



BUDGET MANUAL

3 APRIL 2023



**BUDGET AND ECONOMIC MANAGEMENT DIVISION
DEPARTMENT OF FINANCE AND ADMINISTRATION**





Department of Finance and Administration

📍 Trahn Annim Bldg
2nd floor Palikir,
Palikir, 96941FSM
P.O.Box PS 158,
Palikir, Pohnpei FM
96941

☎ (691) 320-2640/5852

🌐 www.dofa.gov.fm



BUDGET MANUAL

3 APRIL 2023



BUDGET AND ECONOMIC MANAGEMENT DIVISION
DEPARTMENT OF FINANCE AND ADMINISTRATION



TABLE OF CONTENTS

1.	introduction	10
1.1	Purpose	10
1.2	Users	10
1.3	Scope+13.....	10
1.4	Organisation	11
1.5	Benefits	11
1.6	Style	11
1.7	Review and update	11
2.	Budget preparation	12
2.1	Balanced budget legal requirement	12
2.2	Fiscal Strategy	12
2.3	Key tasks of budget formulation	12
2.4	Procedure for preparing the medium-term macroeconomic framework.....	13
2.4.1	Steps to prepare a macroeconomic framework.....	14
2.4.2	Distribution of responsibilities.....	15
2.5	Procedure for preparing the medium-term expenditure framework.....	15
2.5.1	Steps to prepare medium-term expenditure framework (forward estimates).....	15
2.5.2	Distribution of responsibilities.....	17
2.6	Procedure for setting expenditure ceilings	18
2.6.1	Steps to set expenditure ceilings	18
2.7	Procedure for preparation of the budget call.....	20
2.7.1	Steps to prepare the budget call	20
2.8	Procedure for the budget workshop.....	20
2.8.1	Steps to implement budget workshop.....	20
2.9	Procedure for pre-budget consultations.....	21
2.9.1	Steps for pre-budget consultations.....	21
2.10	Procedure for budget planning within expenditure ceilings	25
2.10.1	Steps to conduct sector review and prioritisation within expenditure ceilings	25
2.11	Procedure for preparing program (performance) budget.....	28
2.11.1	Steps in preparing the program budget	28
2.12	Program budget checklist	34
2.13	Procedure for budget proposals form process content review	38

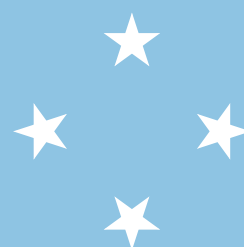
2.13.1	Date for submission of budget proposals	38
2.13.2	Purpose of the review of budget proposals	38
2.13.3	One budget with two components	38
2.13.4	Components of the review process	38
2.13.5	Steps to conduct the form review	39
2.13.6	Steps to conduct the process review	39
2.13.7	Steps to conduct the content review	40
2.13.8	Rating system	40
2.13.9	Distribution of responsibilities	40
2.14	Procedure for budget proposals expenditure policy review	40
2.14.1	Purpose of the budget expenditure policy review	40
2.14.2	Steps to conduct budget expenditure policy review	40
2.15	Procedure for Executive Budget Review Committee hearings	42
2.15.1	Steps for budget hearings	42
3.	budget adoption	44
3.1	Procedure to support legislative review and adoption of the budget	44
3.1.1	Steps for review and adoption of the budget	44
3.2	Appropriation bill	44
3.3	Procedure for preparation of the Citizens' budget.....	45
3.3.1	Citizens budget preparation following signing of the appropriation bill	45
3.3.2	Steps to prepare Citizens' budget	45
4.	Budget implementation	46
4.1	Procedure for administering implementation of the budget	46
4.1.1	Steps in administering implementation of the budget.....	46
4.2	Budget monitoring and in year reporting	50
4.2.1	Steps in monitoring and reporting	50
4.2.2	Reporting formats and instructions.....	50
4.2.3	Distribution of responsibilities.....	51
5.	Program budget evaluation.....	52
5.1	What is evaluation?	52
5.2	Operating principles of evaluation	52
5.3	Key evaluation questions	54
5.4	Types of evaluation	54
5.5	Approval to undertake evaluations	55

