

**ASIAN DEVELOPMENT BANK**

**TAR:FSM 36030**

**TECHNICAL ASSISTANCE**

**TO THE**

**FEDERATED STATES OF MICRONESIA**

**FOR THE**

**PREPARATION OF A COUNTRY ECONOMIC REPORT**

**December 2003**

## **CURRENCY EQUIVALENTS**

The United States dollar (\$) is the unit of currency in the Federates States of Micronesia.

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
DEA	–	Department of Economic Affairs
FSM	–	Federated States of Micronesia
FY	–	fiscal year
NGO	–	nongovernment organization
PIER	–	Pacific Islands Economic Report
SDP	–	strategic development plan
SUM	–	FSM economic summit
TA	–	technical assistance
US	–	United States of America

## **NOTES**

- (i) The fiscal year runs from October to September.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by G. Capannelli.
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## I. INTRODUCTION

1. A report on the Federated States of Micronesia (FSM) in the Pacific Islands Economic Report (PIER) series was published in March 1997.<sup>1</sup> Since then the country's economic outlook has significantly changed, particularly following the conclusion of the first 15-year phase—fiscal year (FY) 1986–FY2001—of the financial provisions of the Compact of Free Association (the Compact) between the United States (US) and the FSM, and the recent agreement reached on November 2003 on the next 20 years (FY2004–FY2023). While ensuring substantial transfers of funds and other forms of assistance from the US to the FSM,<sup>2</sup> the new agreement also suggests that similar financial provisions will not be extended to a third period after their expiration in 2023, imposing economic self-reliance on the FSM. Several Asian Development Bank (ADB) technical assistance (TA) projects have been improving the FSM's economic management and policy formulation capacity.<sup>3</sup> The 2003 FSM Country Strategy and Program Update includes a proposed TA to conduct in-depth economic analysis and provide policy advice to Government. A key TA output will be preparation of an economic report in the PIER series. Given the recent start of a new phase of the Compact, the timing for a new PIER couldn't be more appropriate. The FSM national Government and ADB reached an understanding on the TA goals, purpose, implementation agreements, costs, and financing arrangements during the Fact-Finding Mission fielded in March 2003.<sup>4</sup> The TA framework is in Appendix 1.

## II. ISSUES

2. In recent years the FSM has undergone significant political and economic change. After the national elections in March 2003, a new President took office in July 2003, and a new Cabinet was appointed shortly thereafter. In November, 2003 the US Congress approved an amended version of the Compact set forth in 1986 with the FSM. The amended Compact (Compact, Phase II) provides the terms for financial assistance from the US to the FSM for 20 years starting in FY2004, in the form of grants and contributions to a trust fund.<sup>5</sup> In the first year the total disbursement from the US is expected to reach \$92 million, of which \$76 million will be in grants, and \$16 million in trust fund contributions. From the fourth year onward, the Compact, Phase II incorporates an annual shift of \$800,000 from grants to the trust fund component.

3. The Compact, Phase II proposal includes new and enhanced accountability procedures. In particular, following the proposed new fiscal procedures, within 3 months after the agreement becomes effective, the FSM is required to prepare a strategic development plan (SDP) identifying the goals and a broad strategy to promote sustainable growth and achieve economic self-reliance. The proposal requires the SDP to serve as the main document against which a

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<sup>1</sup> ABD. 1997. *Federated States of Micronesia. 1996 Economic Report*. Manila.

<sup>2</sup> In FY2004, expected total financial disbursement from the US amounted to approximately 70% of FSM revenues.

<sup>3</sup> ADB. 1995. *Technical Assistance to the Federated States of Micronesia for Policy Advisory Team for Economic Management*. Manila (TA 2294-FSM); ADB. 1997. *Technical Assistance to the Federated States of Micronesia for expansion of Economic Management and Policy Advisory Team*. Manila (TA2294-FSM-supplementary; rating; satisfactory); ADB. 1998. *Technical Assistance to the Federated States of Micronesia for Economic Policy Reform and Management*. Manila (TA 3024-FSM; rating, satisfactory); ADB. 2001. *Technical Assistance to the Federated States of Micronesia for Economic Policy Reform and Capacity Building*. Manila (TA 3783-FSM; rating, satisfactory).

