

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 3024-FSM: Economic Policy Reform and Management			Amount Approved: \$3,345,000 Revised Amount: \$3,345,000	
Executing Agency: Department of Economic Affairs	Sources of Funding: Japan Special Fund (JSF), TA Special Fund (TASF), and US Government		TA Amount Undisbursed \$59,061.30	TA Amount Utilized \$3,285,938.70
Approval	Signing	Fielding of Consultants	Completion Date	
2 June 1998	5 August 1998	1 October 1998	Original 15 August 2002	Actual 31 March 2002
			Account Closing Date	
			Original 15 August 2002	Actual 28 December 2005
Description				
<p>The Government of the Federated States of Micronesia (FSM) aimed to continue the far-reaching structural adjustment policies and national reform programs, which had been set in place to prepare the country for the major event of the ending of the current Compact funding in 2003. The Government failed to adjust sufficiently to the five-yearly step-downs in Compact funding prior to 1995, creating significant fiscal imbalances, which could not be sustained. The need for a major fiscal adjustment was widely accepted and considerable efforts were made since 1995 to develop consensus for reforms through a series of national and state-level summits held with broad-based participation.</p> <p>Since 1995, the Asian Development Bank (ADB) had provided FSM with a technical assistance (TA) to support economic management and policy advice (TA 2294-FSM: Economic Management Policy Advisory Team, worth \$2.5 million and approved on 31 January 1995). This TA is the second phase of TA 2294-FSM.</p>				
Objectives and Scope				
<p>The TA was to help strengthen and develop the institutional capacity of the Executing Agency (EA), the Department of Economic Affairs, and thereby the offices of the President and the Vice President, as well as the high-level Economic Policy Advisory Board that would support national level strategic planning, policy coordination, and development management, and also strengthen the institutional capacity of the Office of the Governors and their governments for similar activities at the state level.</p> <p>The scope of the TA covered: (i) formulate further required policies and implement the ongoing reforms to adjust to the ending of the Compact funding in 2001, initiating at the same time further steps to improve short-term performance and to lay the foundation for medium- and long-term national economic development; (ii) undertake assessments and prepare strategies and action plans for the further reorganization of the public sector and for civil service reforms with appropriate time-bound performance indicators using the participatory approach; (iii) reinforce overall strategic management and support coordination mechanisms required to effectively connect the governments at the national and state levels and to maintain the highly participatory approach for major policy initiatives; (iv) establish a conducive policy environment, including legal framework, financial and support services for stimulating private sector investments, (v) prepare a comprehensive strategic plan for human resources development at the national and state levels, including the identification of critical skills gaps, a well-focused training program including management training for senior and middle level people and training through workshops, seminars, in-country training, and supervision of economics education graduates, the targeting of key positions for transfer to local staff, and the development of improved monitoring and possible twinning arrangements; and (vi) establish and monitor selected performance targets for each state and at the national level in the areas of fiscal management, public sector management, private investment, and economic growth.</p>				
Evaluation of Inputs				
<p>As in the case of this TA, the previous TA on economic management support, TA 2294, included a cofinancing arrangement with the United States (US). However, such cofinancing arrangement did not partly materialize, hence TA 2294 incurred a financing gap of approximately \$650,000. To fill this financing gap, ADB decided to reallocate the said amount from this TA to TA 2294. This change in the financing plan for this TA reduced the total TA amount from the initial amount of \$3.876 million to \$3.345 million. Therefore, the TA scope was revised mainly through reduction of short-term consulting services. The long-term advisors' team, which was the core of the program, remained basically intact, albeit for a shorter period. It was expected that such change in the scope would not fundamentally affect the TA's basic objectives.</p> <p>TA consultants' inputs were reduced from 120 to 119.3 person-months (PMs). The short-term consultants' input was reduced from the original 30 PMs to 7 PMs; while the long-term core team consultants' was increased to 112.5 person-months at the end of the TA from the original 90 PMs. The team of consultants did excellent work and was well accepted</p>				

by the FSM Government. However, there was a tendency to create overdependence on the team of consultants. More work and better relationships also need to be developed with state governments. The performance of the consultants, the EA, and ADB were considered satisfactory.

Evaluation of Outputs

Major outputs of the TA were policy advice and analytical work provided to the Government. The TA provided good policy advice and support, particularly in the areas of promotion of sound fiscal management including advice on tax reform and trust funds for sustainable economic and fiscal management of the country, the renegotiation with the US on the Compact; and Consultative Group meetings. Compared with TA outputs in these areas, advice on public enterprise reform and human resource management were relatively weak. With regard to capacity building efforts under the TA, a few local economists were trained as local counter part economists through on-the-job-training.

Overall Assessment and Rating

The overall performance of the TA is considered successful in view of the EA's appreciation to the consultant team's policy advisory services. On the other hand, it is worth noting that the capacity building efforts were relatively limited particularly in terms of number of trained staff, and that the long-term engagement of resident advisors may create overdependence of the Government on them.

Major Lessons Learned

The provision of a large input of long-term consultants could be justified during the critical transition of the economy of a developing member country with very limited institutional capacity. However, it is very important to try to avoid as much as possible creating the dependence of the Government on the long-term consultants. Such risk of dependency is considered high in FSM and other similar Pacific developing member country. The other modalities of capacity building should be explored if the effect of capacity building needs to be in a larger scale.

Recommendations and Follow-Up Actions

To follow up on the efforts done under the TA, TA 4258-FSM: Strengthening of Public Sector Management and Administration is currently helping the Government prepare a long-term capacity building road map for the FSM governments.

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