in the ward, is also expected to enhance the inclusiveness of the project's participatory processes. Verification of whether women's preferences are being reflected in prioritized subprojects will be carried out on a regular basis. In addition, employment generated by the subprojects (through construction and use of the facility) will be monitored and reported on a gender disaggregated basis.
50. **The project will develop a communications strategy.** Its objective is to (a) effectively and consistently document the use of participatory approaches for planning and implementation by recording experiences; (b) maintain transparency, outreach, and community-to-community learning; and (c) inform development policies.

F. Environment (including Safeguards)

51. **The project is categorized as environmental Category B and triggers the Bank's environmental safeguard policies on Environmental Assessment (OP4.01), Physical Cultural Resources (OP4.11), and Projects on International Waterways (OP7.50).** Potential negative environmental impacts and risks related to



development of small-scale infrastructure are mostly disturbance to the ground and vegetation cover, cutting small number of trees for timber, temporary construction impacts such as dust, noise, waste and wastewater generation, increased erosion potential, disruption to domestic activities, and safety risks. Most of the impacts are small scale, site-specific, and manageable.

52. **In order to avoid and/or mitigate the potential adverse environmental impacts due to the implementation of RSDP, GOPNG has updated the Environmental and Social Management Framework (ESMF) with the experiences from RSDLGP.** The ESMF establishes a mechanism to exclude subprojects in categories mentioned in the Bank's exclusion list and subprojects that may have significant impacts that may not be manageable under RSDP. Basic environmental screening (a simple form/checklist) will be carried out by CDWs and LLG-DCs during the identification of subprojects. The ESMF also determines and assesses the potential environmental impacts of subprojects, and sets out appropriate measures and implementation mechanism to avoid or minimize the potential environmental impacts of physical investments to acceptable levels. As the project may involve limited earth works, the ESMF includes Chance Find procedures.
53. **The public notice concerning the draft ESMF was published in-country and was made available to the public via DPLGA and the Participating Provinces.** The draft ESMF and the Resettlement Policy Framework (RPF) were publicly disclosed at DPLGA and Provincial Offices on August 24, 2016, and on August 26, 2016 on the Bank's external website. A safeguards workshop was held with PMU staff on September 12, 2016 on the ESMF and RPF. The roles and responsibilities for safeguards at the national, provincial, district, and local levels, as well as the requirements of the ESMF and RPF were discussed in detail. The Screening form and Environmental Codes of Practice (ECOPs) were updated based on the workshop discussion. GOPNG transmitted a riparian notification letter to the Government of Indonesia, informing potential impacts of the project in line with OP7.50, on September 7, 2016.

G. Other Safeguard Policies

54. **No other safeguard policies are triggered for the project.**

H. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For



information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Papua New Guinea

Rural Service Delivery Project

Project Development Objectives

The Project Development Objective is to improve communities' access to basic infrastructure and services in targeted rural areas using inclusive, participatory planning and implementation.

Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Direct project beneficiaries		Number	0.00	400000.00	Semi-annual	Project MIS	PMU
Female beneficiaries		Percentage	0.00	50.00	Semi-annual	Project MIS	PMU
Description: Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.							
Name: Percentage of beneficiaries reporting improved access to basic services		Percentage	0.00	80.00	At the mid-term and the completion of the project.	Completion beneficiary surveys	PMU



Indicator Name	Corporate rate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<p>Description: This PDO level indicator is to measure the improved access to basic services as a result of the project, as opposed to just the number of beneficiaries or the number of infrastructures.</p>							
Name: Percentage of villages in the targeted wards represented in ward development planning meetings		Percentage	0.00	80.00	Semi-annual	Records of ward development planning meetings, project MIS	CDWs, PMU
<p>Description: Wards consist of multiple villages. This indicator measures the representation of villages in ward development planning meetings. The percentage is calculated by the number of villages represented (at least one household from the village attending meetings) divided by the total number of villages in the target LLGs.</p>							
Name: Percentage of beneficiaries that feel project investments reflected their needs		Percentage	0.00	80.00	Semi-annual	Sub-project Completion Reports, Project MIS	CDWs, PMU
Percentage of female beneficiaries that feel project investments reflected their needs		Percentage	0.00	80.00	Semi-annual	Sub-project Completion Reports, Project MIS	CDWs, PMU
<p>Description:</p>							
Name: Percentage of women participating in community decision-making meetings in target wards		Percentage	0.00	50.00	Annual	Sub-project Completion Reports, Mid-term and Final Impact Assessment Surveys	PMU, M&E Firm
<p>Description:</p>							



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
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Intermediate Results Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Percentage of wards in targeted LLGs that have validated ward development plans or their summary		Percentage	25.00	80.00	Semi-annual	Sub-project Expressions of Interest (EOIs), Project MIS	CDWs, PMU
Description: Summary as per the specifications of the project, indicating the list of priorities.							
Name: Number of wards in targeted LLGs that have received a ward development grant		Number	73.00	200.00	Semi-annual	Project MIS	PMU
Description:							
Name: Number of subprojects completed in targeted LLGs		Number	0.00	400.00	Semi-annual	Sub-project completion reports, Project MIS.	PMU
Description:							



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Percentage of completed sub-projects for which an O&M plan is in force		Percentage	0.00	75.00	Semi-annual	Sub-project completion reports, Project MIS	PMU, CDWs
Description: Denominator of this indicator will be the number of sub-projects that have been completed (it will grow up to approximately 200 as sub-projects are completed across 2 cycles of the project). Numerator is the number of sub-projects for which an O&M plan is in force (e.g. O&M committee has been formed, O&M funds are collected, proposed actions of the O&M plans are followed).							
Name: Number of additional classrooms built or rehabilitated at the primary level resulting from project interventions.		Number	0.00	100.00	Semi-annual	Project MIS	PMU
Description: This indicator measures the number of additional classrooms constructed or rehabilitated at the primary level through the Bank-funded program. In most cases, it is expected that the baseline value for this indicator will be zero ('0'). The baseline might not be zero, for example, for an additional financing IL operation. This indicator will be used to calculate the "decline in shortfall of classrooms at the primary level". TTLs should report on the progress of this indicator only if it is relevant to the project, that is, if the project aims to reduce the shortfall of classrooms at the primary level. Please visit the EdStats database to view the shortfall of classrooms at the primary level by country.							
Name: Health facilities constructed, renovated, and/or equipped (number)		Number	0.00	100.00	Semi-annual	Project MIS	PMU
Description: This indicator measures the cumulative number of health facilities constructed, renovated and/or equipped through a Bank-financed project.							



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Community electricity connections constructed under the project		Number	0.00	30.00	Semi-annual	Project MIS	PMU
Community elec. connections constructed—Offgrid/minigrid—Only renewable sources		Number	0.00	30.00	Semi-annual	Project MIS	PMU
Description: This indicator measures the number of new community connections constructed under the project. “Community connections” are electricity services provided to hospital, schools, community centers, or other establishments that provide services to a larger pool of people in remote areas. The baseline value for this indicator is expected to be zero.							
Name: Improved community water points constructed or rehabilitated under the project		Number	0.00	100.00	Semi-annual	Project MIS	PMU
Description: Number of improved community water points constructed or rehabilitated under the project in rural and urban areas. A community water point is defined as a public outlet for the provision of water supply to a number of households. Improved community water points refer to standpipes, protected dug well, borehole, or protected spring. Hence, improved community water points do not include, inter alia, unprotected wells or unprotected springs.							
Name: Number of LLG staff and CDWs trained and providing technical assistance to communities		Number	0.00	60.00	Semi-annual	Reports from training provider, Project MIS	PMU, Training service provider



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Number of LLG staff and CDWs trained and providing technical assistance to communities, which are women		Number	0.00	7.00	Semi-annual	Records of Training, Project MIS	Training Provider, PMU
Description: To be counted, LLG staff and CDWs need to meet both conditions: (1) trained on RSDP methodology through the project; and (2) providing technical assistance to communities. The number of LLG staff and CDWs providing technical assistance will be counted through their names recorded in various community workshops and other community planning tools and forms.							
Name: Number of DPLGA staff trained and providing technical assistance and monitoring		Number	0.00	20.00	Semi-annual	Record of trainings provided, Project MIS	Training provider, PMU
Description:							
Name: Number of LLG technical committees appraising subproject proposals prepared by wards		Number	8.00	20.00	Semi-annual	Sub-project review and appraisal forms, Project MIS	PMU & PPOs
Description:							
Name: Percentage of sub-projects facing significant		Percentage	0.00	10.00	Quarterly	Project MIS	CDWs, PPOs, PMU



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
implementation problems							
<p>Description: Significant implementation problems include: (a) over 3 months of delay in the establishment of ward accounts; (b) procurement has not been completed within 3 months of the receipt of the ward development grant; (c) incompliance to safeguards policies; (d) inaccurate or absence of financial documents; (e) over 3 months of delay with the transportation of materials procured; and (f) over 3 months of delay in the completion of the construction, or inconsistencies between the technical design and the actual construction work.</p>							
Name: Grievances registered related to delivery of project benefits addressed (%)		Percentage	0.00	80.00			
<p>Description: This indicator measures the transparency and accountability mechanisms established by the project so the target beneficiaries have trust in the process and are willing to participate, and feel that their grievances are attended to promptly. It is understood that local sensitivities and tensions will not allow grievance or redress mechanisms to be established in all projects.</p>							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Direct project beneficiaries	0.00	0.00	100000.00	200000.00	300000.00	400000.00	400000.00
Female beneficiaries	0.00	0.00	50.00	50.00	50.00	50.00	50.00
Percentage of beneficiaries reporting improved access to basic services	0.00	0.00	0.00	80.00	80.00	80.00	80.00
Percentage of villages in the targeted wards represented in ward development planning meetings	0.00	50.00	60.00	70.00	80.00	80.00	80.00
Percentage of beneficiaries that feel project investments reflected their needs	0.00	0.00	50.00	50.00	80.00	80.00	80.00
Percentage of female beneficiaries that feel project investments reflected their needs	0.00	0.00	50.00	50.00	80.00	80.00	80.00
Percentage of women participating in community decision-making meetings in target wards	0.00	0.00	50.00	50.00	50.00	50.00	50.00

