

Project Administration Manual

Project Number: 44304-01
Loan and Grant Numbers: [LXXXX]
October 2010

Papua New Guinea: Microfinance Expansion Project

Contents

ABBREVIATIONS	III
I. PROJECT DESCRIPTION	1
II. IMPLEMENTATION PLANS	2
A. Project Readiness Activities	2
B. Overall Project Implementation Plan	3
III. PROJECT MANAGEMENT ARRANGEMENTS	5
A. Project Implementation Organizations – Roles and Responsibilities	5
B. Key Persons Involved in Implementation	5
C. Detailed Implementation Arrangements	6
D. Project Organization Structure	7
IV. COSTS AND FINANCING	8
A. Detailed Cost Estimates by Expenditure Category	10
B. Allocation and Withdrawal of Loan and Grant Proceeds	12
C. Detailed Cost Estimates by Financier	14
D. Detailed Cost Estimates by Outputs/Components	16
E. Detailed Cost Estimates by Year	18
F. Contract and Disbursement S-curve	20
G. Fund Flow Diagram	21
V. FINANCIAL MANAGEMENT	22
A. Financial Management Assessment	22
B. Disbursement	23
C. Accounting	24
D. Auditing	24
VI. PROCUREMENT AND CONSULTING SERVICES	26
A. Advance Contracting	26
B. Procurement of Goods and Consulting Services	26
C. Procurement Plan	28
D. National Competitive Bidding	29
E. Consultant's Terms of Reference	31
VII. SAFEGUARDS	46
VIII. GENDER AND SOCIAL DIMENSIONS	47
IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION	50
A. Project Design and Monitoring Framework	50
B. Monitoring	54
C. Evaluation	55
D. Reporting	56
E. Stakeholder Communication Strategy	56
X. ANTICORRUPTION POLICY	58
XI. ACCOUNTABILITY MECHANISM	59
XII. RECORD OF PROJECT ADMINISTRATION MANUAL CHANGES	60

Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The executing and implementing agencies are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the Borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by executing and implementing agencies of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the Borrower and ADB shall agree to the PAM and ensure consistency with the loan agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

Abbreviations

ADB	–	Asian Development Bank
AMFI	–	Association of Microfinance Institutions
AusAID	–	Australian Agency for International Development
BDS	–	business development skills
BPNG	–	Bank of Papua New Guinea
CFSLP	–	community financial service linkage program
DFCD	–	Department for Community Development
DMF	–	design and monitoring framework
DOT	–	Department of Treasury
EA	–	executing agency
FAD	–	Finance and Accounting Department
FESALOS	–	Federation of Savings and Loan Societies
FMA	–	financial management assessment
IBBM	–	Institute of Banking and Business Management
IAD	–	Internal Audit Department
ICB	–	international competitive bidding
MCC	–	Microfinance Competence Centre
MF	–	microfinance
MFI	–	microfinance institution
MIS	–	management information system
MPB	–	mobile phone banking
MSE	–	micro and small enterprise
NCB	–	national competitive bidding
NCFI	–	National Centre for Financial Inclusion
NGO	–	nongovernment organization
PAI	–	project administration instructions
PAM	–	project administration manual
PFI	–	participating financial institution
PFM	–	public financial management
PIU	–	project implementation unit
PMU	–	project management unit
PNG	–	Papua New Guinea
PPMS	–	project performance monitoring system
QCBS	–	quality- and cost-based selection
RRP	–	report and recommendation of the President to the Board of Directors
RSF	–	risk-share facility
SBD	–	standard bidding document
SGIA	–	second generation imprest account
SLS	–	savings and loan society
SOE	–	statement of expenditure
SPS	–	Safeguard Policy Statement
TOR	–	terms of reference

I. PROJECT DESCRIPTION

1. The project will support the further development of the microfinance sector in Papua New Guinea (PNG) through an integrated package of support, including six outputs. Outputs 1, 2 and 3 will strengthen the capacity of the microfinance industry to provide financial services to a broader cross-section of the community and strengthen the capacity of its clients and potential clients to utilize these financial services. Output 4 will provide appropriate regulation for, and supervision of, microfinance institutions (MFIs) and savings and loan societies (SLSs) through the Bank of PNG (BPNG). Output 5 will seek to increase lending to micro and small enterprises (MSEs) to increase rural income generation. Output 6 will provide efficient and effective project management services to the project. As a result, participating financial institutions (PFIs) throughout PNG, which will be identified through a series of institutional assessments, will be better able to provide profitable, appropriate, reliable and safe financial services to financially literate clients and capable businesses, with a view to reducing poverty.

2. The project's impact will be enhanced economic growth led by the private sector. The outcome will be PFIs sustainably and safely providing financial services to a substantially increased number of clients across PNG.

3. The project's outputs will be:

- i. Business and product management capacity of PFIs is increased.
- ii. Clients and potential clients understand and know how to access, financial services for personal or business use.
- iii. The Association of MFIs monitors jointly agreed microfinance industry standards.
- iv. BPNG regulation and supervision of MFIs and SLS is streamlined and improved.
- v. A risk share facility (RSF) supports increased MSE lending.
- vi. The project management unit (PMU) provides efficient and effective project management services.

B. Overall Project Implementation Plan

Activity	2010		2011				2012				2013				2014				2015				2016				2017				
	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Project Management																															
Appoint PMU manager																															
Locate PMU office																															
Appoint managers of PIUs																															
ADB and GoPNG evaluation missions																															
Locate PIU offices																															
Establish project indicators and monitoring																															
Benchmark surveys																															
Reports to GoPNG and ADB																															
PFI Supervision & Regulation																															
Register and classify MFIs and SLSs																															
Draft regulations for MFIs, SLSs and MPB																															
Strengthen BPNG supervision																															
BPNG operating manuals																															
Organizational structure and job descriptions																															
Improve data management																															
Upgraded MFI supervision																															
Microfinance Industry Capacity Building																															
MFI generic training																															
In-house capacity training development																															
MIS selection, installation and training																															
Market research																															
Product development and marketing																															
Financial literacy training																															
Business development skills training																															
Rural linkages supports																															
Industry best practices dissemination																															
Promoting transparency and benchmarks																															
Promoting use of ratings																															

Activity	2010		2011				2012				2013				2014				2015				2016				2017				
	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
MSE Loan Portfolio Expansion																															
Establish risk-share facility (RSF)																															
Call tenders for RSF management																															
Appoint RSF manager																															
Receive MFI applications for loan cover																															
Provide coverage																															
Semi-annual review																															
Fund closure																															
Consultancy Inputs	p-m																														
International:	188																														
1. Microfinance and lead specialist	48																														
2. Microfinance regulation and supervision spec.	10																														
3. MFI product innovations and market development specialist	24																														
4. Microfinance training and curriculum development specialist	18																														
5. PBME specialist	3																														
6. MFI MIS specialist	6																														
7. Risk fund management specialist	4																														
8. Business mentors	75																														
National:	306																														
1. Microfinance institutional development spec.	84																														
2. Gender and community development spec.	24																														
3. Procurement specialist	9																														
4. Training specialists (2)	60																														
5. Project monitoring specialist	9																														
6. Sociologist and market research specialists (2)	48																														
7. MFI and SLS supervisory support specialists (2)	72																														

ADB = Asian Development Bank, BPNG = Bank of Papua New Guinea, GoPNG = Government of Papua New Guinea, MFI = microfinance institution, MIS = management information system, MPB = mobile phone banking, PBME = project benefit monitoring and evaluation, PIU = project implementation unit, p-m = person-months, PMU = project management unit, RSF = risk-share facility, SLS = savings and loan society.

Source: Asian Development Bank staff estimates.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations – Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> • Department of Treasury 	<ul style="list-style-type: none"> ➤ Funding balance of project cost ➤ Implementing agency for output 5^a ➤ Establishment of project implementation unit (PIU) for output 5
<ul style="list-style-type: none"> • Bank of Papua New Guinea 	<ul style="list-style-type: none"> ➤ Executing agency ➤ Implementing agency for project output 4 ➤ Establishment of PIU for output 4
<ul style="list-style-type: none"> • Project steering committee 	<ul style="list-style-type: none"> ➤ Project oversight and guidance
<ul style="list-style-type: none"> • Project management unit 	<ul style="list-style-type: none"> ➤ Oversight of project implementation, output 6 ➤ Submission of withdrawal applications, retention of supporting documents submission of reports
<ul style="list-style-type: none"> • Institute of Banking and Business Management 	<ul style="list-style-type: none"> ➤ Implementing agency for project outputs 1, 2 and 3 ➤ Establishment of PIU for outputs 1, 2 and 3 within the National Centre for Financial Inclusion
<ul style="list-style-type: none"> • Asian Development Bank 	<ul style="list-style-type: none"> ➤ Project financier through concessional loan
<ul style="list-style-type: none"> • Government of Australia 	<ul style="list-style-type: none"> ➤ Project cofinancier through grant assistance

^aThe Structural Policy and Investment Division will be the responsible division within DOT for output 5.

B. Key Persons Involved in Implementation

Executing Agency

Bank of Papua New Guinea

Loi M. Bakani
 Governor & Registrar of Savings and Loan Societies
 +675 322-7251
lbakani@bankpng.gov.pg
 Bank of Papua New Guinea
 ToRobert Haus
 Douglas Street, Port Moresby
 Papua New Guinea

ADB

Pacific Department

Eugene Zhukov
 Regional Director, PLCO
 +61 2 8270-9444
ezhukov@adb.org

Mission Leader

Jeremy Cleaver
 Private Sector Development Specialist
 +61 2 8270-9444
jcleaver@adb.org

C. Detailed Implementation Arrangements

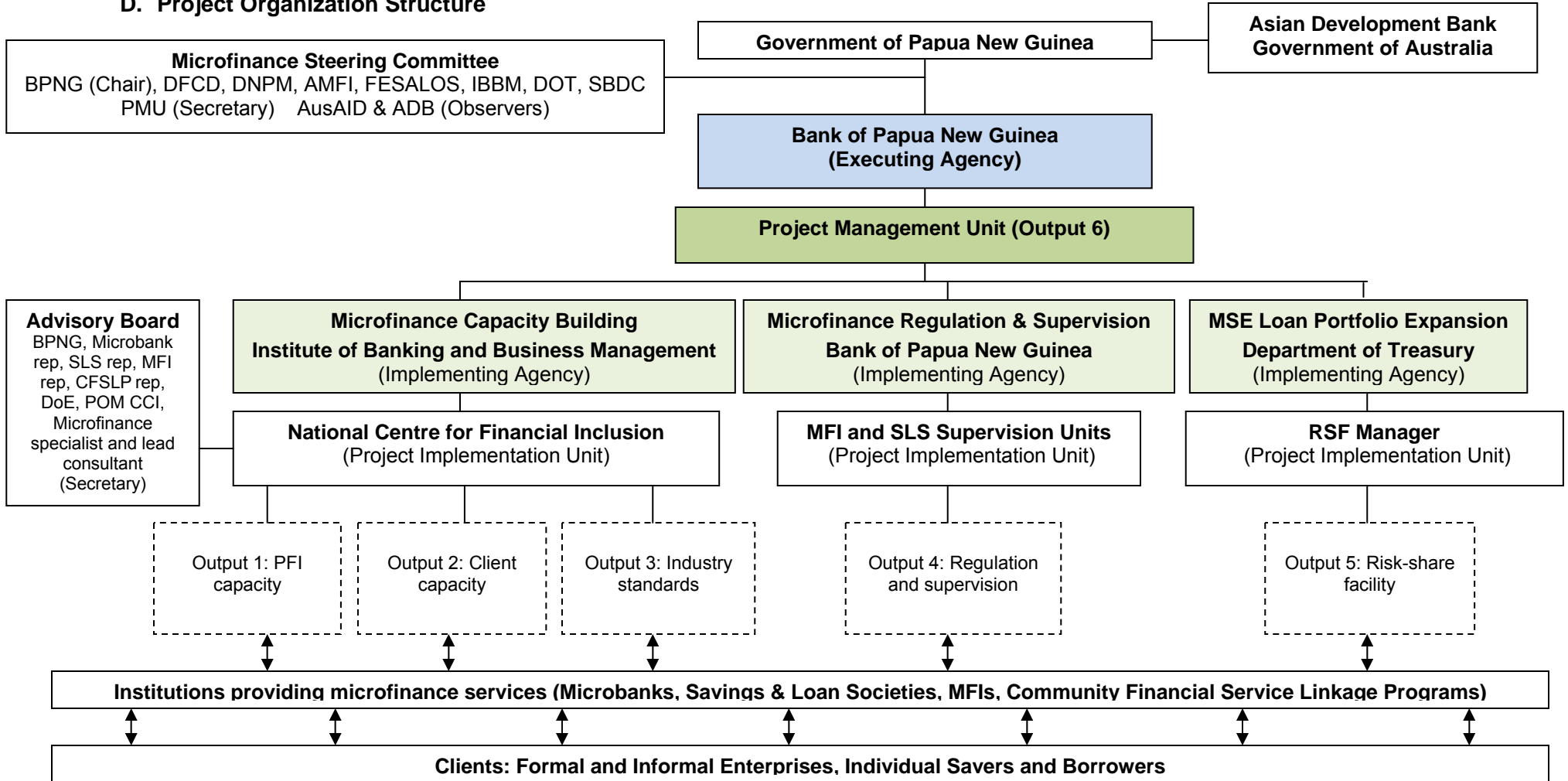
1. A project steering committee (PSC) will be established to provide guidance and oversee implementation of the project. The PSC will be chaired by the BPNG Governor and will consist of representatives from the Department of National Planning and Monitoring, the Department of Treasury (DOT), the Department for Community Development, the Small Business Development Corporation, the Institute of Banking and Business Management (IBBM), the Association of Microfinance Institutions (AMFI), and the Federation of Savings and Loan Societies (FESALOS). The PSC will meet every quarter or more frequently if necessary. The PSC will first meet within 3 months of loan effectiveness.

2. BPNG will be the executing agency, responsible for the execution of the project. A PMU will be established in BPNG to manage and coordinate the project and will be headed by a dedicated project manager. The PMU will be responsible for (i) coordinating the project's activities; (ii) selecting, engaging, and managing the consultants; (iii) carrying out procurement activities; (iv) providing necessary data to the auditor and submitting the audited financial statement to ADB on time; (v) monitoring and evaluating the project; and (vi) preparing and submitting all reports, including quarterly reports, annual reports, and the project completion report to the PSC and ADB. The PMU will be supported by international and national consultants.

3. BPNG, IBBM and DOT will be the implementing agencies. IBBM will be responsible for implementing outputs 1, 2 and 3, BPNG for output 4, and DOT for output 5. A project implementation unit (PIU) will be established in each of the implementing agencies to manage and report on their activities and outputs. The PIUs will be responsible for (i) assisting the implementing agency in implementing the project, (ii) liaising and coordinating with the PMU, and (iii) liaising with other stakeholders on implementation of project activities. The PIUs will receive support from international and national consultants.

4. A National Centre for Financial Inclusion (NCFI) will be formed from the current Microfinance Competence Centre (MCC) under IBBM. Staff within the NCFI will undertake the activities of the PIU for outputs 1, 2 and 3, with IBBM oversight. Once established as an independent entity, within approximately 9 months of the beginning of project implementation, the NCFI will replace the IBBM and become an implementing agency and take over the responsibilities of the IBBM as the implementing agency for outputs 1, 2 and 3 of the project. The NCFI will have seven administrative staff and will be supported by international and national consultants. It will generate revenue from PFI and client contributions to training costs, as well as from other services it may provide. At the time of the project's midterm review, an assessment of the potential post-project role of the NCFI will be undertaken, and a plan developed to ensure that it is able to generate sufficient revenue or attract further donor funding to continue its activities.

