

PACIFIC ISLANDS FORUM SECRETARIAT
Excelling together for the people of the Pacific

Forum Compact Peer Review Report **Federated States of Micronesia**

04 March 2013

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Cover Photo:

Nan Madol, often referred to as the Venice of the Pacific is an Ancient Stone City built on Coral Reefs, Pohnpei, FSM

Prepared by the FSM Peer Review Team with assistance of the Pacific Islands Forum Secretariat
Approved by the Government of FSM, in consultation with it's development partners.



Micronesian girls and women dancing in Yap State, FSM. The Yapese dance is called Churu'

Acknowledgements

At the invitation of the Government of the Federated States of Micronesia (FSM), a Peer Review of FSM's national development planning, budgeting, public financial and aid management systems and processes was undertaken in FSM from 12 to 26 November 2012. The Government of FSM invited representatives from three Forum Island Countries, Samoa (Ms Noumea Simi), Vanuatu (Mr Johnson Naviti), Marshall Islands (Mr Catalino Kijiner) and one development partner, UNDP (Dr Asif Chida) to make up their Peer Review Team. The FSM Peer Review Team was supported by personnel from the Pacific Islands Forum Secretariat.

The peer review would not have been possible without the efforts of a number of people and organisations to whom the peer review team would like to express their sincere gratitude:

- The Government of FSM for taking the initiative to undertake a peer review;
- H E the President of FSM, Governors of the States, Members of legislatures, senior staff of the National and State Governments, development partners, private sector and non-government organisations who shared their experiences, insights and ideas on how to strengthen policies and systems in FSM;
- Ms Evelyn Adolph, Director of the Office of Statistics, Budget, ODA and Compact (SBOC) and her staff for their logistical support and enthusiastic helpfulness in providing documents and information before and during the visit, and Mr Gillian Doone for accompanying team members to Chuuk and Yap; and
- The Governments of Samoa, Vanuatu and RMI and UNDP, for agreeing to release us to serve on this Peer Review Team.

All financial figures are in US dollars.



Left-Right: Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; Noumea Simi, Assistant CEO Aid Coordination Debt Management, Ministry of Finance, Samoa; Charmina Saili, Regional Planning Adviser, PIFS; Sancherina Salle, Chief Economist/Budget & Economic Management, SBOC, FSM; Evelyn Adolph, Director, SBOC, FSM; Lemsky Sigrali, Compact Sector Specialist, SBOC, FSM; Suzanna Lowe Gallen, Assistant Director, Compact Management, SBOC, FSM; Ben Mayes, ODA Specialist, SBOC, FSM; Portia Domonatani, Research Assistant, PIFS

Acronyms

FIC s	Forum Island Countries
FSM	Federated States of Micronesia
COM	Council of Ministers
JEMCO	Joint Economic Management Committee
LTFF	Long-Term Fiscal Framework
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organisations
PAA	Prioritised Action Agenda
PEFA	Public Expenditure and Financial Accountability Assessment
PFTAC	Pacific Financial Technical Assistance Center
PIANGO	Pacific Islands Association of Non Governmental Organisations
PIPSO	Pacific Islands Private Sector Organisation
PLAS	Planning Long Acting Short
PRIF	Pacific Regional Infrastructure Facility
PSD	Private Sector Development
SBOC	Office of Statistics, Budget and Economic Management, Overseas Development Assistance and Compact Management
SDP	Strategic Development Plan
SNLC	State National Leadership Council
SUNGO	Samoa Umbrella for Non-Governmental Organisations
VIANGO	Vanuatu Association for Non-Governmental Organisations



Primary School Children, Pohnpei State, FSM

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Message from His Excellency, the President of FSM

I wish to welcome you to the FSM Peer Review Report. Without the hard work of the Peer Review team, represented by Samoa, Vanuatu, Republic of the Marshall Islands, United Nations Development Program and the PIFS, this report would not have been possible, and so I thank them for sharing their knowledge, experiences and insights with us.

The Peer Review process facilitated by Pacific Islands Forum Secretariat has been a valuable and timely activity for the FSM.

With only ten years remaining of economic assistance under our Amended Compact of Free Association with the United States, this nation stands at a critical juncture: one road points toward continued economic dependency; the other toward greater self-reliance. Without question, the FSM aims for a future of economic self-reliance and prosperity. To focus our efforts on economic self-reliance and prosperity, my administration has established a 2023 Planning Committee to develop an action plan to address the economic and fiscal issues that lay ahead.

Our nation is not alone in this journey. Many of our peer States across the Pacific are charting similar paths and there is much to learn from one another, particularly the issue of effectively managing official development assistance while striving for greater self-reliance.

The Peer Review was undertaken shortly after FSM's first Development Partners Forum – an event that signaled our determination to take the leading role in shaping the nature of external support to this nation. The Peer Review supports this by addressing our capacity to guide external support through recommended courses of action in the areas of overseas development assistance, planning, budgeting and performance management, public financial management and private sector development. This report, combined with the complementary work of the 2023 Planning Committee, ongoing reforms, implementation of our ODA Policy, and continued support from the international community, creates a clear path to take us where we need to be by 2023.

Recommendations described herein are the product of discussions with State and National government leaders and the experiences of other Forum Island Countries. These recommendations lay a foundation for enhanced outcomes from development cooperation and domestic performance. As such, I urge stakeholders with an interest in the development of the FSM to align all efforts with these strategies.

With common strategies in place, our course is clear. Together with support from our regional peers and international development partners we can confidently embark on this road toward self-reliance and prosperity.

H.E. President Emanuel Mori
President of the Federated States of Micronesia

Message from the Secretary General of the Pacific Islands Forum Secretariat

The Federated States of Micronesia was the ninth Forum Island Country to volunteer to undertake a Peer Review under the Cairns Compact on Strengthening Development Coordination in the Pacific (Forum Compact). Based on the traditional Pacific Way of mutual assistance and co-operation, the Peer Reviews have become an essential part of sharing experiences within the region on the use and management of development resources and effective achievement of the Millennium Development Goals. I wish to thank H.E. President Mori for inviting the Governments of the Republic of the Marshall Islands, Samoa, Vanuatu, UNDP and the Pacific Islands Forum Secretariat to review FSM's systems and processes of national development planning, budgeting, public financial and aid management.

The FSM peer review was undertaken at a critical time in the country's development and the challenges consequent upon the gradual reduction and eventual phasing out by 2023 of US Compact assistance. Seeking views of other Forum Island Country's on possible ways forward indicates FSM's commitment to addressing this challenge. I would like to congratulate the Government for the successful completion of the inaugural FSM Partners Forum and a Public Expenditure and Financial Accountability Assessment (PEFA) in 2012. This is a sign that the processes for continuous improvement in the way resources are mobilised, utilised and accounted for are already underway in FSM.

Overall, the report notes the unique challenges in FSM given its context but it also points to existing practice and systems which the country can improve and draw together into an enhanced framework for effective resource use. In particular, the report emphasises that the private sector and NGOs in the FSM are national development assets and encourages both the national and State Governments to foster closer collaboration. The report offers 15 recommendations to the government and its development partners on how these challenges could be addressed based on experiences adopted successfully in other Forum Island countries. I would encourage the Government to act upon these recommendations.

I wish to thank the Governments of the Republic of the Marshall Islands, Samoa, Vanuatu and also the United Nations family in the Pacific for their continued support and commitment to improving development effectiveness in our region by allowing their senior officials to serve on the FSM Peer Review Team.

This Report comes with the assurance of the Forum Secretariat's firm commitment to the Government of the Federated States of Micronesia in facilitating support from Governments and Development Partners in the region in implementing and monitoring the progress of the FSM Peer Review recommendations.

Tuiloma Neroni Slade
Secretary General
Pacific Islands Forum Secretariat

Introduction

1. The Forum Compact on Strengthening Development Coordination in the Pacific is a development Compact agreed by Forum Leaders and endorsed by key development partners at the Pacific Islands Forum Leaders' annual meeting in Cairns, August 2009. The Compact sets out collective actions by Forum Island Countries (FICs) and development partners designed to strengthen coordination and use of development resources at the national and regional level. The actions taken are in line with international best practice as expressed in the Paris Declaration on Aid Effectiveness, the Accra Action Agenda, and the Busan Partnership for Development Cooperation, and Pacific Principles on Aid Effectiveness.

2. Peer reviews are a key part of this package of development coordination initiatives. They review and focus action on ways that FICs, with support from development partners, use their domestic resources and the aid they receive to ensure a better life for their people and make progress towards achieving their national priorities including the Millennium Development Goals.

3. The Peer Review Team's Terms of Reference are attached as Annex 1. The team looked at the processes for formulating national development priorities, integrating these into budgets, implementing plans and monitoring and reporting on results; and just as importantly, considered how the country's development partners act collectively and individually to support those national priorities' systems and processes. In addition to the issues covered in other peer reviews, the team was asked to consider the suitability of the existing policy environment for promoting private sector development and to comment on the experiences of other FICs in promoting private sector growth.

4. The terms of reference required the team to take account of "the inherent political challenges associated with ... divisions of power." FSM is a loose federation in which the individual States provide all public services. National policies need to be built by consensus and allow for the circumstances of each State. The allocation of resources, including domestic revenues and external support, is strongly contested. The national government is responsible for the effective expenditure and coordination of external support but does not have powers to enforce accountability in the States. Moreover, at the National and State level the power of legislatures to approve expenditure can lead to protracted

negotiations between the executive and legislature, impacting on the timely implementation of programmes. FSM's constitutional arrangements mean that responsibility for planning, budgeting, performance management and use of aid are diffused between five governments and their respective legislatures. No other FIC has this level of constitutional complexity, and the Peer Review team recognizes that reform needs to be approached with extreme sensitivity.

5. The team examined the Strategic Development Plan 2004-2023 and its associated infrastructure plan, National and State budgets for FY 2013 (2012-2013), the draft report of a recent Public Expenditure and Financial Accountability (PEFA) assessment of the national public finances, the laws and agreements governing the Compact of Free Association with the United States for 2004-2023 (the Compact), resolutions from the US/FSM Joint Economic Management Committee (JEMCO), the supervisory body for Compact funds, annual plans and quarterly reports, documents prepared for the Development Partner Forum held in FSM in early November, national policies for agriculture and energy and a draft aid management policy.