Intermediate Results Indicators



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Percentage of wards in targeted LLGs that have validated ward development plans or their summary	25.00	0.00	60.00	60.00	80.00	80.00	80.00
Number of wards in targeted LLGs that have received a ward development grant	73.00	73.00	80.00	200.00	200.00	200.00	200.00
Number of subprojects completed in targeted LLGs	0.00	0.00	80.00	200.00	280.00	400.00	400.00
Percentage of completed sub-projects for which an O&M plan is in force	0.00	0.00	50.00	50.00	75.00	75.00	75.00
Number of additional classrooms built or rehabilitated at the primary level resulting from project interventions.	0.00	0.00	40.00	50.00	70.00	100.00	100.00
Health facilities constructed, renovated, and/or equipped (number)	0.00	0.00	40.00	50.00	70.00	100.00	100.00
Community electricity connections constructed under the project	0.00	0.00	12.00	15.00	21.00	30.00	30.00
Community elec. connections constructed—Offgrid/minigrid—Only renewable sources	0.00	0.00	12.00	15.00	21.00	30.00	30.00
Improved community water points constructed or rehabilitated under the project	0.00	0.00	40.00	50.00	70.00	100.00	100.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Number of LLG staff and CDWs trained and providing technical assistance to communities	0.00	24.00	60.00	60.00	60.00	60.00	60.00
Number of LLG staff and CDWs trained and providing technical assistance to communities, which are women	0.00	3.00	7.00	7.00	7.00	7.00	7.00
Number of DPLGA staff trained and providing technical assistance and monitoring	0.00	20.00	20.00	20.00	20.00	20.00	20.00
Number of LLG technical committees appraising subproject proposals prepared by wards	8.00	8.00	8.00	20.00	20.00	20.00	20.00
Percentage of sub-projects facing significant implementation problems	0.00	20.00	20.00	10.00	10.00	10.00	10.00
Grievances registered related to delivery of project benefits addressed (%)	0.00	80.00	80.00	80.00	80.00	80.00	80.00



ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Papua New Guinea
Rural Service Delivery Project

Project Design and Components

1. **The project will maintain the three components from the pilot Rural Service Delivery and Local Governance Program (RSDLGP)**, which are: (1) Preparation and implementation of sub-projects; (2) Capacity building of national and sub-national government (or non-government) entities, and (3) Project management (including monitoring, evaluation and knowledge sharing). The proposed project will provide two rounds of Ward Development Grants (WDGs) to rural wards in five targeted provinces, which could be used for a wide-range of small-scale social or economic investments and/or services (e.g. classrooms, health aid posts, water supply and sanitation systems, access roads, footbridges, jetties, solar power systems, technical assistance, capacity building). The specific purpose of these grants would be determined by wards with the support of trained facilitators (Community Development Workers: CDWs), and would be approved at LLG level based on agreed-upon criteria that reflect Government policies and any relevant World Bank requirements. Wards will identify their priorities and be responsible for the design, implementation, and maintenance of their investments, as well as reporting on the use of the funds. The mechanism for distributing WDGs may also be used for disaster response, as in other countries, should the need arise and GOPNG wish to formally request using it for such purposes during implementation. The three components are described in more detail below.

Component 1: Preparation and Implementation of Sub-projects

Subcomponent 1.1: Ward Development Grants

2. **This subcomponent will provide grants to wards to finance community-identified subprojects.** Wards will be responsible for the identification and prioritization of community needs. The subprojects will be developed through a participatory planning process that will be integrated into the preparation of Ward and LLG development plans and coordinated with the decisions and budget allocations of provincial and district administrations. Typical subproject grants are expected to include small-scale community infrastructure, technical assistance, and capacity building. Based on the experience of RSDLGP, most common types of subprojects are expected to be water supply systems, classrooms, health aid posts, community halls, solar power, and footbridges. In order to also help wards to assess and address non-infrastructure needs, ward-level subproject prioritization will involve some socialization and awareness raising activities on them, such as on maternal and child health. The average size of grant provided to wards will be between PGK70,000 and PGK114,000 (depending on the population and distance from the nearest road)—equivalent of approximately US\$23,000-38,000). This is an increase from the RSDLGP's allocation of PGK50,000 (≈US\$17,000). For each cycle, all LLGs will receive a base amount of PGK700,000 (≈US\$233,000), which would enable funding of 10 subprojects at PGK70,000 (≈US\$23,000) each. LLGs that have a population of 15,000 – 20,000 will receive a top up of PGK200,000 (≈US\$67,000), and those with a population greater than 20,000 will receive a top up of PGK300,000 (≈US\$100,000). This will enable large LLGs to either fund a greater



number of subprojects, or increase the size of each subproject. An additional top up of PGK14,000 (≈US\$4,700) will also be provided for each ward in the LLG that is more than a day's walk away from the nearest road. In addition, the project will encourage and support women's groups in preparing and implementing sub-projects in the target LLGs. A women's organization will be identified on a pilot basis using a pre-determined set of criteria detailed in the Project Operations Manual. The selected organization will be supported by community development workers (CDWs) to prepare and implement a subproject project. Each LLG will be allocated an additional amount of approximately PGK70,000 (US\$23,000) – PGK84,000 (US\$28,000) if a subproject by a women's group is approved.

3. **A subproject cycle will consist of five key steps.** They are (1) Start-up and Project Entry; (2) Community Mobilization and Planning; (3) Subproject Selection and Preparation; (4) Subproject Implementation and Monitoring; and (5) Subproject Completion. In Step 1, selected target LLGs will sign partnership agreements with DPLGA. PMU will contract and assign two CDWs and a TF to each target LLG. In Step 2, the CDWs and TF will conduct outreach activities in wards and facilitate the mobilization or reactivation of ward development committees (WDCs) and its CDD Subcommittees (CDD-SCs). CDWs will facilitate the organization of a ward development planning meeting, through which ward development priorities and plans will be developed or validated through participatory processes. CDWs will also provide support to WDCs and CDD-SCs in preparing expressions of interest (EOI) for subprojects (each ward will submit one EOI in each cycle), as well as a summary of validated ward development priorities. In Step 3, LLG Development Committee (LLG-DC), consisting of LLG administration, as well as Provincial and District representatives, will review and screen EOIs using a standard set of criteria. The wards whose EOIs were selected by the LLG-DC will each prepare a full subproject proposal including technical designs, which will be reviewed again by LLG DC for final approval. In Step 4, once the full proposal is approved, CDD-SCs will receive WDGs and implement their subprojects. In Step 5, upon completion of physical work of a subproject, PMU, with the support of a PPO, will conduct technical and financial audits. With satisfactory results of these audits and the validation of an operations and maintenance (O&M) plan acceptable to the PMU/PPO, the subproject will be declared complete. Each cycle is expected to last about 18 months.

Subcomponent 1.2: Subproject Preparation and Implementation Support Grants

4. **Grants will be provided to the target LLG administrations to provide support to wards in preparing and implementing subprojects.** The grant (Subproject Preparation and Implementation Support Grant: SPISG) will be used to cover the administrative and operational costs of the CDWs and TFs, as well as other staff members of LLGs, in facilitating participatory planning, preparation of EOIs, full project proposals including the technical design, procurement of supply, and supervision of civil works. The grants would be transferred to the special accounts of LLG. An initial advance of approximately PGK6,600 (≈US\$2,200) will be transferred to the LLG account, and subsequent disbursements will be made to replenish the account up to the same amount (approximately PGK6,600 or ≈US\$2,200) upon acquittal of expenses. The signatories to the special LLG account are the LLG Finance Officer and LLG Project Officer on behalf of the LLG (the check needs to be signed by one of the two); and a CDW on behalf of the project (mandatory signatory).

Component 2: Capacity Building of National and Sub-national entities



5. **This component will support the strengthening of capacities of national and sub-national government entities as well as community members to manage and implement subprojects, and to improve local governance as it relates to basic service delivery.** At the central level, the capacity of the Department for Provincial and Local Government Affairs (DPLGA) will be strengthened. Activities will be carried out to build their capacity in the overall development and monitoring of the project; coordination across the key government stakeholders (including Department of Community Development, Religion & Sports; Department of Implementation and Rural Development; the National Economic and Fiscal Commission, etc.); coordination among other donor and international development agencies who are implementing similar programs; and documentation and promotion of good and bad practices of collaboration among provincial administrations, district administrations, LLGs and wards that influence the quality of service delivery. DPLGA staff will be supported to work with districts, LLGs, and wards to review and identify (a) specific capacity and processes required at LLG and District levels to facilitate project planning and implementation at local levels, and (b) effective incentives and arrangements for harmonizing LLG, district, and provincial level plans and budgets (both investments and recurrent costs). DPLGA staff will be supported to prepare reports of such findings to inform future policies on local service delivery arrangements. At the provincial level, capacity building activities will be conducted to strengthen linkages with the activities being supported in respective district administrations and LLGs. For example, training would be provided on consolidating development needs from communities at the district and provincial levels and analyzing the recurrent costs of new investments. At district, LLG, and ward levels, capacity building will be aimed at increasing their capacity to manage public resources at the local level, including improved ward planning, review and evaluation of specific ward plans, grant management to communities, basic financial management and procurement, reporting, and monitoring of community projects. Provincial LLG Advisors (who are staff members of the provincial administration) and District Administrators would be the key focal points for work at this level. Ward recorders will also be trained to serve as a key member of ward development committees and/or CDD subcommittees.
6. **Four capacity building modules are planned for each subproject cycle.** They are: (1) provincial orientation; (2) Intensive training for CDWs; (3) subproject appraisal training for LLG and district administration staff; and (4) subproject implementation and operation training.
7. **Provincial Orientation-Training.** This training will aim to (i) develop the capacity of the PPO and other provincial, district, and LLG partners to implement the project; and (ii) establish a pool of experts at the provincial level to provide technical assistance and respond to the training needs of the pilot LLGs and wards. The target participants for this level of orientation-training are (i) Provincial Administrators; (ii) District Administrators; (iii) LLG Managers; (iv) LLG Project Officers; and (iv) LLG Finance Officers. Key officials of the provincial government (Provincial LLG Advisor, and staff members of the Divisions of Policy and Planning, Works, and Community Development) may also be included among the participants of this orientation-training to provide them with a clear understanding of the support roles that they may need to provide to subproject implementers. The content of training at this level includes: (i) the overall RSDP design and project implementation guidelines as embodied in the RSDP's Project Operations Manual and the Guide for Field Implementers; (ii) the general principles and strategies of community-driven development (CDD); (iii) the overall project financial management procedures and guidelines, including funds transfer arrangements and subproject procurement procedures; (iv) the ward and subproject selection procedures; (v) social and



environment safeguards as prescribed by World Bank and relevant government agencies; and (vi) project monitoring and evaluation including the project management information system (MIS).

