

Section 1 Overview

Purpose

This grants manual is intended as a source of information about the procedures for accessing funding under the *Pawarim Komuniti* – PNG Off-Grid Electrification Program (also referred to as ‘the program’, ‘OEP’ or ‘*Pawarim Komuniti*’). The main purpose of this manual is to assist entities preparing funding applications for off-grid electrification or lighting projects and other initiatives.

The manual is divided into three sections;

- **Section 1:** provides an overview of the program – its background, objectives and procedures.
- **Section 2:** outlines project site locations, criteria for eligibility and selection, key operational systems, processes and procedures for applications, awarding, and due diligence.
- **Section 3:** provides information for entities and organisations that have received grants and refers to the OEP’s standards, policies and guidelines for managing grants.

This grants manual will be updated periodically by the program based on the needs of grantees and lessons learnt from project implementation.

Background

Electrification rates in Papua New Guinea (PNG) are low. Official reports put them at 13 per cent although this likely does not include some small-scale stand-alone systems (e.g. solar home systems). Australia has committed to helping PNG reach its ambitious target of 70 per cent electrification by 2030. Some studies, including the National Electrification Roll-out Plan have optimistic assessments of how far it will be economically viable to extend the grid and increase on-grid connections. Other reports are more circumspect about the economic viability of large-scale grid extension, finding that for much of the population off-grid solutions will remain the most appropriate option for the near and medium term.

PNG currently has three large electricity grids operated by the state-owned vertically integrated electricity utility, PNG Power Limited (PPL). PPL also owns and manages mini grids in Provincial centres. PPL has exclusivity to a 10km radius around its existing grids. Private sector operators (including Independent Power Producers) can apply for a licence to operate outside this exclusivity zone through the Independent Consumer and Competition Commission. Operators with generation less than 10MW are excluded from this licensing requirement. For the purposes of the OEP, ‘off-grid’ is considered anything beyond the 10km exclusion zone, and less than 1MW of generation power that does not involve extending one of PPL’s existing grids or management by PPL. The program will address grid extensions and support to PPL through mechanisms other than the OEP.

A rugged topography and a sparse population make it unlikely that national grid extension or intensification will provide access to electricity to a large proportion of the communities in Papua New Guinea, many of which are remote and isolated. Currently, villages in PNG have little or no access to electricity, relying instead on lower forms of energy such as kerosene (lighting) and biomass (cooking).¹ The dangerous appliances associated with these energy sources pose a serious health risk, as well as resulting in higher costs for households and increased greenhouse gas emissions. Government buildings and services such as schools and health posts sometimes function on small diesel generators, but poor maintenance and high costs of diesel combined with the logistics of getting services and diesel supplies delivered to site mean that run-down assets and long outages are common.

¹ ANZ Insight Report, *Powering PNG into the Asian Century*, 2015, p. 19

There has been an increase in uptake of small-scale solar appliances. This is still largely limited to ‘non-quality assured’ pico devices (single torches / lanterns), but some households in higher-income areas have started purchasing 20–50W solar home systems.

Households in rural areas would benefit from the use of decentralised and renewable sources of energy in the forms of cost saving, lighting reliability, increased income and creation of employment² but high-quality data on requirements and uses of energy by different communities is still lacking.

Objective

Pawarim Komuniti has two broad aims:

- Provide rural households, community service facilities and businesses with reliable and affordable access to clean energy.
- Support government, development partners, civil society and private sector with information on successful sustainable off-grid electrification models.

PNG has not experienced the same levels of innovation in this space as Africa, where market-based solutions for sales of solar home systems and income generating community owned mini grids have achieved reasonable levels of success in many places. While it is unlikely that models that are proving successful in parts of Africa will be directly transferable, *Pawarim Komuniti* seeks to encourage innovation of locally designed models of delivery and implementation of small-scale renewable off-grid electrification projects.

In addition to directly increasing electrification rates for communities around PNG, the program aims to stimulate activity in the off-grid sector and build an evidence base of what works in different contexts, to provide sustainable access to energy and foster income generating activities and improvement in the life of the community, as well as raising awareness and attracting further development initiatives. Evidence collection and sharing will therefore be a key objective of the program.

Principles

The program seeks to initiate electrification projects in line with the principles below.

- Deliver access to energy that has a positive development impact on people and communities.
- Deliver projects with benefits lasting beyond the immediate intervention / project delivery by ensuring local ownership and participatory involvement of beneficiaries and a focus on training in operations and maintenance.
- Provide technically and economically feasible solutions with a focus on renewable energy and avoiding harm to the environment.
- Ensure projects are inclusive of all population groups, with a strong gender component, understand rural households’ needs of women and men, and have a focus on vulnerable groups.
- Innovate and pilot new models of delivery for technologies that are newly adapted for PNG.

Cross cutting themes and approaches

The program acknowledges the importance of mainstreaming gender equity, social inclusion (GESI) and safeguards in its operational process, as it is fundamental for the program and required under various DFAT policies and GoPNG’s legal system.

² Global Green Growth Institute, Socio-Economic Analysis, 2018, p. 44

Women and girls in the communities are the caretakers of household energy (using biomass for cooking and lighting), thus electrification will have a significant impact on their livelihoods and their families. The involvement of women and other marginalised groups in the project cycle is essential to guarantee a beneficial outcome for all.

Pawarim Komuniti will ensure that gender equity, social inclusion and safeguards are practiced at the program and project level. It will ensure that GESI practices are considered throughout the implementation of the project and sustainably after completion (see the GESI Strategy for *Pawarim Komuniti*).

All application forms will include guiding questions on how the applicant will address benefits for women, girls and people with disabilities, and how the grantee organisation / company reflects the principles of gender equity, child protection and how environment and climate change risks are mitigated.

Customary landownership, land leases or acquisition of land must be clarified before a grant can be awarded and the applicants must demonstrate that landowners have been consulted and given consent for the development (if applicable). Generally, schools and health centres are built on state owned land, however evidence of this must be provided. The applicant must follow legal processes of land acquisition as stated in the *National Land Act 1996* and other PNG Policies.