6. The review was timed to follow the Development Partner Forum held on 7th and 8th November, which was attended by the Forum Secretariat support team. The review team met H E the President of FSM at the beginning and end of the mission. Discussions were also held at Palikir with all Heads of Departments and their staff, the Director and all sections of SBOC and the Public Auditor, and in Pohnpei with representatives of the United States, Japan and Australia, and with the FSM Association of Chambers of Commerce. The team visited all four States and held consultations with the Governors, members of legislatures, senior staff and representatives of Chambers of Commerce and non-government organisations. A presentation of preliminary findings was made to the President, members of the Cabinet and representatives of development partners at the exit meeting on 26th November. A full list of those consulted is found in Annex 2.

7. This report is structured into five parts; i) Introduction; ii) Background; iii) Findings on the five areas of Planning; Budgeting and Performance Management; Public Financial Management; Private Sector and Aid Management; iv) Recommendations; and v) Next steps.



Left-Right: Johnson Honimae, Media Officer, PIFS; Catalino Kijiner, Budget Director, Ministry of Finance, RMI; Kandhi A. Elieisar, Assistant Secretary for Foreign Affairs for Africa, Pacific & Multilateral Affairs, Department of Foreign Affairs, FSM; Nournea Simi, Assistant CEO Aid Coordination Debt Management, Ministry of Finance, Samoa; H.E. President Emanuel Mori, FSM; Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; Charmina Salli, Regional Planning Adviser, PIFS; Portia Domonatani, Forum Compact Research Assistant, PIFS

Background

8. FSM receives substantial economic assistance from the United States under the Compact (\$50.6 million as an initial allocation in FY 2013, plus contributions to the Trust Fund and further grants for education and from various Federal funds). The national portion of this assistance makes up approximately 10% of the national budget, but Compact support typically constitutes between 50% and 75% of State budgets. Funding legally obligated under the Compact reduces by \$800,000 a year and will come to an end in FY 2023. On current projections, income from the Trust Fund that is being built up parallel to the Compact will not make up for the absence of this funding from 2024.

9. FSM has gone through some difficult fiscal adjustments since the beginning of the current Compact, which is more restrictive than the previous one. However, it is generally recognised that the way in which this adjustment has been carried out, through widespread staff reductions in some instances and incremental across-the-board cuts, is not sustainable. Having achieved macro-economic stability in the last few years, attention has turned to managing the consequences of the gradual reduction in Compact assistance. The long awaited tax reforms, the Long Term Fiscal Frameworks (LTFFs) being developed in the States and for the nation, the appointment of a 2023 Task Force to develop a medium-term action plan and the increased focus on developing a wider range of development partnerships are evidence of this. The prospect of declining income is also focusing policy makers even more on the need to grow the economy, which has seen on average almost no growth since 2004. The private sector accounts for only 25% of the economy, a figure that has not changed in the last 25 years.

10. The country has to deal not only with a fiscal squeeze, but also with a legacy of disappointing development outcomes. FSM is a middle-income country, but hardship has increased over the last decade, leading to out-migration. Health and education outcomes have been mixed. While most children attend school, there are concerns about quality and in particular the levels of literacy among high school leavers. Immunisation coverage for children is high, but health services are struggling to provide adequate access to contraception, or to control multi-drug resistant TB or non-communicable diseases. Leaders know that they need to act now to unlock the potential for growth and to ensure that people have the health and skills to participate in the economy. In that context, it is essential to make every dollar of public expenditure count and to generate and act on information about what is working and what is not. There are elements of existing practice and systems in FSM that the country can draw together into an enhanced framework for effective resource use, but there are also missing elements that need to be put in place as a matter of urgency.

11. Alongside the need to attract foreign commercial investment (dealt with later in this report), FSM understands that it needs to put its house in order to attract aid investment. FSM's planning, budgeting and performance systems have largely been ineffective at translating development policies into practice, and are complicated by the need for consensus between States on resource sharing and nation-wide priorities and by the way that the requirements of the US Compact have shaped systems and attitudes to external assistance. Both have contributed to a deficit in FSM's ability to provide clear leadership of its own development efforts and to account for results. Add to this the relative lack of familiarity in the country with how development assistance has evolved globally and in the Pacific in the last decade, and FSM faces a significant challenge in attracting a wider range of development relationships than it has now.



Left-Right: Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; (Back) Noumea Simi, Assistant CEO Aid Coordination Debt Management, Ministry of Finance, Samoa; Samson Pretrick, Deputy Secretary of Foreign Affairs, FSM; Catalino Kijiner, Budget Director, Ministry of Finance, RMI



Young Micronesian school girl, Pohnpei State, FSM

Findings

Planning

12. FSM has a nation-wide plan, the Strategic Development Plan 2004-2023 (SDP). The SDP was officially adopted at the third National Economic Summit in 2004. In discussion with the team, it was referred to consistently at both National and State levels as the starting point for setting priorities in the absence of more medium-term plans. It forms the basis for sectoral medium-term plans where these exist. To that extent, it is the nearest thing FSM has to a statement of direction for the country. However, the Plan was put together quickly and in response to a requirement of Compact law (which also requires any national plan, insofar as it envisages the use of Compact funds, to have the agreement of the United States). It contains a good deal of analysis relevant to 2004 that has not been updated. It was described to the team as overly long and complex, and contains a level of detail that would be inoperable even for a shorter-term plan in a country with far greater public service capacity. The specific objectives, like the analysis, have not been updated and there is no monitoring of the Plan. Among other things, the SDP does not guide policy dialogue with development partners, who have largely made investment decisions based on their own comparative advantage, with non-Compact aid scattered over a number of sectors.

13. The team noted that there are existing plans which are being used or are intended to be used to guide policy, including:

- The infrastructure plan 2004-2023 (a part of the overall SDP) which is being used to guide infrastructure investment, but which needs to be updated, prioritised and rationalised;
- The FSM agriculture, trade and energy plans (to be followed shortly by fisheries and tourism plans), and an ICT plan going through the approval process;
- State level education plans, which were all prepared with external assistance (under the PRIDE programme) and are now coming to an end.

14. State Strategic Development Plans are under preparation for Kosrae and Pohnpei, and Yap intends to prepare one. In addition, there are well-accepted sets of nation-wide indicators for health and education outcomes, which are not plans but do represent common aspirations and benchmarks.

15. There is no clear institutional home for a revision of the SDP. SBOC had a planning function until its most recent reorganisation, but no longer has one, although its functions with respect to long term fiscal planning, the budget and aid management make it by default the main repository of planning expertise at the national level. However, a revision of the SDP appears to not be a top priority. A discussion has been launched between SBOC and the State and national leadership on establishing State and national priorities for economic development, possibly on a two-year cycle. This would in effect be a form of simplified national planning vested in the State and National Leadership Conference (SNLC) aimed mainly at coordinating requests for external assistance. In developing this idea further, FSM will need to consider experience on national planning from elsewhere in the region, which is that:

- Plans need a strong institutional base to advocate for them and monitor and update them. The SNLC has political legitimacy but will need administrative support from the national public service. It is not clear that any department has a strong enough capacity or mandate to lead the process.
- The considerable investment that small economies make in planning is justified mainly by the boost that they can give to rational overall resource use and the entrenching of domestic accountability. The use of national planning to guide external assistance is a useful but supplementary benefit. A planning and ODA process which concentrates mainly on attracting additional resources may do little to reduce fragmentation of approaches or the present disconnect between policies and resources.

16. It may be easier in the short-term to reach consensus on priorities at a sector level, using the sector and the State as the main planning units and building on the present technical relationships between sector departments at State and National level. The agriculture strategy appears to be a good model, which development partners would recognise as an entry point for dialogue and long-term support. In both Samoa and Vanuatu sector planning has been strongly encouraged by central agencies as a way of:

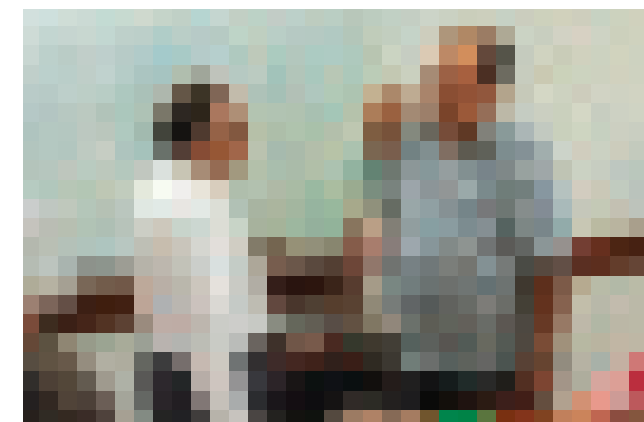
- integrating domestic and external resources;
- promoting working across departments;
- concentrating attention on overall results such as moving towards MDG targets rather than the day to day accountabilities of individual Ministries; and
- promoting a results-based dialogue with development partners leading to programmatic approaches rather than sets of projects.

In Samoa the requirements for sector planning are standardised and monitored by central agencies, which also defined what national sectors were and set out a schedule for developing sector plans. Sectors have in most cases received international assistance to prepare medium-term expenditure frameworks. The result is that annual budget proposals are based on well-developed and understood multi-year expenditure plans with clear expectations of results.

17. Such experience may not necessarily be transferable to FSM because responsibilities for planning and budgeting are different. However, the example of the agriculture policy, and the existence of professional networks that exist across the five governments in, for example, education and health, suggest that FSM may have a sufficient basis for developing sector plans owned at State and National level which set out nation-wide priorities, reaffirm respective roles and responsibilities and contain independently supported medium term costings as the basis for engaging the executive at political level and members of legislatures.

18. Getting effective sector plans will require an approach to planning that is based on desired results, not primarily on available money. The Long Term Fiscal Frameworks (LTFFs) being

developed through separate State and national processes are essential and overdue. The alternative, which is now practised of planning annually within diminishing budgets, does not encourage innovation or radical prioritisation and could undermine the delivery of essential public services. However, while FSM must plan for the worst case, there is a danger that even rational planning within a diminishing ceiling discourages ambitious target setting, including those related to the MDGs. "Planning" currently appears too often to be planning for the decrement, not planning for national outcomes. Practice elsewhere in the Pacific is increasingly to put a cost on medium term sector plans aimed at reaching national targets (e.g. for literacy, school completion or child immunisation) and to engage political leaders and development partners in a dialogue about what can be achieved with different levels of resourcing.