5.6	Publication of all evaluations with exceptions.....	55
5.7	Example of ex post evaluation of capacity building program.....	55
5.8	Strategy for implementing evaluation.....	56
5.9	Evaluation report	57
6.	ANNEXES	58
6.1	summary of the budget process.....	58
6.1.1	Budget preparation.....	58
6.1.2	Budget Adoption.....	58
6.1.3	Budget Execution	59
6.2	Budget Call FY 2024.....	59
6.3	Budget working group terms of reference.....	61
6.3.1	Purpose.....	61
6.3.2	Membership.....	61
6.3.3	Meetings	62
6.3.4	Description of tasks.....	62
6.4	example of program activity costing methodology	62
6.4.1	Objectives of costing	62
6.4.2	Apportionment of costs	62
6.4.3	Example of approach to activity costing	63
6.5	Budget preparation forms.....	65
6.5.1	Project Control Document.....	65
6.5.2	PERSONNEL LINE-ITEM BUDGET TEMPLATE	72
6.5.3	TRAVEL LINE-ITEM BUDGET TEMPLATE.....	73
6.5.4	CONTRACTURAL LINE-ITEM BUDGET TEMPLATE	75
6.5.5	OTHER CURRENT EXPENDITURE BUDGET TEMPLATE	76
6.5.6	FIXED ASSETS LINE-ITEM BUDGET TEMPLATE.....	77
6.5.7	Line Item Budget Template	78
6.5.8	Performance Budget Template.....	80
6.6	Template for integrating the line item budget and the performance budget ..	81
6.7	Important budget preparation dates to remember FY2024.....	84
6.8	Budget execution forms.....	85
6.8.1	Advice of Allotment template.....	85
6.8.2	Request for Change in Allotment template.....	86
6.9	budget reporting important dates to remember.....	87

6.10 budget reporting forms.....	88
6.10.1 Quarterly Physical and Financial Report of Operations and Absorptive Capacity	88
6.10.2 Quarterly Physical and Financial Activity Report of Operations	89
6.10.3 Annual Budget Allotment Report	90
6.11 Analysing Financial and Performance Reports	91
6.11.1 Example of how to use physical output and financial reports.....	91
6.12 Policy impact assessment.....	95
6.12.1 Rationale	95
6.12.2 Definitions	95
6.12.3 Distribution of responsibilities.....	100
6.12.4 Net Present Value	100
6.12.5 Example of using net present value to choose between two options	101
6.13 Procedure for monitoring and reporting on public financial management Reform Roadmap 2023 – 2026 implementation.....	102
6.13.1 PFM Steering Committee	102
6.13.2 Progress report format.....	102
6.13.3 Distribution of responsibilities.....	102
6.14 Template for the Annual Economic and Fiscal Update	103
6.15 Compact budget procedure	105
6.15.1 Legal basis	105
6.16 glossary.....	107

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
BEMD	Budget and Economic Management Division
BEP	Budget Expenditure Policy
BPA	Budget Procedures Act 1981
BWG	Budget Working Group
COLA	Cost of Living Allowance
DoFA	Department of Finance and Administration
EBRC	Executive Budget Review Committee
FE	Forward Estimates
FMA	Financial Management Act 1979
FMR	Financial Management Regulations 2021
FSM	Federated States of Micronesia
GDP	Gross Domestic product
IDP	Infrastructure Development Plan 2016-2025
MTEF	Medium-Term Expenditure Framework
MTMF	Medium-Term Macroeconomic Framework
NPV	Net Present Value
ODACM	Overseas Development Assistance and Compact Management
OP	Office of the President
PB	Performance Budget
PCD	Project Control Document
PIA	Policy Impact Assessment
PI	Performance Indicator
PFM	Public Financial Management
PT	Performance Target
SDP	Strategic Development Plan 2004-2023
SOP	Standard Operating Procedures
US	United States



1. INTRODUCTION

1.1 Purpose

The operational, budgetary procedures used by the Department of Finance and Administration (DoFA), Budget and Economic Management Division (BEMD) are not written down in a single document. The BEMD Standard Operating Procedures (SOP) presented in this document are intended to provide a comprehensive reference of the operational budgetary procedures used by the BEMD. Some of these procedures fill gaps and are not yet fully implemented, while others are routinely used and already embedded in daily operations. These existing procedures have been strengthened where the procedure in question needed attention, while others remain unchanged. The SOP also includes a procedure and template for policy impact assessment in line with the BEMD policy advisory role.

