

ASIAN DEVELOPMENT BANK

TAR:FSM 32217

TECHNICAL ASSISTANCE

TO THE

FEDERATED STATES OF MICRONESIA

FOR

IMPROVING CAPACITY IN PERFORMANCE-BASED PUBLIC

FINANCE MANAGEMENT IMPLEMENTATION

April 2000

CURRENCY EQUIVALENTS

The U.S. dollar is the currency in the Federated States of Micronesia.

ABBREVIATIONS

ADB	–	Asian Development Bank
BPS	–	budget preparation system
DFA	–	Department of Finance and Administration
EA	–	executing agency
EMPAT	–	Economic Management Policy Advisory Team
FMIS	--	Financial Management Information System
FSM	–	Federated States of Micronesia
PSMA	–	public service management adviser
PSRP	–	Public Sector Reform Program
TA	--	technical assistance
US	–	United States

NOTE

- (i) In this Report, "\$" refers to U.S. dollars.
- (ii) The fiscal year (FY) of the Government ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2000 begins on 1 October 1999 and ends on 30 September 2000.

I. INTRODUCTION

1. During the 1999 Country Programming Mission, the Government of the Federated States of Micronesia (FSM) requested further advisory technical assistance (TA) for the performance-based public finance management. The TA is included in the approved 2000 Country Assistance Program. An Asian Development Bank (ADB) Fact-Finding Mission visited the FSM on 31 January-5 February 2000 to determine the objectives, scope, implementation arrangements, budget, and detailed terms of reference for the TA.¹ The TA framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

2. In 1995, the Government initiated its policy reform program aimed at strengthening the economy. ADB, through its Public Sector Reform Program (PSRP) loan and associated TA, has been supporting these reforms. As part of the PSRP, the Government has undertaken steps to (i) reduce the size and operating costs of the civil service, (ii) increase domestic revenue generation, (iii) restructure government operations and State-owned enterprises (SOEs), (iv) mitigate the social and economic impact of such public expenditure adjustment, and (v) foster private sector development. The ADB-financed PSRP has succeeded in bringing about required fiscal adjustments in the FSM's national Government and in four state governments.² The FSM is continuing to downsize the government, restructure the economy, and pursue other public sector and economic reforms.

3. The introduction of performance-based budgeting is an important element of public sector reforms, which ADB has been supporting since 1996. In March 1996, as a first phase of a proposed six-year program, ADB approved TA 2538 to pilot the application of performance-based budgeting in the national Government of the FSM and in the state of Yap.³ The principal objective of the TA was to improve budget management in the two levels of government through (i) adoption of a budget system based on performance, (ii) training of staff, and (iii) orientation of all those involved in the budget process to the new approach. Later on, the government of Kosrae State was included in the TA. TA 2538 introduced the elements of performance-based budgeting in the national Government and in the state governments of Yap and Kosrae starting in FY 1998.

4. Other state governments expressed interest in the performance-based budgeting system. The national Government then requested a follow-on TA to maximize such benefits from the new budgeting approach as the establishment of policy linkages, embedding of related modern management concepts, enhanced financial control, and effective reporting systems and procedures.

5. TA 2983 was the second phase of an envisioned six-year TA program for institutional capacity building for effective and efficient public resource management.⁴ The TA was also to complement the formulation of a strategic economic management framework undertaken under

¹ The TA was first listed in *ADB Business Opportunities* in January 2000.

² An interdepartmental Task Group reviewed the Public Sector Reform Program (PSRP) in February 1999 and confirmed successful fiscal adjustments achieved under PSRP in the FSM. See Knapman, Bruce and Saldanha, Cedric, *Reforms in the Pacific*, 1999 Pacific Studies Series No. 17.

³ TA 2538-FSM: *Improved Budget Management*, for \$480,000, approved on 14 March 1996.

⁴ TA 2938-FSM: *Performance-based Public Resource Management*, for \$988,000, approved on 26 January 1998.