D. Project Organization Structure



ADB = Asian Development Bank, AMFI = Association of Microfinance Institutions, AusAID = Australian Agency for International Development, BPNG = Bank of Papua New Guinea, CFSLP = Community Financial Service Linkage Program, DFCD = Department for Community Development, DNPM = Department of National Planning and Monitoring, DOE = Department of Education, DOT = Department of Treasury, FESALOS = Federation of Savings and Loan Societies, IBBM = Institute of Banking and Business Management, MFI = microfinance institution, MSE = micro and small enterprise, PMU = project management unit, POM CCI = Port Moresby Chamber of Commerce and Industry, rep = representative, RSF = risk-share facility, SBDC = Small Business Development Corporation, SLS = savings and loan society.

Source: Asian Development Bank.

IV. COSTS AND FINANCING

1. The project investment cost is estimated at \$24.06 million, including taxes and duties of \$0.91 million, physical and price contingencies, interest charges during implementation, and ADB administration fee in the amount of \$250,000 to be paid out of AusAID grant cofinancing.

2. The government has requested a loan in various currencies equivalent to Special Drawing Rights 8,412,000 (\$13.00 million) from ADB's Special Funds resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years, an interest charge of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft loan and project agreements. Interest during implementation on the ADB loan will be capitalized into the loan amount.¹

3. The ADB financing in the amount of \$13.00 million or 54% of the total project investment cost, will be used to finance (i) risk-share facility (RSF) fund, (ii) part of the workshops, studies and surveys, (iii) part of the consulting services, (iv) training, (v) vehicles, computers and office furniture, and (vi) interest during implementation. The Government of Australia will provide grant cofinancing in the amount of \$6.00 million as project specific funding to finance about 25% of the project costs, to be administered by ADB on a joint basis. The Government of Australia grant will be used to finance (i) part of the workshops, studies and surveys, (ii) part of the consulting services, (iii) training, and (iv) the management fee of \$250,000 paid to ADB to manage the grant. The government counterpart funding in the amount of \$3.09 million equivalent, or 13% of project cost will be provided in the form of cash and in kind, covering (i) taxes and duties, and (ii) recurrent costs. PFIs and other project beneficiaries' contribution in the amount of \$1.97 million or about 8.2% of the project cost will fund the costs of computer hardware and software required for management information systems (MIS) platforms and 25% of their staff training costs. These will largely be funded through capital increases, which are likely to be required to support regulatory capital requirements. Households and businesses accessing project training services will finance 16% of such costs.

Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	13.00	54.0
Government of Australia ^a	6.00	25.0
PFIs & Beneficiaries	1.97	8.2
Government	3.09	12.8
Total	24.06	100.0

PFIs = participating financial institutions.

^a This amount includes ADB's administration fee, audit cost, bank charges and provision for foreign exchange fluctuations, if any, to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant contribution by the Government of Australia.

Source: Asian Development Bank.

¹ Transportation and insurance are eligible expenses for ADB financing.

4. Tax calculations are based on customs tariffs and import levies where applicable, excise on fuel, and GST of 10%. Income tax is not included. On average, taxes and duties amount to 15% of expenditures on training, workshops, and surveys and studies (being higher for expenditures requiring more travel and lower for rural expenditures such as community awareness). Taxes and duties on vehicles are 54%, on computers 23%, and on office furniture 21%.

5. Physical contingencies are calculated at 10% of base cost for all training activities, workshops, translation of materials, and surveys and studies. Price contingencies were calculated for furniture and office equipment, vehicles, IT platforms, studies and surveys, translation of materials, workshops, and all forms of training. Price contingencies are based on local inflation of 9.0% in the first year, 7.5% in the second year, 4.5% in the third year and 4.0% for each year thereafter. There is a devaluation offset included in the price contingencies based on a US dollar inflation rate of 1.0% in the first year, 0.3% in the second year and 0.5% each year thereafter. A mid-year exchange rate of K2.80 to \$1.00 has been used throughout the project.

6. Detailed costs are shown in the following tables.

A. Detailed Cost Estimates by Expenditure Category

	Kina			US\$		
	Local	Foreign	Total	Local	Foreign	Total
A. Investment Costs						
1. Risk-share facility						
a. Risk-share facility	0	15,032,688	15,032,688	0	5,368,817	5,368,817
b. RSF management	0	3,954,300	3,954,300	0	1,412,250	1,412,250
2. Training and workshops						
a. Workshops	522,200	2,088,800	2,611,000	186,500	746,000	932,500
b. Financial literacy						
i. Financial literacy: women	291,100	1,164,400	1,455,500	103,964	415,857	519,821
ii. Translation & editing	180,000	0	180,000	64,286	0	64,286
iii. Business development skills	572,000	2,288,000	2,860,000	204,286	817,143	1,021,429
iv. Financial literacy: communities	1,674,800	6,699,200	8,374,000	598,143	2,392,571	2,990,714
c. Training PFI staff	537,913	2,151,652	2,689,565	192,112	768,447	960,559
3. Surveys, Investigation, Design, Mapping						
a. Studies & surveys	1,255,000	0	1,255,000	448,214	0	448,214
b. Microfinance website	0	184,949	184,949	0	66,053	66,053
4. Consultants						
a. National consultants	0	3,607,200	3,607,200	0	1,288,286	1,288,286
b. International consultants	0	9,578,500	9,578,500	0	3,420,893	3,420,893
c. Business mentors	0	2,100,000	2,100,000	0	750,000	750,000
5. Equipment, Vehicles & Furniture						
a. Vehicles	108,000	132,000	240,000	38,571	47,143	85,714
b. Office furniture	7,800	18,200	26,000	2,786	6,500	9,286
c. Computer sets	8,112	23,088	31,200	2,897	8,246	11,143
d. MIS platforms	0	2,500,000	2,500,000	0	892,857	892,857
Total Investment Costs (A)	5,156,925	51,522,977	56,679,901	1,841,759	18,401,063	20,242,822
B. Recurrent Costs						
1. PMU office						
a. Administrative staff	1,323,000	0	1,323,000	472,500	0	472,500
b. Office rental & utilities	226,240	0	226,240	80,800	0	80,800
c. Travel & per diem	130,200	0	130,200	46,500	0	46,500
2. MFI Supervision ^a						
a. Administrative staff	420,000	0	420,000	150,000	0	150,000
b. Office rental & utilities	18,200	0	18,200	6,500	0	6,500
c. Communications	9,800	0	9,800	3,500	0	3,500
3. NCFI Office						
a. Administrative staff	1,554,000	0	1,554,000	555,000	0	555,000
b. Office rental & utilities	352,800	0	352,800	126,000	0	126,000
c. Vehicle expenses	188,160	0	188,160	67,200	0	67,200

	Kina			US\$		
	Local	Foreign	Total	Local	Foreign	Total
d. Communications	117,600	0	117,600	42,000	0	42,000
4. DFCD Coordination						
a. Travel and per diem	462,000	0	462,000	165,000	0	165,000
Total Recurrent Costs (B)	4,802,000	0	4,802,000	1,715,000	0	1,715,000
Total BASELINE COSTS	9,958,925	51,522,977	61,481,901	3,556,759	18,401,063	21,957,822
C. Contingencies						
1. Physical contingences	983,501	1,649,205	2,632,706	351,250	589,002	940,252
2. Price contingences	2,623,078	6,726,686	9,349,764	79,514	202,654	282,168
Subtotal contingencies	3,606,579	8,375,891	11,982,470	430,765	791,656	1,222,421
D. Interest during implementation		1,832,955	1,832,955		625,499	625,499
E. ADB Management Fee	0	700,000	700,000	0	250,000	250,000
Total Costs to be Financed (A+B+C+D+E)	13,565,504	62,431,822	75,997,326	3,987,523	20,068,219	24,055,742

DFCD = Department for Community Development, MFI = microfinance institution, MIS = management information system, NCFI = National Centre for Financial Inclusion, PFI = participating financial institution, PMU = project management unit, RSF = risk-share facility.

^a These amounts represent in-kind contributions by the government.

Source: Asian Development Bank staff estimates.

B. Allocation and Withdrawal of Loan and Grant Proceeds

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Microfinance Expansion Project)				
CATEGORY				ADB FINANCING
Number	Item	Total Amount Allocated for ADB Financing (\$/SDR)		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Vehicles, Equipment and Furniture	47,000		
1A	Vehicles		36,000	65 percent of total expenditure claimed
1B	Equipment		6,000	80 percent of total expenditure claimed
1C	Furniture		5,000	80 percent of total expenditure claimed
2	Training and Workshops	1,224,000		
2A	Workshops		317,000	53 percent of total expenditure claimed
2B	Financial Literacy and Business Development Skills Training		595,000	20 percent of total expenditure claimed
2C	Training PFI Staff		312,000	50 percent of total expenditure claimed
3	Surveys, Investigation, Design and Mapping	30,000		
3A	Microfinance Website		30,000	70 percent of total expenditure claimed
4	RSF	4,388,000		100 percent of total expenditure claimed*
5	Consulting Services	2,112,000		
5A	National Consultants		422,000	51 percent of total expenditure claimed
5B	International Consultants		1,386,000	63 percent of total expenditure claimed
5C	Business Mentors		304,000	63 percent of total expenditure claimed
6	Interest Charge	405,000		100 percent of amounts due
7	Unallocated	206,000		
	Total	8,412,000		

* Exclusive of taxes and duties imposed within the territory of the Borrower.

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Microfinance Expansion Project)				
CATEGORY				GRANT FINANCING
Number	Item	Total Amount Allocated for Grant Financing		Percentage and Basis for Withdrawal from the Grant Account
		(\$)		
		Category	Subcategory	
1	Training and Workshops	2,913,208		
1A	Workshops		372,712	40 percent of total expenditure claimed
1B	Financial Literacy and Business Development Skills Training		2,298,125	50 percent of total expenditure claimed
1C	Training PFI Staff		242,371	25 percent of total expenditure claimed
2	Studies & Surveys,	425,747		95 percent of total expenditure claimed
3	Consulting Services	1,947,225		
3A	National Consultants		389,058	30 percent of total expenditure claimed
3B	International Consultants/Business Mentors		1,277,981	37 percent of total expenditure claimed
3C	Business Mentors		280,186	37 percent of total expenditure claimed
4	ADB administration Fee	250,000		
5	Unallocated	463,820		
	Total	6,000,000		

C. Detailed Cost Estimates by Financier^a

(US\$)	The Government		ADB		Government of Australia ^b		PFIs & Beneficiaries		Total	
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Project Cost
A. Investment Costs										
1. Risk-share facility										
a. Risk-share facility	0	0	5,368,817	100.0	0	0	0	0	5,368,817	22.3
b. RSF Management	0	0	1,412,250	100.0	0	0	0	0	1,412,250	5.9
2. Training & Workshops										
a. Workshops	70,226	7.5	489,562	52.5	372,712	40.0	0	0	932,500	3.9
b. Financial literacy & business development skills training										
i. Financial literacy: women	77,973	15.0	103,964	20.0	259,911	50.0	77,973	15.0	519,821	2.2
ii. Translation & editing	9,643	15.0	12,857	20.0	32,143	50.0	9,643	15.0	64,286	0.3
iii. Business development skills	153,214	15.0	204,286	20.0	510,714	50.0	153,214	15.0	1,021,429	4.2
iv. Financial literacy: communities	448,607	15.0	598,143	20.0	1,495,357	50.0	448,607	15.0	2,990,714	12.4
c. Training PFI staff	0	0	482,536	50.2	242,371	25.2	235,652	24.5	960,559	4.0
3. Surveys, Investigation, Design, Mapping										
a. Studies & surveys	22,467	5.0	0	0	425,747	95.0	0	0	448,214	1.9
b. Microfinance website	0	0	46,237	70.0	0	0	19,816	30.0	66,053	0.3
4. Consulting Services										
a. National consultants	246,857	19.2	652,371	50.6	389,058	30.2	0	0	1,288,286	5.4
b. International consultants	0	0	2,142,912	62.6	1,277,981	37.4	0	0	3,420,893	14.2
c. Business mentors	0	0	469,815	62.6	280,186	37.4	0	0	750,001	3.1
5. Equipment, Vehicles & Furniture										
a. Vehicles	30,000	35.0	55,714	65.0	0	0	0	0	85,714	0.4
b. Office furniture	2,229	20.0	8,914	80.0	0	0	0	0	11,143	0.0
c. Office equipment	1,857	20.0	7,429	80.0	0	0	0	0	9,286	0.0
d. MIS platforms	0	0	0	0	0	0	892,857	100.0	892,857	3.7
Total Investment Costs (A)	1,063,073	5.3	12,055,807	59.6	5,286,181	26.1	1,837,760	9.1	20,242,822	84.1

(US\$)	The Government		ADB		Government of Australia ^b		PFIs & Beneficiaries		Total	
	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Cost Category	Amount	% of Project Cost
B. Recurrent Costs										
1. PMU Office	599,800	100.0	0	0	0	0	0	0	599,800	2.5
2. MFI Supervision ^c	160,000	100.0	0	0	0	0	0	0	160,000	0.7
3. NCFI Office	790,200	100.0	0	0	0	0	0	0	790,200	3.3
4. DFCD Coordination	165,000	100.0	0	0	0	0	0	0	165,000	0.7
Total Recurrent Costs (B)	1,715,000	100.0	0	0	0	0	0	0	1,715,000	7.1
C. Contingencies										
1. Physical	249,369	26.5	234,065	24.9	361,914	38.5	94,905	10.1	940,252	3.9
2. Price	60,189	21.3	84,630	30.0	101,905	36.1	35,445	12.6	282,168	1.2
Total Contingencies (C)	309,558	25.3	318,694	26.1	463,820	37.9	130,350	10.7	1,222,421	5.1
D. Financing charges during Implementation	0	0	625,499	100.0	0	0	0	0	625,499	2.6
E. ADB Management Fee	0	0	0	0	250,000	100.0	0	0	250,000	1.0
Total Project Cost (A+B+C+D+E)	3,087,631	12.8	13,000,000	54.0	6,000,000	24.9	1,968,110	8.2	24,055,742	100.0

DFCD = Department for Community Development, MFI = microfinance institution, MIS = management information system, NCFI = National Centre for Financial Inclusion, PFI = participating financial institution, PMU = project management unit, RSF = risk-share facility.

^a Includes taxes and duties of \$0.91 million to be fully financed from government and beneficiary resources.

^b This amount includes ADB's administration fee, audit costs, bank charges and a provision for foreign exchange fluctuations (if any), to the extent that these items are not covered by the interest and investment income earned on this grant, or any additional grant contribution by the Government of Australia.

^c This amount represents in-kind contribution by the government.

Note: Figures may not sum precisely due to rounding.

Source: Asian Development Bank staff estimates.