Left-Right: Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; Mr Radley Killion, President, National Association of Chamber of Commerce, FSM



Mr Lorin Roberts, Secretary Foreign Affairs, FSM

The Peer Review Team recommends:

- **That FSM consider a staged introduction of standard sector plans owned by States and the national government including medium term expenditure frameworks as the basis for future planning, budget allocations, performance assessment and dialogue with development partners (Recommendation 1).**

19. The review team noted the intention to update the 20 year infrastructure plan. Other Pacific countries have found assistance from the Pacific Regional Infrastructure Facility (PRIF) to be helpful in carrying out this task. Involving PRIF can not only result in a prioritised investment plan based on economic criteria, independent of the priorities of external funding agencies, but also give guidance on options for financing infrastructure including maintenance and serve as an introduction to the infrastructure investment programmes of the multilateral development banks which are part of the PRIF consortium.

The Peer Review Team recommends:

- **That FSM consult PRIF with a view to obtaining independent advice on the updating of the infrastructure plan (Recommendation 2).**

20. Consultations with non-government organisations at State level suggested that relations between Governments and NGOs are largely good, with Governments recognising their comparative advantage and collaborating on community level activities. The FSM Development Framework states that "there is considerably more room for civil society to play an active role as a development partner alongside international donors and government agencies, but also particularly at the community level". There are examples particularly of environmental NGOs who have established themselves in FSM independently of Governments, but have developed dialogue with Governments and activities accepted as complementary to public sector efforts. For most NGOs to grow in FSM and provide that complementary capacity, they will need to increase their level of ambition and follow the model of existing successful NGOs. They will need to reduce their level of dependence on poorly performing government organisations or on the limited grants which national and State governments can afford and seek to access, perhaps through the creation of an NGO umbrella body, to national and regional opportunities for capacity development and financing. The PIFS, if requested, could seek technical and mentorship support of PIANGO and similar organisations at national level in the region (e.g., SUNGO in Samoa, VIANGO in Vanuatu).

Budgets and performance management

21. The national budget processes and system is clear and respected. The State and National Constitutions give the ultimate authority over the budget to legislatures. There is an active Committee system at State and national level that examines budget proposals on the basis of evidence from officials. However, there are significant limitations of the process:

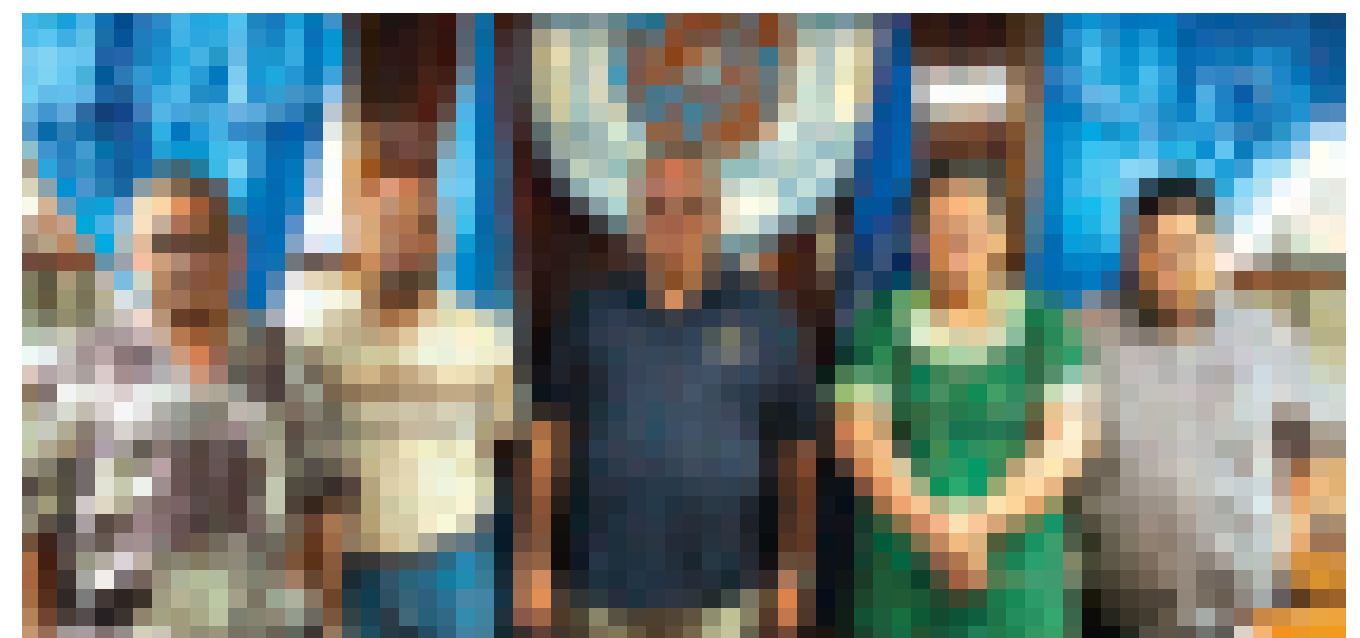
- Very little fiscal, macro-economic or performance information is given to legislators and budget review committees to enable them to understand the background to budget proposals. Although it is accepted that legislators understand the fiscal problems facing the country, the process being undertaken to prepare LTFFs, which involves consultation with political leaders, will help to fill in the details and provide an analytical background for budget proposals from FY2014 onwards, despite its focus on decrement planning, LTFFs have been completed for three States through a process which was described in all three as inclusive and which gave a better basis for planning and budget decisions.
- Performance-based budgets are full of detail but do not allow legislators or the public to see the effects of expenditure on advancing important development outcomes. The performance budgets are for the most part difficult to understand, and it is not surprising that legislators concentrate on the line item budgets.
- Especially at the State level, where so much expenditure is fixed by Compact priorities and limited by the fiscal squeeze, legislators feel that they have very little room for making amendments. In such circumstances, the temptation is to micro-manage within narrow parameters while overall, executives and legislatures feel that they have not given sufficient funding to the nation-wide priorities in productive sectors and economic infrastructure.

- There is very little scrutiny of expenditure. While some legislators say that they examine heads of departments closely when they submit new budget proposals, there is no consistent reporting to legislatures and the draft PEFA report (for the national budget only) indicates that there is effectively no Congressional follow-up to audit reports.

22. Budget timetables in general give legislators ample time to consider budgets (as the draft PEFA report notes, this can squeeze the time available to the executive to put its proposals together). The power of legislatures to pass the budget is rightly taken seriously by members; but it is not clear to outsiders whether differences between the executive and legislatures, where they exist, are based on alternative views of policy. For FY 2013 the National Congress ultimately re-appropriated the FY 2012 budget. While the team cannot comment on the merits of the original budget proposal or the decision of the Congress, such a practice would be regarded as highly unusual in other Pacific countries.

23. There is a particular difficulty over the timing of fiscal year allocations from JEMCO. It does not make its decisions until the August preceding the beginning of the financial year on 1 October (and did not meet in 2012 until mid-September). This leaves no time for legislatures and the Executive (at national level) to consider the impact of JEMCO decisions before final appropriation. Better practice developed elsewhere is for development partners to align funding allocation times to the recipient country's national budget cycle.

24. As noted above, performance-based budgeting is heavily oriented towards predicting activities, and in turn leads to quarterly reporting which is activity-based and comprehensive. The intention of performance-based budgeting, that it should lead to greater transparency, accountability and results, is not being



Left-Right: Mr Gillian S Doone, Assistant Director, Overseas Development Assistance, SBOC, FSM; Catalino Kijiner, Budget Director, Ministry of Finance, RMI; Sebastian Anefal, Governor of Yap; Noumea Simi, Assistant CEO Aid Coordination Debt Management, Ministry of Finance, Samoa; Frank Haregaichig, Director Resource and Development, Yap State.

realised. It ties up human resources in complex budget proposals, which in practice appear to be carried forward from year to year with minimal change. Legislators with whom the team discussed budgets suggested that in practice they concentrate on the line item budget and do not expect to call departments to account for performance against the objectives set out in other parts of the budget. The peer review of RMI recommended that performance-based budgeting, which has the same difficulties as in FSM, be reformed.

25. Using the budget as a tool for accountability is important. In small states where mechanisms for medium-term planning, reporting and scrutiny are not well developed, the budget is the only point at which departments are obliged to set out their plans for spending money and getting results. The most basic form of budget accountability is a simple budget narrative which is short enough to be properly scrutinised and challenged by the body responsible for putting the budget proposals together (and short enough to provide incentives to change it from year to year), but gives an adequate idea of what will be achieved with the resources. The Forum Secretariat can provide examples of practice elsewhere in the Pacific. A move away from performance-based budgeting as it is presently practised, as part of a sequenced programme of public financial management reform, would provide an opportunity to streamline processes and restore the original intention of budget and performance accountability. Assistance from Pacific countries using simpler budget systems could be considered; such a move might be piloted in one or more States before being rolled out across all five Governments.

26. There is some reporting by national and State departments to legislatures, but the main form of reporting is the quarterly reports provided under the Compact for relevant sectors. These reports are of limited use as management information for senior officials, and are completed primarily for compliance with funder requirements. Moreover, they are consolidated by SBOC for transmission primarily to the United States, and do not appear to be used as a means of disseminating information and learning across sectors between States and national departments. Other reporting is done for other development partners according to those partners' requirements. Practice elsewhere in the Pacific (consistent with international aid effectiveness agreements) is increasingly for countries to determine their own reporting requirements to inform policy and discharge accountability, and for development partners to accept such internal reporting as adequate for their own purposes, provided it meets minimum standards of comprehensiveness and accuracy and is demonstrably meeting internal requirements. Reforming the budget process would provide an opportunity for Governments in FSM to make reporting simpler but more meaningful, and in the longer term to negotiate with development partners the use of internal reporting to provide accounting obligations to them.

The Peer Review Team recommends:

- **That FSM, as part of a sequenced programme of public financial management reform, introduce simplified budgeting and reporting templates and instructions for use across State and national Governments, adapted as necessary for local circumstances. (Recommendation 3). [Support in this area could be requested of PFTAC and/or from other countries in the region that have simplified performance or outcomes-based budgeting; e.g. Samoa]**

27. The production of statistics is a national function. Major activities such as annual economic statistics are up to date, and a census report has just been completed. FSM produced a MDG report in 2010. As in other Pacific countries, the attention given by the public service to keeping good time series data varies and depends on the perceived political interest in the figures. As noted above, considerable attention is paid to collecting data on health and education indicators because of their importance in Compact funding, although there appears to be some debate about the robustness of the figures since JEMCO has called for an independent review of health and education data to report by 2013.