Environment protection and climate change mitigation are other fundamental safeguards apart from land and child protection. Depending on the technology of the off-grid project (e.g. hydro or wind), an appropriate environmental impact assessment, focusing on the protection of endemic and threatened species, must be undertaken. A detailed environment plan with mitigation measures will be required for larger projects. Incorrect disposal of batteries will affect the environment and households; hence awareness should be extended to community members.

Section 2 Applications

Project locations

The OEP will operate across PNG in remote and rural locations where large-scale grid-based connections (delivered by PPL) are unlikely to be economically viable. The program will seek to fund projects that deliver reasonably equitably across all regions of PNG and will designate sites where necessary to ensure this coverage.

It is likely that successful projects would include a partnership of multiple actors and include in the model some form of stimulation for an ongoing market system.

Call for Proposals

Organisations will be invited to submit applications for project funding following a publicised, competitive call for proposals. Calls for proposals will be published using media platforms such as the *Pawarim Komuniti* official website, social media and other means.

Interested applicants should refer to the Call for Proposals Guideline document which sets out information regarding the opening and closing dates, specifications and criteria for the call, and other relevant details.

To respond to the calls for proposals, applicants are invited to submit Expressions of Interest (EOI) and, if eligible and shortlisted, Full Proposals.

Eligibility and selection criteria

Eligible entities

Lead applicants submitting applications for funding must be:

- Registered companies or non-government organisations eligible to work in PNG, at the time of full proposal submission
- Able to satisfy due diligence (organisational and financial capacity) assessments.

Provincial, district or local-level governments that wish to apply will be encouraged to partner with an eligible private sector organisation or non-government organisation.

Co-applicants

Co-applicants may participate in designing and implementing projects. A co-applicant is instrumental in achieving project success and preferably be a locally based organisation and/or possess strong linkages with the target community. This will be necessary if the lead applicant does not possess such linkages.

Eligible projects

Projects eligible for funding must ensure off-grid products meet global quality standards and minimum service levels are relevant to the local context. Further details on appropriate renewable energy technologies will be specified in the call for Eols.

Individual grant amounts for projects will be determined on a case by case basis, expected to be within the funding limits set out in the Call for Proposals.

Projects should focus on one or more of the following thematic areas:

- Provision of lighting or electrification for households, communities or socially strategic facilities

- Improving or increasing the generation and/or distribution of electricity
- Use of renewable energy sources and/or innovative and emerging technology
- Application of innovative business and financing models
- Innovation or improved efficiency of supply chains and distribution networks;
- Cross sectoral linkages; for example, creating opportunities in health or education or offer opportunities to develop economic infrastructure such as telecommunication and water
- Encouraging or facilitating the productive use of energy, with a focus on agribusiness activities
- Environment and climate change risk mitigation.

Table 1 Potential off-grid electrification, lighting and energy efficiency opportunities

| Renewable Energy Technology / Application | Sub-sector |
|--|--|
| Hybrid | Pico (up to 10 kW) |
| | Micro (10 to 100 kW) |
| | Mini (100 to 1000 kW) |
| Solar PV | Solar applications (Portable lights, etc.) Home system |
| Wind | Isolated |
| Biogas | Household |
| Biomass | Improved cook stoves |
| | Gasifier |
| | Briquettes/pellets |
| Institutional solar application | School |
| | Health post |
| | Irrigation |
| | Drinking water |
| | Streetlights |
| Electric cooking (conventional, induction, infrared, hotplate) | Cultural / community places |
| | Household Hotel / restaurant |
| Productive end use | Small enterprises, mining applications, agriculture processing |

Non-eligible projects

Projects that cannot be funded include those that:

- Benefit only one individual or household – there should be multiple beneficiaries
- Are burdened with repayments of loans or current bank overdrafts
- Use generic lighting products (e.g. not quality certified)
- Have expenses which have already been paid for (retroactive funding)
- Intend to purchase assets such as vehicles, including boats, unless specified in the call for EoIs or demonstrated to be essential for the success of the activity
- Carry-out activities which are contrary to the interests of the program
- Support activities by partisan political organisations
- Have proven terrorist activities or links to terrorist organisations.

Selection criteria

All applications will be assessed according to standard sections and assessment criteria.

The EoI assessment will be based on the following areas:

- **Background information and project scope:** This provides basic information about your organisation and any affiliated entities such as its governance arrangements and areas of expertise. Some information is also provided about the proposed project.
- **Concept innovation:** This considers whether the project concept is building on another project or if it is trailing something new, it will also consider the projects adaption to the local context.
- **Sustainable development impact:** This considers whether the project concept is consistent with aims and objectives of the program as well as how cross cutting issues such as gender, climate change and the environment are considered.
- **Gender equity and social inclusion:** This considers how the project concept will ensure that all groups are represented and ensure that women are involved in decision making. This will also consider broader community engagement strategies.
- **Business and financial sustainability:** This considers whether the organisation has demonstrated experience managing donor funds and strong financial controls.

The full proposal assessment will be based on the following areas:

- About the organisation
- Financial capacity of the organisation
- Design and relevance
- Effectiveness and feasibility of the activity
- Sustainability and risk management
- Budget and cost effectiveness.

Technical assessment panel

All applications received will be assessed by a Technical Assessment Panel. The Technical Assessment Panel will be:

- Comprised of subject matter experts
- Appointed by the program based on merit
- Independent to the program.

A pool of qualified personnel will be identified through a merit-based recruitment process. It is expected that appointment to the panel will be based on availability of the experts and the nature of applications received in each call.

The panel will be comprised of a maximum of five people; however, three panellists will be called upon at an occasion at a time to assess applications. Decisions to recommend applications (to proceed or not) to the delegate, will be made collectively wherever possible. In the event of a difference of opinion amongst members, the Chairperson will make the final decision.