8. **Intensive Training for Community Development Workers.** CDWs are at the frontline of project implementation, and therefore they require intensive training on almost every aspect of the project. The content of the training for CDWs encompasses the whole RSDP Operations Manual. However, particular emphasis will be given to (i) the project cycle and implementation stages, (ii) the RSDP Field Implementer's Guide, and (iii) all the forms and templates that the CDWs, WDCs, and CDD-SCs will need to use, with a conscious effort on the part of the trainers to help the CDWs fully understand their roles and be able to effectively implement the project once they return to their LLGs. Special attention will be given to increase their skills to facilitate the participation of women, youth, and people with disabilities. Training is expected to also increase their ability to effectively facilitate community meetings in identifying priority needs, before identifying priority subprojects to meet them.
9. **Subproject appraisal training for LLG and district administration staff.** The LLG Development Committees (LLG-DCs) have a very important role particularly in selecting the subproject to be endorsed for RSDP support and in ensuring the technical quality of the subproject proposals. This training will be provided to the LLG-DCs of all target LLGs to provide them with sufficient knowledge and skills in appraising and ensuring the quality of the subproject proposals to be submitted by WDCs. The target participants of this training are the members of the LLG-DC which includes the LLG Manager, the LLG Project Officer, and the LLG Finance Officer, together with some technical specialists to be requested from the district office or invited from within the LLG. The main contents for this training are the guidelines for RSDP subproject proposals and the procedures for reviewing and appraising subproject EOIs and proposals for RSDP. At the end of this training, the members of the LLG-DC should have (i) a clear understanding of the required components and content of the subproject EOIs and proposals for RSDP; (ii) a common understanding of the procedures for reviewing, appraising, and approving the subproject EOIs and proposals; and (iii) a clear and objective set of criteria for approving/disapproving the proposed subprojects.
10. **Community Training on Subproject Implementation and Operation.** Training will be provided to the members of the WDC, the CDD Subcommittee (CDD-SC), and relevant community members on topics that would facilitate the effective implementation of subprojects. The content of the training will focus on the skills needed by the community to undertake a participatory planning process and effective subproject implementation. Among the main training topics are (i) community procurement, (ii) bookkeeping, (iii) social and environmental safeguards, (iv) subproject monitoring, and (v) reporting. This training will also include topics to assist the community in ensuring the sustainability of the subproject. It will include topics that aim to improve the knowledge and skills of the WDC and CDD-SC, particularly the O&M Officer, in ensuring the proper and sustainable operation and maintenance of their subprojects. An output of this training is the Operation and Maintenance Plan (O&M Plan) for the subproject. Specialists at PPOs, with the support of CDWs and TFs will lead the conduct of community training. This training module will be provided before the start of Stage 4 – Subproject Implementation and Monitoring.
11. **The other two capacity building modules that were conducted as part of this component under RSDLGP will not be delivered in modules under RSDP.** Instead, they will be conducted as part of regular technical assistance activities by CDWs and TFs in the form of workshops and meetings. They are: (1) Community



Orientation and Awareness Training; and (2) Community Training on Project Planning. The module on subproject operation is combined with the module on subproject implementation as explained above.

12. **This component will also support the updating of tools and training materials.** They will enhance social accountability initiatives (e.g. participatory planning meetings, public education to improve budget literacy, public feedback mechanisms, and participatory performance monitoring) to strengthen downward accountability and responsiveness of service provinces. These tools will be included in the Project Operations Manual and covered by the capacity building modules explained above, hence are expected to be applied over the ward development grant cycles. Training and capacity building support to help improve the participation and inclusion of traditionally marginalized groups (including women, youth, and persons with disabilities) would be articulated and financed as well. For all activities, data (gender disaggregated) will be maintained and analyzed on a regular basis to understand the levels of participation and effectiveness of the project activities in building local government capacity. Learning workshops will also be organized for relevant staff members of the provincial administrations from provinces that are not directly targeted by RSDP. The workshops will provide them with the information on the key concepts and principles of the CDD approach and the participatory processes of RSDP, in view of facilitating further replication of the RSDP approach in additional provinces in the future. These workshops will take place after the completion of the first cycle of grants, reflecting the lessons learned from it, and allowing the targeted provincial administrations to share their experience.

Component 3: Project Management

13. **The third component will finance incremental costs of the implementing agency for project management, specifically coordination and supervision of implementation activities, financial management, annual audits, and monitoring and evaluation.** The current Project Management Unit (PMU) from RSDLGP is expected to be retained and will implement RSDP.⁷ The PMU would also be responsible for coordinating funds from other potential sources that may fund the project in the future. Vehicles and office equipment would be purchased for the Provincial Project Office (PPO) teams to be established in the new provinces. In addition, in response to the experience of RSDLGP in which wards required extensive assistance with the planning, technical design, procurement, and supervision of civil works, this component will recruit and fund two community development workers (CDWs) and a technical facilitator (TF) for each target LLG. They will work as part of the LLG administration. An external firm would be contracted under this component to design and undertake an assessment of the project upon completion, which would include an independent technical audit.

Citizen Engagement

14. **Applying a community-driven development (CDD) approach, the Project contains various citizen engagement mechanisms.** There are four specific steps through which citizen engagement is facilitated: (a) updating of ward development priorities and preparations of the expressions of interest for ward development grants by Ward Development Committees (WDCs); (b) development of the full subproject proposals by WDCs; (c) implementation and monitoring of subprojects through CDD subcommittees (CDD-

⁷ In case there is a time gap between the closure of RSDLGP and the launch of RSDP, the PMU and the PPO for Western Province will be re-established.



SCs); and (d) development and implementation of the operations and maintenance plan for the subprojects. Community meetings will be organized, especially for steps (a), (b), and (d), and community helpers will facilitate effective participation of community members. The outcomes of these steps will reflect the input and decisions collectively made by community members, and therefore also expected to close citizen feedback loops. In order to enhance the engagement of traditionally less influential community members, separate meetings with women and youth will be organized to strengthen their understanding of the processes, confidence, and voice during the ward-level planning meetings



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Papua New Guinea

Rural Service Delivery Project

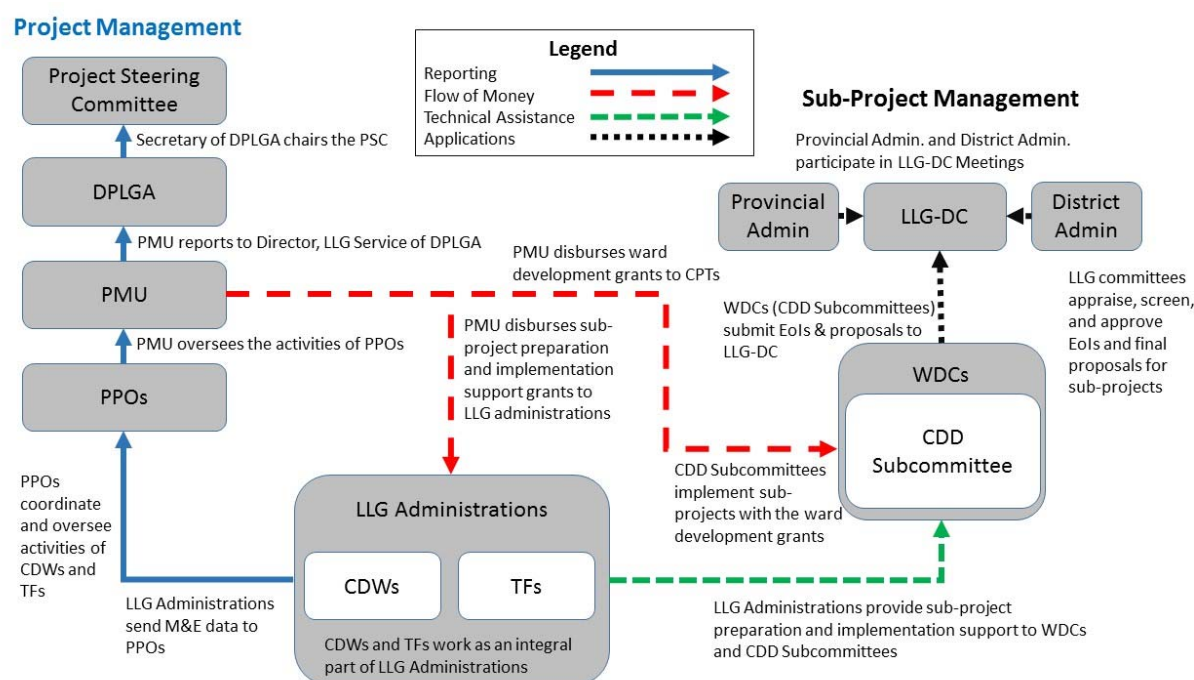
Project Institutional and Implementation Arrangements

Project administration mechanisms

- 1. The agencies and organizations responsible for the implementation of RSDP are:** (i) the Department for Provincial and Local Government Affairs (DPLGA); (ii) the Provincial Governments of the five target provinces; (iii) the District Administrations of the 19 target districts in five provinces; (iv) selected LLGs; (v) selected Ward Development Committees (WDCs); (vi) CDD subcommittees (CDD-SCs); and (vii) other relevant government agencies, through the RSDP Project Steering Committee (PSC). A Project Management Unit (PMU) in DPLGA will manage the day-to-day project operations with the support of a Provincial Project Office in each of the target provinces. The RSDP institutional arrangements are illustrated in Figure 1 and the roles of the participating bodies are summarized in the succeeding sections.
- 2. DPLGA.** DPLGA has overall responsibility for: (i) managing RSDP and reporting on its achievements to the Government and the World Bank; (ii) staffing and overseeing the work program of the PMU; (iii) financing the ward grants and ensuring that the Grants are implemented in accordance with approved procedures; (iv) monitoring and evaluating the performance of the Grants and RSDP in general; (v) mobilizing relevant sections within DPLGA, including Local Government Services (LGS) Division, Capacity Building Division (CBD), Performance Monitoring and Improvement Division (PMI), and the IT Directorate, to provide support to RSDP implementation; and (vi) coordinating RSDP policy concerns with the World Bank and other development partners. The DPLGA Secretary will chair the RSDP Project Steering Committee, and the DPLGA Deputy Secretary will be responsible for day-to-day project oversight and supervision of the Project Manager. The Project Manager will be hired as a project consultant. DPLGA will provide office space and utilities to the PMU.
- 3. Other Government Agencies.** A multi-agency Project Steering Committee (PSC) put in place by RSDLGP will be sustained to maintain appropriate levels of coordination and to oversee and guide project implementation, given the multi-sectoral nature of the RSDP and overlapping functional issues (regarding planning, fiscal transfers and performance monitoring of sub-national governments). The PSC, which will be chaired by the Secretary of DPLGA will comprise representatives of: (a) the Department of Finance; (b) the Department of Treasury; (c) Department of National Planning and Monitoring; (d) Department of Implementation and Rural Development; and (e) the Department of Community Development, Religion & Sports. Other agencies may be invited into Steering Committee as deemed necessary by RSDP.