<sup>4</sup> The proposed TA was first listed in the *ADB Business Opportunities* (Internet edition) on 6 March 2003.

<sup>5</sup> Grants are meant to assist in education, health care, private sector development, environment, capacity building, and public infrastructure. The trust fund is supposed to remain untouched during Compact, Phase II, after which the fund is expected to yield an annual income sufficient to replace the US contribution to the FSM budget.

US-FSM Joint Economic Management Committee will be asked to approve Compact, Phase II annual budget allocations.<sup>6</sup>

4. To prepare for the SDP, and following the practice of the last two appointed administrations, the Government is planning to organize the third FSM economic summit (SUM) in early 2004.<sup>7</sup> It aims to increase awareness of, and prepare the country for, Compact, Phase II, and create an important forum for discussion among key figures in the state and national government agencies, as well as relevant stakeholders. The SUM is supposed to discuss social and economic policies and provide direction for the medium-term economic strategy. ADB is helping the FSM organize the SUM and prepare the SDP under a small-scale TA.<sup>8</sup>

5. Compact, Phase II will impose a substantial change in the FSM's approach to economic management and policy formulation. While the country remains highly vulnerable and dependent on external assistance, the shift from external sources of income to trust fund-generated revenues represents a fundamental move to increased economic independence, self-reliance, and self-determination. Economic and financial management needs to formulate a strategy to achieve economic self-reliance and to reassess the role of existing social and economic institutions, and consider the possibility of creating new agencies that can respond to future challenges.

6. Economic behavior in the FSM is shaped by a number of social and economic institutions whose structure, functions, and significance have been changing over the years. The family and church, for example, largely determine the form of social interaction and expectations among economic actors. The geographic condition of small islands and their limited land and population, and a tribal society based on an extended family structure have induced forms of land tenure and succession that may have restricted private sector investment. Traditionally important economic factors such as human resource development, entrepreneurship, consumption and investment patterns, and the supply of social services are largely affected by Compact provisions, local institutions, and the government development strategy. Financial sector development, increasing poverty, and environmental concerns are also posing new challenges to social and economic development.

7. In summary, a comprehensive report on the FSM should be prepared now. The country is at the crossroads and needs to be guided forward. Compact, Phase II will place new and significant demands on limited government capacities. The SDP will identify strategic directions, but follow-up work will be needed to define the supportive policy frameworks and reforms in key sectors. The SUM will also provide valuable feedback from stakeholders regarding medium-term priorities. As a follow-up of the 1997 PIER, the proposed report can help relate these requirements and provide coherent advice on policy actions and reforms at macroeconomic and sectoral levels.

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<sup>6</sup> The Department of Economic Affairs of the FSM national Government is responsible for coordinating SDP preparation.

<sup>7</sup> The first SUM was organized in 1996, and the second in 1999, both coinciding with the start of a new political administration and election of a new President. ADB has provided support and assistance to both summits.

<sup>8</sup> ADB. 2003. *Technical Assistance to the Federated States of Micronesia for a National Strategic Development Plan*. Manila (TA-4171-FSM).

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

8. The goal of this TA is to help the Government and others understand the economic implications of the Compact, Phase II, and to prepare for the likely termination of Compact assistance in 2024. To improve understanding of the FSM economy and its management, and to recommend policies to achieve economic self-reliance, an economic report on the FSM will be prepared under this TA, as part of the ADB PIER series. The report will analyze past trends, the current situation, and future perspectives of the country's economic development process. Following an approach similar to the one adopted in the 1996 PIER, which focused on human resource development, the new report could include a general overview of the economy, deepening the analysis of the effect of the Compact on the country's economic structure and behavior of economic actors. The PIER could also discuss the role of local institutions in economic development, as well as selected emerging economic issues. These key issues will be identified through dialogue with Government and other stakeholders, especially during the SUM, also in consideration of existing economic material and analysis prepared by the FSM administration and external funding agencies. While the report will discuss the progress made with human resource development since the 1997 PIER, the focus of this report will be on institutions, Compact-related analysis, and emerging economic issues, which were chosen for their relevance to economic performance. A major contribution of the report is expected to be provision of policy recommendations and advice to strengthen economic self-reliance and enable the creation of an environment to foster investment and private sector development. The PIER will not only provide a thorough analysis of development trends for the economy, but also produce an outlook of the next two decades linked to Compact, Phase II, with a medium-term focus (FY2005–FY2009). Considering the timing of publication and the prominence of the Compact-related analysis, the proposed title of the PIER is "Beyond Compact. FSM Economic Report 2005."