D. Detailed Cost Estimates by Outputs/Components

(US\$)	Microfinance Industry Capacity Building (Outputs 1, 2, 3)	Microfinance Regulation & Supervision (Output 4)	Risk-Share Facility (Output 5)	Project Management (Output 6)	Total
A. Investment Costs					
1. Risk-share facility					
a. Risk-share facility	0	0	5,368,817	0	5,368,817
b. RSF management	0	0	1,412,250	0	1,412,250
2. Training and Workshops					
a. Workshops	917,500	15,000	0	0	932,500
b. Financial literacy					
i. Financial literacy: women	519,821	0	0	0	519,821
ii. Translation & editing	64,286	0	0	0	64,286
iii. Business development skills	1,021,429	0	0	0	1,021,429
iv. Financial literacy: communities	2,990,714	0	0	0	2,990,714
c. Training PFI staff	960,559	0	0	0	960,559
3. Surveys, Investigation, Design, Mapping					
a. Studies & surveys	448,214	0	0	0	448,214
b. Microfinance website	66,053	0	0	0	66,053
4. Consultants					
a. National consultants	977,143	246,857	0	64,286	1,288,286
b. International consultants	2,888,571	308,036	134,286	90,000	3,420,893
c. Business mentors	750,000	0	0	0	750,000
5. Equipment, Vehicles & Furniture					
a. Vehicles	85,714	0	0	0	85,714
b. Office furniture	9,286	0	0	0	9,286
c. Computer sets	11,143	0	0	0	11,143
d. MIS Platforms	892,857	0	0	0	892,857
Total Investment Costs^a (A)	12,603,290	569,893	6,915,353	154,286	20,242,822
B. Recurrent Costs					
1. PMU Office					
a. Administrative staff	0	0	0	472,500	472,500
b. Office rental & utilities	0	0	0	80,800	80,800
c. Travel & per diem	0	0	0	46,500	46,500
2. MFI Supervision ^b					
a. Administrative staff	0	150,000	0	0	150,000
b. Office rental & utilities	0	6,500	0	0	6,500
c. Communications	0	3,500	0	0	3,500

(US\$)	Microfinance Industry Capacity Building (Outputs 1, 2, 3)	Microfinance Regulation & Supervision (Output 4)	Risk-Share Facility (Output 5)	Project Management (Output 6)	Total
3. NCFI Office					
a. Administrative staff	555,000	0	0	0	555,000
b. Office rental & Utilities	126,000	0	0	0	126,000
c. Vehicle expenses	67,200	0	0	0	67,200
d. Communications	42,000	0	0	0	42,000
4. DFCD Coordination					
a. Travel and per diem	165,000	0	0	0	165,000
Total Recurrent Costs (B)	955,200	160,000	0	599,800	1,715,000
Total BASELINE COSTS (A+B)	13,558,490	729,893	6,915,353	754,086	21,957,822
C. Contingencies					
1. Physical Contingencies	862,772	17,500	0	59,980	940,252
2. Price Contingencies	257,326	9,153	671	15,019	282,168
Total contingencies	1,120,098	26,653	671	74,999	1,222,421
D. Interest during implementation					625,499
E. ADB Management Fee	0	0	0	250,000	250,000
Total PROJECT COSTS (A+B+C+D+E)	14,678,588	756,545	6,916,024	1,079,084	24,055,742

DFCD = Department for Community Development, MFI = microfinance institution, MIS = management information system, NCFI = National Centre for Financial Inclusion, PFI = participating financial institution, PMU = project management unit, RSF = risk-share facility.

^a In mid-2010 prices.

^b These amounts represent in-kind contributions by the government.

Source: Asian Development Bank staff estimates.

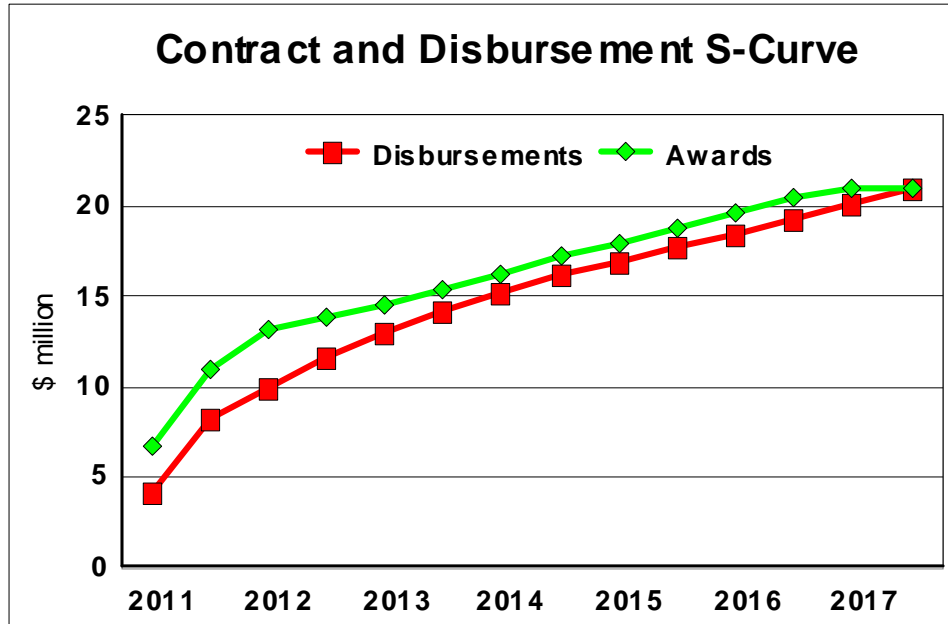
(US\$)	Total	2011	2012	2013	2014	2015	2016	2017
3. NCFI Office								
a. Administrative staff	555,000	79,286	79,286	79,286	79,286	79,286	79,286	79,286
b. Office rental & Utilities	126,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
c. Vehicle expenses	67,200	9,600	9,600	9,600	9,600	9,600	9,600	9,600
d. Communications	42,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
4. DFCD Coordination								
a. Travel and per diem	165,000	23,571	23,571	23,571	23,571	23,571	23,571	23,571
Total Recurrent Costs (B)	1,715,000	245,000	245,000	245,000	245,000	245,000	245,000	245,000
Total BASELINE COSTS (A+B)	21,957,822	8,512,961	3,614,515	2,778,744	2,053,133	1,582,166	1,630,162	1,786,141
C. Contingencies								
1. Physical Contingencies	940,252	131,483	164,278	146,672	124,724	118,865	118,910	135,320
2. Price Contingencies	282,168	15,819	41,870	42,656	40,695	37,315	44,764	59,050
Total Contingencies (C)	1,222,421	147,302	206,148	189,328	165,419	156,180	163,674	194,370
D. Interest during implementation	625,499	17,197	73,035	88,339	99,623	107,958	115,602	123,747
E. ADB Management Fee	250,000	35,714	35,714	35,714	35,714	35,714	35,714	35,714
Total PROJECT COSTS (A+B+C+D+E)	24,055,742	8,713,174	3,929,413	3,092,125	2,353,890	1,882,018	1,945,152	2,139,971
Expenditure by year (%)	100	36.2	16.3	12.9	9.8	7.8	8.1	8.9

DFCD = Department for Community Development, MFI = microfinance institution, MIS = management information system, NCFI = National Centre for Financial Inclusion, PFI = participating financial institution, PMU = project management unit, RSF = risk-share facility.

^a These amounts represent in-kind contributions by the government.

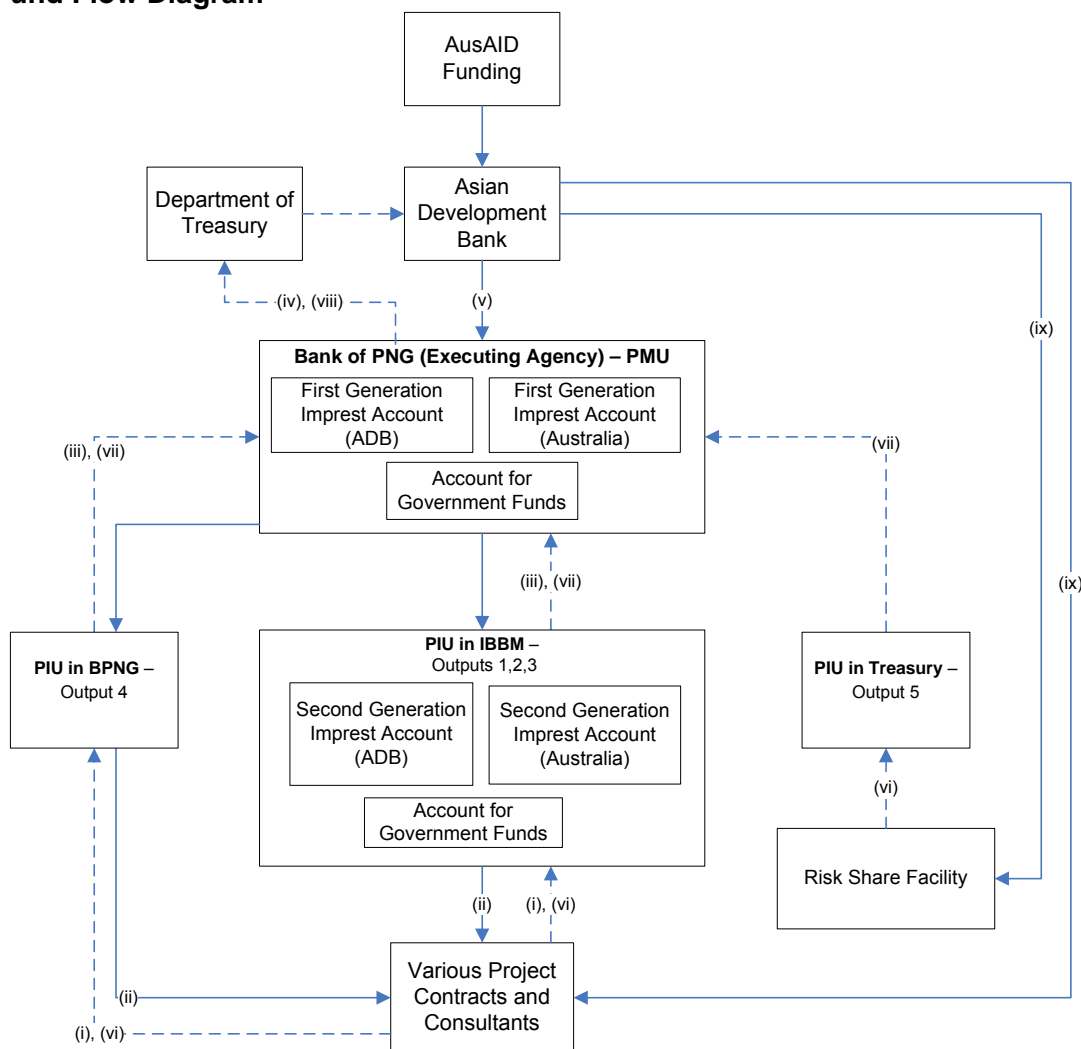
Source: Asian Development Bank staff estimates.

F. Contract and Disbursement S-curve



Note: The y-axis on the above table begins at \$5 million.

G. Fund Flow Diagram

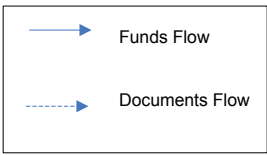


Imprest Fund Procedure:

- (i) The consultant/contractor issues invoice to the relevant PIU.
- (ii) The PIU checks the claim, and makes the payment from the subaccount/second generation imprest accounts. The PIU also pays for the government share.
- (iii) The PIU submits supporting documents to the PMU.
- (iv) The PMU sends withdrawal application for replenishment for the first generation imprest accounts to ADB, with SOE, endorsed by DoT.
- (v) ADB replenishes the first generation imprest accounts.

Direct Payment Procedure:

- (vi) The consultant/contractor or RSF issues invoice to the PIU.
- (vii) The PIU checks the claim and submits to the PMU.
- (viii) The PMU sends the withdrawal application for direct payment to ADB with supporting documents, endorsed by DOT. The PMU also requests payment for the Government share.
- (ix) ADB makes the direct payment to the consultant/contractor.



ADB = Asian Development Bank, AusAID = Australian Agency for International Development, BPNG = Bank of Papua New Guinea, DoT = Department of Treasury, EA = executing agency, IBBM = Institute of Banking and Business Management, PIU = project implementation unit, PMU = project management unit, SOE = statement of expenditure.
 Source: Asian Development Bank.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

1. A financial management assessment (FMA) was completed for the project in accordance with ADB's Guidelines for the *Financial Management and Analysis of Projects* (the Guidelines) and the publication *Financial Due Diligence A Methodology Note* (see Linked Document 13).¹ Country level issues noted in this FMA have been based on the information developed through a Governance Risk Assessment and Management Plan that was developed in May 2010 for PNG, focusing on public financial management (PFM), procurement and anticorruption.

2. The project is a follow on to the recently closed ADB PNG Microfinance and Employment Project.² Although country level financial management issues remain a challenge, BPNG was the executing agency and IBBM was an implementing agency under that project. Both carried out their duties and responsibilities in a satisfactory manner between 2001 and the project's closure in 2010.

3. The FMA was carried out for the BPNG, the executing agency and implementing agency for output 4, and for the IBBM, that will act as the implementing agency for outputs 1, 2 and 3 of the project and house the relevant PIU. Staff are yet to be appointed for this PIU. The implementing agency and PIU for the regulation and supervision of PFIs is within the accounting system of BPNG and has not required a separate financial management assessment. The implementing agency for the RSF is the DOT with assistance of a third party professional manager to be hired under quality- and cost-based selection (QCBS) through the project. Apart from information on the responsible DOT division and the curriculum vitae of the responsible officer, no financial management assessment of DOT is considered necessary.

4. The FMA does not show any major concerns. BPNG's Finance and Accounting Department (FAD) staff and units are fully functional and experienced. Management and accounting staff will, however, need to be recruited for the PMU and IBBM PIU and management and accounting staff will need to participate in ADB in-country training on project management. Consultant positions have been identified to provide support in project procurement, accounting, reporting and monitoring to the BPNG's FAD, the PMU and the PIUs. Project funding will be through a designated imprest account within BPNG with flows to bank accounts held in each implementing agency. Statements of expenditure will be used to justify expenditures and replenishment of bank accounts.

5. BPNG's Internal Audit Department (IAD) will carry out inspections of the PMU and PIUs every six months. External audits will proceed as in the previous project with both BPNG and IBBM having unqualified reports each year. Separate external audit arrangements will be put in place for the RSF.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila.

² ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Microfinance and Employment Project for Papua New Guinea*. Manila.

B. Disbursement

6. The ADB Loan and AusAID Grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2007, as amended from time to time),³ and detailed arrangements agreed upon between the government and ADB.

7. An RSF in the amount of \$5.4 million will be established through the direct payment method. The RSF will provide risk sharing for qualifying institutions on their MSE loan portfolios to encourage them to increase lending to MSEs, and will be designed by an international consultant at the beginning of project implementation. Once established, the funds will be disbursed in one tranche into the facility and held in Kina. These funds will be invested in Government of PNG bonds to earn interest so as to increase the pool of funds available for sharing risk and increase the longevity of the facility.

8. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS.⁴ All PFIs will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (SPS Appendix 5) to subprojects financed by ADB.

9. To ensure effective project implementation and timely disbursement, immediately after loan effectiveness the executing agency will establish two separate imprest accounts for the project at Bank of PNG, one for ADB loan funds and one for Australian grant funds. The imprest accounts will be managed by the executing agency. The currency of the imprest accounts will be US dollars. The ADB loan imprest account ceiling will not exceed the lower of (i) estimated expenditures to be financed from the imprest account for the next 6 months, or (ii) \$760,000. The Australian grant imprest account ceiling will not exceed the lower of (i) the estimated expenditure to be financed from that imprest account for the next 6 months of project implementation, or (ii) the equivalent of 10% of the grant amount.⁵

10. Through the NCFI, IBBM will establish and manage two second generation imprest accounts (SGIA) to manage the large volume of payments required for training and other services.⁶ The currency of the SGIAs will be Kina. One SGIA will be established for ADB loan funds and one for Australian grant funds. The SGIA ceiling for the ADB loan funds and the Australian grant funds will not exceed the estimated expenditure to be financed from each account for the next 6 months of project implementation. In addition, a project account will be opened in BPNG to hold funds from government for its share of project financing. The PMU, the NCFI, as PIU for outputs 1, 2 and 3, and BPNG, as PIU for output 4, will each open a project account at a bank acceptable to ADB to hold funds from government for its share of component financing. Authorized disbursements of project funds to the SGIAs and project accounts will be cosigned by the PMU Manager and the Head of BPNG's FAD or a nominee approved by the Head and the BPNG Governor or his/her nominee.

³ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf

⁴ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

⁵ Bank charges incurred in the operation of the imprest accounts are to be financed by ADB and Australia respectively.

⁶ The NCFI will initially be established as part of the IBBM. The NCFI SGIA will be established by the IBBM and overseen initially by the IBBM. The NCFI is expected to become the implementing agency for outputs 1, 2 and 3 of the Project once it is established as an independent entity. Once it becomes the implementing agency for these outputs, the SGIA will be fully managed by the NCFI.

11. The imprest accounts will be established, maintained, audited, and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements between the government and ADB. The statement of expenditure (SOE) procedure will be adopted to reimburse eligible expenditures or liquidate advances provided into the imprest accounts (including SGIA). Any individual payment to be reimbursed or liquidated under SOE procedure will not exceed the equivalent of \$50,000. Individual payments in excess of the ceiling should be submitted to ADB with full supporting documents. SOE records should be maintained by the PMU and the PIU responsible for outputs 1, 2 and 3, as appropriate, and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.⁷

12. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is \$100,000, unless otherwise approved by ADB. The borrower is to consolidate claims to meet this limit for reimbursement and imprest account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

13. Payments for international consultants engaged by the PMU and PIUs will be paid directly by ADB which requires PMU submission and PIUs submission, through PMU, of approved invoices and documentation to ADB in accordance with ADB's Loan Disbursement Handbook. Payments to local consultants, field level service providers and the risk-share facility manager will be paid through the relevant project imprest accounts.

14. The government contribution to project costs will be budgeted for the following year and necessary funds placed in a project account held in BPNG.

C. Accounting

15. BPNG and the implementing agencies will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow international accounting principles and practices. The PMU will be assigned a sufficient and qualified accounting staff plus one support staff.

D. Auditing

16. BPNG will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and in accordance with the government's audit regulations by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the executing agency. The annual audit report will include a separate audit opinion on the use of the imprest account, SGIA, and the SOE procedures. The government and BPNG have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of

⁷ Checklist for SOE procedures and formats are available at:
http://www.adb.org/documents/handbooks/loan_disbursement/chap-09.pdf
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-100-Below.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-Over-100.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Operating-Costs.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Free-Format.xls

the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

17. Each year, the external audit of BPNG is completed by the Auditor-General within six months of end of financial year. This arrangement will continue for the executing agency, PMU, supervision and regulation PIU, and the IBBM PIU. The external audit of the RSF will be completed within 4 months of the close of the financial year.

18. The IAD of BPNG will carry out onsite inspections of the PMU and PIUs at not less than 6 monthly intervals. These inspections will review and correct accounting practices and entries, proper filing and maintenance of documents, cash management, and staff timesheets and work performance. A written report will be completed after each inspection visit and held on file in IAD with a copy held by the PMU.

VI. PROCUREMENT AND CONSULTING SERVICES

1. A Procurement Capacity Assessment of the executing agency, BPNG, has established that it has procedures and policies in place, and it has considerable experience in implementing external assistance. In particular, BPNG has been the executing agency for the ADB PNG Microfinance and Employment Project between 2001 and 2010 and therefore has a good understanding of the project implementation requirements. BPNG will be supported by a PMU with three full time staff, as well as international and national consultants, including a national procurement specialist to assist with procurement of field level service contractors. The NCFI, as PIU for outputs 1, 2 and 3, will have a total of seven full time staff. The PIU for output 4 will sit within BPNG's MFI and SLS Supervision Units, while the PIU activities for output 5 will be undertaken by a third party professional manager to be procured under the project. All project, executing agency and implementing agency staff will be given in country ADB procurement training as soon as possible after the beginning of project implementation.

A. Advance Contracting

2. All advance contracting will be undertaken in conformity with ADB's Procurement Guidelines (2010, as amended from time to time) (ADB's Procurement Guidelines¹ and ADB's Guidelines on the Use of Consultants (2010, as amended from time to time).² The issuance of invitations to bid under advance contracting will be subject to ADB approval. The government, BPNG, IBBM and DOT have been advised that approval of advance contracting does not commit ADB to finance the project.

3. The government has requested that ADB assist it with the process of advertisement, evaluation of expressions of interest and engagement of the international microfinance training and curriculum development specialist and the national microfinance institutional development specialist as individuals under advance action to facilitate commencement of the project. No other advance contracting is envisaged.

B. Procurement of Goods and Consulting Services

4. All procurement of goods will be undertaken in accordance with ADB's Procurement Guidelines. Before the start of any procurement, ADB and the government will review the public procurement laws of the government to ensure consistency with ADB's Procurement Guidelines.

5. The PMU will be responsible for the procurement of all goods and related services, under the project. Supply contracts for goods and related services, equipment or materials exceeding \$1.00 million will be procured following international competitive bidding, and those not exceeding \$1.00 million but more than \$100,000 will be awarded on the basis of national competitive bidding (NCB). Shopping will be used for procuring readily available off-the-shelf goods and related services valued up to \$100,000.

6. An 18-month procurement plan indicating threshold and review procedures, goods, and consulting service contract packages and national competitive bidding guidelines is in Section

¹ Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>

² Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>

C. All consultants will be recruited according to ADB's Guidelines on the Use of Consultants. The terms of reference for all consulting services are detailed in Section D.

7. An estimated 494 person months (113 international, 75 Business mentors, 306 national) of consulting services are required to (i) support the regulatory and supervisory framework for MFIs, (ii) strengthen the institutional and operational capacity of MFIs, (iii) raise standards of financial literacy among savers and borrowers, and (iv) implement project activities. The majority of consultants will be recruited through a firm using QCBS with a standard quality:cost ratio of 80:20. At the request of the government, and to assist to facilitate project startup, ADB will assist the government to recruit the international microfinance training and curriculum development specialist and the national microfinance institutional development specialist as individuals using advance contracting. Business mentors will be hired through a firm using QCBS with a quality:cost ratio of 70:30. A professional services firm will be engaged through QCBS with a quality:cost ratio of 80:20 and modified evaluation criteria, given that it will be a service contract, to provide management services for the RSF.

8. A large amount of training services will be delivered through the project, including (i) community and borrower literacy training (\$4.02 million), (ii) business development skills (\$1.14 million), and (iii) training of MFI staff (\$1.46 million). Because of the geographical spread of the project, there will be a number of contractors for each of the sub-categories. Field level service delivery contractors, which may include individuals, nongovernment organizations (NGO), women's groups, MFIs or other such providers, will be engaged to deliver this training. Contractors will be engaged to deliver the relevant training, after appropriate trainers have been trained by the project, to microfinance institutions and clients across PNG.

9. A panel will be established within the NCFI to set the criteria for contractor participation, screen the market for relevant contractors in each area, undertake expression of interest processes, recommend contractors for engagement in each area and work with the PMU to procure the contractors. Different panels may be established to screen for providers or financial literacy training and business development skills (BDS) training. The panels will include the microfinance and lead specialist, the gender and community development specialist, the microfinance training and curriculum development specialist, and a representative of the Department for Community Development and may include others as appropriate, such as representatives of sound PFIs that are participating in the project. Written records of the selection processes will be kept and maintained on file for later review as necessary. Minimum qualifications for contractors will include experience with rural outreach and/or training activities. A flexible approach will be taken for engagement of contractors, based on the specific circumstances of each location. Contractors may be engaged as individuals, on a single source basis, or under a simplified QCBS process, and may be engaged for short term, ad hoc contracts or longer term contracts, as appropriate.

C. Procurement Plan**Project Information**

Project Name	Microfinance Expansion Project
Project Number	44304
Project Cost	\$24.06 million
Of Which ADB Loan Amounts	\$13.00 million
Executing Agency	Bank of Papua New Guinea
Approval Date of Original Procurement Plan	Not applicable
Approval of most recent Procurement Plan	Not applicable
Publication for Local Advertisements	Target in first quarter of 2011
Period covered by this Plan	18 months from date of loan effectiveness

Procurement Thresholds for Goods, Works & Related Services and Supply

Procurement Method	Threshold (US\$)
Goods and related services	
International Competitive Bidding	>1,000,000
National Competitive Bidding	>100,000 and ≤1,000,000 Usage subject to the provisions of NCB annex
Shopping	≤100,000
Community participation: contributions to training courses and workshops	≤ 30,000, in accordance with the <i>Procurement Guidelines</i> (2010) para. 3.17, and PAI 3.05H and PAI 5.12

Procurement Thresholds for Consulting Services

Procurement Method	Threshold (US\$)
Quality- and cost-based selection	All (except training services, for which various methods will be used)

Goods, Works, and Training Services Contracts in Excess of \$100,000

Contract Description	Estimated Cost (\$ millions)	Number of Contracts	Procurement Method	Expected Date of Advertisement	Prior Review (Yes/No)
IT software	0.91	<5	ICB	September 2011	Yes
Studies & surveys	0.50	Multiple	NCB	March 2011	Yes
Workshops	0.67	Multiple	Local Shopping	June 2011	No

Consulting Services Contracts in Excess of \$100,000

Contract Description	Estimated Cost (\$ millions)	Number of Contracts	Procurement Method	Expected Date of Advertisement	Prior Review (Yes/No)
Microfinance training and curriculum development specialist (international)	0.73	1	Individual	December 2010	Yes
Microfinance institutional development specialist (national)	0.37	1	Individual	December 2010	Yes
Consultants: international and national	3.67	1	QCBS	February 2010	Yes
Business mentors	0.83	1	QCBS	June 2011	Yes
Financial literacy training and translations	4.02	Multiple	Individual/SSS/QCBS	June 2011	Yes
Business development skills training	1.14	Multiple	Individual/SSS/QCBS	June 2011	Yes
PFI staff training	1.46	Multiple	Individual/SSS/QCBS	June 2011	Yes
Risk-share facility	1.41	1	QCBS	June 2011	Yes

PFI = participating financial institution, QCBS = quality- and cost-based selection, SSS = single source selection.

D. National Competitive Bidding

10. The procedures to be followed for national competitive bidding shall be those set forth and consistent with the provisions of Section I of the ADB Procurement Guidelines as required by paragraph 3.3 and 3.4 of the guidelines:

1. Eligibility

11. The eligibility of bidders shall be as defined under Section I of the ADB guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by ADB for reasons other than those provided in Section I of the guidelines. Foreign bidders shall be eligible to participate in bidding under the same conditions as national bidders. In particular, no domestic preference over foreign bidders shall be granted to national bidders in bid evaluation, nor shall foreign bidders be asked or required to form joint ventures with national bidders in order to submit a bid.

2. Registration

12. Registration shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and, if determined to be the lowest evaluated responsive bidder, shall be given reasonable opportunity of registering, without any let or hindrance. The registration process shall not be applicable for subcontractors. Bidding shall not be restricted to any particular class of contractors, and non-classified contractors shall also be eligible to bid.

3. Advertising and Time for Bid Preparation

13. Invitations to bid shall be advertised in at least one newspaper of national circulation, allowing a minimum of 30 days for the preparation and submission of bids except for commodities and small goods contract. Potential bidders shall be allowed to purchase bidding documents up to any time prior to the deadline for submission of bids.

4. Standard Bidding Documents

14. Standard bidding documents, acceptable to ADB, shall be used.

5. Qualification Criteria

15. Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only such specified criteria, shall be used to determine whether a bidder is qualified. Qualification shall be assessed on a pass or fail basis and merits points shall not be used. Such assessment shall only take into account the bidder's capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction and manufacturing facilities, and financial capacity. The evaluation of the bidder's qualifications shall be conducted separately from the technical and commercial evaluation of the bid.

6. Bid Submission, Bid Opening, and Bid Evaluation

16. Bidders may submit bids, at their option, in person, by courier service, or by mail. Bids shall be opened in public, immediately after the deadline for submission of bids. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. All bidding for goods and works shall be carried out through a one envelope procedure. Evaluation of bids shall be made in strict adherence to the criteria that shall be clearly specified in the bidding documents and quantified in monetary terms for evaluation criteria other than price; merit points shall not be used in bid evaluation. A contract shall be awarded to the technically responsive bid that offers the lowest evaluated price and no negotiations shall be permitted. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations. No bidder shall be rejected on the basis of a comparison with the PIU's estimate and budget ceiling without the PMU's prior concurrence. A copy of the minutes of the public bid opening shall be promptly provided to all bidders, and to the NCFI with respect to contracts subject to prior review.

7. Rejection of All Bids and Re-bidding

17. Neither shall all bids be rejected nor new bids solicited without ADB's prior written concurrence.

8. Extension of the Validity of Bids

18. Extension of validity of bids may be allowed in exceptional circumstances but there shall be no amendment of the price or any other condition of the bids. Bidders may refuse such an extension without forfeiting their bid securities, but bidders granting an extension shall provide extension of the validity of their bid securities.

9. Complaints by Bidders and Handling of Complaints

19. The recipient shall establish and implement an effective and independent protest mechanism allowing bidders to protest and to have their protests handled in a timely manner.

10. Fraud and Corruption

20. ADB shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by ADB.

11. Right to Inspect and Audit

21. Each bidding document and contract financed from the proceeds of a financing shall include a provision requiring bidders, suppliers, contractors and subcontractors to permit ADB at its request, to inspect their accounts and records relating to the bid submission and performance of the contract and to have said accounts and records audited by auditors appointed by ADB. The deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice.

E. Consultant's Terms of Reference

22. A list of consultants and person months of input is prescribed below.

Technical Staff	Input – Person Months
International	
1. Microfinance and lead specialist	48
2. Microfinance regulation and supervision specialist	10
3. Microfinance training and curriculum development specialist	24
4. MFI product innovations and market development specialist	18
5. Project benefit monitoring and evaluation specialist	3
6. MFI management information systems specialist	6
7. Risk fund management specialist	4
Total International Consultants	113
1. Business mentors	75
Total International Consultants & Mentors	188
National	
1. Microfinance institutional development specialist	84
2. Gender and community development specialist	24
3. Procurement specialist	9
4. Training specialists (2)	60
5. Sociologist and market research specialists (2)	48
6. Project monitoring specialist	9
7. MFI and SLS supervisory support specialists (2)	72
Total Domestic Consultants	306
Grand Total Consultants & Mentors	494

23. International Consultants

1. Microfinance and Lead Specialist (48 person-months)

24. The microfinance and lead specialist, to be hired at the start of the project, will have responsibility for providing oversight and direction to all consultants, business mentors and service providers hired under the project and, in this respect will also act as the key liaison point for the executing agency, the implementing agencies, the Government of PNG and ADB. The specialist will:

- (i) provide oversight and assistance where needed to ensure the envisaged outputs and activities of the project proceed in a timely and efficient manner;
- (ii) lead the establishment of the NCFI and ensure that it is created as an independent legal entity as soon as possible, including business licensing processes, the establishment of appropriate bank accounts and other activities;
- (iii) oversee the selection and work of NCFI staff;
- (iv) assist the PMU to arrange and oversee procurement of service providers or goods under the project and monitor and evaluate their performance;
- (v) develop, coordinate and lead the Institutional Assessments of PFIs using a format such as the CGAP Institutional Appraisal Format modified as appropriate to individual PFIs;
- (vi) develop required project participation plans and milestones for each PFI, including a time bound action plan and regularly monitor and review progress against these milestones;
- (vii) separately and in conjunction with business mentors, conduct training and workshops within PFIs that address specific capacity building needs;
- (viii) liaise with and alert the PMU, the executing agency, and ADB of any issues or delays affecting the project and provide advice on appropriate remedial measures;
- (ix) work with PFIs to identify the constraints they face in expanding the outreach of efficient and sustainable financial services and assist PFIs in finding solutions that will enable expansion;
- (x) liaise with PFIs, through regular visits to their offices and ongoing communications, to support their identification of areas with microfinance service market potential and assist PFIs in their development of financial services in these areas;
- (xi) liaise with key government agencies and donors to identify linkages with programs, such as in rural development, useful to PFIs in their development of financial markets and assist PFIs in developing feasible linkages;
- (xii) oversee, support, and direct the work of international and national consultants to ensure their activities meet project objectives and work outputs in a satisfactory and timely manner;
- (xiii) oversee and direct business mentors in their onsite institutional strengthening;
- (xiv) work with the MFI management information systems specialist, microfinance regulation and supervision specialist, and the gender and community development specialist to establish and institutionalize reporting formats and be responsible for the operation of a functional reporting system; and
- (xv) ensure the preparation and timely submission of project reports, studies and promotional materials and activities, including quarterly project progress reports and project completion report to the Government of PNG and ADB, and ensure that standards of quality and timeliness are properly met.