The panel will be comprised of the following members:

- **Off-grid electrification expert / chairperson:** wide range of expertise and solid expertise on the ground
- **Off-grid electrification expert / deputy chairperson:** wide range of expertise and solid expertise on the ground
- **Rural energy needs assessment expert:** experience in understanding communities' priorities, load profile, and demand forecast
- **Off-grid electrification models expert:** evaluate and support innovative business models in the off-grid space
- **Social safeguards & GESI specialist:** ensure project proposals identify and mitigate all environmental and social risks.

All members are required to declare any possible (actual or perceived) conflict of interest. If the panel determines that a conflict of interest is substantial and could reasonably bring into question the integrity of the process, the member will step aside, and a replacement member will be used.

Stakeholders workshop

A stakeholder's workshop with the Australian High Commission, the OEP Secretariat and relevant Government agencies will be held after the technical assessment panel has considered the Eols. The purpose of the workshop is to ensure that:

- Selected projects are spread equitably throughout Papua New Guinea (for example, there are a range of projects in different locations)
- A diverse portfolio of projects is developed and will help build knowledge and understanding of the sector needs. This could include identifying policy and regulatory gaps or trialling new or emerging technology.

Application process

All applications will be done in a two-stage process. Refer to Figure 1: Application Process.

Step 1: Submit expression of interest

The Eol Form helps the OEP secretariat learn about the lead applicant, co-applicants and the proposed project.

The OEP Secretariat will screen the Eol forms submitted using Initial Screening criteria and inform the technical assessment panel. The key objectives of the initial screening are to ascertain sufficiency of the information and the Eol is prepared in line with the objective of the program. The technical assessment panel then appraises the Eol against the criteria for eligibility and selection.

Each Eol is given a score by the technical assessment panel: Approved, Not Approved, or Under Consideration.

- **Approved:** applicants whose Eols are approved will be invited to submit full proposals. The OEP Secretariat will also provide necessary support during the submission phase.
- **Not approved:** the OEP Secretariat will notify applicants whose submissions were not approved and provide feedback.
- **Under consideration:** these Eols will be returned with queries or issues for clarification. In some cases, applicants may be invited to undertake minor revisions that may lead to the invitation to submit a full proposal OR resubmit later, pending capacity development support from the OEP team.

All Eol forms are to be submitted via email address: apply@pawarimkomuniti.org.pg

Step 2: Submit full proposal

Applicants whose Eols have been approved by the technical assessment panel will be invited to submit a full proposal. The full proposal form requires the applicants to provide details of the proposed project details, crosscutting themes, monitoring and evaluation, financial management, work plan and budget. Support to develop full proposals will be provided by the OEP as needed.

Budgets should reflect actual costs related to the delivery of the proposed project and should cover overheads, project activities, staff costs, travel, training and capacity development and visibility and communications activities.

The technical assessment panel appraises each proposal against the criteria for the project's technical and financial capability using a specific selection criterion. Each proposal is given a score by the technical

assessment panel. These scores then provide direction to DFAT on making one of the two decisions: successful or unsuccessful.

Successful: The OEP will liaise with the entities whose proposals that have been approved by DFAT, to address specific feedback and recommendations from the technical assessment panel. The proposal will then proceed to the next stage of the process.

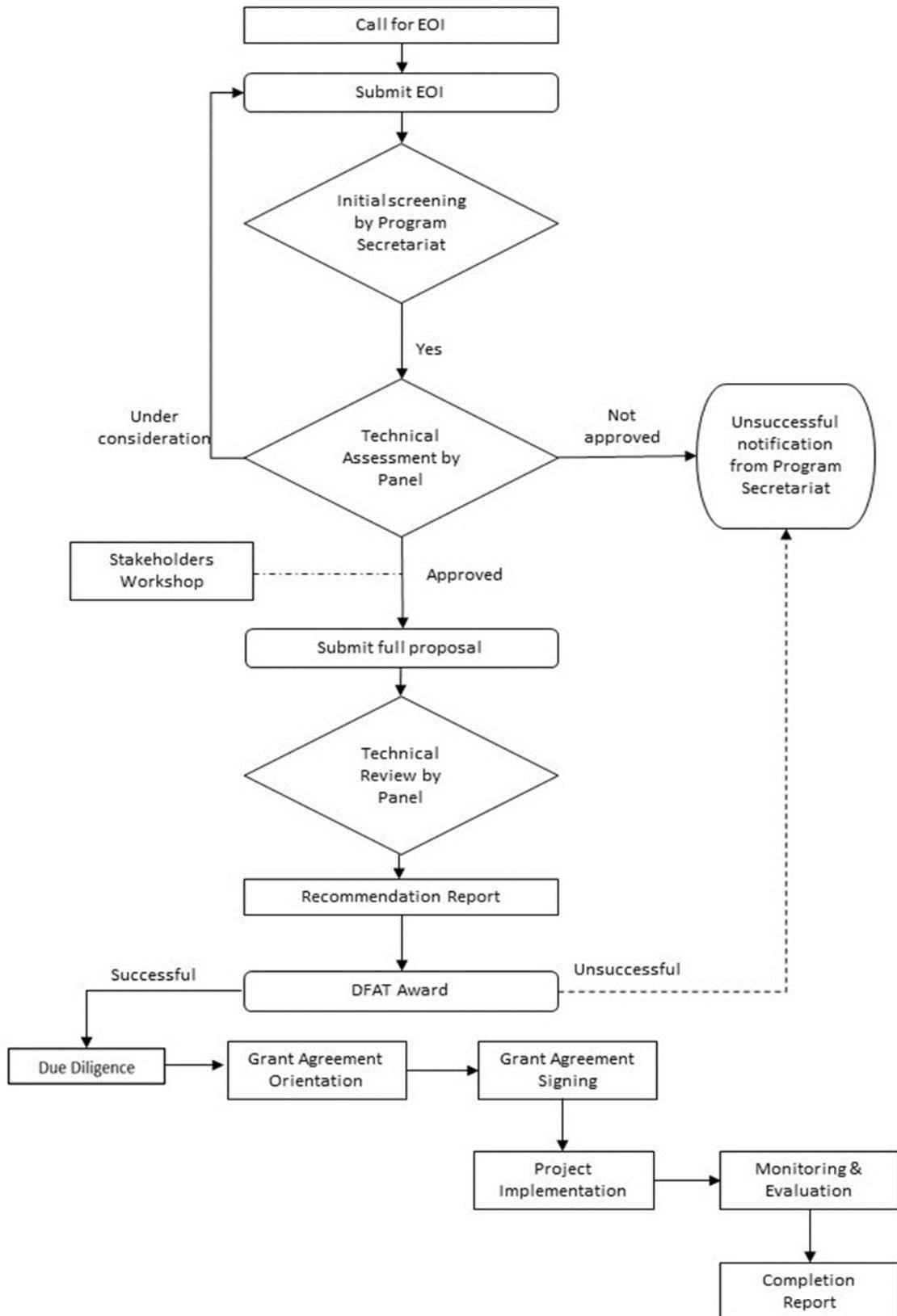
Unsuccessful: The OEP will notify entities whose submissions were not successful and provide feedback.