9. The detailed content of the report is suggested to be as follows<sup>9</sup>:

- (i) **Introduction and executive summary.** This section will highlight the study's main findings.
- (ii) **Section I (history and institutions).** It will provide a historical background and comprehensive analysis of traditional and modern institutions, focused on the way they affect the economic decision-making process of local stakeholders, and a governance analysis of major economic institutions.
- (iii) **Section II (economic development beyond the Compact).** It will be a detailed study of the impact on the economy of the Compact's first phase and implications of the new 20-year phase, including the identification of development trends and possible ways to achieve economic self-reliance. This section will review the development process since independence, critically analyze economic policy and the reform agenda, discuss likely challenges after Compact, Phase II, and propose a medium-term economic strategy to increase self-reliance.
- (iv) **Section III (emerging economic issues).** Increasing poverty, environmental concerns, and regulation of foreign direct investment are among the emerging

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<sup>9</sup> The proposed outline of the PIER is presented in Appendix 2.

economic issues for the FSM. Other main topics for possible inclusion in this section are human resource development, functioning of the financial sector, and private sector development in one major sector. The choice of the issues to be included will be made in consultation with Government after the conclusion of the SUM.

- (v) **Conclusions and recommendations.** This section will provide policy advice for the country's medium-term economic development.

10. As the TA purpose is to help the country improve economic management and policy formulation by preparing an economic report, an intrinsic aim of the project is to foster capacity building of individuals and institutions and to fully reflect local priorities and concerns in the policy advice provided by the PIER. Accordingly, a summary of the main topics and preliminary recommendations will be presented and discussed in various seminars organized in collaboration with the national and state governments and possibly with other institutions such as the FSM Development Bank and similar agencies.

## **B. Methodology and Key Activities**

11. The PIER will be prepared on the basis of rigorous analysis and a sound methodological approach, while reflecting local conditions, priorities, and concerns. The PIER team will consist of international and local consultants under an international team leader with overall responsibility to complete the report according to required quality standards and timing. The work of the local consultants will be organized through a local coordinator, who will liaise with the team leader. The PIER is expected to serve as a user-friendly reference for economic analysis and policy formulation. The capacity-building process is expected to mainly benefit staff of the national Government's Department of Economic Affairs (DEA) and local individuals, who will assist the team of consultants and PIER preparation.

12. The report will be prepared taking into full consideration the previous and current work of ADB and other local and international agencies on related issues.<sup>10</sup> Discussion and interviews with local individuals will also provide first-hand information and material for the report. Of particular reference will be the SUM deliberations as well as the content of the SDP, which is expected to be ready by end-December 2003, as part of the requirements for commencing Compact, Phase II. Local and international consultants will refer to the SDP and the outcome of the SUM in formulating their analysis and providing recommendations. The PIER content will be discussed with the Government and other local stakeholders at appropriate intervals during report preparation. The draft report will be presented to Government before finalization. The report and its highlights will be printed using ADB facilities.

13. The seminars are expected to be convened in each of the four federal states. Participants will include policymakers, civil-society representatives, and students. As background material for these seminars, brochures summarizing the PIER content and preliminary recommendations will be prepared and distributed. The seminars will be held, ideally, on or about September 2004, after the first draft of the PIER is completed. The outcome of the seminars is to be used to revise and finalize the report.

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<sup>10</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Federated States of Micronesia for the Private Sector Development Program*. Manila. In particular, ADB is implementing a private sector development loan and TA projects to help prepare the SDP and define a road map to restructure the public sector. Links and coordination will be established between these activities and the PIER.