28. Other than periodic examination of health and education outcomes by JEMCO, the links between evidence, dialogue and policy are recognised as being weak. Failure to perform may have some consequences but these are externally driven and often applied when the situation has become very bad. Other Pacific countries are beginning to prioritise a set of outcome information showing progress on major programmes and government decisions which is available at the budget review stage and to legislatures, and used as the basis for a country-led discussion with development partners about results and the implications for policy and funding. In other words, having domestic monitoring and evaluation of programmes helps to put countries in the driver's seat. The FSM draft ODA policy recognises this as a priority for FSM.

29. The other motivation for better monitoring is that in a time of reduced resources it becomes essential to make every dollar work harder and to understand what is working and what is not. Linking results with policies and budget does not happen overnight, but experience elsewhere is that starting with a minimum set of performance information that is regularly updated can stimulate the interest of policy makers. It may be more productive to start better monitoring at State level since three of them will shortly have State development plans.

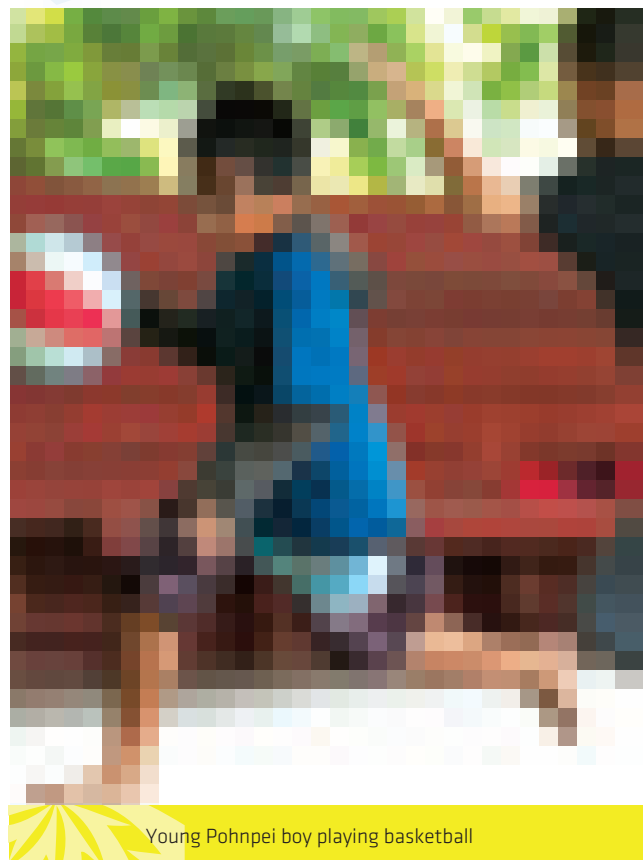
30. Experience in the Pacific is that there is no perfect monitoring and evaluation framework. The countries which are the most advanced on this front are those who have identified a clear point of responsibility for monitoring and provided adequate resources to make a start on reporting using whatever sources of information were available, and refined as they went. In Samoa and Vanuatu the key elements in getting annual outcome reporting off the ground have been:

- clear responsibility and dedicated resources;
- respecting and drawing on existing roles of agencies such as Statistics Departments, and the monitoring functions of line agencies;
- building a network of staff in line Departments with interest in and responsibility for monitoring results;
- Having a distinctive annual product/report aimed at decision makers.

Vanuatu's and Samoa's experiences are summarised in the box below.

The Peer Review Team recommends:

- **That SBOC work with one or more State Governments who are interested to develop a simple monitoring and reporting framework for priority outcomes, seeking assistance from development partners and other FICs if necessary. (Recommendation 4)**



Young Pohnpei boy playing basketball

Vanuatu and Samoa National M&E policies

Vanuatu

The policy recognises that there are already organisations monitoring development outcomes and impacts. The Reserve Bank monitors monetary and external sector developments and makes recommendations to government based on an evaluation of trends. The National Statistics Office produces data that allows monitoring of economic and social trends. The Ministry of Finance and Economic Management monitors budget outturns and uses that information to better manage the budget. Many aid projects have monitoring indicators built-in during the design stage of the project. Based on the role assigned to the M&E unit, the scope for monitoring and evaluation covers the development plans and policies of the government. The government's plans and policies cover not only the Priority Action Agenda (PAA) and Planning Long Acting Short (PLAS), but also decisions by the Council of Ministers (COM). The annual budget funds programmes and projects to implement government's plans and policies including COM decisions. The Annual Development Report (ADR) is an annual series of reporting. It provides an annual assessment on progress made on the implementation of national development priorities within the seven broad policy objectives of the government. The report informs the Cabinet and the Parliament on the progress, challenges and development outcomes.

Samoa

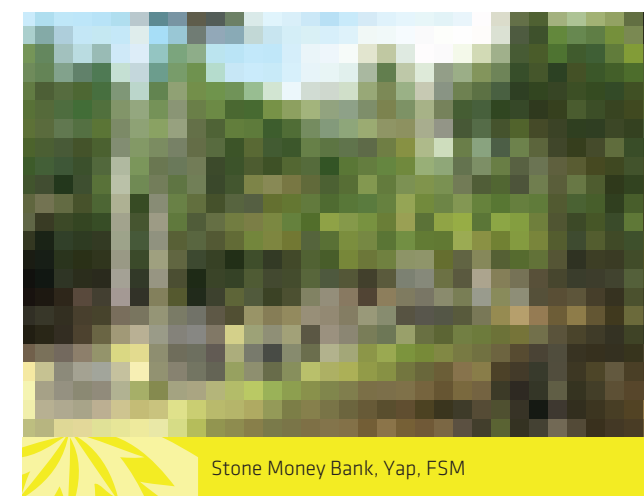
The Economic Planning and Policy Division of the Ministry of Finance is responsible for the monitoring of the national development strategy through the M&E framework and reports to Cabinet on this on a quarterly basis. This process is validated and complemented by lead sector ministries through sector plan monitoring on a quarterly basis given the consistency of high-level performance indicators. Annual sector reviews form the basis of annual reports, which are then presented to Parliament on the implementation of the sector plans linked to the national development strategy. All line ministries are required by law to work with the Samoa Bureau of Statistics on the validation of any data generated.

Source: Governments of Vanuatu and Samoa

Public financial management

31. The carrying out of a Public Expenditure and Financial Accountability (PEFA) assessment for the national Government is a major step forward in identifying necessary reforms. The process was led for FSM by SBOC with the participation of other Departments. It identified that there are positive elements to public financial management at this level, including an orderly budget process, good overall fiscal control and timely submission and auditing of accounts. The challenges identified in the draft report (weaknesses in planning leading to substantial in-year reallocations, poor links between budgets and policy, weaknesses in timely financial reporting and analysis, and lack of oversight of some domestically financed public expenditure) are being taken under consideration. Peer Review Team discussions with the Auditor General's Office noted lack of follow up to Audit reports as an on-going concern. The assessment now needs to be finalised and a public financial management reform road map arising from it needs to be established. Experience elsewhere has been that development partners will support collaboratively a coherent programme of reform following a PEFA assessment. They have indicated specific interest in working with FSM on its road map. FSM should now build on the assessment to set out its requirements and sequencing clearly. To avoid FSM having to navigate the potential for different partners to participate, the team encourages the Government to follow the practice of other Pacific islands in nominating a single development partner as the main contact and coordination point.

32. Having a PEFA for the National Government is a first step. But given the importance of good financial management in the States of development outcomes, the natural next step would be for States to undertake their own PEFA's as an important part of demonstrating that they are putting their house in order. Financial management capacity varies, and it is only fair that States that manage resources well should be able to demonstrate this against objective benchmarks. At the State level PEFA's will need to deal frankly with issues of diversion of funds and the strengthening of systems to prevent it.



Stone Money Bank, Yap, FSM

33. FSM's low external debt is a major advantage in simplifying public financial management but also in opening the door to prudent concessional financing for productive sectors in the medium term. However, FSM will need to build an institutional framework for loans and debt management in the same way as it is beginning to do for ODA to enable the country to tap into concessional lending.

The Peer Review Team recommends:

- **That FSM prepare a road map for financial management reform as soon as possible in consultation with PFTAC as the coordinating development partner for the PEFA assessment (Recommendation 5);**
- **That FSM nominate a development partner to be the coordinating point for all external assistance for the road map (Recommendation 6);**
- **That development partners undertake to provide the necessary assistance in response to FSM's commitment to reform as it emerges (Recommendation 7).**

Private Sector

34. The private sector in FSM can be characterised as:

- a large, informal economy especially in retailing and services sectors;
- widespread subsistence agriculture and fishing;
- export of some specialised agriculture products (e.g. betel nuts)
- fishing, as well as licensing, servicing and supplying foreign fishing fleets within territorial waters;
- a small tourism sector with limited connectivity, a few small hotels with poor tourism promotion;
- a tiny manufacturing sector with a high cost of doing business; and
- weak capacity of private sector organisations both at national and State level.

35. The private sector faces several difficult issues. Among the most important are:

- low rates of return on capital;
- high dependence on small domestic markets where purchasing power is low;
- expensive transport and communications services such as telephone and internet connections;
- costly and/or unreliable utility services;
- dependency on one airline and limited shipping services;
- credit markets dominated by few commercial banks; difficult to access and high cost of credit;
- lack of a conducive enabling environment;
- high labour costs resulting from the crowding out of businesses and individual investors by the public sector;
- high labour turnover and limited availability of skilled labour; and
- limited public/private sector dialogue.



Holy Family Church, Chuuk State, FSM

The 2013 World Bank's Doing Business Report has ranked FSM 150 (2012:146) out of 185 economies of the world. FSM is ranked at the bottom among 15 FICs.

36. The fundamental issue, which is well understood by the national Government, is how to improve overall economic efficiency so that FSM can find its place in an increasingly competitive world and regional market, in traditional or newly identified areas. Given the urgent need for a paradigm shift, the policies and institutions should be better focused on creating local value added(?), promoting tourism and investment facilitation and the utilisation of domestic sustainable raw materials with special emphasis on creating and enhancing linkages with other sectors of the economy particularly tourism, marine and agriculture. Building a strong and vibrant private sector therefore requires cohesive planning, a strong institutional and organisational framework and effective implementation mechanisms, which have an inbuilt monitoring structure as well as to ensure sustainable, competitive and efficient sub-sectors in particular and the economy in general.

