

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 3783-FSM: Economic Policy Reform and Capacity Building, Phase 1			Amount Approved: \$883,000	
			Revised Amount: N.A.	
Executing Agency: Department of Economic Affairs	Source of Funding: TASF		TA Amount Undisbursed \$125,016.50	TA Amount Utilized \$757,983.50
Date			Completion Date	
Approval	Signing	Fielding of Consultants	Original	Actual
29 November 2001	30 January 2002	15 April 2002	31 March 2003	19 March 2004
			Account Closing Date	
			Original	Actual
			31 March 2003	31 October 2005
Description				
<p>In 2001, the Government of the Federated States of Micronesia (FSM) was undertaking far-reaching structural adjustment policies and national reform programs to adjust to reduced external funding after the renewal of the Compact of Free Association (Compact) between FSM and the United States (US). The Government requested the Asian Development Bank (ADB) for technical assistance (TA) to support these efforts during the 2-year transition period. An ADB fact-finding mission visited FSM in July 2001 to formulate the TA.</p> <p>Since 1995, ADB had provided FSM with TAs 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, and TA 3024-FSM: Economic Policy Reform and Management, worth \$3.345 million and approved on 2 June 1998). The focus of TA 3783-FSM was toward more local capacity building, particularly at the state level.</p> <p>Objectives and Scope</p> <p>The primary emphasis of the TA was to strengthen and develop the institutional capacity for economic policy making required during the transitional phase of the Compact arrangements. Compared with the earlier TAs, this TA would play a greater role in providing economic policy advice and public sector management to the state governments, in particular to help plan reduced levels in the Compact provisions. The extent of economic policy advice from external consultants would be gradually reduced and would eventually be eliminated as local counterparts take on increased responsibilities.</p> <p>The scope of the TA covered (i) improvement of the institutional capacity for economic management, (ii) state-level capacity building, (iii) macroeconomic policy advice, (iv) public sector management, (v) Compact advisory support, (vi) development of the post-Compact structural adjustment program, (vii) coordination and support for private sector development, and (viii) outreach and information. From a capacity building point of view, the continuation of provision of international consultants since 1995 was not a relevant approach for capacity building, as it had been observed that the consultant team was essentially running the economic policy of the country. On the other hand, the TA's initial intention to change the focus of ADB's assistance toward local capacity building in economic policy management should be positively recognized.</p> <p>Evaluation of Inputs</p> <p>The consultants under the TA were grouped into two categories, the core team and resident advisors. Out of the total 35.5 person-months (PM) of consulting services, 20.5 PMs were provided to the core team (8.75 PM for the macroeconomist/team leader, 7.25 PM for the resident advisor/macroeconomist, and 4.5 PMs for the public sector management advisor). On the other hand, 15 PM were provided to two state-level resident financial advisors/economic specialists (one for Pohnpei and Kosrae states and another for Chuuk and Yap states).</p> <p>The timing of fielding the state-level resident financial/economic specialists was delayed and could not overlap with the core team. Therefore, the synergy of the two groups could not be realized. One of the reasons for the delay in TA completion was the request from the Government to extend the term of engagement of the core consultant team.</p> <p>Evaluation of Outputs</p> <p>The TA provided timely economic policy advice. The core team prepared technical notes comparing second stage Compact II proposals for FSM and the US based on an economic and financial model. The team worked with the Pacific Financial Technical Assistance Centre (PFTAC) to establish a Tax Symposium Convening Committee, which involved national state governments in discussing tax reform issues for the sustainable fiscal management of the country. The TA also supported in the conduct of meetings of the Government's Economic Policy Implementation Council (EPIC). Hands-on support to the state-level departments of finance was provided in the areas of accounting and financial management.</p> <p>Over the series of ADB TAs for economic management and policy advisory since 1995, several local economists were provided with on-the-job training. Under this TA, on-the-job training was also provided to mainly a few local economists.</p>				

They did some economic analyses and presentations to government officials. At the end of the TA, however, all local counterpart economists had left the Executing Agency, the Department of Economic Affairs, and no one was left to carry out the economic work for the Government. Therefore, there is a problem with the sustainability of this modality of capacity building efforts.

The TA's support to public sector management including personnel management of the Department of Finance and Administration was relatively limited. The TA's output on information dissemination was not done rigorously as the web site was not regularly updated.

Overall Assessment and Rating

The overall performance of the TA is considered as partially successful.

In general, the TA was able to provide a number of valuable policy advice to the Government concerned with fiscal and economic challenges relative to FSM's transition to the new Compact. Such policy advice was appreciated by the Government. However, the TA could have done more to produce meaningful impacts in the areas of information dissemination and public sector management.

Capacity building is another area for careful assessment under the TA. The TA consultants provided on-the-job training to a few local counterpart economists. However, at the end of the TA, no local counterpart staff stayed in the Department of Economic Affairs, and the Government continued to rely on expatriate consultants for the economic management work. In this respect, there is a problem with regard to the sustainability and value-for-money for the capacity building under the TA (or a series of TAs that ADB provided). Due to the long-term continuous presence of expatriate consultants under the series of TAs on economic policy and management, the Government became dependent on the consultants.

Major Lessons Learned

FSM's administrative capacity is considered weak, and therefore, the long-term approach is essential to help the country to strengthen its capacity. However, the long-term presence of expatriate consultants in the country may not be a good solution to build local capacity as local staff often depends on them. 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 have a clear exit plan of long-term consultants and to try to avoid as much as possible developing government dependence on them. Such risk of high dependency is considered high in FSM and other similar Pacific developing member countries. 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 to prepare a long-term capacity building road map for the FSM governments.

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