25. The specialist should hold a tertiary qualification relevant to finance, business development and community socioeconomic development. The specialist will have at least 7 years experience with the oversight and operation of microfinance institutions and not less than three years experience undertaking institutional strengthening of microfinance institutions. The specialist will have had at least 3 years experience in project management and have shown the ability to provide effective leadership as well as clear, succinct and timely reports as required.

2. Microfinance Regulation and Supervision Specialist (10 person-months)

26. The microfinance regulation and supervision specialist will provide assistance to the BPNG as required to ensure the envisaged outputs and activities of the microfinance regulation and supervision project output proceed in a timely and efficient manner. The specialist will ensure that these activities are carried out with reference to international best practice, particularly to work undertaken by the Consultative Group to Assist the Poor (CGAP) and the Alliance for Financial Inclusion (AFI). These will include, but not be restricted to, the following activities:

- (i) undertake a thorough review of all relevant legislation and regulations, including the Bank and Financial Institutions Act 2000 and the National Information and Communication Technology Act 2009, as well as other relevant legislation, in order to determine whether any provisions of such legislation and regulations unduly affect the operations of MFIs and mobile phone banking (MPB) operators, and draft proposed revisions;
- (ii) as appropriate, review the Savings and Loan Societies (Amendment) Act in order to determine whether it remains appropriate to the needs of savings and loan societies in PNG and prepare proposed revisions to the Act;
- (iii) propose a system of categorization of MFIs and SLS in PNG and develop detailed recommendations for regulatory and supervision requirements specific to each category with reference to international best practice;
- (iv) review all existing directives affecting MFIs and SLS and, where appropriate, assist BPNG to draft new or revised directives, including directives which provide different rules for different categories of SLS and MFIs, and ensure these are reviewed by qualified legal experts to ensure consistency with PNG law;
- (v) undertake a desk review of international practice in the regulation of mobile phone banking and draft new articles of regulation for mobile phone banking in PNG;
- (vi) undertake a complete review of all operational procedures and systems of the MFI and savings and loan supervision units and, in consultation with BPNG, draft and finalize a new operational procedures manual for the MFIs and SLS Units (including revised organizational structures and job descriptions for the staff of these units);
- (vii) assist the BPNG to develop an improved risk-based supervision approach to its off and onsite supervision of MFIs, SLS and MPBs;
- (viii) in consultation with the BPNG Supervision Department, develop offsite and onsite supervision manuals which reflect the improved supervision practices;
- (ix) provide on-the-job training for staff of the MFI and SLS Units to ensure they have the capacity to effectively implement onsite and offsite supervision, in accordance with the revised manuals;
- (x) review supervision and data reporting requirements for each category of MFI and SLS and for MPBs, and assist BPNG to improve its MFIs and SLS supervision data management and analysis system; and
- (xi) in coordination with the MIS specialist, ensure MFIs and SLS MIS can automatically prepare required supervision reports (in a secure electronic format if required).

27. The specialist should hold a tertiary qualification in law, finance, or business. The specialist will have at least 7 years experience with microfinance and not less than 5 years experience working in microfinance regulation and supervision. The specialist will have shown the ability to provide clear, succinct and timely reports as required.

3. Microfinance Training and Curriculum Development Specialist (24 person-months)

28. The microfinance training and curriculum development specialist will be engaged under advance action to assist with project start up and organisation of activities. The specialist will also be responsible for the development and implementation of the NCFI's microfinance staff training program, for the development of the financial literacy training program and for the development and coordination of the business development skills (BDS) training program. These activities will be carried out under the leadership of the specialists and with the assistance of, and in coordination with, the microfinance institutional development specialist, the gender and community development specialist, and the two training specialists. The microfinance training and curriculum development specialist will assist the project manager, the executing agency and implementing agencies to facilitate project start up activities as required.

Microfinance Staff Training Program

- (i) review the microfinance training programs developed within the MCC, including course curriculum/trainer manuals, study guides, lesson plans, power points, class activities (e.g., case studies), handouts, trainer notes, assessments, resource materials and course evaluation and feedback processes;
- (ii) assess the curriculum including the corresponding training materials and determine whether the content of the training reflects current international best practice in the provision of training to the staff of microfinance organizations;
- (iii) work with PFIs (through Institutional Assessments), industry associations (the Association of Microfinance Institutions and the Federation of Savings and Loan Societies), and international and national consultants to identify training needs;
- (iv) develop a new microfinance training program incorporating international best practice and modules and materials developed by internationally recognized microfinance training agencies, e.g., CGAP, Small Enterprise Education and Promotion. The training program should include: a series of core training modules which can be delivered individually or as part of a course, and which can be tailored to entry-level or more experienced trainees; trainer materials; student handouts and study notes; assessments; and evaluation processes;
- (v) train the national training specialists in planning, contextualizing and delivering training. Mentor and provide ongoing guidance and support to the national training specialists; and
- (vi) work with the microfinance and lead specialist and the national training specialists to develop a national marketing and delivery program for the microfinance training (including the delivery of training courses in provincial centers outside of Port Moresby consistently) and build awareness of available training.

Financial Literacy Training Program

- (i) review the existing financial literacy training courses and materials developed through the MCC;

- (ii) consult with the organizations (and trainees) that participated in the financial literacy training pilot under the Microfinance and Employment Project to identify training needs and lessons learned;
- (iii) update and, if necessary, add new content and materials and develop a new financial literacy program. Ensure international best practice and materials and resources from existing, available programs are incorporated. Develop support materials for the training program (training plans, course notes, etc.);
- (iv) develop content and materials for the delivery of a training of trainers program;
- (v) assist a panel including, among others, the microfinance and lead specialist, the MFI product innovations and market development specialist, the national procurement specialist, NCFI staff and other stakeholders, to identify (through referrals, expressions of interest or other means) potential field level training providers and draw up criteria for the identification and shortlisting of field level service providers for the financial literacy training program;
- (vi) assist in the evaluation of the referrals and expressions of interest received from potential training providers (likely to be PFIs, community development NGOs, community groups, women's groups, church groups, co-operative societies, etc.) and develop a short-list of potential training providers in each area;
- (vii) assist the panel to recommend relevant procurement processes for such providers in each area, based on the specific circumstances and available service providers;
- (viii) work with the panel members and the PMU to undertake such procurement processes and engage field level service providers;
- (ix) deliver training to master trainers from within the selected field level service providers;
- (x) work with the MFI product innovations and market development specialist to oversee the subsequent delivery of financial literacy training to participants through the training providers; and
- (xi) provide ongoing support to the MFI product innovations and market development specialist in assessing and monitoring the quality and effectiveness of training delivery.

Business Development Skills Training Program

- (i) develop a BDS training program (including course content, training plans, trainer notes, trainee handouts and training resources), using, where feasible, internationally available business development training programs and materials for microfinance programs;
- (ii) develop a training of trainers program;
- (iii) undertake a process similar to that described above to identify, evaluate, recommend and procure the services of BDS field level service providers;
- (iv) deliver training to master trainers from within the selected providers;
- (v) oversee the subsequent delivery of BDS training to participants through the training providers; and
- (vi) provide ongoing support and monitor training delivery.

Gender and Monitoring and Evaluation Requirements

- (i) work with the gender and community development specialist to ensure that trainers in all training programs (microfinance, financial literacy and BDS) receive gender awareness training prior to delivering training and that all training programs, activities and materials incorporate gender issues;
- (ii) work with the national training specialists to develop and implement ongoing evaluation and monitoring processes and a regular (at least annual) review process to

- identify key issues and areas for improvement of the microfinance staff training program;
- (iii) work with the microfinance and lead specialist, the national training specialists, the gender and community development specialist, the project benefit monitoring and evaluation specialist and the national project monitoring specialist to develop indicators and measurements for effective ongoing monitoring and evaluation of the training programs; and
- (iv) provide timely reports, as required, to the microfinance and lead specialist.

29. The specialist should hold a relevant tertiary qualification in education, finance or business. The specialist will have: at least 7 years experience with microfinance; at least 5 years experience in the design of curriculum and the development of training programs; a proven track record in delivering microfinance and/or community-level training programs in developing countries; and demonstrated experience of developing and delivering financial literacy training and business development skills training programs.

4. MFI Product Innovations and Market Development Specialist (18 person-months)

30. The MFI product innovations and market development specialist will be responsible for the implementation of market research and new product development for participating MFIs and SLS, rural linkage trials conducted by Community Financial Service Linkage Programs (CFSLPs), and assistance with implementation and coordination of the financial literacy program. The specialist will:

- (i) along with the microfinance training and curriculum development specialist, oversee and coordinate the implementation of the financial literacy training program for clients and potential clients of PFIs, including identification and contracting of financial literacy training providers;
- (ii) assist the microfinance training and curriculum development specialist to review and revise existing financial literacy education curricula;
- (iii) in consultation with PFIs, identify existing clients and new potential clients requiring financial literacy training and develop a nationwide training plan in coordination with the outreach plans and capacities of these institutions;
- (iv) monitor the quality of the training curriculum, verify numbers of individuals trained, assess quality of training delivery, and effectiveness of training in creating a better understanding of financial management;
- (v) undertake a carefully planned study into the impact of the financial literacy and BDS training on the ability of clients to effectively utilize the available financial services;
- (vi) train the two national sociologist and market research specialists in market research for new microfinance product development using an internationally recognized training curriculum (such as MicroSave's);
- (vii) identify PFIs interested in and capable of developing new products, and train two product development champions from each financial institution in market research for new microfinance product development;
- (viii) together with the two national sociologist and market research specialists and the two product development champions from the PFIs, conduct market research into the needs and capabilities of existing and new market segments including and rural and agriculture dependent communities;
- (ix) based on this market research, recommend, if necessary, revision of existing products;

- (x) identify new product opportunities and design prototypes for new products (including innovative delivery channels such as service provision over mobile phone banking network or via linkages to village banks);
- (xi) undertake costing and pricing of product prototypes to evaluate their commercial potential and validate proposed product acceptability through interviews with target market;
- (xii) pilot test promising prototypes in an area containing the target market segment, evaluate market response, reassess product costing and commercial viability, prepare detailed product descriptions and make recommendations to senior management of participating financial institutions; and
- (xiii) examine rural linkage strategies of CFSLPs and test alternative approaches to make these more commercially viable, better linked in to strong financial institutions and better able to sustain their activities in the absence of an external facilitator.

31. The specialist should hold a tertiary qualification in a relevant field. The specialist will have at least 3 years experience conducting market research for new microfinance product development using training curricula such as MicroSave's. Experience in the development and delivery of financial literacy training programmes is highly desirable.

5. Project Benefit Monitoring and Evaluation Specialist (3 person-months)

32. In close cooperation with the microfinance and lead specialist, other consultants, the PMU and PIUs, the specialist will:

- (i) set out a participatory benefit monitoring and evaluation design and program that is in line with ADB's project performance management system (PPMS) framework that supports data requirements (segregated by gender) of a results-based management system;
- (ii) define indicators and targets for all desired project outputs, outcomes, and impacts for annual and/or episodic points in the project cycle;
- (iii) ensure the PPMS provides a clear indication of project efficiency (planned outputs against allocated inputs) and effectiveness (achievement of project outcomes and impacts as a consequence of implementing planned interventions);
- (iv) set out a periodic program of, and initiate, PPMS activities to assess whether project inputs are delivering expected benefits to the intended beneficiaries;
- (v) design the PPMS to detect deviations between the plan and execution of the project so that deviations between the plan and achieved results (outputs, outcomes, and impacts) will be recognized by project management in a timely manner and allow corrective management actions and decisions to be taken;
- (vi) design the PPMS to incorporate benchmarks, and subsequent, financial, physical and socioeconomic surveys that allow for the analysis of data, and set out reporting tabular formats to be followed; and
- (vii) design annual, midterm and final benefit monitoring reports for submission to stakeholders, ensure data collection is adequate, and assist with the formulation of data for the reports.

33. The specialist will have a Masters Degree in economics, finance, marketing or business management. He/she will have at least 6 years of project evaluation experience and, preferably, at least 2 years experience of working with microfinance institutions. Experience with externally funded development programs would be desirable.

6. MFI Management Information Systems Specialist (6 person-months)

34. The MFI MIS specialist will be responsible for improving the quality of management information systems for PFIs. These tasks will include, but not be restricted to, the following activities:

- (i) through the broader Institutional Assessment activity, undertake an assessment of the MIS needs of each eligible PFI and their capacity to utilize their existing MIS;
- (ii) advise the microfinance and lead specialist on the needs of individual PFIs for improved MIS, their ability to manage complex MIS systems and; on this basis, provide recommendations on which PFIs should improve their MIS systems;
- (iii) work with the microfinance regulation and supervision specialist to understand whether existing PFI MIS systems meet potential regulatory requirements;
- (iv) assess commercially available microfinance MIS and identify qualifying systems that are appropriate to the needs of PFIs requiring MIS upgrades;
- (v) assess and report upon available mobile phone banking networks, their accessibility and appropriateness to the needs of PFIs, and any risks (including settlement risks) they may present to PFIs intending to utilize them as product delivery channels;
- (vi) ensure that new MIS have the potential to connect with current and future electronic data management or transmission systems such as BPNG's supervision database, mobile phone banking networks and a credit reference database (if available);
- (vii) assist the PMU to prepare a competitive procurement process for the bulk procurement of MIS upgrades for approved PFIs, invite expressions of interest from qualifying software providers, and together with the microfinance and lead specialist, assist the PMU to assess bids following ADB procurement guidelines;
- (viii) oversee installation of MIS by the software provider including the connection of these MIS to available mobile phone banking networks;
- (ix) provide training to PFIs in the strategic opportunities, benefits and risks of utilizing electronic banking platforms (such as mobile phone banking) as a delivery channel for products and services;
- (x) in consultation with the MFI product innovations and market development specialist, develop technical manuals for PFIs utilizing electronic banking platforms, covering topics such as operating procedures, staff training, and customer service issues relating to electronic banking;
- (xi) provide training to PFIs on the topics covered by these manuals;
- (xii) ensure all participating financial institutions have secure data backup systems;
- (xiii) source or develop operating manuals for PFI's existing MIS; and
- (xiv) provide training to staff of all participating financial institutions in the use of their existing MIS and preparation of BPNG supervision reports, office computer applications, virus management etc.

35. The specialist will have at least 5 years experience assessing and installing microfinance management information systems preferably with at least 1 year of experience in electronic banking platforms or mobile phone banking. The specialist will have shown the ability to provide clear, succinct and timely reports as required. This position may be provided by a single consultant or by two specialized consultants.