14. The involvement of a wide spectrum of local stakeholders in preparing the PIER will stimulate local interest in the report and facilitate its diffusion, once the report and its highlights are available in the final book version. The team leader and the local coordinator are expected to provide, in close consultation with Government, a detailed plan to disseminate the PIER among the local and international communities. The highlights of the report (around 20 pages), published with graphics and pictures, will be prepared and printed for public distribution.

### **C. Cost and Financing**

15. The total cost of the proposed TA is estimated at \$320,000. ADB will finance \$250,000. The Government will provide the balance of \$70,000 through in-kind contributions, local counterpart staff, and other TA-related activities. The TA will be financed on a grant basis by the ADB's TA funding program. The detailed cost estimate and financing plan are in Appendix 3.

### **D. Implementation Arrangements**

16. DEA will be the TA Executing Agency, with responsibility for monitoring and supervising the TA activities, providing qualified counterpart staff and administrative support to the consultants, organizing the seminars in the four states to disseminate the report, and ensuring follow-up of suggestions after TA completion.

17. Assuming that the SUM will take place in early 2004, the TA will start in April 2004 for around 9 months. A first complete draft of the report is expected to be ready by end-August 2004 and presented at seminars in the four states, a draft final report submitted for review by mid-October, and the final manuscript by mid-November. The report and its highlights are expected to be published in their final form and disseminated by end-2004. The TA will provide a total of 12–15 person-months of local and international consulting services. The team of consultants will include two international and three or more local experts in socioeconomic issues. One international consultant will serve as the team leader for the PIER, and one local consultant as local coordinator. The consultants will be recruited from an international firm, in accordance with the ADB's *Guidelines on the Use of Consultants*, using the quality and cost-based selection based on biodata technical proposal. The team leader will be responsible for submitting the inception, midterm, and final reports. Coordinated by the team leader, consultants will also suggest means to diffuse the PIER and disseminate its policy recommendations among interested agencies, groups, and the public. The outline terms of reference for the consultants are in Appendix 4.