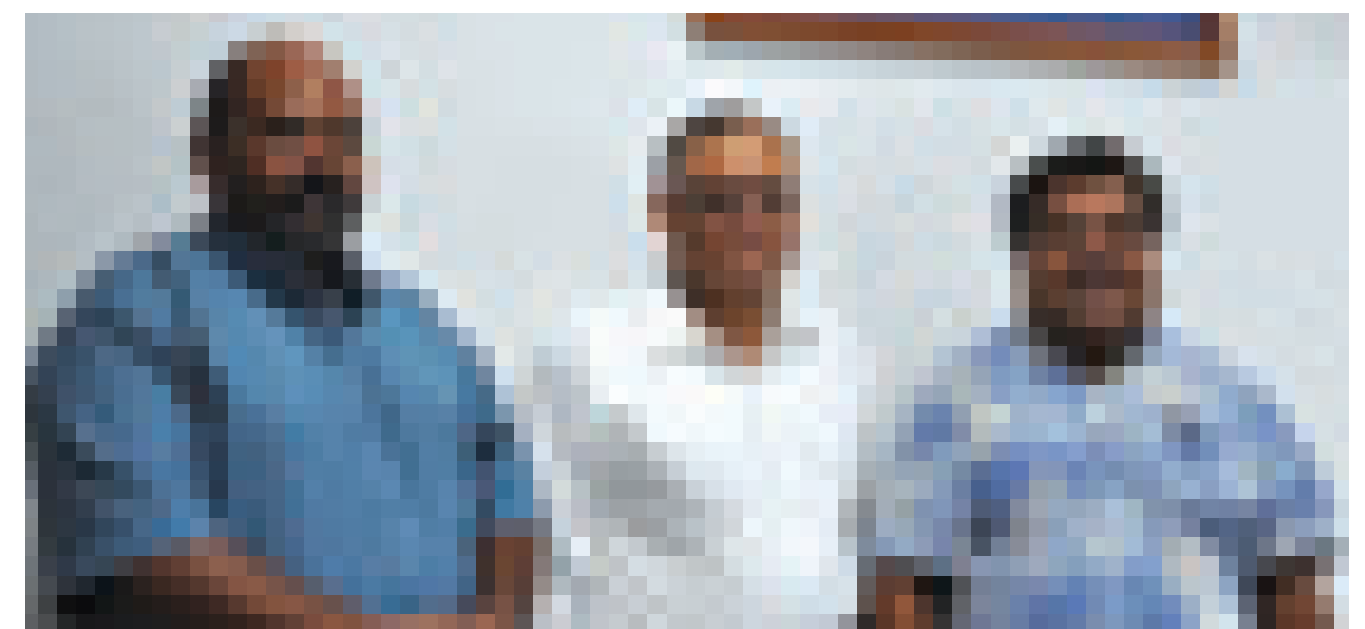
37. Private sector development (PSD) will depend significantly on an enabling environment with investor-friendly policies, programmes and procedures in areas such as finance and credit, trade and tariff regulations, infrastructural support facilities, marketing, public sector procurement, information technology, education and training.

38. FSM needs a strategic vision of PSD that builds on the premise that it is not a sector, but a crosscutting issue. It is about "a way of doing things" that can have relevance for any sector such as energy, tourism, telecommunications, agriculture or marine. The pursuit of PSD is not a goal but a means to meet the development needs of the people. PSD issues also relate closely to issues such as financial sector development, labour markets, the global trading and investment regime and policies governing social and environmental sustainability.

39. FSM needs a PSD strategy that can **build a strong sustainable and competitive private sector through inclusive and enabling government policies, programmes and actions by promoting domestic entrepreneurship; attracting foreign investment, investing in human capital; enhancing productive capacities and competitiveness of priority sectors.** Innovative solutions for a PSD strategy are more likely to come from the local private sector envisaging its own future and drawing inspiration from business in neighbouring countries (many of whom have similar natural endowments and obstacles) than from any official planning exercise. Such a strategy would need to cover both the promotion of foreign direct investment, which is under-resourced at present, and growing domestic small and medium enterprises. The standardisation of investment regimes across the States, and a clearer national focal point for investment, would benefit the country.

The Peer Review team recommends:

- **That the Government invite private sector organisations collectively to prepare a private sector strategy for FSM to be negotiated with the five FSM governments (Recommendation 8);**
- **That FSM private sector organisations invite the Pacific Islands Private Sector Organisation (PIPSO) to assist with the preparation of the strategy, provide capacity building for private sector organisations and promote dialogue and partnerships between the public and private sectors (Recommendation 9); and**
- **That FSM private sector organisations build links with the private sector in other FICs as a means of building capacity for dialogue with government and services to members, and exploring business links (Recommendation 10).**



Peer Review Team during consultations in Pohnpei State, Left-Right: Johnson Naviti, Head Aid Coordination and Negotiation Unit, Department of Strategic Policy Planning and Aid Coordination, Vanuatu; Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; Honorable John Ehsa, Governor of Pohnpei State Government, FSM.

Aid management

40. Apart from aid under the Compact, FSM receives grants from the People's Republic of China (mainly for infrastructure), Japan (infrastructure and technical assistance), Australia (technical assistance for tax reform, environmental legislation and aid management), the EU (assistance for affordable and clean energy) and smaller amounts from other bilateral development partners. The ADB and World Bank both have active technical assistance programmes. There is a UN Development Assistance Framework for FSM.

41. Apart from Compact assistance and Federal grants, aid does not appear in the budget. Infrastructure grants from China and Japan are negotiated case by case, and are not subject to forward commitments. Australia and the EU do provide forward commitments but the amounts involved are relatively small. Because aid is not appropriated in the annual budget, expenditure of all foreign grants must be approved separately by the FSM Congress, which frequently leads to delays in using aid money.

42. FSM foresees that it may need to continue to receive aid after the end of the Compact and is therefore committed to developing a wider range of aid relationships. The establishment of the aid management function in SBOC and the emerging aid function in State Governments are a good start. The holding of the Development Partner Forum helped to demonstrate that FSM wants to engage with development partners on its own terms, and allowed development partners to reinforce their interest in assisting. The Government recognises that there is much more to be done. The technical assistance provided by Australia for aid management has been extremely valuable and it is important that it should continue.

43. FSM faces many familiar problems for a country setting out to develop an aid management function: low levels of resourcing for aid management, difficulties with tracking aid flows, confusion over roles and responsibilities and widely differing partner behaviours. On top of these is the strong influence that the current main funding relationship with the US is having on internal systems and the concept of aid. While US assistance under the

Compact is substantial and supports national priorities, it has inbuilt rigidities which FSM has adapted to over the years despite some reservations internally. These include:

- The annual cycle under which JEMCO approves one year budgets for each Compact sector for each State, which must, apart from infrastructure grants, be spent in the relevant financial year. Funds not spent are rolled over but need to be the subject of fresh budget proposals;
- The specificity of the activity portfolio that is approved. Although Compact funding underpins the activities of State governments, the purposes for which funds may be spent are set out in detail in approvals and subject to limited flexibility;
- The detailed reporting requirements which, as noted above, are compliance-based rather than based on their utility for management or for public accountability. Taken together with the requirements for budget presentation, the reporting requirements not only are not aligned with FSM systems as current international practice prefers but have in effect shaped those systems.

44. JEMCO is the forum for debate over and approval of Compact funding. It meets twice a year; budget allocations are made at the meeting preceding the beginning of the financial year. The US has three votes on JEMCO to FSM's two. JEMCO's resolutions are public, but the discussion that lies behind them is confidential. FSM has found it difficult to use JEMCO as a forum for policy debate over such important subjects as whether infrastructure funds are being used in accordance with the country's top priorities. It is for the US and FSM to determine the most suitable form of mutual accountability to govern economic relations between the two countries. However, the way JEMCO works is rather different to the consultation mechanisms between some other Pacific countries and their development partners in which both sides have an equal voice and outcomes are cast as agreements on mutual efforts rather than as instructions from one side to the other.

45. FSM's draft ODA policy is on the right lines in suggesting that the aim for FSM should be quality of aid and not quantity, and a manageable range of key development partner relationships. It is also right to say that aid requests should arise from the nation's

own planning and budgeting systems and be treated as part of budget proposals (not least because this would help to ensure appropriate maintenance provision for capital expenditure). For this to happen, a number of people in key positions in the national and State governments will need to develop an understanding of how official aid is evolving, particularly in the Pacific. Perhaps because of the way that external assistance has been received throughout the country's existence, many people to whom the review team spoke understood accessing aid as mapping sources of finance and understanding what the rules and timing were for applying for it (this appears to underlie States' complaints that they do not get enough information about aid opportunities or if they do get it, it is not timely). The biggest challenge is to change the thinking and language away from the concept of chasing grants (which perpetuates the notion that programmes can be moulded to the available finance) and towards considering what the development objectives of the States and the nation are and how external partnerships can help towards meeting them.

46. An important issue for FSM is ensuring that all States have fair access to external funding. This will involve, as SBOC well understands, developing skills in the States that allow them to be active participants in developing aid relationships while respecting national Government competencies and coordination functions. This may involve the national Government over time in acting less as a seeker of funds on behalf of the States and a gatekeeper for aid relationships, and more as a facilitator of contacts with development partners, along the lines of arrangements between Australia and the national government and some provinces in Papua New Guinea.

47. For a set of understandings between the States and the national government to emerge, roles and responsibilities within the latter need to be clarified and respected. Responsibility for development assistance is split at present between the Department of Foreign Affairs, SBOC and the Department of Finance. Information flows within national Government and between levels of government are widely seen as unsatisfactory. There is no single point of approval for visiting missions, with the result that some departments are overwhelmed with visitors for parts of the year. Experience in the rest of the Pacific is that roles and responsibilities need to be clear and that a single appropriately resourced coordination point for development assistance with strong links to policy (as in Vanuatu) and/or budgets (as in Samoa) works best. In a number of cases understandings have evolved between Ministries of Foreign Affairs and other departments that while formal communications should take place through the appropriate diplomatic channels, operational contacts may take place with line and central agencies, keeping others informed.