7. Risk Fund Management Specialist (4 person-months)

36. A specialist will be hired to advise on and assist in the establishment of a risk share facility and the setting out of procedures. The specialist will:

- (i) carry out a review of the market scope, needs and benefits for the establishment of a RSF by visiting and analyzing the operations of candidate PFIs;
- (ii) with reference to the guidelines included in the Linked Documents, set out a legal and operational structure for the RSF that covers the establishment of RSF as a legal entity, the details for its operation, details concerning use of funds and eligible users of funds, eligible investments for the fund and allowable uses of generated revenues, and details covering the operations of the RSF after the project is completed, and obtain project steering committee approval for the RSF design;
- (iii) advise on the format and content of the application form for request of cover by a PFI;
- (iv) advise on the selection and qualifications of trustee(s) for the RSF;
- (v) work with Department of Treasury and the Bank of PNG to establish the RSF as a legal entity;
- (vi) draw up eligibility requirements to allow potential RSF managers to register expressions of interest as managers;
- (vii) carry out a due diligence evaluation of the management, financial, staffing capacity and other relevant areas of prospective risk fund managers to carry out all-related tasks over the life of the project;
- (viii) set out the details of tender for letting the RSF management contract and advise on the selection of the RSF manager;
- (ix) assist the PMU with procurement of the RSF manager; and
- (x) oversee the initial operations of the RSF.

37. The specialist will have a tertiary qualification in law, finance or accounting. Prior experience in designing, establishing, and/or operating a fund which acquires, or shares in, the risk of a financial institution's loan portfolio is preferred.

8. Business Mentors (75 person-months)

38. Business mentors will be provided to work with selected PFIs to assist them to strengthen their management and institutional capacity. The business mentors will be based within the PFIs for a period ranging from 1–6 months providing onsite support specifically targeted to institutional needs. The PFI and the area of need for a mentor will be identified through the broader Institutional Assessment process and approved by the microfinance and lead specialist with the assistance of other consultants. Requests for assistance may also come from PFIs themselves. The provision of mentor assistance will be subject to PFI eligibility criteria so as to ensure the PFI is, or is expected within approximately 3 years to become a profitable microfinance service provider. business mentors will require skills and experience in:

- (i) the development and operation of risk management systems;
- (ii) the improvement of accounting and financial and management reporting systems both internal and for external use;
- (iii) the development and operation of internal audit systems;
- (iv) the development and operation of improved governance through appropriate boards of directors and well-qualified key managers;
- (v) oversight and assistance in the development and updating of business plans;
- (vi) assistance in the incorporation of software into their operations and associated training and instructions to staff;
- (vii) oversight and assistance in the development of policies and procedure manuals and their use for daily activities and for in-house training;
- (viii) in-house follow-up with staff who have attended external training courses so as to reinforce training impact; and

- (ix) other areas of expertise that may be identified as needed following initial and ongoing evaluations of PFIs.

39. The business mentors will generally be people with professional qualifications in their area of expertise. They will generally have accumulated at least 10 years of relevant work experience. They will need to be physically fit, have shown an ability to work well as part of a team, and be fully computer literate. Previous experience within PNG will be highly regarded.

40. **National Consultants**

1. **Microfinance Institutional Development Specialist (84 person-months)**

41. The microfinance institutional development (MID) specialist will be engaged under advance action to assist with project start up and organization of activities. He/she will be located in the PIU responsible for the implementation of the project's microfinance industry capacity building outputs, the NCFI. The MID specialist will be responsible for the overall coordination, implementation and administrative management of activities for the capacity building of PFIs, support in market development, and developing industry standards and services. Working under the direction of the microfinance and lead specialist, the MID specialist will work closely with, and provide support to, project team members in the delivery of technical assistance to PFIs. The MID specialist will:

- (i) assist the project manager, the executing agency and implementing agencies to facilitate project start up activities as required;
- (ii) ensure that PIU office and support staff operate in an efficient and diligent manner at all times and be fully responsive to the technical and administrative needs of the project and project consultants;
- (iii) prepare and regularly update operating budgets for the PIU and make requests for funds in a timely manner;
- (iv) prepare and submit reports to the PMU, the project steering committee and ADB and attend review and coordination meetings as required;
- (v) alert the PMU, the project steering committee and ADB of any issues or delays affecting the project and provide advice on appropriate remedial measures;
- (vi) liaise with PFIs, through regular visits to their offices and ongoing communications, to support their identification of areas with microfinance service market potential and assist PFIs in their development of financial services in these areas;
- (vii) liaise with government agencies and donors to identify linkages useful to PFIs in their development of financial markets and assist PFIs in developing working relationships with feasible linkages;
- (viii) establish and oversee the collection, collation and publication of financial and social performance measurements (benchmarks and performance indicators) from PFIs every quarter;
- (ix) advise on and assist with the details and implementation of baseline and market studies and subsequent analysis and recommendations;
- (x) work with and assist project specialists to develop working linkages with other donor programs and the activities of formal and informal organizations;
- (xi) oversee and support the work of national specialists to ensure their activities meet work outputs in a timely manner; and
- (xii) work with the microfinance and lead specialist, the MFI management information systems specialist, the gender and community development specialist and other international and national specialists to: establish and institutionalize reporting formats

and be responsible for the operation of a functional reporting system; ensure the preparation and timely submission of project reports, studies and promotional materials/activities, including the quarterly project progress reports and project completion report to the government and ADB; and ensure that standards of quality and timeliness are properly met.

42. The specialist should hold a tertiary qualification relevant to business development and community socioeconomic development. The specialist will have at least 2 years experience in a management position and not less than 3 years experience working in the successful promotion of income and employment generating activities involving micro and small enterprise (MSE), preferably at least 2 years working in microfinance. The specialist will be computer literate and have shown the ability to provide clear, succinct and timely reports as required.

2. Gender and Community Development Specialist (24 person-months)

43. The project will engage a gender and community development specialist to be responsible for implementation of the project's gender action plan. The gender and community development specialist will:

- (i) ensure that the activities and targets described in the gender action plan are integrated in project activities and targets;
- (ii) ensure that all project consultants, staff and business mentors are aware of gender and social issues in the provision of microfinance services and understand their roles in promoting and ensuring gender equality in the delivery of project activities;
- (iii) work with the microfinance training and curriculum development specialist to develop gender awareness training programs for all project consultants, staff and business mentors;
- (iv) deliver gender awareness training to all project consultants, staff and business mentors;
- (v) work with the microfinance training and curriculum development specialist and the training specialists to identify training needs of project participants and beneficiaries;
- (vi) work with the microfinance training and curriculum development specialist and the training specialists to ensure that the content and delivery of all training programs, activities and materials incorporates gender issues;
- (vii) participate in the Selection Panels for the evaluation and selection of financial literacy and BDS training providers;
- (viii) work closely with the MFI product innovations and market development specialist and the sociologist and market research specialists to ensure market research activities enable balanced gender participation and the collection of data reflect the differing financial needs of men and women;
- (ix) work closely with the MFI product innovations and market development specialist and the sociologist and market research specialists to ensure that new product development incorporates innovations to overcome specific gender-related barriers to access to financial products;
- (x) working with project consultants, staff and business mentors, review the business, marketing and operational plans of participating financial institutions and ensure all project activities enable women to participate and access services;
- (xi) develop linkages with the Department for Community Development's Office for the Development of Women and the Gender and Development division to promote awareness of the project at provincial, district and local level;

- (xii) work with the microfinance and lead specialist and relevant project staff to identify and develop linkages with other programs and projects whose activities may be complementary (e.g., enterprise training programs for women) to the project's activities;
- (xiii) work with the microfinance training and curriculum development specialist and the national training specialists to develop and implement ongoing evaluation and monitoring processes and a regular (at least annual) review process to identify key issues and areas for improvement of the training program;
- (xiv) work with the microfinance and lead specialist, the microfinance training and curriculum development specialist, the national training specialists, the project benefit monitoring and evaluation specialist and the national project monitoring specialist to develop indicators and measurements for effective ongoing monitoring and evaluation of the training programs;
- (xv) work with the project benefit monitoring and evaluation specialist to develop a database with appropriate gender based monitoring indicators to highlight women's participation, access to financial services, livelihood improvement and social development;
- (xvi) highlight project effects through case studies that illustrate women's involvement in the project and the impacts arising from their involvement;
- (xvii) provide assistance to other international and national consultants as and when needed; and
- (xviii) provide timely reports, as required, to the microfinance and lead specialist.

44. The specialist will have a relevant tertiary degree qualification and have demonstrated ability over at least 5 years to work with and effectively promote the participation of women in entrepreneurial activities. The specialist will have appropriate qualification in any discipline of social studies, or development studies with demonstrated experience in (i) gender development and social inclusion practices, (ii) development and delivery of training, and (iii) working with public as well as private sector and NGO stakeholders and systems. Women are particularly encouraged to apply.

3. Procurement Specialist (9 person-months)

45. The project envisages multiple contracts for field level service providers in the areas of (i) training for MFI staff, (ii) financial literacy training of potential microfinance users in communities, (iii) supporting the role of women in the use of microfinance services, (iv) training borrowers in financial literacy, and (v) improving the financial and management skills of MSE borrowers through BDS training. Proper procedures will need to be followed in the contracting of these services. The specialist will:

- (i) understand the relevant ADB procurement regulations with regard to engagement of field level service providers;
- (ii) set out and obtain agreement on the detailed procedures to be followed in obtaining expressions of interest for proposed activities and the calling and evaluation of tenders for service provision;
- (iii) advise on the establishment and composition of field level service provider evaluation and selection panels and document the procedures to be followed by each committee;
- (iv) manage the procurement side of the identification and selection process to ensure that the relevant requirements are fulfilled;
- (v) closely follow and oversee the contracts awarded for the provision of services under the project in order to solve any issues that may arise; and

- (vi) review and provide written comment on the procedures followed for the first five contract awards and make recommendations, as necessary, for improvements.

46. The specialist will have a tertiary qualification in accounting, or law or administration and have had at least 2 years experience in the process of evaluating and awarding contracts for service provision. The specialist will need to demonstrate good knowledge of the Government of PNG and procurement issues.

4. Training Specialist (two, 60 person-months total)

47. The training specialists will be responsible for marketing and delivering the NCFI's microfinance training program. Initially, the training specialists will work under the supervision of the microfinance training and curriculum development specialist. The training specialists will:

- (i) under the supervision and guidance of the microfinance training and curriculum development specialist, deliver the training modules to staff of PFIs;
- (ii) assist the microfinance training and curriculum development specialist and the microfinance and lead specialist with the selection and training of financial literacy and BDS training providers;
- (iii) assist the microfinance training and curriculum development specialist and the microfinance and lead specialist to deliver training of trainer programs and monitor the training provided by the financial literacy and BDS training providers;
- (iv) work with the gender and community development specialist to ensure that trainers in all training programs (microfinance, financial literacy and BDS) receive gender awareness training prior to delivering training and that all training programs, activities and materials incorporate gender issues;
- (v) work with the microfinance training and curriculum development specialist to develop and implement ongoing evaluation and monitoring processes and a regular (at least annual) review process to identify key issues and areas for improvement of the training program;
- (vi) work with the microfinance and lead specialist, the microfinance training and curriculum development specialist, the gender and community development specialist, the project benefit monitoring and evaluation specialist and the national project monitoring specialist to develop indicators and measurements for effective ongoing monitoring and evaluation of the training programs;
- (vii) provide assistance to other international and national consultants as and when needed; and
- (viii) provide timely reports, as required, to the microfinance training and curriculum development specialist and the microfinance and lead specialist.

48. The training specialists will have a high-level qualification in a relevant area (education, finance, accounting or business management). Experience in the development and delivery of training programs is highly desirable. Working experience in microfinance will be a particular advantage. At least one of these specialists should be a woman given the focus of training programs on gender.

5. Sociologist and Market Research Specialist (two, 48 person-months total)

49. The sociologist and market research specialists will assist the MFI product innovations and marketing development specialist to implement the market research and new product development for participating microfinance institutions and savings and loan societies, rural linkage trials conducted by community financial service linkage programs, the financial literacy

program, and assist in the design and evaluation of surveys and studies carried out under the project. The specialists will:

- (i) assist the MFI product innovations and marketing development specialist to oversee and coordinate the implementation of the financial literacy training program;
- (ii) assist the MFI product innovations and marketing development specialist to identify existing clients and the new potential clients requiring financial literacy training and develop a nationwide training plan;
- (iii) assist the MFI product innovations and marketing development specialist to monitor the quality of training curriculum, verify numbers of individuals trained, assess quality of training delivery, and effectiveness of training in creating a better understanding of financial management;
- (iv) help identify PFIs interested and capable of developing new products, and help train two product development champions from each financial institution in market research for new microfinance product development;
- (v) together with the two product development champions from the PFIs, conduct market research into the needs and capabilities of existing and new market segments including and rural and agriculture dependent communities;
- (vi) based on this market research, recommend, if necessary, revision of existing products;
- (vii) based on this market research, help identify new product opportunities and design prototypes for new products;
- (viii) pilot test promising prototypes, evaluate market response, reassess commercial viability, and make recommendations to senior management of PFIs; and
- (ix) assist the MFI product innovations and marketing development specialist to examine rural linkage strategies of community financial service linkage programs and test alternative approaches to make these more commercially viable, better linked in to strong financial institutions, and better able to sustain their activities in the absence of an external facilitator.

50. The specialists should hold a tertiary qualification in a field related to sociology or community development. The specialists will have at least 5 years experience undertaking village level sociological studies or similar. Experience in the development and delivery of financial literacy training programmes is highly desirable.

6. Project Monitoring Specialist (9 person-months)

51. A project monitoring specialist will be hired to work with, and carry on the duties specified for, the project benefit monitoring and evaluation specialist (above) once the international specialist's assignment is completed. In addition to these duties, the project monitoring specialist will:

- (i) assist in the selection of the software program used for PPMS and ensure it continues to function as required;
- (ii) assist with the data design needs for baseline and market studies and surveys;
- (iii) assist support staff in data entry to ensure that this is carried out correctly;
- (iv) prepare detailed instructions for PMU and PIU staff on data entry and maintenance of a proper database for PPMS, baseline and market studies and surveys; and
- (v) assist in the provision of data for the midterm and project completion reviews.

52. The specialist will have a tertiary degree in economics, finance, marketing or social development or another relevant field. He/she will have demonstrated capability in establishing

and implementing project management information systems. Experience in MIS establishment with externally funded development programs would be desirable.

7. MFI and SLS Supervisory Support Specialist (two, 72 person-months total)

53. The MFI and SLS supervisory support specialists will work within the Microfinance Supervision Unit of the BPNG as MFI examiners under the direction of the head of the microfinance unit and general supervision of the director of the BPNG Supervision Department (the PIU for the regulation and supervision support component) in order to assist with implementation of new regulatory and supervisory requirements. The tasks will include, but not be restricted to, the following activities:

- (i) support the microfinance regulation and supervision specialist during his/her tenure;
- (ii) undertake MFI examination duties based on existing or new requirements as required by the head of the Microfinance Supervision Unit of BPNG;
- (iii) implement MFI supervision and data analysis duties as required in the revised operational, onsite and offsite supervision manuals;
- (iv) any other duties as required by the head of the Microfinance Supervision Unit of BPNG.

54. The specialists should hold a tertiary qualification in finance, or economics or business and have at least 2 years experience in financial analysis preferably in the finance sector. The specialist will have shown the ability to provide clear, succinct and timely reports as required.

VII. SAFEGUARDS

1. Although the project is classified as environmental category FI, it will be treated as category C as it is unlikely to have adverse environmental impacts.¹ The majority of microfinance lending in urban areas is expected to be for retail activities and public transport and in rural areas for agriculture, with consumer finance such as for school fees and life cycle events in both urban and rural areas. The project will not finance any of the activities included in the ADB Prohibited Investment Activities List.
2. The project will have no involuntary resettlement impacts and has been classified as category C.
3. The project's goal is to increase access to financial services to low-income households across PNG. Although indigenous people are not specifically targeted, as the population is largely indigenous, it is expected that the project will have only positive impacts for a broad cross-section of the population, particularly women and those living in rural areas. Therefore, although the project has been classified B, an Indigenous People's Plan is not required. Extensive consultation has been undertaken during project design to ensure that the project meets the needs of the people of PNG.