The technical assessment panel assesses the proposals and gives a recommendation and assessment report to the DFAT delegate. Final approval for grants to be awarded is given by the DFAT delegate.

Applicants must include in their full proposal, as relevant:

- Land title, land lease agreement or any other consent document with customary landowners
- Environmental impact assessment plan
- Mitigation measures addressing climate change
- Social and economic assessment
- Community consultation plan that includes all marginalised groups
- A strong commitment to gender equity and women's empowerment (gender action plan)
- Signed OEP Child Protection Policy code of conduct; and work health and safety statement.

Figure 1 Application process



Award

For proposals that have been approved by the DFAT delegate, the OEP will liaise with the grantee to prepare the grant agreement and plan any relevant capacity development. During the preparation of the grant agreement, the OEP will conduct a review of the governance and financial management systems, undertake a Due diligence check and begin other capacity development assessments to address future support as needed.

Due diligence

Due diligence is the appraisal of an entity prior to signing a grant agreement to ensure the entity will act with a certain standard of care. All documents shared will be kept confidential.

For proposals that have been approved for funding by the DFAT delegate, the OEP undertakes a due diligence process.

When carrying out a due diligence assessment, there are two inter-linked objectives.

Firstly, the program is trying to identify areas in the partner's operational systems (finances, human resources, risk management, governance structures, etc.) that may require some support. By identifying these areas, the program can support grantees to manage the grant funding and enable them to improve their systems more broadly. The due diligence checklist is the tool that enables the program to have frank discussions about internal control systems and where these need to be improved. The intention is to have these discussions in a collaborative manner, offering suggestion/s where possible.

Secondly, the program is ensuring that DFAT funds are carefully managed and used appropriately. The due diligence checklist is an important part of the OEP's financial and risk management processes. It assists the assessment of the capacity of partner entities (including subcontractors and grantees) to effectively manage, spend and report on the funding. The program team may work with the grantee to develop tailored risk mitigation measures.

These two objectives are linked, and the program intends them to be beneficial to both parties through a spirit of development cooperation – trust, respect, openness and aiming for mutual benefit.

Each grantee who has successfully completed the due diligence process is then required to undergo grant agreement orientation which includes obligations within the agreement to ensure that they understand what they are agreeing to.

Section 3 Grant Management

This section is for entities (referred to as 'grantees') that will be awarded grants and relates to the OEP's standards, policies and guidelines for managing grants. Grantees will be bound by these guidelines through their agreements and as such, should read them carefully and seek clarification from the OEP as needed.

During the 'full proposal' stage (expected to last between 3 to 6 months) there will be ample time for discussion and development of the grant agreements on a case by case basis, as they will have to go hand in hand with project type as well as grantees' capacity and internal processes. The Grant Agreement, as the primary document sealing and outlining the relationship between the OEP and the grantees, will spell out reporting duties and payments schedule and defines the roles and responsibilities of the grantee and of the program.

The grantees are responsible for the efficient and effective implementation of the funded projects. These responsibilities include:

- Providing suitably qualified and experienced staff to implement the project effectively
- Defining a project governance structure with well-defined roles and responsibilities of the staff members and other partners and stakeholders
- Developing, implementing and updating a project work plan, highlighting activities and related costs
- Developing, implementing and updating a risk management matrix and ensuring that the OEP team is updated on any risks to the project
- Developing and implementing a monitoring plan with project baseline information and ongoing monitoring of identified objectives, activities and results
- Ensuring the visibility and acknowledgement of DFAT as a donor and adhering to visibility requirements of DFAT
- Adhering to the OEP communication strategy ensuring a prior written approval for any press releases, media or other announcements relating to the project
- Developing and implementing a procurement plan ensuring that equipment is purchased in line with the OEP procurement guidelines
- Ensuring that expenditure is in line with the approved budget and maintaining proper financial records
- Managing the project budget and preparing financial reports as required by the OEP
- Arranging independent external audits as required by the OEP
- Preparing progress and completion narrative and financial reports using guidelines and templates provided by the OEP and submitting them via email and/or hard copy in line with timelines specified in the Grant Agreement
- Adhering to a high ethical standard in project implementation, focusing on gender and social inclusion and fundamental safeguards such as child protection.

The OEP is responsible for providing adequate and flexible support to grantees. These responsibilities include:

- Assisting in the use of reporting templates and providing monitoring and evaluation support as required. This could involve assistance in developing a monitoring and evaluation plan, identifying appropriate approaches and tools for monitoring, collection and analysis of quantitative and qualitative data, data quality review, and designing and conducting evaluations.
- Providing opportunities for grantees to share stories of change and lessons learned through peer learning activities.

- Providing, via the capacity development plan, tailored support in financial management, gender equality and social inclusion training and other relevant support including communication, governance and monitoring and evaluation.
- Monitoring the implementation of grantees projects by conducting field monitoring visits
- Providing guidance, and other support as deemed necessary.

Amendments

The program may allow for amendments to the original proposal submitted by grantees. It is possible that during the term of the grant agreement, grantees realise that the work plan or budget may need to change to respond to changing circumstances. These circumstances might include, for example, increased costs of certain activities such as transport, construction or labour costs. Additionally, the context at the community level may have changed and new needs may be identified by the grantee. Unless these changes are in line with the overall objective(s) of the grant and do not exceed the total grant amount, an application must be made in writing to the OEP.