TA 3024-FSM: Economic Management Policy Advisory Team (EMPAT) II.⁵ TA 2983 was to improve the management of public resources through development and implementation of a performance-based public resource management system. The TA had four components: (i) public resource allocation, (ii) public resource management, (iii) public accountability, and (iv) capacity building.

6. The activities under TA 2983 have achieved the following: (i) performance-based budgeting was introduced in the national Government and in four state governments from FY2000; (ii) new budget procedures have been introduced; improvements in accounting procedures are suggested, but there is substantial need for more capacity building in this area; (iii) measures for improving performance monitoring were recommended, more substantial implementation is expected once a performance management system is fully in place; (iv) legislative and organizational changes have been proposed for implementation of enhanced audit arrangements; (v) a draft of a revised financial management legislation was included on the agenda of the FSM Congress, but is yet to be adopted; and (vi) to improve capacity, on-site training and international study tours were conducted. More detailed information on the work completed under the TA is in Appendix 2.

7. The FSM's extensive and complex system of government can be further rationalized with ADB assistance through the strategic application of performance budgeting. While TA 2538 and TA 2938 have put in place foundations for performance-based public finance management, a host of issues remain to be addressed.

8. While officials of the national and state governments are convinced of the merits of the newly adopted budgeting systems, implementation capacity for pursuing performance-based budget processes remains weak. This capacity needs strengthening, especially at the state level, to derive full benefits from performance-based public finance management.

9. More specifically, linkages between policy making and the budgeting process need to be enhanced. The national and state governments are finalizing a comprehensive development strategy through local participatory processes, which will enable the FSM economy to develop in a more sustainable way with less reliance on external assistance. Summit meetings on the national economy have provided the necessary policy framework.⁶ However, there is a need to introduce systematic linkages between these new policy initiatives in the budget framework.

10. Also, while the ultimate objective of introducing performance-based public finance management is to improve management, the FSM's new performance-based budgeting system is currently being used mainly for budgeting purposes, rather than as a management tool. On-the-job training is needed to train top and middle-level public sector managers in using the new budget framework as an effective management tool.

11. Another area that warrants improvement is the definition and costing of outputs. A review of the FY2000 budget conducted in late 1999 by the budget expert from the Pacific Financial Technical Assistance Center (PFTAC) indicated substantial variance in the level of detail and quality of the outputs defined by different departments. While a USDA training program is ongoing in this area, there is scope for further upgrading of skills. Further training is

⁵ TA 3024-FSM: *Economic Policy Reform and Management*, for \$2,877,000, approved on 12 May 1998.

⁶ Kosrae State held its state economic summit in August 1999. The new Pohnpei government inaugurated in January 2000 will determine its plan for an economic summit.

needed for costing outputs and refining them, especially for the state governments. Thus, the output indicators formulated for the FY2000 and FY2001 budgets need to be reviewed.

12. In the deliberations on the FY2000 budget in the National Congress, the new budgeting approach was extensively discussed. There is a need to strengthen advocacy of the new performance-based public finance management among the legislators on both the national and state levels.

13. The budget preparation system (BPS), which was introduced under TA 2538, was upgraded under TA 2983. More specifically, the BPS now includes facilities such as (i) aggregate branch and government-wide summaries, (ii) networking capability, (iii) personnel listing options, (iv) updated budget summary layout, and (v) ability to remotely load budget data. However, an impediment to extracting full benefits from performance-based budgeting is the fact that BPS is not integrated with the financial management information system (FMIS) in most of the states and the national Government. Several possible ways to deal with this issue can be pursued, taking into account the latest technological developments, best practices, and cost implications.