Figure 1: Implementation Arrangements



- RSDP Project Management Unit.** Day-to-day operation of the project will be managed by the RSDP Project Management Unit (PMU), whose office will be based at DPLGA. The Project Manager will report to a DPLGA Deputy Secretary (Performance, Monitoring, and Improvement) through the Director of the LLG Services Division. DPLGA Deputy Secretary will be the Project Director. The PMU would consist of contract staff including (a) Project Manager; (b) Deputy Program Manager; (c) Coordinator for Central Province; (c) Capacity Building Specialist; (d) CDD/Safeguards Specialist; (e) M&E Specialist; (f) Finance Officer; (g) Procurement Officer; (h) two Finance Assistants; (i) Executive Assistant, who will also be responsible for external communications; (j) Administrative Assistant; and (k) two Drivers. PMU will also assume the functions of the PPO for Central Province. Technical officers from relevant DPLGA divisions will be assigned to work closely with their counterparts in the PMU to build their capacity with the scope of adapting the CDD mechanism in the mainstream operations of the department. More specifically, staff members from the LLG Service Division, Provincial Capacity Building Division, Performance Monitoring and Improvements Division, and the IT Directorate will be assigned to work with the PMU's CDD/Safeguards Specialist, Capacity Building Specialist, and M&E Specialist, respectively. Each division will be assigning at least four staff members (each staff assigned to a region) to work with the respective counterparts of the PMU.



5. **Provincial Project Office.** Except for Central Province, the PMU will have a Provincial Project Office (PPO) in each target province, headed by the RSDP Provincial Coordinator, who will be supported by the Provincial LLG Advisor (staff of the Provincial Administration). The PPO will closely coordinate all operational activities with the concerned provincial, district, LLG, and ward administrations. Each PPO will comprise (a) Provincial Coordinator; (b) Finance Officer; (c) Procurement Officer; (d) Rural Infrastructure and Safeguards Specialist (RISS); and (e) Administrative Assistant. The Provincial Project Office for Central Province will be consolidated with the PMU, of which specific staff members will be assigned to undertake coordination and operational activities for Central Province.
6. **Provincial and District Government.** Implementation of RSDP will be closely coordinated with the concerned provincial and district government offices. Each District or Provincial administration will be required to contribute matching funds of at least PGK70,000 (≈US\$23,000), the minimum cost of financing one subproject in each LLG (approximately 8-10 percent of the project financing, depending upon the LLG allocation) as counterpart contribution. Provinces and districts would be encouraged to contribute more than the minimum requirement, and each additional subproject they finance would have to have a minimum budget allocation of PGK70,000 (≈US\$23,000). To minimize the risk to subproject implementation if provincial or district funds are not provided, this financing will be specifically targeted to finance the full amount required for an individual subproject(s). This way, if funds are not made available, it is only the subprojects which are specifically tied to district or provincial financing that would be affected, and all RSDP financed subprojects could move forward. On top of this, provincial and district administrations are expected to provide in-kind contributions such as office space (provincial project office is expected to be housed in the office of the provincial administration), technical assistance, and other resources. District administrations will participate in the approval of subprojects (at EOI and final proposal stages), in order to coordinate them better with the district and provincial development plans, and also to link them to potential funding sources such as DSIP, District Support Grants, etc. In addition, in order to confirm concerned agencies' commitment to staff the facilities constructed by the project (e.g., health workers and drugs for aid posts, teachers for classrooms), relevant sector agencies such as the Divisions of Education and Health will be represented at the LLG Development Committee Meeting at the time of EOI screening, and in the review of final subproject designs and budgets. These arrangements will be incorporated into the Partnership Agreement to be signed between DPLGA and the LLG, District, and Province as well as in the Subproject Grant Agreement to be signed with the selected wards.
7. **Local Level Governments.** Participating Local Level Governments (LLGs) in the target provinces will be the focal points for determining the subprojects within the LLG as well as for supporting wards with the preparation and implementation of subprojects. Two community development workers (CDWs) and a technical facilitator (TF) will be recruited and funded by the project for each LLG, and work as part of LLG administration with the LLG Manager, Project Officer, and Financial Officer to facilitate and monitor the preparation and implementation of subprojects. They will: (i) work closely with DPLGA, the PPO, and the district administration in facilitating the identification and development of target subprojects; (ii) monitor ward grant funds, which will be transferred to the individual accounts of concerned wards in accordance with



RSDP policies and the approved subproject financing arrangements; (iii) assist WDCs and CDD-SCs in channeling documentation for the use of grant funds to the PPO for acquittal in a timely fashion; (iv) support the WDCs and CDD-SCs in canvassing and procurement of materials and supplies for RSDLP subprojects; and (iv) regularly monitor implementation of RSDP-funded subprojects, including the gathering and submission of quarterly reports from each Ward both in paper and in electronic form. To facilitate the work of CDWs, TFs, and LLG staff in support of the project activities, subproject preparation and implementation support grants (SPISG) will be transferred to special LLG accounts. The SPISG will cover the administrative costs of supporting wards in the WDG subproject cycle. An initial advance of approximately PGK6,600 (≈US\$2,200) will be transferred to the LLG account, and subsequent disbursements will be made to replenish the account up to the same ceiling amount (approximately PGK6,600 or US\$2,200) upon acquittal of expenses.

8. **Ward Development Committees (WDCs).** The roles of the WDCs are to: (i) undertake regular ward development planning processes as mandated by law; (ii) develop proposals that support the highest priority within the latest WDP; (iii) mobilize counterpart funds and additional resources for approved projects; and (iv) and work with the villages benefitting from the approved subprojects to recruit members of the CDD subcommittee and oversee their effective implementation of the subprojects.
9. **CDD Subcommittees (CDD-SCs) and women's organizations.** The CDD-SC is a subcommittee of the WDC and will be responsible for (i) preparing EOIs and proposals for subproject; (ii) implementing subprojects in accordance with the approved work and financial plan; (iii) executing RSDP funds in accordance with RSDP policies and the approved work and financial plan; and (iv) monitoring implementation and submitting reports on the project as per the guidance and templates provided in the Project Operations Manual. Women's organizations will also be responsible for the above tasks if they are preparing and implementing subprojects.

Financial Management

10. **Implementing Entities and FM staffing.** The PMU would consist of contract staff including a finance officer and two finance assistants. The two finance assistants will assist the finance officer with the accounting, reconciliations, grant management, and operational financial management functions. Each Provincial Project Office (PPO) will include a finance officer, a procurement officer, and an administrative assistant. Inclusion in the project of LLGs will be dependent on them meeting pre-defined FM criteria, such as the presence of an LLG Finance Officer. The subproject cycle for each province and LLG will be closely scheduled and phased, in order to even out the associated workloads and not to overburden the resources of the PMU.
11. **Budgeting Arrangements.** Work plans will be developed, along with procurement plans and annual training and capacity building plans for the respective components of the project. These plans will form the basis for the project budget and annual budgets which will be maintained on spreadsheets. Actual expenditures will need to be updated into the project budget spreadsheets to similarly track and monitor actuals against budget.
12. **Accounting Arrangements.** The MYOB system will continue to be maintained for the core project accounting functions. Additional functions, contractual commitments and sub-grant accounting, will be maintained in spreadsheets and linked to the project budget and reporting.



13. **Internal Controls.** Internal controls and payments will follow existing requirements of DPLGA, PFMA, and other government regulations. Clear and concise FM instructions will be prepared for project-specific aspects not covered elsewhere in the existing manuals, or policies and procedures issued by the Bank. Where possible to avoid delays, approvals should be delegated within DPLGA and PMU - subject to adequate segregation of duties and observance of the prevailing legal requirements. Due to the limited monitoring and reporting capabilities of the existing accounting systems, there will be a requirement for substantial use of spreadsheets, which are prone to error and require additional controls and review in order to ensure accuracy. Additional internal controls to cover risks associated with the community grants (including procedures for the selection of investments, roles, bank account arrangements, tranches, financial management, controls and reporting etc., as well as details of documentation requirements/retention, and the level of oversight and support to be provided to the community) will be included in the Project Operations Manual.
14. **Flow of Funds.** The PMU will maintain a pooled bank account in PGK, to receive World Bank funds and counterpart contributions, which will act as the designated account (DA), at a commercial bank acceptable to the Bank. The authorized signatories and other details of the DA will be contained in the Trust Instruments authorized by the Minister of Finance in accordance with the PNG government regulations. Bank accounts will be maintained at the PPOs and LLGs for daily operating expenses. WDGs will be credited by the PMU to the community bank account held in each Ward, and will be released in a single tranche at the time the WDG is approved, provided adequate financial management arrangements for the sub-grant are in place. Cash contributions from District and Provincial administrations, and communities, will be deposited to the DA, and properly accounted for through the project accounting system. The Recipient currently has a lapsed loan. No advances will be made to the Designated Account for the Project until the lapsed loan is resolved.
15. **Interim Financial Reporting.** PMU will submit Interim financial reports (IFRs) quarterly to the Bank, which will include all sources of funds relating to their respective project components. The IFR format will be agreed with the Bank and will include total project receipts (reconciled to the Bank's Client Connections system) and payments for the period (including year-to-date and cumulative figures), together with evidence that the IFR closing balance reconciles with the cashbook and to the bank account. Delays in the submission of IFRs are often experienced in PNG and adequate controls (management oversight, checks and reconciliations, templates etc.) with clear instructions must be applied by the PMU.
16. **Annual financial statements & External Audit.** Separate project annual financial statements for the project will be required in a format acceptable to the Bank, to be audited by an auditor acceptable to the Bank, and submitted to the Bank no later than six months after the end of the audit period. For projects in PNG, The Auditor General usually signs the project audit opinions, however the AGO may contract the audit to a private audit firm in which case an amount equivalent to the fee of the private audit firm may be funded by the project. Any additional charge applied by the AGO in excess of this amount will be paid by the Government. The audited project financial statements will be required to be published by the implementing agency in accordance with the Bank's Access to Information Policy. Technical assistance may be provided to assist with project financial statement preparation and audit. An outstanding audit for RSDLGP was contracted out to an independent auditing firm, which is expected to complete the audit by June 2017. The team has received management's approval to proceed to project approval notwithstanding an overdue audit.