The grantees must send a request in writing to the OEP explaining the reason for amendments and the required amendments' details. The grantee will submit an updated implementation plan and updated budget indicating where changes take place. The OEP will assess the amendments and may require additional data and information to approve the amendments. Any amendment of a grant agreement requires mutual written endorsement of the OEP and the grantee.

According to the grant agreement, changes of up to 10 per cent between budget lines can be accepted without the need to amend the grant; however, the program **must** be notified of any changes. Changes greater than 10 per cent between budget lines will require an amendment, and significant changes to the work plan, (e.g. change in scope, partner, or beneficiary targets) will similarly require amendment even if they do not impact on the budget, as they may affect the outcomes of the program. The grant agreement makes this explicit.

Amendments can also include changes to the grant agreement period where an extension (costed or no cost) to the agreement end date is required.

Monitoring, Evaluation and Learning

Selected projects will be monitored and evaluated based on the Pawarim Komuniti Monitoring, Evaluation and Learning Plan (MELP). The MELP will enable the systematic collection, analysis and use of Monitoring and Evaluation (M&E) information to track progress towards achieving the planned results, incorporation of cross cutting considerations and the application of best practices and decision making.

Monitoring involves a regular collection and analysis of data and/or information to assist timely decision making and provide basis for evaluation and learning. It is a continuous function throughout the project lifecycle that uses the methodical collection of data to provide the project management team and the OEP with early indication of progress and achievement of outcomes.

Evaluation is systematic examination of the planned, ongoing or completed phases of the project. It aims to utilise information collected to judge the overall value of the project, which will supply lessons learned to improve future actions, planning and decision making. Evaluation commonly seeks to determine the efficiency, impact, sustainability and the relevance of the project and its objectives.

Learning involves reflecting on experiences to identify how a situation or future actions could be improved and then using this knowledge to make actual improvements, during implementation, and as lessons for future projects.

Grantees' responsibilities

Grantees are responsible for monitoring their own activities and providing information to the OEP. Grantees are expected to have a Management Information System (e.g. Excel based), implement their project monitoring plan and collect data and information generated through the implementation of activities using prescribed data collection tools and/or report to the OEP during regular meetings.

The types of data and information required are determined by the Pawarim Komuniti MELP. The questions are designed to serve the OEP's information needs including the assessment of project quality, accountability, learning, improvement and knowledge generation. Frequency of report submission to the OEP will be indicated in the grant agreement.

Site monitoring visits

The Program will conduct regular project site visits to monitor progress and collect information for case studies and learning throughout the project delivery. Grantees are required to give their availability and provide access to sites as well as to information, products, and partner communities.

M&E Tools

Grantees' project design, work plan, project monitoring plan, reports to the OEP and evidence from site monitoring visits will comprise the key references for M&E progress and results. The prescribed 'Project Design and Monitoring Plan' template, 'Monthly Report' template and 'Completion Report' template, among others, will be developed during the 'full proposal' stage with Grantees.

The projects will be evaluated for their quality using an 'Project Quality Monitoring Checklist' throughout the project lifecycle. The elements of project quality to be evaluated include: beneficiaries involved, reached and generated impacts; considerations and implemented actions for social safeguards; health and safety, adherence to technical standards, quality of products, installations and outputs, gender equity, social inclusion, climate change and disaster risks; adherence to scope, plan, timeline and budget; value for money; establishment of maintenance and sustainability mechanisms.

The grantees will address identified cross cutting issues (see Section 1.5) including gender equity, social inclusion (GESI) and social safeguards through action plans that will be monitored and evaluated in this Program.

Data Quality Assessment

The Program will examine the systems and process for collecting, transmitting, storing, monitoring, analysing, and reporting data at different levels. The OEP will verify actual data on sample basis and examine the data flow process from its source to final reporting to the OEP, as part of the assessment.

Financial management

As a part of the due diligence assessment, the program will conduct a financial management system review with each grantee prior to signing the grant agreement.

When funds are disbursed, the guidelines below should be followed to manage grants effectively.

When necessary the OEP will:

- Provide compulsory guidance on financial management
- Provide targeted technical assistance for financial management and reporting
- Conduct, with the support of the grantee, ad hoc visits to review activities against budget, accounting practices, internal control and auditing practices, reporting practices and recommend actions as necessary
- Ensure that grantees prepare progress and completion reports during implementation as per grant agreement.

Use of grant funds will be guided by the Grant Activity Budget prepared prior to the commencement of funds disbursement and attached to the Grant Agreement. Grant funds will be released to grantees by instalments (or tranches) in accordance to the Grant Disbursement Schedule, derived from the Grant Activity Budget and also attached to the Grant Agreement. The Disbursement Schedule will be decided between the OEP and the Grantee based on the output of milestones activities specified in the Grant Agreement.

Eligible Costs

Eligible costs are actual costs incurred by the grantee directly related or attributable to the undertaking of project activities. They are incurred during the implementation of the activity as indicated in the project budget and are necessary for the implementation of the activity. Furthermore, they must be identifiable and verifiable, they must comply with tax regulations and they must be reasonable.

Eligible costs could include goods and related services, works, consulting services, other services, personnel, equipment, transport, project overheads, relevant corporate overheads, among others.

Non-eligible costs:

- any cost incurred by the grantee prior to grant award – e.g. cost of preparing proposals
- costs incurred by the grantee in complying with the requirements of the OEP – e.g. opening separate bank account
- any cost incurred by the grantee in running its day-to-day core operations and other programs/projects, not related to the awarded project
- debts and debt service charges (interest)
- provisions for losses or potential future liabilities
- purchases of land or buildings, except where necessary for the direct implementation of the activities
- currency exchange losses
- credit to third parties
- Any cost incurred in connection with an investigation into misuse of funds by the grantee
- Any cost refundable by a third party
- Any cost not approved by the OEP Secretariat

The OEP Secretariat will review costs against the stipulated Grant Activities Schedule and the budget and retains complete discretion on the approval of costs items as well as value-for-money considerations.