14. The Government is entering into negotiations for the next possible economic provisions of the Compact Agreement with the Government of the United States (US). The renegotiation of the current agreement is likely to lead to a further decline in government revenues and contraction of the economy. Without speculating on the specific final outcome of the negotiations, the disbursement of funds under the next agreement is likely to be more performance-oriented. Whatever the result, the FSM will have to stay the course of the reforms aimed at improving the performance of the public sector. In this environment, it will be extremely important to continue consolidation of the performance-based management of public finance on the state and national levels.

III. THE TECHNICAL ASSISTANCE

A. Objective

15. The TA aims to assist the governments of the FSM in strengthening the implementation of the performance-based public finance management and putting it on a self-sustainable basis. The TA will strive to build upon and achieve an acceptable level of support and self-sustainability for the performance-based budgeting system now in its third year of implementation at the national Government and in each of the four state governments.

B. Scope

16. The TA will finance the provision of consulting services and training activities. It will comprise the following components aimed at strengthening the capacity, especially at the state level, to derive full benefits from performance-based public finance management:

- (i) assess the progress of introduction of performance-based budgeting in the national and state governments;
- (ii) improve the linkages between policy making and the budgeting process, introduce systematic linkages between new policy initiatives into the budget framework, and train relevant officials in implementation;

- (iii) train top and middle-level public sector managers in using the new budget framework as an effective management tool;
- (iv) review the output indicators formulated for the FY2000 and FY2001 budgets; assist in refining definitions and costing of outputs, especially for the state governments; and provide training in costing of the outputs;
- (v) strengthen advocacy of the new performance-based public finance management among the legislators at the national and state levels; and
- (vi) assist in further upgrading of the BPS and improving linkages with other elements of FMIS, and train budget officers in using the BPS to enable them to handle it independently from further consulting inputs; explore the most efficient ways to establish an integrated management information system, taking into consideration the latest technological developments and cost issues.

17. The focus of the TA activities will be on the transfer of knowledge to relevant local staff, to enable them to handle on their own all crucial aspects related to performance-based public finance management. The national Government made more progress than the state governments in implementing performance-based budgeting. Therefore, most of the time is expected to be spent on on-the-job training and seminars for state-level officials. The proposed time for the national and state governments is 20:80.

C. Cost Estimates and Financing Plan

18. The TA is estimated to cost \$625,000 equivalent, including foreign exchange costs of \$463,000 and \$162,000 equivalent in local currency costs. The Government has requested ADB to finance \$500,000 equivalent covering the entire foreign exchange cost and \$37,000 equivalent of the local currency cost. The Government will contribute \$125,000 equivalent in kind for space, counterpart staff, local transportation, interstate travel of seminar participants, and other services. The amount of \$500,000 equivalent will be financed by ADB on a grant basis from the ADB-funded TA Program. The detailed cost estimates are in Appendix 3.

D. Implementation Arrangements

19. The Department of Finance and Administration (DFA) will be the Executing Agency (EA). The Budget Office director of the national Government will be in charge of TA implementation and everyday supervision of the consultants. Experience in the implementation of TA 2938⁷ indicates that, to ensure proper cooperation and coordination of EMPAT II and the TA consultant activities, the Steering Committee, which oversees the activities of the EMPAT II, will also oversee the activities under this TA. The Steering Committee consists of the secretaries of Economic Affairs, Finance and Administration, and Foreign Affairs. In addition, the TA will work in close cooperation with EMPAT's public service management adviser (PSMA). The PSMA will continue to assist DFA in the organization of this TA and coordination with each of the five governments, as well as other ongoing efforts⁸ supporting performance budgeting and management.

⁷ Knapman and Saldanha, 1999. *Reforms in the Pacific*, page 68.

⁸ For example, PSMA has been working with national and state governments in budget preparation system since early 1999; Australian Agency for International Development is considering further support to Chuuk State in

20. A team of international consultants to be engaged through an international consulting firm will provide approximately 13 person-months (in parenthesis) of consulting services: (i) performance management specialist/team leader (5), (ii) public finance management expert (5), and (iii) management information specialist (3). The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants*. The TA includes funds for office equipment, which will be procured by the consultants in accordance with ADB's *Guidelines for Procurement*. The consultants will closely collaborate with the ADB-financed EMPAT II and any other ongoing Bank-financed and other externally-assisted projects related to reforms of public enterprises, to achieve maximum utilization of resources and avoid duplication of efforts. The consultants will be responsible for the conduct of training workshops, as defined under the terms of reference (Appendix 4).