Disbursements

17. **Eligible expenditures, including goods, works, non-consulting services, consultants' services, sub-grants (both WDG and SPISG), training and workshops, and incremental operating costs, will be funded 100 percent⁸ from project finances (inclusive of taxes) and must be productive and reasonable to achieve the project development outcomes.** The project will use four Disbursement Methods: Advance, Reimbursement, Direct Payment and Special Commitment. Direct payments to suppliers and consultants will be utilized to the extent possible so as to expedite payment of eligible expenditures incurred under the project. The minimum value of applications level for direct payment and reimbursement, as well as the required documentation and the DA ceiling, will be set out in the Disbursement Letter. The WDG will be the unit of account for World Bank disbursement purposes, and will be recorded as expenditure at the time the PMU reports each grant as released to the respective Ward. Subproject preparation and implementation support grants (SPISGs), transferred to LLG accounts, will be accounted for on actual basis. The project will maintain adequate internal controls (including substantiating documentation) to ensure that each WDG and SPISG has been used for the intended purpose. Retroactive financing in an amount not to exceed US\$200,000 (US\$100,000 for IDA and US\$100,000 for the Papua New Guinea Strategic Partnership multi-donor trust fund) will be provided for expenditures to be incurred on or after May 1, 2017 provided that relevant Bank procurement rules are followed.

Procurement

18. **Procurement Arrangements.** Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers," dated January 2011 revised July 2014 (Procurement Guidelines); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers," dated January 2011 revised July 2014 (Consultant Guidelines); and the provisions stipulated in the Financing Agreement. The World Bank's new Procurement Framework is not applicable to this project, as the project's Concept Note Review took place prior to July 1, 2016 when the new framework entered into effect. The description of various items under different expenditure categories is presented below. For each contract to be financed by the Credit and Grant, the different procurement selection methods, estimated costs, prior review requirements, and time frame will be agreed between the Recipient and the Bank project team and detailed in the Procurement Plan.
19. **Procurement of Works.** Considering that the works values are very small, neither International Competitive Bidding (ICB) nor National Competitive Bidding (NCB) is foreseen. All civil works contracts, which are estimated to cost less than US\$1 million equivalent per contract would be awarded through shopping procedures.

⁸ 100 percent of amount disbursed for WDG and 100 percent of all other eligible expenditures.



20. **Procurement of Goods and Non-consultant Services. International Competitive Bidding (ICB)** procedures shall be used for procurement of goods and non-consulting services estimated to cost US\$1,000,000 or more per contract. National Competitive Bidding (NCB) procedures shall be used for procurement of goods and non-consulting services estimated to cost US\$500,000 or more per contract. Shopping may be used to procure goods and non-consulting services estimated to cost less than US\$500,000 per contract. Direct Contracting may be used in circumstances which meet the criteria set out in paragraph 3.7 of the Procurement Guidelines.
21. **Community Participation in Procurement:** For the Component 1 subprojects supported with Ward Development Grants, “Community Participation in Procurement” would be used in accordance with the provisions of paragraph 3.19 of the Procurement Guidelines. LLG administrations, LLG Development Committees, CDWs, TFs, WDCs, and CDD-SCs will be fully involved in the subproject development, selection, implementation and monitoring processes. As was done for some subprojects under RSDLGP, goods and materials can be procured in bulk on behalf of the communities through normal shopping procedures by the PMU and provided to the communities. In order to hold PMU accountable in such circumstances, a community delivery confirmation mechanism will be developed and included in the POM.
22. **Selection of Consultants.** Selection of consultants would be followed in accordance with the following procedures.
23. **Selection of Consulting Firms:** The consulting contracts expected to cost more than US\$500,000 equivalent per contract would use the Quality and Cost Based Selection (QCBS) in conformity with the Consultants Guidelines. For Quality Based Selection (QBS) or Least Cost Selection (LCS) these methods of procurement are not constrained by thresholds but rather suitability for use under the circumstances. Consulting services estimated under US\$500,000 equivalent per contract would follow the Selection Based on Consultants Qualifications (CQS).
24. **Selection of Individual Consultants:** Individual consultants would be selected and contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.6 of the Consultants Guidelines. It is envisaged that there may be a number of single-source selection of individual consultants in an effort to maintain continuity between RSDLGP and RSDP. To assist DPLGA in determining which consultants it wishes to maintain, a performance review will be conducted for all current consultants and used to update the Procurement Plan as to which positions would be listed as single source selection (SSS), and which would be competitively selected.
25. **Procurement Risk Assessment:** An assessment of the capacity of DPLGA to implement procurement actions for the Project was carried out and the risk rating is rated “substantial”. The procurement-related risks identified are as follows:



- weak capacity of communities;
- local market constraint and high logistics costs;
- non-compliance with the agreed procedures;
- weak mechanisms in place to monitor PMU bulk procurement;
- delay in implementation due to improper planning; and
- limited technical capacity and no dedicated project procurement resources;
- incomplete procurement record-keeping.

The following mitigation measures are proposed:

- The PMU will hire a dedicated procurement resource responsible for the bulk of general procurement, but for complex procurement items additional expertise (International Procurement Specialist) will be utilized where necessary to supplement the capacity of PMU.
- The PMU will review the procurement procedures developed for Community Procurement under RSDLGP and the local market conditions, and will include other appropriate options for community's consideration, e.g., goods and materials may be procured in bulk through normal shopping procedures by the PMU and would be provided to the communities.
- A mechanism for community confirmation of shipment delivery and receipt will be incorporated into the POM to ensure that bulk procurement by PMU is confirmed by communities.
- A Grievance Redress Mechanism will be in place to allow any party with a concern or complaint about RSDP procurement to direct their complaint to the appropriate RSDP or government official.
- Apply the Regional Guidance including simplified template bidding and other documents Making Procurement and Financial Management Work for Fragile and Small States in the Pacific, issued on January 2013 (Modified July 2014).
- PMU's and PPO's procurement officers will conduct procurement post reviews for procurement activities carried out at community level. An annual procurement post review report will be submitted to the Bank for review.
- The PMU should develop checklists to improve the consistency of project procurement record keeping.
- A contract management system will be developed to ensure that all contracts under the project are effectively and efficiently managed.

26. Procurement Threshold and Prior Review Thresholds. Procurement and prior review are shown below.

Procurement Risk Rating: High

Procurement Methods	Procurement Thresholds	Prior Review Thresholds
I. Goods, information technology and non-consulting services:		
Shopping	<US\$500,000	None
National Competitive Bidding	≥US\$500,000 and <US\$1,000,000	>US\$500,000



International Competitive Bidding	≥US\$1,000,000	>US\$500,000
II. Works (including turnkey, supply & installation of plant and equipment, and PPP):		
Shopping	<US\$1, 000,000	None
National Competitive Bidding	≥US\$1,000,000 and <US\$5,000,000	>US\$1,000,000
International Competitive Bidding	≥US\$5,000,000	US\$1,000,000
III. Community Participation in Procurement		
Community participation in procurement would be used for Ward Development Grants.		
IV. Selection of Consultants:		
Selection Methods	Procurement Thresholds	Prior Review Thresholds
Firms (QCBS, QBS, LCS, CQS and SSS)	In accordance with the Bank's simplified procurement implementation guidance (CQS may be used for contracts estimated to cost <US\$500,000)	≥US\$500,000
Individual Consultants		>US\$200,000

27. **Frequency of Procurement Supervision.** In addition to the prior review to be carried out by the Bank, the capacity assessment has recommended that procurement supervision missions visit the field once a year to carry out post review of procurement. The sampling ratio of procurement post review is one out of 10 contracts.
28. **Procurement Plan.** For subprojects under Ward Development Grant, it is unlikely that the communities will be able to prepare an annual procurement plan in advance. The detailed procurement plan would be prepared by communities only after specific subprojects are selected. In such circumstances, the guidance for procurement planning has been provided in the Project Operation Manual. The Plan will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. A summary table of procurement plans is presented in the tables below:

I. Procurement of Goods

1	2	3	4	5	6	7	8
Ref. No.	Activity Description	Estimate Cost (US\$)	Procurement Method	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (prior/post)	Expected Contract Signing Date



1	Office Equipment (5 x Photocopier / printer; 25 x Computers for PMU & PPOs; 40 x Computers & tablets for CDWs)	926,000	Shopping	No	No	Prior	Mar-17
2	5 x 4WD Vehicles	250,000	Shopping	No	No	Post	Mar-17

III. Procurement of Non-Consultative Services

1	2	3	4	5	6	7	8
Ref. No.	Activity Description	Estimate Cost (US\$)	Procurement Method	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (prior/post)	Expected Contract Signing Date
1	MIS Refinement and Maintenance	50,000	ICB	No	No	Post	Mar-17
2	Baseline, mid-term, and final evaluation survey	120,000	Shopping	No	No	Post	Mar-17