## **IV. THE PRESIDENT'S DECISION**

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$250,000 on a grant basis to the Government of the Federated States of Micronesia for the Preparation of a Country Economic Report, and hereby reports this action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Goal</b> <ul style="list-style-type: none"> <li>• Help the Government and others understand the economic implications of the Compact, Phase II, and prepare for the likely termination of Compact assistance in 2024</li> </ul>	<ul style="list-style-type: none"> <li>• Midterm economic performance indicators</li> </ul>	<ul style="list-style-type: none"> <li>• National economic statistics</li> <li>• Poverty (or hardship) indicators</li> <li>• Household income and expenditure surveys</li> </ul>	<ul style="list-style-type: none"> <li>• External factors affecting economic growth</li> </ul>
<b>Purpose</b> <ul style="list-style-type: none"> <li>• Improve understanding of the economy and its management, and recommend policy formulation to help achieve economic self-reliance</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of medium-term economic policies to achieve economic self-reliance</li> <li>• Release of media reports and publications</li> <li>• Start of public debates in the country showing increased awareness of (i) the impact of the first phase of the Compact and expected outcome of Compact, Phase II; (ii) governance of local institutions; and (iii) the need to address the emerging economic issues discussed in the report</li> </ul>	<ul style="list-style-type: none"> <li>• Consultants' reports</li> <li>• Asian Development Bank (ADB) missions</li> <li>• Reports from other external funding agencies and nongovernment organizations (NGOs)</li> </ul>	<ul style="list-style-type: none"> <li>• Effective economic strategies and policies are adopted.</li> <li>• The Government is committed to diffuse the Pacific Island Economic Report (PIER) outcome</li> </ul>
<b>Outputs</b> <ul style="list-style-type: none"> <li>• A detailed economic report that analyzes past trends, current situation, and future perspectives regarding the economic development process, including but not limited to an overview of the economy, an analysis of the economic effects of the Compact, an analysis of the roles of</li> </ul>	<ul style="list-style-type: none"> <li>• First complete draft completed by end-August 2004</li> <li>• Final draft to be submitted for review by mid-October 2004</li> <li>• The final manuscript and report highlights ready for publication by mid-November 2004</li> <li>• Report and its highlights published in the ADB PIER series by end-December 2004</li> </ul>	<ul style="list-style-type: none"> <li>• Consultants' reports</li> <li>• ADB missions</li> <li>• Media coverage of the PIER content</li> </ul>	<ul style="list-style-type: none"> <li>• The Government is committed to collaborate on preparing the PIER.</li> <li>• Data and information are available and accessible.</li> <li>• Qualified local counterpart staff are available.</li> </ul>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>local institutions in economic development, and recommendations on ways to improve economic self-reliance and create an environment that fosters investment and private sector development</p> <ul style="list-style-type: none"> <li>• A brief publication presenting the highlights of the economic report</li> </ul>			
<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Coordination and motivation of the consultants' group by the team leader and local coordinator</li> <li>• Revision of the relevant work of ADB and other agencies</li> <li>• Research on local perceptions and attitudes through discussions and interviews</li> <li>• Assistance to Government in organizing seminars in the four states to discuss the issues of the Compact, Phase II, with participation from policymakers, students, civil-society representatives, and other stakeholders</li> <li>• Collection of data, statistics, and other material at the state and national level</li> <li>• Preparation of the draft report entitled "Beyond the Compact: FSM Economic Report"</li> </ul>	<ul style="list-style-type: none"> <li>• Organization and minutes of meetings among the team of consultants</li> <li>• Number of seminars organized and number and composition of participants to the seminars</li> <li>• Numbers of individuals and institutions interviewed</li> </ul>	<ul style="list-style-type: none"> <li>• Organization and minutes of meetings among the team of consultants</li> <li>• Media coverage of seminars</li> <li>• Consultants' and NGOs' reports</li> <li>• ADB missions</li> </ul>	<ul style="list-style-type: none"> <li>• Coordination among consultants is effective.</li> <li>• Qualified local consultants are available.</li> <li>• National and state governments are committed to organize seminars.</li> <li>• High-quality data and statistics are available.</li> </ul>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>2005," and its finalization for publication after formal review</p> <ul style="list-style-type: none"> <li>• Preparation of a plan to diffuse the PIER</li> </ul>	<ul style="list-style-type: none"> <li>• Plan prepared by end-November 2004</li> </ul>		
<p><b>Inputs</b></p> <p><b>ADB</b></p> <ul style="list-style-type: none"> <li>• Recruitment of the consultants' team (approximately 12 person-months total), including</li> </ul> <p>(i) two international consultants (6–7 person-months total) and</p> <p>(ii) three or more local consultants (6–8 person-months total)</p> <p><b>Government</b></p> <ul style="list-style-type: none"> <li>• Three local counterpart staff proficient in economic management and economic policy design and implementation</li> </ul>	<ul style="list-style-type: none"> <li>• One international consultant, to serve as team leader, expert in macroeconomics and Pacific economies 5–6 person-months)</li> <li>• One international consultant expert in institutions' role in economic development (1 person-month)</li> <li>• One local consultant, expert in Federated States of Micronesia (FSM) institutions (1 person-month)</li> <li>• One local consultant expert in Compact-related issues (1–2 person-months)</li> <li>• One or more local consultants expert in FSM current economic issues (1–2 person-months)</li> <li>• One of the above local consultants to serve as local coordinator (2–3 person-months)</li> </ul>	<ul style="list-style-type: none"> <li>• Consultants' reports</li> <li>• ADB missions</li> <li>• Government and executing agency feedback</li> </ul>	<ul style="list-style-type: none"> <li>• Consultants with relevant experience and distinct communication and coordination skills are hired.</li> </ul>

## **PIER STRUCTURE**

### **“THE FSM ECONOMY BEYOND COMPACT - 2004 REPORT”**

Table of Contents and indicative number of pages in ( ) - (approximately 200 pages)

#### **1. Introduction and Executive Summary (5)**

#### **SECTION I – HISTORY AND INSTITUTIONS (50)**

#### **2. Economic and Social History (5)**

- 2.1 – Early Times until 1986 Independence
- 2.2 – Creation of the FSM and its Economic Dimension