48. On the basis of experience in Samoa and Vanuatu, it should be clear that the following functions lie with an aid management unit, wherever it is situated:

- Development and implementation of aid policies;
- Understanding of aid mechanisms and dissemination of information on aid opportunities and advice on aid practice;
- Determination of comparative advantage between development partners;
- Collective contacts with development partners for the purposes of policy dialogue and operational aid matters;
- Facilitation of contacts with development partners by line agencies (and sub-national governments);
- Policy decisions on requests to development partners in line with national budgets and policies;
- Quality control of aid requests;
- Policy on development partner missions and ideally some form of control over them;
- Recording of aid flows;
- Ensure flexibility in programs to meet emergency needs;
- Act as the focal point to connect with international and regional networks on national implementation of global instruments for aid effectiveness;
- Advocate on the most effective use of aid to eventually shift countries out of aid dependency.

49. The Development Partner Forum was a milestone and was important for internal as well as external participants. But collective contacts with development partners need to happen more frequently and informally than is possible through such events. The limited number of development partners resident in FSM makes collective Government-led coordination more difficult than for some Pacific countries; however, it is possible to extend attendance by timing them to coincide with visiting missions.

The Peer Review Team recommends:

- **That FSM finalise its ODA/Development Cooperation policy as soon as possible and strengthen capacity of its ODA Division (Recommendation 11);**
- **That as part of finalising the policy, agreement be reached in detail between the relevant departments on what constitutes aid management (Recommendation 12);**
- **That development partners participate fully in the development of the ODA/Development Cooperation Policy (Recommendation 13);**
- **That development partners ensure the continuation of technical assistance for aid management (Recommendation 14); and**
- **That FSM initiate regular government-led consultation with development partners as a supplement to the proposed annual meetings (Recommendation 15).**



National Government Congress, Pohnpei State, FSM

Recommendations

50. The Peer Review Team acknowledges the FSM government's existing systems and processes on planning, budgeting, public financial and aid management as well as private sector development. The team makes the following fifteen recommendations to further strengthen these systems and processes. Ten of the recommendations (1-5,6,8,11,12,15) are addressed to the Government of FSM, three to its development partners (7,13,14) and two to the private sector (9,10).

Planning

- That FSM consider a staged introduction of standard sector plans owned by States and the national government including medium-term expenditure frameworks as the basis for future planning, budget allocations, performance assessment and dialogue with development partners (Recommendation 1);
- That FSM consult PRIF with a view to obtaining independent advice on the updating of the infrastructure plan (Recommendation 2).

Budgeting and performance management:

- That FSM, as part of a sequenced programme of public financial management reform, introduce simplified budgeting and reporting templates and instructions for use across State and national Governments, adapted as necessary for local circumstances. (Recommendation 3); [Support in this area could be requested of PFTAC and/or from other countries in the region that have simplified performance or outcomes based budgeting; e.g. Samoa]
- That SBOC work with State Governments who are interested to develop a simple monitoring and reporting framework for priority outcomes, seeking assistance from development partners and other FICs if necessary. (Recommendation 4)

Public Financial Management

- That FSM prepare a road map for financial management reform as soon as possible in consultation with PFTAC as the coordinating development partner for the PEFA assessment (Recommendation 5);

- That FSM nominate a development partner to be the coordinating point for all external assistance for the road map (Recommendation 6);
- That development partners undertake to provide the necessary assistance in response to FSM's commitment to reform as it emerges (Recommendation 7).

Private Sector Development

- That the FSM Government invite private sector organisations collectively to prepare a private sector strategy for FSM to be negotiated with the five FSM governments (Recommendation 8);
 - That FSM private sector organisations invite the Pacific Islands Private Sector Organisation (PIPSO) to assist with the preparation of the strategy, provide capacity building for private sector organisations and promote dialogue and partnerships between the public and private sectors (Recommendation 9); and
 - That FSM private sector organisations build links with the private sector in other FICs as a means of building capacity for dialogue with government and services to members, and exploring business links (Recommendation 10).
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 - That development partners ensure the continuation of technical assistance for aid management (Recommendation 14); and
 - That FSM initiate regular government-led consultation with development partners as a supplement to the proposed annual meetings (Recommendation 15).



Peer Review Team during consultations in Kosrae State, FSM: John Winter, PIFS Peer Review Consultant; Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP; Tiser Reynolds, Director, Department of Administration and Finance, Kosrae State, FSM; Lipar George, Administrator, Division of Statistics, Budget and ODA, Department of Administration and Finance, Kosrae State, FSM; Ursula Abalos, Accounting Advisor, Department of Administration and Finance, Kosrae State, FSM; Shruel Nedlic, Budget Officer, Division of Statistics, Budget and ODA, Department of Administration and Finance, Kosrae State, FSM; Sian Nivison, ODA Co-ordinator/Staff Coach (AVI), Division of Statistics, Budget and ODA, Department of Administration and Finance, Kosrae State, FSM.

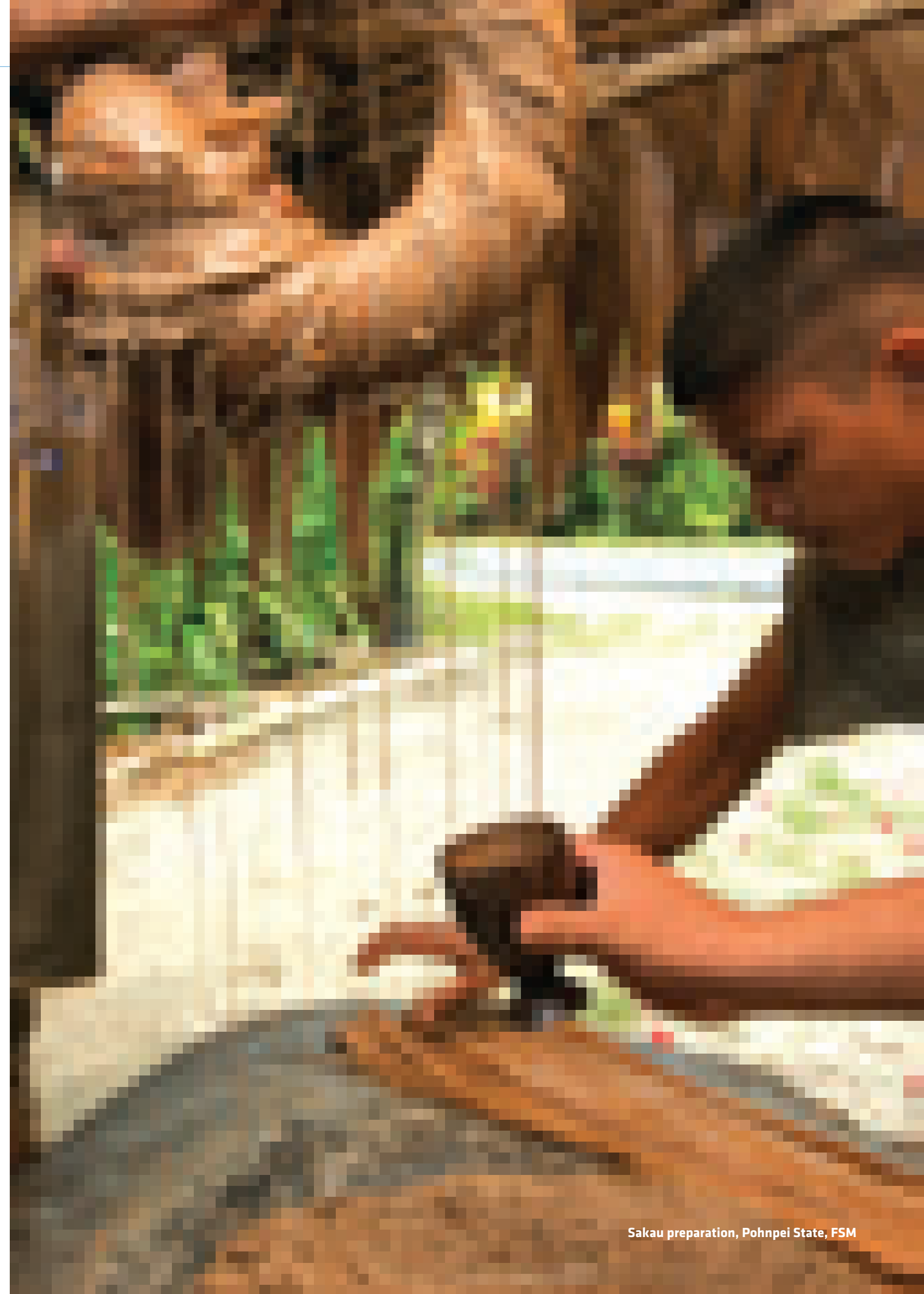
Next Steps

51. It is for the Government of FSM to determine which of the recommendations it wants to take forward. If the Government agrees, there should be a follow up visit or discussion by PIFS to FSM to discuss concrete work plan/actions and resource framework/division of labour for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within six months after the completion of the Peer Review in country. Key development partners in country can consider supporting the implementation of the peer review recommendations in addition to other government identified priority development coordination priorities.

52. It is proposed that a simple Monitoring and Evaluation Framework/indicators agreed between the Government, development partners and PIFS be developed and used to track the implementation of the Peer Review Recommendations (recommendations to the Government, Development partners and the PIFS).



Peer Review Team wrap up meeting with the President of FSM and his Cabinet and Development Partners



Sakau preparation, Pohnpei State, FSM

Annex 1: FSM Peer Review Team Terms of Reference

1.0 Purpose

This note sets out the Terms of Reference for a peer review of the Federated States of Micronesia's national development planning, budgeting, public financial and aid management processes and systems under the Cairns Compact on Strengthening Development Coordination in the Pacific (Forum Compact).

This Terms of Reference draws on a concept note on the peer review process circulated by the Pacific Islands Forum Secretariat (PIFS) on 20 October 2009 and discussed at a regional workshop on 26-28 November 2009 and is based on experiences of the past 8 Forum Compact peer reviews in the Pacific.

2.0 Background

Through the Cairns Compact, Forum Leaders agreed in August 2009 that the Pacific Islands Forum Secretariat (PIFS) establish and report annually to Leaders and the Post Forum Dialogue on a process of regular peer review of Forum Island Countries' (FICs') national development plans to:

- a. Promote international best practice in key sectors;
- b. Improve effective budget allocation processes; and
- c. Guide support from development partners.