¹ FI = Financial Intermediary

VIII. GENDER AND SOCIAL DIMENSIONS

1. Access to financial services is a major constraint to private sector development in PNG.¹ PNG's topography, dispersed population, and poor infrastructure make it difficult for financial service providers to provide services throughout the country. Commercial banks find it too costly, within their existing structures and delivery channels, to deliver financial services or products to rural communities or remote areas. While enterprise opportunities exist, lack of credit and a lack of basic business skills restrict development and growth potential. In rural populations particularly, even when financial services are available, low education levels including lack of financial literacy also restricts access to, and effective use of savings and credit services.

2. Poverty levels in PNG are concentrated in rural areas where over 93.9% of households are based.² It is estimated that 70% of the PNG population live on less than \$2 per day and 40% live on less than \$1 per day.³ The poverty rate is highest among female-headed households. In 2000, only 50% of women were literate and had ever been to school. Of those women who had attended school, only 33% had completed Grade 6.⁴ While literacy levels are expected to have increased over the last decade, they are still very low. Neither primary nor secondary school is compulsory for either boys or girls in PNG. One of the key reasons given for non-enrolment, particularly for girls, is poverty and the inability to pay school fees.

3. Only 15% of the workforce is employed in the formal sector and only 5% of those in formal employment are women. Most women are self-employed in the informal sector, where the project will focus. While data is limited, it is estimated that women's participation in the formal and informal sectors is 63% compared to 37% by men. Women's participation and employment rates seem very high by international standards but most women are engaged in subsistence agriculture and/or fishing and are therefore technically classified as employed. In rural areas particularly, and especially in the five Highlands provinces, women dominate the informal, subsistence agriculture sector.⁵

4. Both men and women share many of the same difficulties in developing successful enterprises and income-generating activities. Technical and financial impediments include lack of access to, and limited understanding of, credit and financial services, limited knowledge about business opportunities and lack of capacity to start and run a business. Women also face particular barriers when it comes to access and ownership of land. About 90% of land is under customary ownership which effectively means that, in most cases, men control its use (footnote 5).

¹ ADB estimates that only approximately 15% of the population is using banking services. ADB. 2009. *Papua New Guinea: Country Strategy and Program Midterm Review (2006–2010)*. Manila.

² In 1996, rural poverty was 41% as opposed to urban poverty of 16%. This situation is expected to have worsened for rural areas in recent years. World Bank. 2004. *Papua New Guinea: Poverty Assessment*. Washington DC.

³ UNDP. 2006. *United Nations Development Assistance Framework Papua New Guinea 2008-2012 Capacity Development and Partnerships for Nation-Building*. Port Moresby.

⁴ National Statistics Office. 2001. *PNG Census National Report*. Port Moresby.

⁵ Department for Community Development. 2008. *Report of the Status of Women in Papua New Guinea and The Autonomous Region of Bougainville 2008. Combined Initial First, Second, Third and Fourth Periodic Reports on the Convention on the Elimination of All Forms of Discrimination Against Women*. Port Moresby.

5. Further, three key sociological reasons have been identified for not saving, and not repaying loans as required.⁶ First, there is a cultural obligation system, called the wantok system, that obligates income earners to redistribute a significant proportion of their income among the extended family group and to persons to whom they are related in some way.⁷ Second, there are competing demands for funds for household consumption, new consumption, school fees, repayment of credit received from the local store, customary expenditures, and church payments that deplete cash incomes. Third, increased population pressure has increased expenditures more than incomes. Consideration must be given to these factors in designing financial products. For example, one financial service product was successful in the oil palm industry in PNG because it was able to isolate farmer income from the demands of immediate consumption and the pressure of wantoks. Farmers avoided the responsibility of distributing funds to wantoks because funds were not immediately reachable.

6. The project is designed to provide an integrated system of supports to PFIs to increase their outreach and ability to provide financial services. These institutions will also be supported in developing at least ten new credit and savings products, at least two of which will be aimed specifically to meet women's particular financial needs. It will also seek to assist the rural population in income generation and capital formation.

7. The project will provide financial literacy training to 120,000 existing and prospective microfinance clients, of which at least 40% will be women.⁸ Training will be coordinated by the NCFI and delivered by a range of national training providers who will be identified and selected through an expression of interest process. It is expected that these training providers will include NGOs such as community development groups, church groups, co-operative societies and provincial, district and local-level National Council of Women groups and their affiliates.⁹ At least 25% of the training providers selected to deliver financial literacy training will be organizations whose programs focus on women. BDS training will be provided to 22,000 borrower clients of PFIs of which at least 20% will be women.¹⁰ Further, at least 15% of all BDS training will be delivered by women trainers and made available to women-only groups.¹¹ Violence against women is a key issue in PNG and the project will take a "do no harm" approach in its activities.

8. A gender and community development specialist will be engaged at the beginning of the project and will be responsible for the implementation of the project's gender action plan (see Linked Documents). The gender and community development specialist will be assisted by the

⁶ G.N. Curry et al. 2007. *Social Assessment Report for the Smallholder Agriculture Development Project (SADP)*. Port Moresby.

⁷ "The wantok system could be seen as an unwritten contract between those that speak the same language, to assist each other in times of need. This ranges from little things such as assistance in school fees to favors that border corruption, such as offering a job or contract to a person or persons because they are a 'wantok' [one talk]." Extract from Solomon Times Online article, The Cost of the "Wantok System." February 16, 2008. www.solomontimes.com

⁸ This target was set to significantly increase the percentage of women that understand and know how to use financial services. Due to cultural influences that make it more difficult for women to participate in activities outside the home, a higher target was felt to be unachievable. This is in addition to BDS training to be provided to 8,600 existing and 13,400 new MSE borrowers.

⁹ Some NGOs provide financial services in rural areas. In most cases, the provision of financial services through these institutions is not sustainable and they are unlikely to meet the eligibility criteria to become a PFI. Nevertheless, the project will still look to work through these institutions to provide training in rural areas.

¹⁰ These targets were set to significantly increase the number of women that have the skills to develop and grow businesses. Due to cultural influences that make it more difficult for women to start businesses, a higher target was felt to be unachievable.

¹¹ The remaining 85% of BDS training will be available to mixed or male only groups with either male or female trainers.

microfinance and lead specialist and a team of international and national consultants. An international microfinance training and curriculum development specialist and two training specialists will receive gender awareness training and will ensure that gender awareness training is delivered to all project consultants, staff and business mentors, and all trainers involved in the financial literacy and BDS training programs. The gender and community development specialist will also work with the microfinance training and curriculum development specialist and national training specialists to also ensure that the content of all training courses will incorporate gender issues.

9. An international MFI product innovations and market development specialist and two national sociologist and market research specialists will be engaged to work with PFIs to undertake market research, encourage innovation and develop new products and delivery channels. The gender and community development specialist will work closely with the consultants responsible for market research and product development to ensure market research activities enable balanced gender participation and information collected reflects the different financial needs of men and women. The RSF is designed especially to encourage and support PFIs in the roll-out of new loan products to MSEs. During the course of the project, at least 10 new products will be developed, and at least two of these will be women-focused.

10. An MFI management information systems (MIS) specialist will be engaged at the beginning of the project to support the procurement and implementation of upgraded and new MIS within participating financial institutions. This will enable the collection of sex-disaggregated data and analysis of participation and use of financial products and services, by gender. Staff of PFIs will receive training on producing, and analyzing and understanding sex-disaggregated reports.

11. The project will work with the Department for Community Development's Office for the Development of Women (DFCD ODW) and the Gender and Development Division to build awareness of the project and its activities in rural areas. Support will also be provided to DFCD to help identify and encourage linkages between community development and enterprise programs.

12. In addition, the project will support microfinance industry associations to collect and disseminate information to their members on international initiatives and innovations for the provision of microfinance services to women. Representative industry associations will also receive support to collect and publish key benchmarks and social and financial performance indicators from PFIs. These indicators will allow industry-wide analysis of national participation, particularly by gender.

13. The project will work with the Bank of PNG to strengthen the regulation and supervision of MFIs and SLSs. Improved supervision will help to safeguard the deposits of savers and ensure that participating financial institutions are operating sustainably and are compliant with BPNG's regulations and requirements. Better supervision of deposit-taking institutions will benefit both men and women. However, as women tend to use savings products more than men, increased supervision of deposit-taking institutions will be particularly beneficial for them.

14. Baseline surveys will be undertaken at project inception and all indicators in the gender action plan will be continuously monitored and reported by the PFIs, training providers and the NCFI. These will be included in the PMU quarterly reports and project monitoring reports. A midterm review will be carried and a project completion report will be undertaken at project end.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Economic growth led by the private sector is enhanced</p>	<p>The number of people engaged in income-generating activities increases by at least 18,000 by project end</p>	<p>Household income and expenditure surveys^a BPNG and MFI reports</p>	<p>Assumptions Access to financial services stimulates greater participation in the cash economy and entrepreneurship Data is available Risks Community and/or social constraints restrict entrepreneurial effort, demand for loans, and repayment capacity</p>
<p>Outcome PFIs sustainably and safely provide financial services to a substantially increased number of clients across PNG</p>	<p>By project end: 160,000 increase in households with active deposit accounts (baseline 187,500, 2010) 52,000 increase in households with current loan accounts (baseline 43,000, 2010) The PAR30 for PFIs is <10% (excluding loans that are 100% cash collateralized) and financial self-sufficiency is >100% by project end^b At least 90% of participating MFIs and SLSs are compliant with BPNG regulations by project end</p>	<p>BPNG annual reports Quarterly microfinance industry benchmarking reports Reports from PFIs, including audited financial statements</p>	<p>Assumptions Political stability and consistency of government policy Macroeconomic and inflationary stability The security situation does not deteriorate further MFIs respond to training, product development, and risk mitigation opportunities. Rural households respond to training opportunities Risks PFIs are unable to reach financial viability Community/social constraints restrict entrepreneurial effort, demand for loans, and loan repayment capacity</p>
<p>Outputs 1. Business and product management capacity of PFIs is increased</p>	<p>At least 85% of PFIs produce accurate annual financial accounts, and quarterly portfolio performance indicators by end of year 3 At least 70% of PFIs offer new financial products (and at least 20% of these new products are women-focused) by project end</p>	<p>BPNG annual reports Reports from PFIs, including audited financial statements AMFI and FESALOS reports Quarterly</p>	<p>Assumptions BPNG approves classification and revised regulation, and implements appropriate supervisory measures Willingness of AMFI to promote and manage industry standards PFIs are committed to utilizing and implementing project supports Participating institutions are able to</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>2. Clients and potential clients understand and know how to access financial services for personal or business use</p> <p>3. The AMFI monitors jointly agreed microfinance industry standards.</p> <p>4. BPNG regulation and supervision of MFIs and SLSs is streamlined and improved</p> <p>5. A risk-share facility supports increased MSE lending</p> <p>6. The PMU provides efficient and effective project management services</p>	<p>At least 70% of trainees (personal and MSEs) sign up for new financial products within 6–12 months after completing the training program (and at least 35% of these are women)</p> <p>50% of PFIs report agreed standard indicators by end of year 2 (with 80% reporting sex-disaggregated data)</p> <p>At least 90% of PFIs report agreed standard indicators by end of year 5</p> <p>80% of MFIs and SLSs are classified according to risk and are fully supervised on- and off-site by end of year 2</p> <p>At least four MFIs or SLSs draw on the RSF by end of year 3</p> <p>Total MSE loan portfolios have grown by at least \$33.00 million by project end</p> <p>The firm-based consulting contract is completed within 5 months of project effectiveness</p> <p>PMU quarterly reports are received by the PSC within 30 days of quarter end</p>	<p>microfinance industry benchmarking reports</p> <p>RSF quarterly reports</p>	<p>qualify for the RSF</p> <p>Risks</p> <p>Lack of available, appropriately qualified national consultants and counterpart staff</p> <p>Delays in procurement hinder implementation of key project activities</p> <p>Poor project management and project components not effectively implemented</p>

Activities with Milestones	Inputs														
<p>1. Business and product management capacity of PFIs is increased</p> <p>1.1 Training staff of PFIs in microfinance services (2011–2015)</p> <p>1.1.1. Establish NCFI as the PIU (2011)</p> <p>1.1.2. Develop training modules/materials, train training specialists (2011)</p> <p>1.1.3. Market and deliver training to staff (2011–2017)</p> <p>1.1.4. 4,500 person days of training is provided to PFIs (2011–2017)</p> <p>1.2. On-site technical support and mentoring (2011–2015)</p> <p>1.2.1. Institutional assessments/project participation plans (2011–2012)</p> <p>1.2.2. Identify, select, and field business mentors (2011–2013)</p>	<p>ADB: \$13.00 million</p> <table border="1"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Outputs 1, 2, 3</td> <td>4.915</td> </tr> <tr> <td>Output 4</td> <td>0.201</td> </tr> <tr> <td>Output 5</td> <td>6.865</td> </tr> <tr> <td>Output 6</td> <td>0.097</td> </tr> <tr> <td>Contingencies</td> <td>0.297</td> </tr> <tr> <td>Interest during</td> <td></td> </tr> </tbody> </table>	Item	Amount (\$ million)	Outputs 1, 2, 3	4.915	Output 4	0.201	Output 5	6.865	Output 6	0.097	Contingencies	0.297	Interest during	
Item	Amount (\$ million)														
Outputs 1, 2, 3	4.915														
Output 4	0.201														
Output 5	6.865														
Output 6	0.097														
Contingencies	0.297														
Interest during															