#### **3. Social Institutions and Their Relevance for Economic Decisions (25)**

- 3.1 – Family and Church
- 3.2 – Land and its Titles

#### **4. Governance Issues of Economic Institutions (20)**

- 4.1 – Overview
- 4.2 – Major Governance Issues

#### **SECTION II – ECONOMIC DEVELOPMENT BEYOND THE COMPACT (80)**

#### **5. FSM Economic Development 1986-2003: A Critical Assessment (20)**

- 5.1 – Two Phases of Compact’s Economic and Financial Provisions: A Comparison
- 5.2 – Compact, Phase I, in Historical Perspective
- 5.3 – Human Resource Development, and Reform of the Public Sector

#### **6. Economic Policy and the Reform Agenda (20)**

- 6.1 – Macroeconomic Policy and Fiscal Performance
- 6.2 – Public Sector Reform and Public Enterprises
- 6.3 – Tax and Trade Policy

#### **7. Medium-Term Development Perspectives (40)**

- 7.1 – Fiscal Policy and other Adjustments to Compact, Phase II
- 7.2 – Perspectives for Medium-Term Development
- 7.3 – Economic Self-Reliance and Long-Term Outlook

#### **SECTION III – EMERGING ECONOMIC ISSUES (45)**

#### **8. Major Economic Challenges for the FSM (15)**

- 8.1 – Overview
- 8.2 – Outlook

#### **9. Issue 1 (10)**

- 9.1 – Issue1

#### **10. Issue 2 (10)**

- 10.1 – Issue 2

#### **11. Issue 3 (10)**

- 11.1 – Issue 3

#### **12. Conclusions and Policy Recommendations (5)**

**- Appendixes, Statistical Tables, Methodological Notes (15)**

**COST ESTIMATES AND FINANCING PLAN**  
(\$ '000)

<b>Item</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	110	0	110
ii. Domestic Consultants	0	55	55
b. International and Local Travel	20	20	40
2. Seminars	0	15	15
3. Editing and Printing	12	0	12
4. Contingencies	18	0	18
<b>Subtotal (A)</b>	<b>160</b>	<b>90</b>	<b>250</b>
<b>B. Government Financing</b>			
1. Local Counterpart Staff	0	40	40
2. Seminars	0	15	15
3. Office Accommodation and Transport	0	8	8
4. Others	0	7	7
<b>Subtotal (B)</b>	<b>0</b>	<b>70</b>	<b>70</b>
<b>Total</b>	<b>160</b>	<b>160</b>	<b>320</b>

<sup>a</sup> Financed by the Asian Development Bank (ADB) technical assistance funding program.

Source: ADB estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Scope and Work Program

1. The TA will produce an economic report for the Federated States of Micronesia (FSM) in the Asian Development Bank (ADB) Pacific Island Economic Report (PIER) series to improve understanding of the FSM economy and its management, and to recommend policies to achieve economic self-reliance. The report will be a joint effort of international and local consultants in consultation with the national and state governments, other key stakeholders, and ADB.
2. An international firm will be engaged to recruit qualified consultants possessing specific expertise, communication skills, and proven teamwork ability. An international consultant will serve as team leader and respond directly to ADB. A local coordinator will help gather local consultants and organize local activities in close collaboration with the team leader, national and state governments, and ADB.
3. While ultimate responsibility for preparing the draft report and finalizing the manuscript is with the team leader, a team of international and local consultants will jointly prepare each section of the PIER, as proposed in Appendix 2. The consultants will be individually or jointly responsible for preparing the various chapters. The ADB will undertake the final editing and PIER publication.
4. The TA will provide 12–15 person-months of international and local consulting services over about 9 months starting April 2004, assuming that the third FSM economic summit will take place in early 2004.

### B. Specific Terms of Reference

1. **Team Leader**, Macroeconomist, Pacific Economies Expert (international consultant, 5–6 person-months)
5. The team leader will provide intellectual leadership and guidance to the consultancy team and see the project through to submission of a draft report and a publication-ready final manuscript. The expert should be an economist with at least 10 years of relevant working experience, particularly in macroeconomic and fiscal policy aspects of Pacific Island economies. Expertise in macroeconomic and fiscal policy advisory work on Pacific Island economies and familiarity with Compact-related issues would be a distinct advantage.
6. The expert will take the lead responsibility and coordinate with the Compact local expert and local economy expert for sections II and III of the report, as proposed in Appendix 2. The consultant will be also responsible for preparing the first chapter (introduction and executive summary) and the last (conclusions and policy recommendations) in coordination with the other consultants, who will provide individual contributions based on their respective parts covered in the report. The expert will also prepare the seminar brochure and the 20-page report highlights to facilitate dissemination of the PIER main findings and policy advice to a wide audience. The expert will also be responsible for liaising with ADB and submitting on time the inception, midterm, and final reports to ADB and the Government according to the following structure and time schedule:<sup>11</sup>

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<sup>11</sup> Each report will also include minutes of the consultants' team meetings.