21. The TA will be implemented over a period of six months, from August 2000 to the end of January 2001. The consultants will prepare an inception report within one month of the start of TA implementation. An inception meeting, if necessary, will be held. An interim report will be submitted within 3 months from the commencement of consulting services. The draft final report will be submitted one month before the end of consulting services for comments by DFA and ADB. The recommendations in the draft final report will be discussed at a tripartite meeting. The final report, incorporating the comments of the Government and ADB, will be submitted within a month of the tripartite meeting.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Federated States of Micronesia in an amount not exceeding the equivalent of \$500,000 for the purpose of Improving Capacity in Performance-Based Public Finance Management Implementation, and hereby reports such action to the Board.

financial management training; United States Department of Agriculture is providing formal performance budgeting & management training to all governments during the first quarter of calendar year 2000; ADB is developing two program loans that will cooperate with the efforts of this TA in several sectors.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Targets/Measurable Indicators	Project Monitoring Mechanism	Risks/Assumptions
A. Goal <ul style="list-style-type: none"> Improved management of public resources, through more transparent and accountable public sector operations 	<ul style="list-style-type: none"> Improved budget balance (reduced budget deficits), prioritization of budget spending, improved efficiency of public services delivery 	<ul style="list-style-type: none"> Policy documents, budget documents, minutes of budget review meetings, and legislative debates, country economic reports 	<ul style="list-style-type: none"> Continued support for public sector reforms, involvement of legislative branch in the reform process
B. Objective/Purpose <ul style="list-style-type: none"> Assist Governments in strengthening implementation of the performance-based public finance management and put it on sustainable basis 	<ul style="list-style-type: none"> Demonstrated ability of the national and state governments to sustain implementation of performance-based budgeting (2001 budget documents in performance format) 	<ul style="list-style-type: none"> Consultants' reports, budget documents in performance format, feedback from the Government 	<ul style="list-style-type: none"> Government is committed to supporting the performance-based budgeting framework; relevant staff are thoroughly trained in the new concepts.
C. Outputs <ul style="list-style-type: none"> Progress of introduction of performance-based budgeting is assessed. Linkages between policy making and budgeting process, are improved. New budget framework is used as an effective management tool. 	<ul style="list-style-type: none"> 'Before and after' analysis of the effectiveness of public resource management is carried out. Budget submissions show the clear linkage between policy framework and allocation of budget funding. Monitoring system in place and used for mgmt. purposes by January 2001 	<ul style="list-style-type: none"> Consultants' report Relevant budget documents demonstrating linkages between policy framework and budget allocations Copy of relevant performance management reports 	<ul style="list-style-type: none"> Willingness of relevant officials to share their views on the subject Close coordination between Department of Economic Affairs and Department of Finance and Administration Appropriate system of incentives is put in place.

(Reference in text: page 1, para. 1)