The peer review process is intended to contribute to reinforcing country leadership over the establishment of national priorities, and enhance the capacity of countries to guide the use of development resources – both government and development partner-funded resources.

Peer reviews are an opportunity for mutual learning between FICs on the one hand and their peers in other FICs and development partners (donors) on the other about how best to address development challenges.

3.0 Issues for review

The Peer Review process will consider the following issues with regards to national planning, budgeting, public financial and aid management in line with globally (Paris, Accra, Busan) and regionally (Pacific) accepted principles for aid/development effectiveness.

Following are the detailed considerations for the Peer Review:

National Planning, Budgeting, Public Financial and Performance Management – Ownership & Managing for Results:

- Processes for preparing and reviewing national and sector development plans, including:
 - whether the national and sector plans define a clear and achievable set of development results and set realistic timeframes for achieving these;
 - how effectively domestic stakeholders are consulted in the preparation and review of national and sector plans;
 - evidence of prioritisation of activities within national and state sector plans;
 - the extent to which the Government has communicated national and sector plans within Government and to other domestic stakeholders;
 - the extent to which the Government has established and implemented an effective review process for national and sector plans;
 - how evidence (including statistics) was used to develop national and sector plans, set budgets and monitor progress.
- Links between the national plan, sector plans and budgets, including:
 - the extent to which the plans included above are supported by realistic and appropriately costed annual budgets and sector plans;
 - whether the processes for developing and reviewing national plans, sector plans and annual budgets are integrated with each other.
- Monitoring the implementation of national and sector development plans, including
 - Processes and frameworks for tracking and reporting progress against outcomes in national and sector plans, and for drawing policy conclusions;

- Existence of and effectiveness of public financial management and procurement systems; and
- Existence of and effectiveness of public sector performance management systems and processes and the links with national and sector plans and budgets.

Aid Management – Alignment, Harmonisation and Mutual Accountability

- Relationship of development partners to national and sector development plans, including
 - the extent to which development partners align their assistance to the priorities articulated in national and sector plans in a coordinated manner;
 - the effectiveness of mechanisms for development coordination (e.g. Development Partner Meetings and prior Consultative Group Meetings);
 - the extent to which development partners harmonise among themselves to ensure coherent and collective assistance to the government (e.g., joint missions, joint assessments, joint country strategies, joint programmes);
 - the adequacy of national and sector plans to provide clear guidance to development partners on how aid can complement national resources;
 - the extent to which development partners deploy aid resources through national (government and other domestic stakeholder) systems;
 - from progress reporting.

In recognition of the pressing challenges facing the FSM, the Peer Review team shall also consider the following area:

Promoting Private Sector Development

- Suitability of the existing policy environment for promoting private sector development
 - the effectiveness and suitability of Government policy efforts to promote private sector development and investment within the FSM;
 - barriers to investment in the FSM.
- Lessons learned from other FICs
 - experiences of other FICs in promoting private sector growth – mechanisms, challenges, liberalisation of core service sectors, success stories, failures and long-term impacts.

Throughout the Peer Review process, the review team shall consider the FSM's unique challenges in the context of the above-mentioned issues, with particular attention paid to the loosely federated nature of the FSM, the division of powers between National and State governments, the division of powers between executive and legislative arms of all five governments, and the inherent political challenges associated with these divisions of power.

3.0 Outputs

The key output from the Peer Review process will be a report prepared by the review team and agreed by the Government that will summarise the available evidence, based on existing documents and in-country consultations, to draw conclusions on the above issues as the basis for:

- Recommendations to the Government on how it can improve:
 - processes for preparing and reviewing its national and sector plans, including consultation mechanisms with domestic stakeholders;
 - processes for linking these plans to the annual budget;
 - coordination of development partner assistance, including by providing appropriate guidance through national and sector plans;
 - budget allocation and monitoring systems; and
 - policy environment to promote private sector growth and investment.
- Recommendations for development partners on how they can improve:
 - processes for aligning their assistance to the priorities articulated in the national and sector plans;
 - processes for coordinating assistance between development partners;
 - extent of use of FSM's planning, budgeting, public financial and aid management systems;
 - efforts to reduce fragmentation of aid delivery and reduce transaction costs for the FSM government; and
 - efforts to support and strengthen FSM Government monitoring and implementation systems.

4.0 Review and support Team

The review team will consist of representatives from the Republic of the Marshall Islands Mr Catolino Kijiner, Samoa (Noumea Simi), Vanuatu (Johnson Naviti) and one representative from the United Nations system in the Pacific (Asif Chida). The Peer Review Team will be supported by the Regional Planning Adviser (Charmina Saili), the PIFS Forum Compact consultant (John Winter) and PIFS communications staff.

5.0 Stages of review process

5.1 Pre-Analytical review

The PIFS will prepare an Information Brief on FSM's systems of planning, budgeting, public financial and aid management for the Peer Review Team.

5.2 In-country review

The in-country Peer Review process will take no more than 14 working days.

Prior to the consultations, the **Peer Review Team will hold an initial briefing with the office of SBOC** to confirm the objectives and focus of the Peer Review and the stakeholders to be consulted.

The Peer Review team would then meet with relevant stakeholders. A list of stakeholders will be agreed between the Government and the review team. It is anticipated that consultations will include:

- President and relevant Executive, Speaker of Congress and Chairpersons of Public Accounts and Foreign Affairs Committees);
- Secretaries/Directors and officials in central planning and financial management agencies and key service delivery agencies (e.g. education, health, infrastructure/works, community development);
- Representatives of key development partners; and
- Representatives of non-government organisations and the private sector.

A **Peer Review Debrief** will be held on the last day of the Peer Review visit where **the Peer Review team will provide preliminary findings from the Peer Review consultations. Stakeholders from both government & non-government sectors and development partners will be invited to attend.**

5.3 Post Peer Review Process

1. Preliminary Report by Peer Review Team

Within two weeks of the completion of the in country Peer Review visit; the Peer Review Team, with support of the PIFS, will submit a preliminary Peer Review Report to the FSM National Government for review and comment.

2. Government approval of the Peer Review Report

The FSM will respond to the draft report **within two weeks** of receiving it and be asked to approve a **final Peer Review Report within six weeks** of completion of the Peer Review visit.

3. Dissemination of the Peer Review Report

Within two weeks of FSM approval of final Peer Review reports, the FSM Peer Review Report will be published by the PIFS and disseminated widely by the PIFS to all Forum members and development partners via PIFS Circular and on the PIFS website.

4. FSM and PIFS Report on Peer Reviews to PIC-Partners and PPAC meetings

FSM and the PIFS will present the Peer Review report and a consolidated report summarising the Peer Reviews undertaken in 2012 and 2013 at the PIC – development partners meeting and the Pacific Plan Action Committee (PPAC) meeting. The conclusions of the Peer Reviews will be reported to the Forum Leaders meeting as part of the PPAC Chair's Letter to the Chair of the Forum.

5. FSM and PIFS Report on Reviews to Leaders and Post Forum Dialogue – September 2011

PIFS will present [a summary of] the Peer Review report and a consolidated report summarising the Peer Reviews undertaken in 2012 and 2013 to Forum Leaders and the Post-Forum Dialogue to inform discussions on development coordination.

FSM can also consider presenting a high level report potentially through their leader's address to the Forum Leaders on their Peer Review process and follow up.

6. Development Coordination Action Planning, Resourcing and Implementation:

Based on the preference of the FSM National Government it is proposed that there be a follow-up visit by the PIFS and development partners to the host country to discuss concrete work plan/actions and resource framework/division of labour for implementing the recommendations of the Peer Review Report. This visit is proposed to happen within no more than six months after the completion of the Peer Review in country.

Alternatively and/or additionally, and again based on the preference of the FSM National Government, the government can integrate the Peer Review Recommendations into their ongoing national development planning, budgeting and aid coordination/management development strategy/plan and processes.

It is proposed that consideration be given to a simple Monitoring and Evaluation Framework/indicators agreed between the Government, development partners and PIFS, to be developed and used to track the implementation of the Peer Review Recommendations (recommendations to both Government and Development partners).

6.0 Administrative and funding arrangements

In addition to the consultant, PIFS will provide logistical and administrative support to the Peer Review process coordinated by the Regional Planning Adviser.

The major costs of the Peer Review process will be met by PIFS with the support of Australia and New Zealand (and possibly other development partners). These costs include the consultant and administrative support provided by PIFS, travel by the Peer Review team and incidental costs incurred by the Government such as hiring meeting facilities and catering. The only significant costs to the Government will be the time of officials consulted. Development partners participating in the review team will cover their own costs.

The Government will nominate a designated focal point to set up and manage the consultation process in close coordination with PIFS.



Shop Vendor, Pohnpei State, FSM

Annex 2: List of People Consulted

List of Stakeholders Consulted in FSM

FSM National Congress

H.E. Emanuel Mori President of the Federated States of Micronesia

FSM National Government

FSM Foreign Affairs

Lorin S Roberts Secretary, Foreign Affairs
 Samson E. Pretrick Deputy Secretary, Foreign Affairs
 Kandhi A. Elieisar Assistant Secretary
 Brendy Carl Deputy Assistant Secretary, Asian Affairs
 Jackson Soram Deputy Assistant Secretary for Multilateral Affairs
 Berlino Martin Deputy Assistant Secretary
 Carson M. Mongkeya Deputy Assistant Secretary for European Affairs

Statistics, Budget, Overseas Management, Compact Management

Evelyn Adolph Director, SBOC
 Gilian Doone Assistant Director, ODA
 Suzanne Lowe Gallen Assistant Director - Compact Management, SBOC
 Kemsy Sigrah Compact Sector Specialist
 Ben Mayes ODA Specialist
 Sancherina Salle Chief Economist/budget & Economic Management
 Alan Semens SBOC

FSM Public Auditor's Office

Haser Hainrick National Public Auditor, FSM Public Auditor's Office, FSM
 Manny San Jose Jr Audit Manager, FSM Public Auditor's Office, FSM

FSM Education

Arthur Albert Chief, Division of Special Service - NDOE
 John Curley Chief, Division of Career and Technical Education - FSMNDOE
 Wehns Billen Development officer
 Wayne Mendiola Post-Secondary Administrator
 Rufino Mauricio Secretary, NDOE
 Burnis Danis Chief, Basic Education