Disbursement and financial monitoring

Different types of grants will require different financial monitoring and reporting; this will be specified in each Grant Agreement. Financial reporting will occur on a monthly basis and, wherever possible, financial reporting processes will align with the existing processes and systems of the grantee. This will streamline information flows and minimise administrative burdens.

Funding will be disbursed in tranches and the grantees are required to open a separate dedicated bank account to manage the awarded grants. Collection of monthly bank statements as well as other tailored procedures will be enforced by the OEP to ensure effective and responsive financial monitoring. Access to financial information requested by the OEP shall be promptly provided by grantees at a short notice.

For the release of the first tranche, the Grantee must comply with two OEP pre-conditions as follows:

- (a) the Grantee has completed training attended by relevant personnel and officers of the Grantee on all aspects of OEP financial management, procurement and reporting; and
- (b) the Grantee has established a bank account for the sole purpose of receiving and expending grant funds.

Once the two pre-conditions described above have been fulfilled by the Grantee to OEP team's satisfaction, the first tranche will be released.

Release of subsequent tranches will be based on proper acquittal of previous tranches as well as the fulfilment of other reporting requirement to the OEP's discretion and satisfaction. Acquittal of a tranche must be supported by the required statement/report, copies of payment vouchers, invoices, receipts, proof or evidence of delivery and acceptance of procured goods and/or services.

Prior approval required

All payments under the grant will initially require prior approval from the OEP Manager. The requirement for prior approval will remain unless the OEP Secretariat gives specific instruction that this is no longer required. This may be the case where a grantee is able to demonstrate over a period of time that they are 100% compliant with all aspects of the Grant agreement. Prior approval will continue to be required for any payment with a value above PGK50,000. Where prior approval is required no payment shall be made unless approval has been given by the OEP Financial and Administration Manager. A payment that is made without prior approval when required will be considered to be a serious breach of the Grant Agreement and will result in immediate freezing of the bank account as well as sanctions and penalties.

Grant agreements

The program's finance and administration officer will manage the discharge of funding as per the finalised grant agreement. Disbursement of funds will be in tranches and upon the submission and approval of narrative and financial reports on an agreed frequency.

Financial monitoring of grantees will vary according to the amount of funds disbursed, the capacity of the grantee and the nature of the agreement which has been entered between the OEP and that entity.

This will ensure that reporting requirements are met, and funds are utilised as per the agreed work plan. If there are any concerns during implementation that arise with any grantee, this will be brought to the attention of the OEP manager in writing by the team member monitoring the activity and further action will be taken accordingly. This process will be documented, and the OEP will advise if further funds need to be withheld or other action taken.

Internal control of funds

For effective management of the disbursed funds, recipient entities will be required to open a separate bank account specifically for operations in line with the grant agreement. Grantees must therefore open and hold a current local bank account in the name of the entity (i.e. not a personal bank account in the name of an individual) dedicated to the management of the grant.

A schedule for tranche payments will be recorded by the finance and administration officer on the funds request template which is an attachment to the grant agreement. Only upon completion of the funds

request template (or equivalent) authority will be given for the tranche payment to be transferred to the approved bank account for the grantee entity.

Over-expenditure

Over-expenditure will not be permitted. Requests for additional funds to the agreed amount will require the approval of DFAT and result in an amendment to the grant agreement. If prior approval is not sought, the grantee will be required to use its own funds to cater for the over-expenditure.

If there is any overspend on a grant, all activity expenditure should be looked at to ensure there is no overspend against the total grant agreement.

Under-expenditure

The grantee will need to advise the finance and administration officer of any under-spend through the financial reporting process and accordingly, adjustments to the next tranche payment will be made. If there is under-expenditure at activity completion, a refund will be required. This will reduce the total activity expenditure.

Any significant underspend of a grant should be reported to the OEP manager so that funds can be allocated to another activity in collaboration with DFAT.

If a grantee has spent less than 80 per cent of the tranche disbursed, the following tranche will not be disbursed until the OEP has received a progressive financial report demonstrating expenditure above 80 per cent in line with project or program objectives. Only then will the remaining 20 per cent be disbursed.

Ongoing Due Diligence

The grantee must always make available all financial records relating to the administration and expenditure of the grant. The OEP Finance team will be provided with full administrator level access to the financial accounting system being used to administer the grant when required. Failure to comply with a request for information or access to financial records within 7 days will constitute a serious breach of the Grant agreement and will result in immediate freezing of the bank account as well as sanctions and penalties.

Financial Wrongdoing

Misuse of funds, financial fraud or breach of any fiduciary clause in the Grant Agreement will be subject to sanctions and penalties. After due process and verification, a payment or contract in question may be cancelled, or all payments may be suspended or cancelled and bank account be frozen, or as a last resort, the Grant Agreement may be terminated. Furthermore, the Grantee may be declared ineligible to receive any future grant from OEP or any DFAT-funded grant programs, either for a specified period of time or perpetually, depending on the gravity of the offense. This is without prejudice to OEP team to take legal action, civil or criminal, against the erring Grantee.

Where financial wrongdoing is suspected, a full external audit or external investigation may be required. The cost of investigation and/or external audit will be fully borne by the grantee and are considered to be ineligible costs.

Procurement

Different types of grants will require different procurement processes and reporting; this will be specified in each Grant Agreement. Wherever possible, procurement processes will be aligned with the existing processes and systems of the grantee. This will streamline information flows and minimise administrative burdens.

Procurements under the awarded grant will be undertaken in accordance with the Commonwealth Procurement Rules (20 April 2019) and Guide to OEP Procurement provided to successful applicants.