IV. Procurement of Consultant Services

Ref. No.	Description of Assignment	Estimated Cost US\$	Selection Method	Review by Bank (prior/post)	Expected Contract Signing Date	Expected Contract End Date
1	PMU—Project Manager	225,000	Selection of Individual Consultants	Prior	Mar -17	Mar-22
2	PMU—Deputy Project Manager	190,000	Selection of Individual Consultants	Post	Mar -17	Mar-22
3	PMU—Provincial Coordinator- Central Province	165,000	Selection of Individual Consultants	Post	Mar -17	Mar-22
4	PMU—Capacity Building Officer	165,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
5	PMU—Community Development Officer	165,000	Selection of Individual Consultant	Post	Mar-17	Mar-22



Ref. No.	Description of Assignment	Estimated Cost US\$	Selection Method	Review by Bank (prior/post)	Expected Contract Signing Date	Expected Contract End Date
6	PMU—Procurement Officer	165,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
7	PMU—Finance Officer	165,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
8	PMU—Assistant Finance Officer x 2	250,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
9	PMU—M&E Officer	140,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
10	PMU--Administrative Assistant x 2	180,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
11	PMU-Driver x 2	150,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
12	Provincial Coordinator—new province x 3	375,000	Selection of Individual Consultant	Post	Sep-17	Mar-22
13	Financial Officer—new province x 3	330,000	Selection of Individual Consultant	Post	Sep-17	Mar-22
14	Procurement Officer—new province x 3	330,000	Selection of Individual Consultant	Prior	Sep-17	Mar-22
15	Administrative Assistant—new province x 3	150,000	Selection of Individual Consultant	Post	Sep-17	Mar-22
16	Rural Infrastructure & Safeguards Specialist—new province x 3	300,000	Selection of Individual Consultant	Post	Sep-17	Mar-22
17	Engineering Advisor	40,000	Selection of Individual Consultant	Post	Mar-17	Mar-22



Ref. No.	Description of Assignment	Estimated Cost US\$	Selection Method	Review by Bank (prior/post)	Expected Contract Signing Date	Expected Contract End Date
18	Gender Advisor	40,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
19	Project Management Advisor	45,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
20	Community Development Workers x 40	50,000 x 40 = 2,000,000	Selection of Individual Consultant	Post	Mar-17	Mar-22
21	Technical Helpers x 20	40,000 x 20 = 800,000	Selection of Individual Consultant	Post	Mar-17	Mar-22

Environmental and Social (including safeguards)

29. **The Project implementing agencies have had some experience on social and environmental safeguards through RSDLGP, in which safeguard implementation has been assessed as satisfactory to the Bank.** Nonetheless, given additional safeguards policies were triggered for RSDP, PMU will be required to give more attention to the implementation and monitoring of safeguards activities. To this end, the PMU's community development officer will provide oversight to project safeguards in consultation with the PMU management team. LLG-DCs, which will be reviewing and approving subprojects, will be responsible for screening out subprojects that pose safeguards risks, in accordance with the project's operations manual. CDWs and TFs will provide assistance to ward development committees and CDD-SCs to gather and provide adequate information on safeguards risks, designing subprojects that avoid such risks, ensuring compliance with ESMF and other safeguard instruments, and implementing mitigation measures as applicable. The project will also provide training and technical support to DPLGA, provincial, district, and LLG administration, CDWs, and TFs on sound environmental management practices and on implementation of the ESMF.

Monitoring and Evaluation

30. **An MIS was developed for RSDLGP, designed to record field data on tablet computers and to present the information in various formats through a centralized web-based system.** This system will become the basis of the MIS for RSDP. Modifying the system to suit the requirements of RSDP would be preferable to developing entirely new systems. It is built on open-source platforms which eliminate ongoing license fees and leave room for a range of technical support options. The MIS and associated processes will also be reviewed to see if it can be used to support two other important operational requirements: (a) to record and



transfer financial information from subproject and LLG level to the PPOs and the PMU. While the PPOs and PMUs maintain Accounting systems (such as MYOB) under RSDLGP, it has been a challenge to manage the information related to subproject level expenditure efficiently and accurately. This aspect will therefore be explored as part of MIS development in the RSDP; (b) to record feedback from communities (via SMS). This may also serve as a part of the project's grievance redress mechanisms, to receive information on maintenance issues, slow construction, or other aspects of project implementation that communities need to communicate to the PMU. The key to ensuring that the MIS is properly implemented and delivers its full value as a management and monitoring tool lies in ensuring that it is well integrated with project operations within specific work processes. RSDLGP focused on integration of the current MIS and this experience will be of value in developing the next stage MIS.

31. **A full time MIS/Monitoring and Evaluation Officer will be part of the PMU.** Data on activities and outputs will be provided in routine (monthly and quarterly) reports prepared and submitted to PMU by PPOs, consolidating updates from LLGs and CDWs. As the MIS becomes operational the transfer of data from the CDWs, LLGs and PPOs to the PMU will to a great extent be automated, and standard reports may be produced from any location with internet access. The central database will also provide a repository of information which could respond to ad hoc queries and analyses as required, provided the required technical skills are in place. This will be through a combination of training for full-time PMU staff and, potentially, additional consulting resources obtained if and when required.
32. **Subject to the availability of resources, a set of impact assessment studies may be conducted.** These would be contracted through Bank-executed trust fund arrangements, and would be additional to existing evaluations and project cots.

Role of Partners (if applicable)

33. **The Australian Department of Foreign Affairs and Trade (DFAT) has expressed interest in collaborating with the project in strengthening the capacity of sub-national level governments and partners.** Dialogue on possible collaboration options will be continued during the project.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Papua New Guinea
Rural Service Delivery Project

Strategy and Approach for Implementation Support

1. **The strategy for implementation support has been developed based on the nature of the Project and its risk profile.** Risks considered to be notable include: (a) inadequate application of project design due to poor understanding, especially in the three additional provinces; (b) insufficient coverage and quality of training activities at LLG and ward levels; (c) capacity constraints within the implementing entities; and (d) exclusion of women from key project activities. The proposed mitigation measures to contain these risks are integrated into various Project design features. Specifically, the strategic approach for implementation support includes the following measures:
 - (a) Inadequate application of project design – In the three provinces where the RSDLGP's CDD model will be introduced for the first time, it will take time for the stakeholders to understand the principles behind the approach, as well as the specific design procedures. The capacity building component of the project is focused on addressing this need, and to support this effort, the Bank will engage the technical specialist in community-driven development who has been involved in RSDLGP to ensure continuity and for a deeper understanding of the design.
 - (b) Insufficient coverage and quality of training activities at LLG and ward levels—In order to strengthen support to wards in preparing and implementing subprojects, RSDP will contract 40 community development workers (CDWs) and 20 technical facilitators (TFs). They will undergo intensive training on RSDP's approach and procedures. In addition, some of the training modules that had been provided by the PMU under RSDLGP will be provided by these CDWs. Preparing and managing these training modules and materials will require quality control, and the Bank will engage technical/vocational training expertise to support this work, including refresher training support.
 - (c) Capacity constraints within the implementing entity - Experience with RSDLGP shows that the PMU will need further capacity building and problem solving support by the Bank during project implementation, especially with procurement, financial management, and monitoring and evaluation. Country office and regional fiduciary staff will provide more frequent engagement with the client to identify and quickly address capacity challenges as they emerge. The PMU's procurement officer will be provided with initial training on the Bank's procurement procedures, and knowledge experience will also be facilitated with the PMUs of other successful projects supported by the World Bank.
 - (d) Insufficient inclusion of women –While experience during RSDLGP was generally positive in terms of the benefits to women, RSDP will pursue a more aggressive approach to inclusion of women in decision making, the result of which will need to be carefully monitored in order to avoid any adverse effects. The Bank will engage a Gender Advisor to conduct an assessment during



implementation of the first round of grants, and provide additional guidance on addressing issues as they arise.

Implementation Support Plan and Resource Requirements

2. **Project implementation will be supported primarily by CMU/region-based staff, including fiduciary compliance and operational support, technical aspects, and safeguards compliance.** Country-based administrative and fiduciary staff will provide operational support and liaison with the client. Formal missions will be conducted semi-annually and additionally as needed. In addition to periodic reviews by the Bank and inputs (monitoring, training) from procurement, financial management, and safeguards specialists, the plan identifies appropriate technical expertise (such as community-driven development and gender) to contribute to periodic reviews.
3. **The costs of project implementation support are expected to be partially funded with the contribution of DFAT to the Papua New Guinea Strategic Partnership Multi-Donor Trust Fund (“MDTF”), which is administered by the World Bank.** MDTF resources may be used to fund the costs of (a) a training specialist, who will be supporting the development of training materials and training plans; (b) an M&E specialist, who will support the upgrading of the MIS, provide training and assistance to PMU and PPO staff in collecting M&E data and using the MIS; (c) an operations officer, as well as procurement and financial management specialists, who will be expected to provide extensive ground support to the PMU and PPOs; and (d) frequent field trips required in supporting the implementation and requirement of the project in over 200 rural wards across five provinces in the country. The MDTF is also expected to fund the costs of evaluation studies that may be conducted to assess Project impacts, efficiency and effectiveness.



Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Review of community-driven processes	CDD Specialist	6	
	Support on CDW and WDC training	Training Specialist	4	
	Review of environmental safeguards application	Environmental Specialist	4	
	Support on financial management	Financial Management Specialist	4	
	Support on procurement	Procurement Specialist	4	
	Support on M&E	M&E Specialist	8	
	Support on Gender Mainstreaming	Social Development/ Gender Specialist	4	
	Team Leadership	Task Team Leader	18	
	Implementation Support	Operations Officer	6	
12-60 months	Review of community-driven processes	CDD Specialist	24	
	Support on CDW and WDC training	Training Specialist	12	
	Review of environmental safeguards application	Environmental Specialist	12	
	Support on financial management	Financial Management Specialist	16	
	Support on procurement	Procurement	12	



Specialist			
	Support on M&E	M&E Specialist	16
	Support on Gender Mainstreaming	Social Development/ Gender Specialist	12
	Team Leadership	Task Team Leader	48
	Implementation Support	Operations Officer	16

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
CDD Specialist	30	10	Based in the region
Training Specialist	16	2	Based in the region
Environmental Specialist	16	5	Based in the region
Financial Management Specialist	20	10	Based in the region
Procurement Specialist	16	5	Based in the region
M&E Specialist	24	2	Based in Washington D.C.
Social Development/ Gender Specialist	16	3	Based in the region
Task Team Leader	56	10	Based in the region
Operations Officer	22	5	Based in the country

Partners

Name	Institution/Country	Role
Stephen Deklin	DFAT	Second Secretary



ANNEX 4: FINANCIAL AND ECONOMIC ANALYSIS

Introduction

1. **The proposed project (RSDP) would scale up on-going RSDLGP, which has provided 73 Ward Development Grants (WDGs) in two provinces (Central and Western).** RSDP would be implemented using the same community-based demand-driven approach. The project would support activities targeted at improving infrastructure at ward level.
2. **Based on the RSDLGP experiences, this analysis identifies the possible activities and investments that the communities are likely to choose depending upon their feasibility within specific conditions.** During project implementation, the specific interventions would be tailored according to the priority needs expressed by the beneficiaries and the economic conditions at a particular location. Under RSDLGP, subproject choices included: health aid posts (34 percent), water catchment (30 percent), schools (class rooms construction) (14 percent), community halls and resource centres (5 percent), solar lighting (5 percent), and housing for teachers or health workers (5 percent).⁹ The analysis is based on these activities.

Project Benefits

3. **The proposed project is expected to provide improved access to basic infrastructure and services through building local capacity at ward and district levels for participatory development planning in targeted project areas.** The project will enhance the community's ability to prioritize, plan, and implement proposed subproject activities. The adoption of a participatory community demand-driven approach would result in: (a) empowering communities to manage their own resources in a more efficient manner; (b) increasing the capacity of the communities to prioritize, plan and implement proposed activities; and (c) assisting communities to interact more effectively with LLG, District administration, and local service providers. As a result, it is expected that communities would be mobilized and strengthened through participatory and gender sensitive approaches matched with equally strengthened capacity of government and other service providers who would be able to meet communities' expressed priorities in a timely and transparent manner. Project interventions would also provide capacity building and training to the institutional partners leading in the end to the institutional strengthening of local and central administrations.
4. **Investments in improved rural infrastructure would result in raising living standards and providing income-generating opportunities.** The proposed project would generate additional employment opportunities for the rural population in the project area either as hired labor or through project support-works for rural infrastructure. Project interventions would also lead to substantial timesaving either in terms of time saved in water collection or easier access to educational and medical services. The economic benefits per household are calculated by multiplying the daily timesaving and the opportunity costs of rural labor. In addition to the time saved, the project would improve the health status of the population in the area, reduce the incidence of waterborne diseases by catchment treatment, and improve school enrolment. However, these benefits are difficult to estimate.

⁹ The remaining 7 percent included investments in school library, village courthouse, foot-bridge, water transport, and inland fish farming.



Financial Analysis

5. **Based on the RSDLGP experiences, five illustrative models were prepared to demonstrate the likely activities to be funded by the project:** (a) health aid posts, (b) water catchment (water supply systems), (c) class room constructions, (d) community halls, and (e) solar lighting. The financial analysis mainly focuses on the financial viability of the typical subprojects (SPs) to be implemented under the Component 1 (WDG preparation and implementation). The analysis focuses on the assessment of SPs, which would generate direct benefits to the participating communities, in terms of reduced costs (time and O&M) and local employment generation.
6. **Internal Rate of Return.** The discount rate of 10 percent is used in this analysis to assess the viability and robustness of investments. Sensitivity to changes in parameters have also been assessed by varying the cost of investments, production costs and revenues. The average IRR in Table 1 is the weighted average, reflecting the distribution of subproject choices by RSDLGP beneficiaries. Note that the IRR for community halls is low. Switching costs suggests that cost escalations cannot be tolerated for this type of investment. Thus, community hall construction should be considered only with user fee structure in place or if benefits such as community training can be included.

Economic Analysis

7. **A traditional economic analysis that aggregates benefits from specific models taking up pre-determined packages of interventions as compared to project costs for this specific project is difficult since the probable uptake of grants for the different SP activities cannot be known ex-ante.** The project would support villages/LLGs/districts to identify opportunities leading to socio-economic development in the project area, thus generating investments beyond those included in project costs.
8. **The economic analysis thus attempts to identify quantifiable benefits that relate directly to the activities undertaken following completion of subprojects, or that can be attributed to the project's implementation.** The model quantifies social benefits such as reduced time taken to collect water, a lower dropout rate with the construction of classrooms or teacher accommodations, higher productivity due to solar lighting and increased use of health services with health posts. The period of analysis is 20 years to account for the phasing and gestation period of the proposed interventions. The scenario presented in the economic analysis is rather conservative. The analysis that appears below is indicative and demonstrates the scope of profitability originating from conditions prevailing at the time of the preparation.
9. **In calculating the overall returns to investments, the following was taken into account:**
 - All local costs and revenues were converted into their approximate economic values using a Standard Conversion Factor (SCF) of 0.9.
 - A minimum wage rate of PGK3.36/hour was used. Assuming the above-mentioned examples as realistic subprojects to be implemented, an average incremental annual net benefit per US\$1 of investments was calculated as US\$1.4.
 - The incremental net benefits were calculated by multiplying this indicator with the amount of estimated economic investments but considering the gradual increase of such benefits over a period of five years, reaching a 100 percent of benefits in year 5.



- It was assumed that only 80 percent of the investments would achieve the estimated returns.
- The benefits of constructed infrastructure are calculated for a period of twenty years.
- No financing flows have been undertaken in the calculations as they are either already reflected in the project costs (the RSDP financing and beneficiary contribution for the investment costs) or represent transfer payments (taxes) which are assumed to be zero.
- The incremental costs in economic prices have been calculated by the removal of price contingencies and taxes/duties. The total economic cost of the project amounts to about US\$ 23 million.

10. Overall Estimated Return of the Proposed Project. Given the above noted benefit and costs, the base case internal rate of return (IRR) is estimated at 48.7 percent. The base case net present value of the project's net benefit stream, discounted at 10 percent, is US\$ 70.5 million. These results are presented in Tables 1 and 2 below.

Table 1: Financial and Economic Analysis

Model	Investment costs (US\$)				Incremental annual net benefits per US\$ of investment	IRR, %	NPV, US\$	Switching values, %	
	Project grant	Beneficiaries	Total	Annual quantifiable benefits, US\$				Benefits	Investment costs
Solar lighting	25,124	276	25,400	42,325	1.67	10%	246,047	-83%	1037%
Community hall	31,509	165	31,674	3,623	0.11	5%	(2,210)	7%	-7%
Water catchment	22,024	381	22,405	56,308	2.51	34%	332,081	-82%	1596%
school construction	24,186	251	25,128	49,159	1.96	15%	306,428	-88%	1341%
medical post	24,186	317	25,128	19,204	0.76	34%	102,173	-65%	447%
Average	26,219	274	26,493	34,124	1.40	20%	196,904		
	98.97%	1.03%	100%						

Table 2: Economic Analysis – Cost and Benefit Stream

(US\$ thousand)		PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10
Project Benefits											
Net Benefits of CDD projects		0	0	1,043,755	4,001,061	7,828,162	12,003,182	14,960,488	16,700,080	17,395,916	17,395,916
Total Project Net Benefits		0	0	1,043,755	4,001,061	7,828,162	12,003,182	14,960,488	16,700,080	17,395,916	17,395,916
Project Costs											
Investment Costs		1,839,182	3,777,638	6,312,884	5,400,819	3,369,477					
Replacement of Goods and Equipment*							0	0	0	0	0
Recurrent Costs*							0	0	0	0	0
Total Project Costs		1,839,182	3,777,638	6,312,884	5,400,819	3,369,477	0	0	0	0	0
Total Project Incremental Net Benefits		-1,839,182	-3,777,638	-5,269,129	-1,399,758	4,458,685	12,003,182	14,960,488	16,700,080	17,395,916	17,395,916
IRR		48.7%									
NPV @10% (US\$ thousand)		70,598,268									
* Replacement and recurrent costs are already included in calculation of net benefits from CDD projects											



11. **Sensitivity Analysis.** Economic returns were also tested against changes in benefits and costs and for various lags in the realisation of benefits. In relative terms, the ERR is equally sensitive to changes in costs and in benefits. In absolute terms, these changes do not have a significant impact on the ERR and economic viability is not threatened by either a 20 percent decline in benefits or by a 20 percent increase in costs. A fall in total project benefits by 20 percent and an increase in total project costs by the same proportion would reduce the base IRR to about 20 percent. The results are presented below.

Table 3: Sensitivity Analysis

Sensitivity Analysis (20-year period)	Base case	Costs Increase			Increase of Benefits		Decrease of Benefits			Delay of Benefits	
		10%	20%	50%	10%	20%	-10%	-20%	-30%	1 year	2 years
IRR	48.70%	45%	43%	36%	52%	55%	45%	41%	37%	38%	32%
NPV (000' US\$)	70,598,268	69,066,471	67,534,673	62,939,281	79,189,892	87,781,517	62,006,644	53,415,020	44,823,396	60,436,981	51,199,446

12. **The switching value for total project benefits is about 82 percent, while for project costs it is more than 100 percent.** A one-year delay in project benefits reduces the IRR to 38 percent. With a two-year delay in project benefits, the IRR falls to approximately 32 percent.
13. **Summary.** The main result of the economic and financial analysis indicates positive gross and net returns from all subprojects compared to a without-project situation. The analysis showed that the models are more sensitive to changes in benefit parameters than they are to variations in investment and operating costs. Sensitivity analysis also showed that all models would remain attractive even if costs increase or benefits decrease. Monitoring the use of the infrastructure and the resulting social benefits will improve analysis for mid-term and post project assessments.



ANNEX 5: LESSONS LEARNED AND REFLECTED IN THE PROJECT DESIGN

1. **The design of RSDP reflects the lessons learned from RSDLGP implementation.** They are related to the following aspects: (a) size of Ward Development Grants; (b) community planning processes; (c) capacity, experience, and quality of community participation; (d) processes for appraising and approving subprojects; (e) sustainability; (f) fiduciary management; and (g) monitoring and evaluation.