Design Summary	Targets/Measurable Indicators	Project Monitoring Mechanism	Risks/Assumptions
<ul style="list-style-type: none"> Definitions and costing of outputs, especially for the state governments, are refined, and training for costing of the outputs is provided. Advocacy of the new performance-based public finance management among the legislators is strengthened. The budget preparation system (BPS) is further upgraded and linkages with other elements of management information system are improved. 	<ul style="list-style-type: none"> Definition and costing of outputs is refined. Performance-based budgets are approved by the legislative branch for FY2001 before the start of the fiscal year. Demonstrated ability of new BPS to meet requirements outlined in the terms of reference. 	<ul style="list-style-type: none"> Consultants' report, budget documents Minutes of the relevant meetings, approved budgets, consultants' reports Upgraded BPS installed in the budget offices, users manual 	<ul style="list-style-type: none"> Sufficient training is provided to budget officers and other relevant officials. Ability of executive branch to explain new budget management concepts and willingness of legislative branch to embrace the new concepts Agreement is reached on the systems to be used.
D. Activities <ul style="list-style-type: none"> Consulting Services by (i) performance management specialist/team leader; (ii) public finance management specialist; and (iii) management information specialist Training in the areas identified in C 	<ul style="list-style-type: none"> 13 person-months of international consulting services A number of training courses and officials completed the training, training manuals. 	<ul style="list-style-type: none"> Consultants' reports Training evaluation reports 	<ul style="list-style-type: none"> Successful recruitment and fielding of qualified consultants, and provision of counterpart staff by national and state governments Participation by relevant officials

Design Summary	Targets/Measurable Indicators	Project Monitoring Mechanism	Risks/Assumptions
<ul style="list-style-type: none"> • Coordination with Economic Management Policy Advisory Team (EMPAT) 	<ul style="list-style-type: none"> • Regular meetings between EMPAT and the technical assistance team 	<ul style="list-style-type: none"> • Feedback from the Executing Agency (EA) 	<ul style="list-style-type: none"> • EMPAT's public service management adviser (PSMA) works with the technical assistance (TA) consultants.

TA 2983-FSM: PERFORMANCE-BASED PUBLIC RESOURCE MANAGEMENT

Performance indicators were set for the project. The performance indicators cover the following:

Performance Indicators	Comments
1. Outputs specified for all departments for each government (The national and four state governments)	Complete, with further enhancement expected in future years
2. Indicators defined for all departments for all governments to measure outputs	Completed as part of output specifications
3. Performance monitoring procedures developed and applied	Procedures developed, to be applied from commencement of FY2000
4. Advocacy for output bills to be passed by all 5 legislatures	Advocacy completed, specified bills required in only 1 case
5. Output budgets are submitted to all 5 legislatures	Output budgets submitted by statutory deadline in all 5 governments
6. Output budgets in use for all majority (more than half) of each governments' departments	Output budgets in use in all departments in all governments
7. Secretaries formal performance obligations in use in all 5 governments	Performance obligations to apply from FY2000
8. Adoption of new accounting policies by finance departments of each state and national government	General policies agreed upon, transitional arrangement required
9. Adoption of improved audit arrangements	Progressively being implemented
10. Revised legislation on finance and fiscal management matters	Legislation drafted, presented to current sitting of national Congress. State Governments to implement
11. Adoption of public enterprise monitoring framework	Framework agreed upon to be applied as appropriate
12. Advice on suitability of accounting systems	Complete

COST ESTIMATES AND FINANCING PLAN
(\$ '000)

Item	Foreign Exchange	Local Currency	Total Cost
A. ADB Financing¹			
1. Consultants			
a. Remuneration and Per Diem	358	-	358
b. International and Local Travel	12	12	24
c. Reports and Communications	15	-	15
2. Equipment	20	-	20
3. Training, Seminars, and Conferences	-	20	20
4. Contingencies	58	5	63
Subtotal (A)	463	37	500
B. Government Financing			
1. Office Accommodation and Local Transport	-	15	15
2. Counterpart Staff	-	60	60
3. Training Facilities	-	20	20
4. Interstate Travel for Training Participants	-	30	30
Subtotal (B)	-	125	125
Total	463	165	625

¹ Financed from the ADB-funded TA Program.
Source: Staff estimates.

TERMS OF REFERENCE FOR CONSULTANTS

A. Scope and Work Program

1. The principal purpose of the technical assistance (TA) is to improve the systems and procedures for proper management of public resources. The TA will strive to achieve an acceptable level of support and self-sustainability for the performance-based budgeting system now in its third year of implementation at the national Government and in each of the four state governments of the Federated States of Micronesia (FSM).