In procuring goods, works and services funded under the grant, the Grantee will follow the Guide to OEP Procurement. The Guide to OEP Procurement provides, *inter alia*, that:

- (a) Goods, works and services funded under the grant will be procured in accordance with Commonwealth Procurement Rules (20 April 2019) (CPRs) and Guide to OEP Procurement. Achieving value for money is the core rule of the CPRs and, accordingly, the Guide to OEP Procurement.
- (b) All procurements under the grant shall be made in accordance with the Activity's Procurement Plan attached to the Grant Agreement. The Procurement Plan will have been prepared on the basis of the resources – i.e., goods, works and services – identified in each key activity listed in the Grant Activity Work Plan and the Terms of Reference of the Grant Agreement.
- (c) The default procurement method to be used will be the Open Competitive Tender. In due consideration of the market capacities and in the interest of expediency, alternative modes of procurement like limited tender, direct contracting, cooperative or coordinated procurement, or any combination thereof, may be included in the Procurement Plan as and when appropriate and justified.
- (d) In accordance with the fiduciary clauses in the Grant Agreement, all goods, works, and services with a contract value of above PGK 100,000 are subject to OEP's prior-review procedures; the rest are subject to OEP's post-review procedures.
- (e) OEP's prior-review procedures will be applied on Grantee's (1) draft tender and contract documents before proceeding to tender, (2) tender evaluation reports with recommendation for award; and (3) during contract execution, any contract variation or amendment that will increase the original contract price by 10%.

Procurement wrongdoing, or non-compliance with CPR and/or Guide to OEP Procurement, or commission of procurement fraud, will be subject to sanctions and penalties. After due investigation and verification, a procurement or contract in question may be cancelled, or all procurements may be suspended or cancelled, or as a last resort, the Grant Agreement may be terminated. Furthermore, the Grantee may be declared ineligible to receive any future grant from OEP or any DFAT-funded grant programs, either for a specified period of time or perpetually, depending on the gravity of the offense. This is without prejudice to OEP team to take legal action, civil or criminal, against the erring Grantee.

Grantees are required to submit monthly progress report of on-going procurements, in OEP prescribed format, duly signed and attested to by their authorised officers.

At OEP team's option, grantees will be subject to annual or semi-annual procurement audits.

Risk assessment and management

The risk management identification and reporting by the grantees will provide an overview of the risks involved in each project (identified risks as well as newly evolved ones). A template for risk reporting will be included in the reporting guidelines after the signature of the grant agreement.

As an indication, major risks and associated management strategies for the disbursement and management of implementation of projects are outlined below.

Table 2 Risks and management strategies

| Risk | Likelihood of Risk Occurring | Perceived Severity of Risk & Likelihood | Management Strategy |
|---|------------------------------|---|---|
| Reliability of hardware component to run its service life | High | Medium | <ul style="list-style-type: none"> - Certified equipment with warranty by reputable suppliers - Procurement guidelines - Peer review of designs - Installation verifications - Enhanced local repair and maintenance capability |
| Technological change (e.g. panels get much cheaper and more efficient) | High | Medium | <ul style="list-style-type: none"> - The technology supplied confirms to the best available at the time - Strict time management in project implementation to avoid delay |
| Chemical hazards due to used battery disposal | High | High | <ul style="list-style-type: none"> - Used battery collection systems put in place - Awareness program - Procedures put in place |
| Health and safety | Medium | High | <ul style="list-style-type: none"> - Certified equipment with warranty by reputable suppliers - Provision of community awareness and training |
| Grantee has limited financial management capacity, resulting in the possibility of mismanagement and/or fraud | Medium | Medium | <ul style="list-style-type: none"> - Due diligence assessment, conducted prior to commitment of funds to civil society organisations and others as appropriate, will ensure minimum standards in organisational capacity, risk management and other safeguards are met. - Where an organisation is not initially fully compliant, the OEP may consider providing assistance to strengthen systems or build capacity in defined areas. Alternatively, the OEP may consider extra safeguard mechanisms to minimise risk, such as closer monitoring through field visits; smaller tranche payments; or more frequent financial reporting. - The finance and administration officer will offer MS Excel or other financial reporting formats and financial management advice and training. Where the OEP identifies (through regular reporting or periodic monitoring visits) significant or ongoing capacity issues, additional training and technical advice may be provided. - Tranche payments will be structured on an assessment of the recipient organisation's financial management capacity, as well as its track record in managing donor funds. Tranche payments can be restructured or withheld if there is evidence to suggest that funds are not being effectively managed or are not being utilised in accordance with the Grant Agreement. - The OEP will conduct regular fraud awareness training for recipient organisations. The OEP fraud control plan will be implemented should fraud be suspected. - Provisions to assured equity and co-funding (such as equity deposit in project bank account, assured corporate letter for co-funding, etc.) |
| Grant funds expended on non-fund expenditure | Low | Medium | <ul style="list-style-type: none"> - Prior to disbursement of the grant funds, partners will be required to sign a grant agreement. The grant agreement will contain an approved budget, reporting requirements, and provide for corrective action where necessary. Regular monitoring contact and spot audits will be undertaken by the program and to ensure compliance with funding agreements and minimise the risk of misappropriation. - Disbursements linked to the project output. |

| Risk | Likelihood of Risk Occurring | Perceived Severity of Risk & Likelihood | Management Strategy |
|--|------------------------------|---|--|
| | | | - The program's fraud control plan will be implemented if fraud is suspected. |
| Flow of off-grid funds to grantees may be restricted by economic sanctions and / or banking regulations | Low | Medium | - The program will investigate, and continually review, options and associated risks for funds transfers. The transfer of funds may require alternate banking arrangements to those specified in these guidelines. The disbursement procedures may be varied to ensure that funds reach the intended beneficiaries. |
| Collusion between grantee and goods supplier or works contractor during tendering and/or during contract execution | High | High | - Setup a procurement threshold above which grantee will undergo a prior-review procedure on two key draft tender documents prior to approach to market –i.e., (a) draft tender and contract documents; and (b) tender evaluation report with recommendation for award; also include a prior-review procedure on grantee's proposed contract variation that will increase original contract price by 10%. |
| Undisclosed conflict-of-interest situation between applicant and partner organization, if any | High | High | - At <u>application stage</u> , a very thorough scrutiny of both applicant and partner organization's corporate relationship to uncover any indication of conflict-of-interest situation by way of interlocking directorship and/or any contractual commercial relationship. At <u>pre-award stage</u> , a very thorough due diligence assessment to uncover any conflict-of-interest situation that may have been overlooked at application stage, or very recent developments on contractual commercial relationship between the potential grant awardee and partner organization. |
| Inadequate approach to gender equity and social inclusion during project implementation | Medium | Medium | - Grantees to prepare strategy to address GESI and for mainstreaming it into project activities |
| Environmental impacts are not appropriately considered or mitigated | Medium | Medium | - Grantees comply to DFAT's <i>Environmental and Social Safeguard Policy</i> - Grantees to provide an Environment Management Plan, if required |

Fraud and Anti-Corruption Controls

The Program will work with grantees to ensure they are managing fraud risks, reporting and addressing all occurrences of fraud and corruption, and help improve grantees knowledge of how fraud might occur and what can be done to manage.