FSM Health

Dr Vita A. Skilling, Secretary for Health, Department of Health

FSM Resource & Development

Marion Henry Secretary of Resources & Development
 Alissa Takesy Assistant Secretary, Resource Management & Development
 Camille Movick Inatio Acting Assistant Secretary, Trade & Investment

FSM Transport & Infrastructure

Phillip Joseph	Assistant Secretary, Infrastructure
Leo LoKopme	Assistant Secretary for Marine Transport
Jolden Johnnyboy	

Private Sector representative

Mr Herman Semes	Member of the Association of FSM Chamber of Commerce
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POHNPEI STATE**Pohnpei State Legislature (PSL)**

Aurelio P Joab	Senator – Chairman, Research & Development
Alpino Kerman	Senator – Chairman, Finance
Stevick Edwin	Senator – Chairman, Public works & Transport
Brandon J Tara	Finance (PSL)
Ishmael Lebehn	Senator (PSL)
Carlos Villazon	Legislative Chief Clerk
Johnny Hadley Jr.	Project Coordinator (PSL)
Christina Elnei	Budget Officer (PSL)

Economic Affairs - Pohnpei

Kukulynn Gallen	Acting GM
Kadalino Lorens	Administrator

Education - Pohnpei

Pete Panuelo	Chief, Elementary Education
Reynold Albert	Chief, C & I

Health - Pohnpei State

Paulino Rosario	Acting Director, Health Services
Simao Nanpei	Health Administrator

Finance, Administration & Budget (ODA) - Pohnpei

Thomas S Pablo	Director of Treasury & Administration
Andrew Joseph	Chief, Division of Finance
Angeline Neth	Chief, Revenue & Tax
Paulino T Lambert	Chief, Personnel, Labour & Manpower Development
Edwin Barnaevo	Financial Advisor
Molleigh-Ann Edward	Budget Analyst I
Serleen Hadley	Budget Analyst II

Pohnpei NGO

Petson Albert	PYC
Person Joseph	Youth Coordinator
Linda Amor	PYC
Swihner Sultan	PWAC
Naniko Sulden	PWAC
Rose Mulholland	PWAC

Susanne Soles	PWAC
Adeline Peta	PWAC
Juanita Lawrence	PWAC
Atelia Sultan	PWAC
Bernolina L Hedson	PWAC
Eugene Joseph	Conservation Society of Pohnpei

KOSRAE STATE**Kosrae Executive Government**

Lyndon Jackson	Governor, Kosrae
Palikun Shrew	Acting Speaker, Kosrae State Legislature
Bob Skilling	Chairman, Ways & Means Co, Kosrae State Legislature

ODA - Kosrae

Tiser Reynold	Director, Administration & Finance Dept.
Lipar George	BSODA - Administrator
Switson Robert	Finance - Administrator
Ursula S Abalos	Accounting Advisor
Shrue Nedlic	Budget Officer
Sian Nivison	ODA Officer/Staff Coach

NGOs - Kosrae

Divina H. Nena	Kosrae Women in Farming - President
Andy George	Kosrae Conservation and Safety Organisation
Hans Skilling	Kosrae Youth Development Association / Red Cross
Shiro Sigrah	Kosrae Youth Development Association
Matthew Simpson	Kosrae Women in Training (Advisor)

Health Kosrae

Dr Livinson Taulung	DHS
Rinehart William	HRH Manager
Nena M Tolenoa	Admin Preventive
Kun Mongkeya	Admin Services

Education Kosrae

Lyndon L Cornelius	Director
Wilson Kephass	Program Manager
Carolyn R Shrew	Administration Officer

Research & Economic Affairs, Kosrae Visitors Bureau, Small Business Development Corporation

Steven L George	Director
Alokoa J Sigrah	SBDC Business Director
Palikkun Kilafwasru	Staff Economist
Madison Nena	Administrator
Grant Ismael	Administrator

Department of Transport & Infrastructure

Weston Luckymis	DT&I
Ricky Leben	Project Manager
Nelson Henry Jr	Cons Inspector
Guirino Lyoca	Registrar

YAP STATE

Sebastian Anefal	Governor
Tony Tareg	Lt. Governor
Maria Laaw	Director, Office of Administrative Services (OAS)
Frank Haregaichig	Director, Department of Resources and Development
Ruotpong Pongliyab	Director, Department of Youth and Civic Affairs
Vincent Parren	Director, Department of Education
James Gilmar	Director, Department of Health Services
Vincent Figir	Director, Department of Public Works
James Gilmar	Director, DHS
Vincent Figir	Director, Dept. of Public Works & Transport
Rade Pongliyalo	Director, Yap State Government Dept. of Youth & Civic Affairs
Vincent A. Parren	DOE Director
Arnold Yokbay Ken	DOE Administrator
Pius You	Yap AHEC Director
Dominic Taruwerrai	Deputy Director, Health Services
John Gilmatam	CEO
Manuel Maleichog	Deputy Director, Department of Public Works & Transport
Henry Falan	Speaker, Yap State Legislature
Henry Falan	Speaker, Yap State
Julie Youw	Chief, Public Health
Robert Fatharjambay	Chief, Finance & Treasury OAS
Vitt Foneq	Chief, C & I
Tamdad Sulog	Chief, Agriculture
Anna Boliy	Chief, Clinical Core Services
Sabino Sauchomal	House Leader
Constantine Yowbalaw	Chief of Planning, Office of Planning and Budget (OPB)
Rachel Nash	State Grant Writer, Overseas Resource Generation Unit (ORG)
Robert K Hedges	Finance Adviser - OAS
Christina Fillmed	Yap State EPA
James Yinug	Marine Resource Management Division
Frank Havegaichig	Resource & Development
Jack A Moorow	Infrastructure Coordinator, DOE
Ignathio Berag	Management & Support Administrator
Dominic Fanasog	DOE Professional Development Coordinator
Darlene Giley	Accountant, Health Services
Lucy Bigelow	QA Coordinator, Health Services
Jessy Haglelfeg	Pharmacist/PHHEP Coordinator
Marea Mafel	Lab Supervisor

Jesse Raglmar	Chairman, Committee on Govt., Yap State
John Mooteb	Vice Chairman, Committee on Finance
Leona Tamag	Women's Interest Office
Francis Reg	Historic Preservation Office
Sophiano Limol	Yap Chamber of Commerce
Vincent Tafiteluw	YUB
Julian Tavasilpy	YCAP
Don Evans	YUB
Berna Gorong	Yap Networker
Larry Raigetel	WAA'GEY
Moses L Fathal	YAPCAP
Francis Fithingmow	COP
Jesse Remaunog	COT
Petrus Poeyan	COP

CHUUK STATE

Peitis Heedart	Lt. Governor
Alonso Cholymay	Senator
M. Mailo	Senate/President
B. Kellia	Representative
M. Akapito	Representative
K. Matus	Representative
Innocente Oneisom	Representative
Martin H Edward	Representative
Ismael Mikel	Director, EPA
Gardenia Aisek	Director, Department of Education
Kantito Kanas	Director, Department of Agriculture
Mason Fritz	Director, Chuuk VB
Resty Shotaro	Deputy Director, CDHS
Chimres Teresio	Acting Director, Marine
Redley Killion	President, FSMACC/President Chuuk State Chamber of Commerce
John Schnebly	Department of Admin Services
Justiu Fritz	Coordinator, Micronesia Red Cross
Minoru R. Mori	FSMTC - Chuuk
Myjolyne Kim	ED, FSMACC
Yvonne Pangelinan	President of RCTL
Jolly P. Pillmon	Sgt. DPS
Sisinio Willy	Chuuk ODA
Ana Maria Eis	Secretary, RCTL/CDOE
Juergeus	LCCSL

Annex 3: FSM Government focal points, Peer Review and Support Team

DEVELOPMENT PARTNERS

Asian Development Bank

Ikuko Matsumoto Director, Urban, Social development & Public Management Division, Pacific Dept.
Hans Van Rijn Senior Public Sector Management Specialist
Esmond Moses ADB Officer

AusAID

H.E. Martin Quinn Australian Ambassador
Dr Leah Briones Senior Program Manager
Eugene Amor Assistant Program Manager

Japan Embassy - Pohnpei

H.E. Eiichi Suzuki Ambassador
Takafumi Ura Second Secretary
Masaki Tani Deputy Chief of Mission
Kaoru Iwasaki JICA representative
Paulyn Steezia JICA officer
Takeda Takako Embassy of Japan

Peoples Republic of China Embassy - Pohnpei

H.E. Zhang Lianyun Ambassador
Liu Yu Attache for Business

United Nations Joint Presence

Okean Ehmes Country Development Manager

United States, Embassy - Pohnpei

H.E. Doria Rosen Ambassador
Miguel Ordonez Deputy Chief of Mission
Charles Thomas Consular/Economic Officer

World Bank

Lucy Pan Analyst, Poverty Reduction & Economic Management

Government of FSM

- Mr Lorin S Roberts, Secretary for Foreign Affairs
- Mr Kandhi A Elieisar, Assistant Secretary for Foreign Affairs for Africa, Pacific & Multilateral Affairs
- Ms Evelyn Adolph, Director SBOC
- Mr Gillian Doone, Assistant Director ODA, SBOC
- Mr Ben Mayes, ODA Specialist, SBOC

FSM Peer Review Team

- Ms Noumea Simi, Assistant CEO, Aid and Debt Management Division, Samoa Ministry of Finance, Apia Samoa
- Mr Catalino Kijiner, Budget Director, Ministry of Finance, Majuro, Republic of the Marshall Islands
- Mr Johnson Naviti, Head, Aid Management Unit, Vanuatu Office of the Prime Minister, Port Vila, Vanuatu
- Mr Asif Chida, Regional MDGs and Private Sector Development Specialist, UNDP Pacific Center, Suva, Fiji

PIFS Peer Review Management/Technical & Communications Team

- Mr Feleti Teo, Deputy Secretary General, PIFS (6-8 November 2012)
- Ms Charmina Saili, Regional Planning Adviser, Pacific Islands Forum Secretariat
- Mr John Winter, PIFS consultant, Peer Review
- Mr Johnson Honimae – Public Affairs Officer, Pacific Islands Forum Secretariat (Peer Review video and PR)
- Ms Portia Domonatani, Forum Compact Research Assistant
- Mr Jason Chute, PIFS consultant – Communications (Peer Review video and FSM photography)



Palm plants along the road to Money Bank in Yap State, FSM





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