Activities with Milestones	Inputs												
1.2.3. Implement in-house mentoring and on-site support (2011–2015) 1.3. MIS selection, procurement, and training (2011–2015) 1.3.1. Identify and review MFI MISs (2011) 1.3.2. Procure, select, and install MIS upgrades (2011–2015) 1.3.3. Produce accounts/performance indicators/reporting (by end 2012) 1.4. Market research and product development conducted (2011–2015) 1.4.1. Undertake market research (2011–2015) 1.4.2. Develop, test, and launch new products and linkages (2011–2015)	implementation 0.625												
2. Clients understand and know how to access financial services for personal and business use	Government of Australia: \$6.00 million												
2.1. Financial literacy training for clients (2011–2015) 2.1.1. Develop new training modules and materials (2011) 2.1.2. Identify, select and train financial literacy training providers (2011) 2.1.3. Market and deliver training to clients (2011–2017) 2.1.4. 120,000 clients (> 40% women) trained (2011–2017) 2.2. Business development skills training for clients (2011–2015) 2.2.1. Identify, select and train BDS training providers (2011) 2.2.2. Market and deliver training to clients (2011–2017) 2.2.3. 22,000 clients (> 20% women) trained (2011–2017) 2.2.4. >15% of BDS training delivered by women to women-only groups	<table border="1"> <thead> <tr> <th data-bbox="1092 367 1161 394">Item</th> <th data-bbox="1323 367 1445 424">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1092 443 1274 470">Outputs 1, 2, 3</td> <td data-bbox="1323 443 1404 470">5.077</td> </tr> <tr> <td data-bbox="1092 476 1161 504">Output 4</td> <td data-bbox="1323 476 1388 504">0.121</td> </tr> <tr> <td data-bbox="1092 510 1161 537">Output 5</td> <td data-bbox="1323 510 1388 537">0.050</td> </tr> <tr> <td data-bbox="1092 543 1161 571">Output 6</td> <td data-bbox="1323 543 1404 571">0.308</td> </tr> <tr> <td data-bbox="1092 577 1274 604">Contingencies</td> <td data-bbox="1323 577 1404 604">0.444</td> </tr> </tbody> </table>	Item	Amount (\$ million)	Outputs 1, 2, 3	5.077	Output 4	0.121	Output 5	0.050	Output 6	0.308	Contingencies	0.444
Item	Amount (\$ million)												
Outputs 1, 2, 3	5.077												
Output 4	0.121												
Output 5	0.050												
Output 6	0.308												
Contingencies	0.444												
3. The AMFI monitors jointly agreed microfinance industry standards 3.1. Select benchmarks/indicators, including sex-disaggregated (2011–2012) 3.2. Establish quarterly data collection processes (2011–2012) 3.3. Publish quarterly industry reports (2012–2017) 3.4. Develop and launch website for PNG microfinance industry (2011–2012)	Government of PNG: \$3.09 million												
4. BPNG regulation of MFIs and SLSs is streamlined and improved 4.1. Legal and regulatory reform 4.1.1. Establish requirements/classification of MFIs/SLSs (2011) 4.1.2. Draft new specific regulations for MFIs/SLSs/MPB (2011) 4.2. Strengthening of BPNG MFI/SLS/MPB supervision units 4.2.1. Develop and implement risk-based approach for supervision (2011) 4.2.2. Develop operational procedures manuals (2011) 4.2.3. Develop supervision manuals for MFIs/SLSs/MPB (2012) 4.3. Strengthening of data management 4.3.1. Establish MFI/SLS/MPB reporting requirements and formats (2011) 4.4. Capacity building BPNG MFI/SLS/MPB supervision units 4.4.1. Deliver risk-based supervision training (2011–2012) 4.4.2. Deliver training on operational procedures (2012) 4.4.3. Deliver off- and on-site supervision training (2011–2012)	<table border="1"> <thead> <tr> <th data-bbox="1092 699 1161 726">Item</th> <th data-bbox="1323 699 1445 756">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1092 779 1274 806">Outputs 1, 2, 3</td> <td data-bbox="1323 779 1404 806">1.773</td> </tr> <tr> <td data-bbox="1092 812 1161 840">Output 4</td> <td data-bbox="1323 812 1388 840">0.408</td> </tr> <tr> <td data-bbox="1092 846 1161 873">Output 5</td> <td data-bbox="1323 846 1404 873">0.000</td> </tr> <tr> <td data-bbox="1092 879 1161 907">Output 6</td> <td data-bbox="1323 879 1404 907">0.600</td> </tr> <tr> <td data-bbox="1092 913 1274 940">Contingencies</td> <td data-bbox="1323 913 1404 940">0.307</td> </tr> </tbody> </table>	Item	Amount (\$ million)	Outputs 1, 2, 3	1.773	Output 4	0.408	Output 5	0.000	Output 6	0.600	Contingencies	0.307
Item	Amount (\$ million)												
Outputs 1, 2, 3	1.773												
Output 4	0.408												
Output 5	0.000												
Output 6	0.600												
Contingencies	0.307												
5. A risk-share facility supports increased MSE lending 5.1. Identify the RSF manager and establish the PIU (2011) 5.2. Develop the criteria and qualifications for accessing the RSF (2011) 5.3. Market and implement the RSF (2012–2017)	PFI and beneficiaries: \$1.97 million												
6. PMU provides efficient & effective project management services 6.1. Coordinate the project 6.2. Establish and manage project accounts 6.3. Prepare annual work plans 6.4. Select, engage, and manage consultants 6.5. Carry out procurement activities 6.6. Provide data to auditor and submit audited financials to ADB on time 6.7. Prepare and submit all reports to the PSC and ADB 6.8. Monitor and evaluate project performance	<table border="1"> <thead> <tr> <th data-bbox="1092 1056 1161 1083">Item</th> <th data-bbox="1323 1056 1445 1113">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1092 1136 1274 1163">Outputs 1, 2, 3</td> <td data-bbox="1323 1136 1404 1163">1.793</td> </tr> <tr> <td data-bbox="1092 1169 1161 1197">Output 4</td> <td data-bbox="1323 1169 1404 1197">0.000</td> </tr> <tr> <td data-bbox="1092 1203 1161 1230">Output 5</td> <td data-bbox="1323 1203 1404 1230">0.000</td> </tr> <tr> <td data-bbox="1092 1236 1161 1264">Output 6</td> <td data-bbox="1323 1236 1404 1264">0.000</td> </tr> <tr> <td data-bbox="1092 1270 1274 1297">Contingencies</td> <td data-bbox="1323 1270 1404 1297">0.175</td> </tr> </tbody> </table>	Item	Amount (\$ million)	Outputs 1, 2, 3	1.793	Output 4	0.000	Output 5	0.000	Output 6	0.000	Contingencies	0.175
Item	Amount (\$ million)												
Outputs 1, 2, 3	1.793												
Output 4	0.000												
Output 5	0.000												
Output 6	0.000												
Contingencies	0.175												

ADB = Asian Development Bank, AMFI = Association of Microfinance Institutions, BDS = business development skills, BPNG = Bank of Papua New Guinea, FESALOS = Federation of Savings and Loan Societies, MFI = microfinance institution, MIS = management information system, MPB = mobile phone banking, MSEs = micro and small enterprises, NCFI = National Centre for Financial Inclusion, PAR = portfolio at risk, PFI = participating financial institution, PIU = project implementation unit, PMU = project management unit, PNG = Papua New Guinea, PSC = project steering committee, RSF = risk-share facility, SLS = savings and loan society.

^a A household income and expenditure survey (HIES) is being undertaken in PNG during 2010. HIESs have not been consistently undertaken in PNG in the past. Based on an agreement between the governments of Australia and PNG in 2009, an HIES will be undertaken every 5 years.

^b Portfolio at Risk 30 (PAR30) measures the outstanding principal balance of all loans past due more than 30 days as a percentage of the outstanding principal balance of all loans. Financial self-sufficiency measures business revenue (excluding grants and extraordinary items) as a percentage of total expenses adjusted for cost of funds subsidies, in-kind subsidies, and inflation.

Source: Asian Development Bank.

B. Monitoring

1. **Project performance monitoring:** A project benefit monitoring and evaluation specialist will design a comprehensive monitoring and evaluation (M&E) framework at the inception of the project. This will capture disaggregated baseline data for output and outcome indicators and define indicators and targets for all project outputs, outcomes, and impacts for annual and/or episodic points in the project cycle. Information obtained during project processing will be updated and reported quarterly through the PMU's quarterly progress reports and after each ADB review mission. These quarterly reports will provide information necessary to update ADB's project performance reporting system.¹ Targets and indicators will be monitored and reported on as described in the design and monitoring framework (DMF). The risk of community social constraints slowing rural lending will be measured against the growth in rural savings, the number of rural borrowers and the level of arrears in rural loans. The impact of financial literacy training will be measured by statistics such as the number of savings accounts and the volume of savings. These data will be part of the PFI's reporting systems. The viability of PFIs will be measured through their submitted financial statements and the growth in numbers of savers and borrowers, and the arrears rate on their loan portfolios. The development of linkages and new financial products will be demonstrated through data collected through surveys and studies and an assessment of lending take-up on a community basis or by formal or informal organizations.
2. **Compliance monitoring:** The government will ensure that adequate funds will remain available to the Bank of PNG both generally and for the implementation and management of the Microfinance Expansion Project. This will be monitored through the flow of funds into a special account held in the Bank of PNG and monitored by the PMU. The government will also ensure that it complies with the covenants of the loan, grant and project agreements and the terms of this project administration manual.
3. **Safeguards monitoring:** The project is classified as environmental category FI but it will be treated as category C as it will not have significant environmental impact (footnote 1). The project will have no involuntary resettlement impacts and has been classified as category C. Although the project has been classified B, an Indigenous People's Plan is not required as it is expected that the project will have only positive impacts for a broad cross-section of the population across PNG.
4. **Gender and social dimensions monitoring:** Once established, the NCFI will collect and report sex-disaggregated data on all training courses. Information on the number of participants by gender, the location of the training, the geographic residence of the trainee by gender, the courses delivered by gender will all be collected and reported to the PMU on a quarterly basis.
5. PFIs will collect and report sex-disaggregated data including analysis of participation, geographic residence of clients (e.g., urban, peri-urban, rural, remote), and amount and use of financial products and services, by gender. This data will be reported to the NCFI at least quarterly.
6. The number, geographic residence and gender of trainees per location participating in financial literacy training will be collected from training service providers as and when training is

¹ ADB's project performance reporting system is available at:
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>

delivered and completed. This information will be collated monthly and included in reports to the PMU on a quarterly basis.

7. The number, geographic residence and gender of trainees per location participating in BDS training will be collected from training service providers as and when training is delivered and completed. This information will be collated monthly and included in reports to the PMU on a quarterly basis.

8. Representative industry associations, AMFI and FESALOS will collect and publish key benchmarks and social and financial performance indicators from PFIs on a quarterly basis. These indicators will allow industry-wide analysis of national participation, particularly by gender.

9. The project will engage an international project benefit monitoring and evaluation specialist and a national project monitoring specialist whose specific responsibilities will be the development and establishment of effective monitoring and reporting systems and processes. Ongoing monitoring will be the responsibility of the microfinance and lead specialist supported by the team of international and national consultants, business mentors and project staff.

10. Baseline surveys will be undertaken at the start of project implementation and all indicators in the gender action plan will be continuously monitored and reported by the PFIs, training providers and the NCFI. These will be included in the PMU quarterly reports and project monitoring reports. A midterm review will be carried out and a project completion report will be undertaken at project end.

C. Evaluation

11. The government and ADB will jointly review the project at least twice a year. This includes (i) the performance of the PMU, PIUs, consultants, and contractors; (ii) physical progress of equipment installation, and effectiveness of capacity building support; (iii) compliance with loan assurances; and (iv) assessment of project component sustainability in technical and financial terms. In addition to the regular reviews, the government, ADB and AusAID will undertake a comprehensive midterm review, to include at least one independent reviewer, at the beginning of 2014 to identify problems and constraints encountered and suggest measures to address them. Specific items to be reviewed will include (i) appropriateness of scope, design, implementation arrangements, and schedule of activities; (ii) assessment of implementation pace against project indicators; (iii) effectiveness of capacity building support; (iv) compliance with safeguard measures; (v) lessons learned, good practices, and potential for replication; and (vi) changes recommended. In addition to reviewing the progress of the project and making recommendations for improvements or changes, the evaluation will make recommendations concerning (i) the supports required for improving the capacity and sustainability of AMFI and direct project supports, where feasible, towards this goal, (ii) review the activities of the RSF, make recommendations concerning the management of RSF and make preliminary suggestions concerning the use or disposition of the RSF at project completion, and (iii) review the hiring of service providers process and the performance of the service providers. One year before project completion, ADB and the government will reach a final agreement on the disposition of the RSF post-project.

D. Reporting

12. BPNG will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project.² To ensure projects continue to be both viable and sustainable, project accounts and the EA's audited financial statements, together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

13. The following key communication objectives need to be met:

- (i) Effective communication between members of the project steering committee and between the Steering Committee and key project stakeholders such as the executing agency, the implementing agencies, the PMU, the PIUs and PFIs;
- (ii) Effective communication between consultants to ensure a coordinated and broadly considered implementation of the project;
- (iii) Discussion and clarification of implementation plans between consultants and managerial and administrative staff of the PMU, implementing agencies and PIUs, to ensure logistical arrangements and financial resources are ready to support implementation;
- (iv) Clarification of the project process, structure, deliverables and timeframes to all PFIs, contracted service providers and, to the extent possible, clients and potential clients of PFIs;
- (v) Continued support for the project from well informed development partners and government authorities;
- (vi) The timely and accurate flow of information between the microfinance and lead specialist, consultants, implementing agencies and; the ADB task manager and the project steering committee, and that regular opportunities exist for effective discussion between these parties, in order to resolve problems and constraints to implementation; and
- (vii) ADB will report to AusAID on project progress in the manner dictated by the cofinancing agreement for this project. ADB will invite AusAID representatives to participate in key events related to the project and will include AusAID branding on signage as appropriate.

14. The project seeks to bring about faster and deepened economic development by strengthening financial inclusion of low income households and micro and small enterprises. Key project information to be communicated quarterly by each implementing agency to the steering committee (which represents all key stakeholders) includes:

² Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

Outputs 1, 2 and 3

- (i) Number of households that have deposit accounts and that have loan accounts from PFIs, disaggregated by gender and by those having received financial literacy or business development skills training;
- (ii) Key performance indicators from participating financial institutions including; income statement and balance sheets, loan and deposit balances and number of accounts, portfolio at risk (PAR) >30 days (separated into fully cash secured, and partially or unsecured loans), return on assets, return on equity, capital adequacy and liquidity ratios;
- (iii) Number of trainers trained and courses delivered to PFIs and project beneficiaries;
- (iv) Number of PFI staff trained; number of financial literacy and BDS trainees, and any other individuals trained, disaggregated by gender; and
- (v) Number and details of new financial products developed, with mention of particular products that are considered significantly different or innovative relative to existing products.

Output 4

- (i) Changes to the regulatory classification of participating financial institutions and summarized aggregated supervision reports from supervision department of BPNG; and
- (ii) changes to legislation and the regulatory standards and directives affecting participating financial institutions.

Output 5

- (i) A list of financial institutions participating in risk share facility, the number of loans, and the size of portfolio being supported.

Output 6

- (i) Quarterly project management reports and financial accounts.

15. ADB will communicate about this project and the outcome of this project through its periodic newsletters, publications, presentations and on its website. ADB will also communicate as required with BPNG, Department for Community Development, Department of National Planning and Monitoring, Department of Treasury, and AusAID through written documents. ADB will endeavor to maximize opportunities to highlight the identity of the Government of Australia's contribution to the project (e.g., through related signage, documentation and public information about the project, including the use of AusAID's logo).

16. PFIs will provide quarterly performance indicators to the PMU and NCFI. Implementing Agencies will communicate to ADB and the project steering committee through quarterly and annual progress reports. The NCFI will communicate with PFIs as required with respect to training programs, onsite technical assistance support in the financial literacy and business development skill training programs. These institutions will maintain communication with their clients (and potential clients) through direct interaction and media campaigns to ensure they are fully aware of products, services and training courses available.

X. ANTICORRUPTION POLICY

1. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy (1998, as amended to date) relating to the project.¹ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.²

2. To support these efforts, relevant provisions are included in the loan agreement/regulations and the bidding documents for the project. Additional measures to be taken are:

- (i) for all community-level training, community names according to ward will be recorded, all trainees listed individually by name and by community, and grouped according to the identity of each trainer and dates and locations of training. The trainer and the relevant PFI will jointly sign a verification that the lists are correct. The PIU (IBBM) will maintain a computer record of all this information and pass it on to the PMU each quarter;
- (ii) funds provided for training by service providers will be placed in separately maintained bank accounts held by the service providers and copies of periodic statements of these accounts will be submitted to the PIU on a monthly basis;
- (iii) in the ongoing provision of services, service providers will provide statements of expenditures that fully justify the use of previously disbursed funds prior to receiving further advance payments. Such statements will show the location(s) of the training provided and the numbers of trainees. Prior to submission to the PIU, requests for a further advance will be counter-signed by the PFI(s) associated with the particular training courses;
- (iv) all service providers will be hired following ADB selection procedures (as set out in the above section on procurement). Full records will be retained showing the evaluation of the candidate service providers during the selection process;
- (v) a simple evaluation form will be devised that shows the performance of each trainer according to numbers of trainees trained and the cost of training. A PFI representative will be asked also to state the performance and impact of each trainer on a scale of 1 to 5.

¹ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

² ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

XI. ACCOUNTABILITY MECHANISM

1. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.¹

¹ For further information see: <http://compliance.adb.org/>.

XII. RECORD OF PROJECT ADMINISTRATION MANUAL CHANGES