All grantees are required to make ongoing efforts to protect their projects from acts of fraud, and must undertake:

- A Project fraud risk assessment (at start-up, updated six-monthly)
- A mandatory training for project staff (Fraud, anti-bribery)
- Open procurement and recruitment processes with due diligence undertaken before contracting

Where fraud risks eventuate (a fraud occurs), grantees must evaluate the effectiveness of existing fraud risk treatments so that lessons are learnt, and corresponding changes made to the fraud risk assessment and the risk management strategy.

Child Protection

It is the responsibility of the grantees to ensure the safety of all children when implementing projects and during their daily tasks. Any person under the age of 18 years is considered a child.

All grantees (including co-applicants) will comply with DFAT's Child Protection Policy³. A risk assessment will be conducted, and the appropriate minimum standard/s will be applied.

According to the risk assessment, the grantee will either be required to develop a child protection policy or sign a code of conduct showing their commitment to child protection. When developing a Child Protection Policy, the following must be included;

- Reporting procedure for alleged or suspected child exploitation and abuse
- Code of conduct
- Guideline for managing policy non-compliance and its sanctions available

The grantee must ensure that all its staff attend the training on child protection awareness to understand their obligation in protecting children and immediately reporting any suspected or alleged instances of child abuse, exploitation, harm or child protection non-compliance.

The community members must be well informed of the reporting procedure especially what to report, when to report it and who to report to. It is important that the community members are aware that this is a sensitive issue and that the children's safety is paramount. Any matter relating to child protection will be confidential.

Conflict management

Conflict may arise (i) between or among the Grantee stakeholders or partners, and (ii) Between the Grantee and the Program. There shall be a problem-solving approach in handling the conflict. It should address the problem and should achieve mutual gains for the project and the Program.

In case of the conflict within the Grantee stakeholders or partners, that should be brought into the notice of the OEP immediately by the lead organisation that has signed the grant agreement. The OEP will, then, facilitate and mediate, if necessary, to resolve the conflict. If the conflict cannot be resolved and that is going to impact the project implementation adversely, then the Program can consider the termination of the grant agreement.

In case of conflict between the Program and the Grantee, both agree to use their best efforts to settle amicably all disputes arising out of or in connection with the grant agreement. In the event that a dispute cannot be settled amicably by agreement between the parties, the dispute shall then be referred to an arbitrator to be appointed by the parties.

Complaint handling

The following process should be followed when disagreements or issues arise between partner organisations or between a grantee and the OEP. This process can be applied to individuals and groups or organisations. If a complaint is about the relevant OEP personnel, grantees can bring the issue to the notice of the Program. For example, if there is an issue with the OEP officer, grantees can speak directly to the OEP manager. Conflict resolution should only be sought through the OEP if it is directly relevant to OEP support.

³ www.dfat.gov.au/childprotection

Complaints can be addressed through informal or formal processes. Informal processes mean that the complaint is either solved between the two parties or is informally mediated by a member of the OEP management and limited formal written records are maintained about the process. A formal complaint requires consistent and detailed documentation of the process and any outcomes will be officially documented and followed.

Grantees are discouraged from bringing frivolous or vexatious complaints against the program. A frivolous complaint is one made without reasonable cause. A vexatious complaint is made with the intent of causing harm, embarrassment or annoyance, without evidence of any substantive allegation. Grantees who make vexatious complaints may face disciplinary processes.

The OEP conflict management process follows natural justice principles. This means that both the parties have the right to a fair hearing, with all relevant information will be objectively considered and the rights of all parties protected throughout the process.

In case of conflict and on a case by case basis, while the above process will follow due course, the OEP reserves the right to slow down, freeze or terminate grant activities and in certain cases the Grant Agreement.

Reporting and timelines

All grantees are required to use the appropriate reporting template to provide progress and completion financial and narrative reports.

Below is a brief description of each report and time frames.

- **Progress financial report:** summarises activities implemented with financial expenditure for the reporting period.
- **Monthly M&E and narrative report:** reports along the grantee's project design (objectives and outcomes) and implemented activities using disaggregated data, challenges, addressing cross-cutting themes and lessons learnt.
- **Completion financial and narrative report:** overall summary of activities implemented with disaggregated data, achievements, challenges and lessons learnt and financial expenditure for the entire grant period.

Exit interviews

When a grantee completes their project and their grant agreement has come to an end, the OEP would like to conduct exit interviews. The purpose of the exit interview is to provide grantees an opportunity to provide feedback on the OEP processes, support and suggestions on how the program can improve its work. The exit interview will be conducted by an independent consultant. The exit interviews will focus on effectiveness of program design, implementation, monitoring and review practices and lessons learnt for future lessons learning.

Termination

According to the grant agreement, the OEP may terminate a grant agreement at any time, if the grantee:

- commits a breach of the agreement
- becomes financially unable to fulfil its obligations
- is wound up by resolution or an order of the court
- ceases to carry out activities
- ceases to hold any license, qualification, approval, authority, or consent required to comply with its obligations

- is found to be listed on a World Bank list of ineligible firms or relevant list
- is found to be convicted of an offence.
- Please refer to the grant agreement template for full termination clauses, including termination by notice and termination by convenience.