2. The TA will field and equip a team of three specialists (person-months in parentheses): (i) a performance budgeting specialist/trainer/team leader (5), (ii) a performance management specialist/trainer (5), and (iii) management information system (MIS) specialist (3). To facilitate the successful implementation of the TA, each of the five FSM governments will (i) designate one or more individuals as principal counterpart to the TA, and (ii) make sufficient office and training facilities available to the TA for its duration, prior to the commencement of the TA activities. All consultants will commence work simultaneously.

3. The TA will build on the steps taken to date to implement a performance budgeting and management system in the FSM by working in close cooperation with the public service management adviser (PSMA) on the Economic Management Policy Advisory Team (EMPAT). The PSMA will (continue to) assist the Department of Finance and Administration in the organization and coordination of this TA with each of the five governments, and perform other efforts under way¹ supporting aspects of performance budgeting and management.

B. Specific Terms of Reference

1. Performance Management Systems Specialist/Team Leader (5 person-months)

4. The specialist should combine a thorough understanding and knowledge of public sector performance-based budgeting and management concepts and practices, with experience and demonstrated capability to design and conduct related training, offer technical advice, and give on-site operational support to targeted staff and departments in the executive and legislative branches of the FSM's five governments. During a period² commencing no later than September 2000 and concluded by the end of January 2001, this specialist will work with the performance budgeting system specialist and the designated FSM counterparts by:

- (i) assessing the progress of introduction of performance-based budgeting in the national and state Governments;
- (ii) improving linkages between policy making and the budgeting process, introducing systematic linkages between new policy initiatives into the budget framework, and training relevant officials in implementation;

¹ For example, the PSMA has been working with national and state governments in budget preparation system since early 1999; Australian Agency for International Development is considering further support to Chuuk State in financial management training; United States Department of Agriculture is providing formal performance budgeting & management training to all government during the first quarter CY2000; the Asian Development Bank is developing two program loans that will cooperate with the efforts of this TA in several sectors.

² There is a period of 3-5 months of the annual budget planning and management cycle when stages of the FY2000, FY2001, and FY2002 budgets either overlap or follow in immediate sequence its predecessor: August-September is the end of FY2000, August-October is the review, legislative approval, and implementation of FY2001, and in November-December the formal preparation phase for the FY2002 budget commences.

- (iii) providing on-the-job training to top and middle-level public sector managers in using the new budget framework as an effective management tool, rather than just a new budgeting tool;
- (iv) strengthening advocacy of the new performance-based public finance management system among the legislators, on the national and particularly on the state level;
- (v) providing advisory services to the state and national governments regarding the implementation of the performance-based public finance management system;
- (vi) giving formal training to groups at the State level predominantly (80 percent) on performance budgeting;
- (vii) lending support to the national and state executive branch in its public advocacy efforts to gain full Congress support for performance-based budgeting and management; and
- (viii) spending a minimum of four weeks in each of the states and two weeks at the national government to broaden understanding and application of performance management concepts and systems throughout the FSM.

2. Public Finance Management Specialist (5 person-months)

5. The specialist should combine a thorough understanding and knowledge of public sector performance-based budgeting concepts and practices with demonstrated capability to design and conduct related training, offer technical advice, and give on-site operational support to targeted staff and departments in the executive and legislative branches of the FSM's five governments. The consultant will

- (i) work with the performance management system specialist/team leader and the designated FSM counterparts to provide a minimum of four work weeks on-site technical support in all phases of performance budgeting in each of the states, and two work weeks at the national Government;
- (ii) train key government staff and departments to increase their understanding and application of, as well as commitment to, performance budgeting concepts and systems. This should in turn increase the likelihood of performance budgeting and management achieving desirable levels of operational sustainability in the FSM well beyond the completion of this TA; and
- (iii) in coordination with the team leader, lend support to the national and state executive branch in its public advocacy efforts to gain full Congress support for performance-based budgeting and management.

