

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No., Country and Name TA No. 4258-FSM: Strengthening of Public Sector Management and Administration		Amount Approved: \$833,000	
		Revised Amount: not applicable	
Executing Agency: Department of Finance and Administration	Source of Funding: TASF & US Government	TA Amount Undisbursed \$63,075.00	TA Amount Utilized \$769,925.00
TA Approval Date: 16 December 2003	TA Signing Date: 27 February 2004	Fielding of First Consultants: 22 April 2004	TA Completion Date Original: 31 July 2005 Actual: 28 February 2007 Account Closing Date Original: 31 July 2005 Actual: 30 March 2007
<p>Description</p> <p>The TA was designed to assist Federated States of Micronesia (FSM) in a critical transition period during the renewal of the Compact of Free Association (Compact) between the FSM and the United States (US). Under the amended Compact, the FSM is expected to continue far-reaching structural adjustment policies and nationwide economic reform programs to adjust to reduced external funding. The impact of the Compact grants is evident in the dominance of the public sector and extent to which aid has permitted total final consumption to exceed the domestic economy's production and trade. Sound fiscal management is essential to mitigate the immediate as well as the progressive reduction in the contribution of the Compact to the FSM budget and therefore, US Government contributed \$333,000 to cofinance this technical assistance (TA).</p> <p>The lack of comprehensive, long-term capacity building strategy to respond to the gradual withdrawal of US assistance was also of concern. A long-term human resource and institutional capacity-building plan, supported by the TA, would allow for effective utilization of a capacity-building sector grant provided under the new Compact.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The expected impact of the TA was to assist the Government in realizing its vision of economic self-sufficiency and security by the end of the period of the amended Compact. The TA had two outcome components: (i) Compact transition support assisting the Government to achieve a smooth transition to the amended Compact and (ii) preparation of a long-term institutional capacity-building Road Map (the Road Map).</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>For the first component, Compact transition support, two individual consultants were engaged for 14 person-months while a firm of international consultants was mobilized for 22.3 person-months for the second component, the Road Map. All the international experts mobilized maintained excellent relationships with the national and four state government counterpart staff and senior leaders. Throughout the implementation, extensive participatory and consultative procedures were applied. According to the feedback provided by the President and Secretaries of the FSM Government, they felt they owned this TA, reflecting a high level of client satisfaction.</p> <p>At FSM's request, an additional element was added to this component in 2006 to provide a consultant for 42 person-days to support preparations for FSM's participation in the November 2006 Consultative Group Meeting (CGM). This consultant engaged well with national and state representatives and his work was accepted by the governments as reflecting FSM views.</p> <p>Fielding of the consultants was made in a timely manner. The individual consultants' performances on the first component were satisfactory with terms of reference being met. The second component consultants' overall performances were considered highly satisfactory with the consultants contributing more than their original terms of reference. The inputs (consultant services) provided an economical means to achieve the outputs, and inputs were used productively in achieving the outputs. The inception mission was fielded in April 2004 for the first component and in February 2005 for the second component. ADB and US Department of Interior (USDOI) closely coordinated throughout the implementation of the TA and USDOI provided full support to the progress and the outcome of the TA. ADB also provided appropriate oversight of the TA with review missions in October 2004 and March 2005.</p> <p>The EA also demonstrated strong support of this TA through its timely inputs in the form of high quality counterpart staff, provision for counterpart staff travel, office accommodation, communications, and office supplies and equipment.</p> <p>Final reports were submitted in November 2004 and in February 2006 for the first and the second components, respectively. The final report for the additional element of component (i) was submitted in November 2006. Performance of ADB and the Executing Agency was timely, effective and satisfactory.</p>			

Evaluation of Outputs and Achievement of Outcome

Under the Compact Transition Support, the final report recommended the introduction of value added tax (VAT) and other tax reforms to help the Government raise additional revenue to address the financing gap. The Pacific Financial Technical Assistance Centre fully supported the proposed VAT. Prompted by the report, the Government established a Tax Reform Task Force under Presidential Order No. 27. This special task force was headed by the Vice President of FSM and participated in by representatives of the national and four state governments. It is mandated to articulate a more efficient national tax system and system of management that is conducive to private sector development and sustainable economic growth, as well as to enhance equity among FSM citizenry based on approach recommended by several TA missions including those of this TA. The element supporting preparations for the CGM proved timely as it enabled FSM to identify their priority assistance needs and actively participate in the CGM. The CGM provided an opportunity for FSM to specifically highlight the importance of tax reforms and the need for further donor assistance in its implementation.

Under the second component, the Road Map was prepared in a participatory and consultative manner and delivered in a timely manner. Public sector capacity building is identified as one of six strategic goals in chapter 4 (public sector management) of the Government's Strategic Development Plan (SDP) 2004–2023. The SDP and the amended Compact are closely interlinked, with SDP expected to guide the effective and efficient use of Compact funds to achieve the SDP's development goals. After completing the Road Map, the Government requested ADB to provide a further TA to support its implementation. Discussions were held with representatives of the Government and based on agreed understanding on the impact, outcome, outputs, implementation arrangements, costs, financing arrangements and terms of reference, TA 4789-FSM on Implementation of Public Sector Capacity Building Road Map was approved by ADB's Management on 16 May 2006 for \$600,000.

The TA was efficient in terms of cost and process in producing the reports which were the TA outputs. The TA was also considered effective in achieving the intended outcomes. For both components, there was a clear sign of client's buy-in and a firm commitment to implement the recommendations made under the TA project which reflected the quality of the outputs.

Overall Assessment and Rating

The objectives of the TA were fully met and therefore, the overall performance of the TA is rated as successful. The TA's outputs helped the Government in implementing two major strategic goals supporting long term self-sustainability of the economy. These goals are, firstly, additional revenue generation and in this respect implementation of the taxation reform recommended under the TA remains ongoing with the support of development partners. The second goal being addressed is public sector capacity building which is being supported by a further TA and national government has created a permanent position to enable coordination of capacity development activities in government. Throughout the implementation of this TA, the Government and the donor communities consistently demonstrated ownership, firm commitment and effective collaboration and support. The recommendations made under the TA have been followed up and the TA is therefore considered sustainable.

Major Lessons

Given the loose federal structure of FSM which grants financial and political autonomy to the four state governments, it is important to (a) ensure firm commitment and ownership from the state governments at the outset, (b) facilitate enhanced communication between the national and state governments, and (c) engage counterpart staff from the state governments throughout the implementation of the TA to secure buy-in and follow through of the TA outcome.

For the successful implementation of the recommendations made under the TA, it is also essential to collaborate with the national and four state governments' divisions of budget, treasury/finance, personnel, economic planning, as well as the USDOI Compact Management Board/Office under the FSM Government to ensure proper allocation of financial and human resources.

For strong ownership and buy-in of the TA outcome, it is important to select a team of consultants who can effectively apply the participatory and consultative approach all throughout the implementation.

To maximize the successful implementation of TA recommendations, the FSM national and state budgets need to be linked to the SDP. FSM's statistical database and system for evaluating outcomes and impacts also need to be strengthened and options for overcoming the shortage of qualified economists and statisticians need to be considered.

Recommendations and Follow-Up Actions

A new TA, TA 4789-FSM on Implementation of Public Sector Capacity Building Road Map was approved by the President on 16 May 2006 as a follow up for TA 4258-FSM. This TA, funded from TASF, will assist the Government in implementing the Road Map prepared under TA 4258. ADB should ensure effective implementation of the follow-up TA in order to achieve the objective of enhancing the capacity of the national and four state governments.