Size of Ward Development Grants

2. **The average grant provided to wards by RSDLGP was usually not enough to meet standard building designs.** This constraint was particularly experienced in remote wards where the high cost of transporting materials took up a significant portion of the subproject budget. Many wards were required to make increased contribution of local workers and materials, and sometimes with modifications to the standard designs. In view of this, RSDP will increase the average grant amount to between PGK70,000 (≈US\$23,000) to PGK114,000 (≈US\$38,000), from the current PGK50,000 (≈US\$17,000). The increase in the grant amount is not only expected to increase the range and quality of subprojects, but also reduce the time and cost of preparing technical designs, as it took additional technical expertise to fit the subproject design under the grant ceiling, which was often not readily available in local communities.
3. **In addition to increasing the grant amount, in order to facilitate adequate design of subprojects within the grant ceilings, a set of standard designs, bills of quantities and budgets will be prepared by the PMU to reflect the new grant ceilings with the support of the Department of Works and Implementation (DOW).** These designs would then be approved by the relevant line ministry (i.e. Ministry of Education for schools), if there are any standards in place. Aside from this, the other project modifications include: (i) screening out subprojects that cannot be implemented with the given grant amount at the EOI stage, guided by better cost estimates provided by standard designs, BOQs, and budgets; (ii) providing additional (top-up) grants (PGK14,000 or ≈US\$4,700—equivalent to 20 percent of the base grant amount) for remote wards to finance special transport requirements (e.g. hiring choppers or transport barges); and (iii) encouraging communities to innovate with the limited budget by making the most of locally available resources (i.e. timber, sand and labor) and seeking co-financing from other sources.
4. **Furthermore, RSDP will aim to achieve more equitable per capita distribution of WDGs across wards.** Under RSDLGP, the amount of WDGs was fixed equally across all LLGs regardless of the LLG population. This created an inequitable distribution of the project's per capita grant investments, especially between an LLG that has very few people and one that has very high population.¹⁰ In order to address this issue, under RSDP, top-up grants will be allocated to LLGs with a greater population. While all LLGs will receive a base allocation of PGK700,000 (≈US\$233,000), those LLGs with a population of 15,000 – 20,000 will each receive a top up of PGK200,000 (≈US\$67,000), and those with a population greater than 20,000 will receive a top up of PGK300,000 (≈US\$100,000)¹¹. As mentioned above, an additional top up of PGK14,000 (≈US\$4,700 or 20

¹⁰ For example, at the RSDLGP's rate of PGK500,000 (≈US\$167,000) per LLG; the per capita grant investment in an LLG with only 10,000 people is PGK50 (≈US\$16.70) while it is only PGK17 (US\$5.60) per head in an LLG with 30,000 people – a gap ratio of 1:3.

¹¹ According to population data of target districts, the range of per capita grant investment under RSDP will be between



percent of the base allocation) will also be provided for each subproject in the LLG that is more than a day's walk away from the nearest road.

Community planning processes

5. **RSDLGP's experience has shown that the complexity of the templates used for preparing ward profiles and plans, and the insufficiency of skills and resources available at ward/LLG levels to support the process caused significant delays in preparing and selecting subprojects.** Under RSDLGP, completing or updating a ward profile and ward development plan, as required by the Organic Law, was required of each ward before they could present a subproject proposal. This was meant to ensure that each subproject proposal was rooted in a participatory planning process, captured in the Ward Development Plan. However, the pilot showed that the majority of the wards did not have ward plans, and they required extensive time to prepare them, causing a delay of between six months to a year for them to move on to full subproject design and budgeting. The main reasons for the delay were the complexity of the templates used for preparing ward profiles and plans, and the insufficiency of skills and resources available at ward/LLG levels to support the process. In order to address this bottleneck, RSDP will not require submission of a ward profile or a full ward development plan with the expressions of interest (EOIs). Instead, EOIs will be submitted with a list of priority subprojects recorded from the Ward Planning Meeting using a simple template to be prepared by DPLGA. For the wards that do have a full ward profile and/or a full ward development plan in place, they can be submitted in full-form with the EOIs.

Capacity, experience, and quality of community participation

6. **The experience from RSDLGP showed that communities required more extensive assistance with the planning, technical design, procurement, and supervision of civil works than what was provided under RSDLGP.** Additional community planning facilitators and infrastructure specialists are needed to provide such support. RSDLGP planned to use building design expertise from provincial and district offices, but they were usually not available. Reflecting on this lesson, RSDP will increase the number of community facilitators (community development workers—CDW) and technical facilitators (TF) at LLG level to provide more technical support with participatory planning, technical designs, procurement, and the supervision of civil works. A gender lens will be applied to such appointments to increase the number of women facilitators and skilled personnel.
7. **Besides technical assistance, capacity building activities will also be strengthened** by (a) further simplifying training materials and references especially those being provided to the communities; and (b) ensuring that the LLG Team (CDWs and TFs, as well as the LLG Manager, Project Officer, and Finance Officer) are intensively trained to facilitate the CDD processes and manage implementation in the LLG. The production of short, simple, communication materials will also be developed to be utilized in awareness raising and training activities.
8. **Experience from RSDLGP shows that while community engagement has been positive, specific steps can be taken to improve the level and quality of engagement.** This includes identifying strategies to improve participation by women by holding focus group meetings with them prior to community meetings and

approximately PGK34 (US\$11) and PGK76 (US\$24) – a gap ratio of 1:2.2.



identifying disabled populations and ensuring that information reaches them and that their preferences are expressed as well. The use of noticeboards and signboards in communities, use of text-light and picture-rich awareness materials, and female membership of facilitation and monitoring teams are aspects that will need to continue being strengthened.

Processes for appraising and approving subprojects

9. **RSDLGP piloted two types of subproject selection methods:** (a) need-based selection; and (b) competitive selection. In Western Province, a need-based selection method was used where each targeted LLG, with guidance from the PMU, were expected to rank all the wards based on need using a transparent set of criteria. This selection method was not recommended for RSDP, since reliable data is scarce at ward-levels, and even when data is available, it is still difficult to rank wards. RSDLGP ended up selecting all the wards that were not receiving support from the Community Mine Continuation Agreement (CMCA) in the targeted LLGs, and this approach is not necessarily replicable in other provinces where CMCA is not present. In Central Province, an open competition method was used where all the wards went through the whole process of subproject prioritization and proposal preparation, before subprojects were selected based on the LLG's appraisal of their proposals. As it required all the wards to go through the whole process of subproject preparation (including preparation of the full proposal), it implied that some wards that put in considerable amount of efforts, resources, and time ended up not receiving sub-grants. It meant technical assistance had to be provided to a greater number of wards in preparing the full project proposals, and costing more project resources compared to the need-based method. Based on these lessons, RSDP will apply an open competition method with a slight modification. Instead of preparing a full proposal, the wards will only prepare an expression of interest (EOI), and the LLG Development Committee will undertake the selection based on the EOIs received. With this modification, only the wards with screened-in EOIs will proceed to preparing a full proposal, thus sparing screened-out wards from going through the full proposal preparation process. District and LLG administrations will be involved in the selection process, in order to align the investments to be funded by RSDP to the development plans, avoid duplication of efforts, and enhance sustainability of operation. At the EOI stage, the LLG Development Committee would approve budget amounts for each subproject which would then be the basis of detailed subproject design and budgeting. A transparent, standard set of criteria to be used in selecting and approving subprojects will be included in the Operations Manual. The outcomes of the results of EOI screening will be disseminated to the communities.

Sustainability

10. **The experience of RSDLGP reaffirmed the importance of ensuring concerned agencies' commitment to staffing and equipping the facilities constructed by subprojects (e.g., health workers and drugs for aid posts, teachers for classrooms).** In order to achieve this, RSDP will require EOIs to be submitted with supporting documents that prove the commitments of relevant sector agencies. Under RSDP, relevant sector agencies such as the Divisions of Education and Health will be represented in LLG Development Committees at the time of EOI screening, and in the review of final subproject designs and budgets. Monitoring activities will review the provision of health and education services in addition to the infrastructure supported through the project.



Fiduciary Management

11. **RSDLGP experienced challenges with regards to financial management and procurement in the following areas:** (a) absence of a procurement officer and limited technical capacity in PMU resulted in poor record keeping and document management of procurement processes; (b) the volume of transactions often exceeded the capacity of the financial officer to process them in a timely manner; (c) weak capacity in some communities, coupled with local market constraints and high logistics costs, required extensive procurement support by PMU and PPOs, including bulk procurement (bulk procurement required mechanisms to ensure PMU's accountability to communities); (d) procurement and financial management training modules and materials provided to CDD-SCs contained many unessential elements, which often caused more confusion; and (e) the Auditor General's Office, which was expected to audit RSDLGP's annual financial statements, did not have sufficient capacity to conduct and deliver audit reports in a timely manner. Reflecting these lessons, RSDP will (a) contract a procurement specialist and additional financial management assistants to increase the PMU's fiduciary management capacity (this is expected to allow the Financial officer to focus on FM functions and deliver key FM outputs such as annual budgets, interim financial reports, and annual financial statements in a timely manner); (b) streamline the procurement procedures by applying the Regional Guidance including simplified bidding templates, and by developing checklists to improve the consistency of project procurement record keeping; (c) clarify bulk procurement procedures for communities' consideration; (d) incorporate a mechanism for community confirmation of the delivery and receipt of items procured in bulk by PMU; (e) simplify the training modules and materials for CDD-SCs; and (f) contract a private audit firm to conduct audits of RSDP's annual financial statements.

Monitoring and evaluation

12. **A management information system (MIS) was developed for RSDLGP.** The development of the web-based MIS, however, was a lengthy process; it only became available in the final year of RSDLGP implementation. The adaptation of an existing MIS platform to suit the RSDLGP processes, and adding report generation functions was more complicated than initially expected and resulted in additional time and costs. As an interim measure, an excel-based MIS was used in parallel, which was prone to errors and inconsistencies. In order to have a functional MIS for RSDP at its onset, the initial updates to the MIS will focus only on essential, simple adjustments. Other functions, such as those related to SMS feedback, will be added only after a functional MIS has started running for RSDP. Additional results data that need to be collected for RSDP, but cannot be easily incorporated into the existing MIS, would be collected by a simple data-base program that are less error-prone than excel spreadsheets.