3. Management Information System Specialist (3 person-months)

6. This position requires someone who is a budget software specialist and programmer, who has previously and successfully applied these skills in developing country contexts, preferably but not necessarily in one or more Pacific Island countries. The prospective consultant should be familiar with MS Access, Visual Basic programming, and the latest

software developments in the area of public sector management. During a period of three working months, the individual will be required to do at a minimum and in conjunction with the other consultants, the following:

- (i) thoroughly analyze the budget preparation system (BPS) currently operational (to varying degrees) in the national and four state governments, producing a succinct report highlighting its strengths, weaknesses, proposed modifications, and any possible implications, e.g. cost of operation, etc.;
- (ii) determine the degree to which the BPS software can be modified to enable the end-users to interact with the extant state and national financial management systems, thus performing important functions such as producing regular status reports on performance (outputs) and projected expenditures;
- (iii) upgrade the BPS so that it can be used for the crucial performance-budgeting step of costing outputs:
 - (a) The system should maintain a similar user interface with the existing software, and support networking and decentralized off-line data entry.
 - (b) The system should enable all outputs to be costed and enable allocation of inputs to outputs, including apportioning.
 - (c) The system should permit each output to be associated with a set of objectively verifiable indicator, which can be used as a monitoring device during budget implementation.
 - (d) The system should enable previous year's information available from downloads from the financial FMIS in the FSM governments to be appended to the system to allow comparative analysis at budget preparation time.
- (iv) prepare a user manual together with system documentation to enable the governments to modify the software as necessary in the future;
- (v) under the direction of the team leader, produce a brief but thorough performance budgeting and management manual accessible online; and
- (vi) train budget officers in using the upgraded BPS, to enable them to handle it independent of further consulting inputs.

C. Training Program

7. The team of consultants, together with qualified staff from the Executing Agency (EA), will design and conduct at least five seminars (one national and four states) under the direction of the team leader. The seminars will target a wide range of stakeholders involved in performance budgeting implementation, including, but not necessarily limited to, the legislative branch, national and state government budget offices, and relevant officials from the line departments. Special effort will be made to provide awareness and training to the legislative branch of the government on both the national and state levels. Consultants will design the curriculum, prepare case studies on relevant areas adapted to the FSM situation, provide

training materials, and field the faculty to conduct the seminars. The EA will be responsible for reproducing the training materials.

8. At the end of each run of the course, the consultants will evaluate the choice of participants, suggest ways for improving participants selection and the course design. The consultants' evaluation will be submitted to the ADB. Using a survey form designed by consultants and approved by ADB, the participants will be asked to evaluate the course in terms of the appropriateness of the curriculum, usefulness of the training materials, and effectiveness of the faculty. Suggestions for improving future courses will be requested. A summary of the evaluation of participants will be prepared by the EA and submitted to ADB.

D. Reporting Arrangement

9. The team leader will submit the following reports to the secretary of the DFA of the Government, relevant state officials, and ADB, according to the following format and schedule:

- (i) Inception Report. At the end of the first month of TA implementation, the team leader will submit a report on the deployment of the international consultants, domestic consultants, and counterpart staff, setting out the work program for each consultant and counterpart staff member. The report will also contain information on the proposed organization of seminars and on-the-job training, including the detailed curricula and timing of the courses.
- (ii) Interim Report. At the end of the third month of implementation, the team leader will submit an interim report that summarizes the progress of the TA.
- (iii) Draft Final Report. At the end of the sixth month of implementation, the team leader will submit the draft final report to the Government and ADB for their review. The recommendations in the draft final report will be discussed at a tripartite meeting to be held with the participation of the Government, consultants, and ADB.
- (iv) Final Report. A final report, incorporating the comments of ADB and discussions at the tripartite meeting, will be submitted to the Government and ADB within a month of the tripartite meeting.