- (i) **Inception report** (by May 2004), including bullet-point content of the first and last chapters, and, for each of the three sections of the report, the following parts:
  - (a) explanation of the section structure and content,
  - (b) methodology and main data used in the analysis,
  - (c) implementation program and schedule of interviews, and
  - (d) division of responsibility between international and local consultants.
- (ii) **Midterm report** (by end-August 2004), including
  - (a) complete draft report,
  - (b) schedule and structure of the seminars to be organized in the four states, and
  - (c) draft brochures to be distributed at the seminars, including script and pictures.
- (iii) **Draft final report and a draft report highlights** submitted for review by mid-October 2004.
- (iv) **Final report** (by mid-November 2004), including
  - (a) the final manuscript, in a format suitable for publication in the ADB PIER series,<sup>12</sup>
  - (b) summary of the seminars' outcome (participants, main conclusions, etc.), and
  - (c) report highlights and list of contacts for PIER distribution purposes.

## 2. **Institutions Specialist** (international, 1 person-month)

7. The specialist should have proven expertise in institutional analysis, including of social, political, economic, and traditional institutions in relation to economic development. The specialist may be an economist, political scientist, or other social scientist with at least 10 years relevant working experience and relevant publications. A long-standing and broad knowledge of Pacific Island economies and institutions would be a distinct advantage. This consultant will be jointly responsible with the local coordinator of section I of the report, as proposed in Appendix 2.

## 3. **Local Institutions Expert** (1 person-month)

8. The expert will be a local consultant with extensive experience in Micronesian studies and proven understanding of the FSM social, traditional, legal, political, and economic institutions. The expert may be a sociologist, historian, anthropologist, or other social scientist with at least 10 years of relevant working experience. Expertise in socioeconomic analysis and publications on FSM-related social and economic matters would be a distinct advantage. The consultant will be jointly responsible with the institution specialist for section I of the report, as proposed in Appendix 2.

## 4. **Local Economist, Compact Expert** (1–2 person-months)

9. The expert should possess a thorough knowledge of the FSM economy, particularly the economic aspects of the Compact of Free Association, at the national as well as at the state

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<sup>12</sup> The final manuscript will be about 200 pages, including the first and last chapters, sections 1 to 3, figures, tables, and appendixes.

levels, with the capacity to assess the impact of the Compact provisions on different FSM economic agents. The consultant should have at least 5 years relevant working experience. The expert will contribute to section II and/or section III of the report, as proposed in Appendix 2.

**5. Local Economist (1–2 person-months)**

10. The expert should possess a thorough knowledge of the FSM economy and at least 10 years' relevant working experience. The actual expertise of the consultant will be defined in accordance to the choice of the issues to be analyzed in Section III of the report. The consultant will contribute to section III of the report, as proposed in Appendix 2.

**6. Local Coordinator (2–3 person-months)**

11. The local coordinator will be chosen among one of the local consultants and serve as the focal point for other local consultants and the national and state governments. The consultant will also coordinate the seminar's organization in the four states, and other local activities. The consultant will closely collaborate with the team leader for the TA implementation.

**Table A4: Implementation Schedule**  
(2004, 9 months)

Activities	Interviews	Data and other material collection	Preparation of draft chapters	Preparation of complete draft	
Reports		Inception		Mid-Term	
Month	April	May	June	July	August
Activities	Seminars In 4 states	Inclusion of seminars' inputs in draft report	Preparation of draft chapters	Preparation of complete draft	
Reports	Final draft for revision	Final manuscript for publication	Final report		
Month	September	October	November	December	