1.2 Users

The primary intended user of this document is the BEMD. The secondary users will be the Departments and Agencies¹ of the National Government because they will need to align their budgetary procedures to that of BEMD to meet the operational requirements of the budget cycle. Furthermore, each of the four States Governments of the Federated States of Micronesia (FSM) could also align their operational budgetary procedures to that of the National Government, if they so desired, while maintaining the State Governments local autonomy.

1.3 Scope+13

The scope of the SOP is provided by the existing National Government Budget cycle and the roles and responsibilities of the BEMD.

The National Government Budget Calendar consists of three distinct phases and timings, as follows.

- Budget preparation (October to July).
- Budget adoption (August to September).
- Budget Execution (October to September).

The BEMD is responsible for the following:

- Preparing, presenting and administering the National Government Budget for the General Fund and all Special Revenue Funds of the National Treasury.
- Providing sound economic and financial policy advice.

The procedures operated by BEMD during budget preparation, adoption and execution and its economic and financial policy advisory role form the content of this document.

¹ For convenience the term Agency also includes Boards, Commissions and Offices of the National Government.

1.4 Organisation

For each stage of the budget cycle, the operational budgetary procedures to be followed by the BEMD are set out in a series of steps. This is followed by a description of the distribution of responsibilities within BEMD governing the operations of each procedure. The Glossary provides definitions of keywords used in the text. The Annexes provide relevant forms and additional guidance and for reference the first annex summarises the overall budget process.

1.5 Benefits

The benefits of the SOP are:

- Consistency: provides a means for all staff completing tasks in the same way and on time.
- Compliance: provides assurance that budgetary operations are in line with policies, laws and regulations.
- Institutional knowledge: provides a permanent store of in-house knowledge as some staff leave and others join.
- Single reference: provides in one document the operational budgetary procedures for the BEMD.
- Capacity development: provides a basis for developing functional training for BEMD that is consistent with existing policies, laws and regulations.

1.6 Style

The SOP is intended to be user-friendly and understandable to all. The intent is to present the procedures clearly and succinctly.

1.7 Review and update

The SOP will be reviewed periodically and updated as required based on the actual experience of users and in line with any policy, legal, or regulatory changes. The frequency of the review will be determined by the Assistant Secretary Budget, as will the need for any changes. Revisions to the SOP will need to be approved by the Secretary of Finance and Administration.



2. BUDGET PREPARATION

2.1 Balanced budget legal requirement

Formulation of the National Government Budget is influenced by the legal requirement that the budget is balanced (i.e. revenues equal expenditures) and that estimates are required for the budget year and two subsequent fiscal years in line with a medium-term perspective to annual budgeting.

2.2 Fiscal Strategy

The balanced budget legally binding rule is the cornerstone of the National Government's fiscal strategy. The National Government's domestic resource mobilisation is anchored on increasing domestic revenues to bring the Federated States of Micronesia (FSM) into line with other Pacific Island countries' GDP/revenue ratios. Raising additional revenues year on year is designed to finance a balanced budget and to generate surpluses for deposits into the FSM Trust Fund. This FSM Trust Fund is separate from the Compact Trust Fund. The FSM Trust Fund is intended as a safeguard against potential revenue falls in the future and is aligned with a sustainable debt strategy and stable macroeconomic management.

2.3 Key tasks of budget formulation

It is important to note that the National Government budget has two main components - a performance budget and line item budget. A key challenge of the budget process is to ensure that performance budget preparation drives formulation of the line item budget because the former sets out the budget plan and the latter the cost. Good budget formulation must address:

1. What we want to achieve consistent with mandates and policies;
2. How we aim to achieve it through budget planning presented in the performance budget;
3. How much it will cost set out in detailed estimates in the line item budget; and
4. How success will be measured based on actual performance against target performance.

Items 1 and 2 are covered by budget planning that links legal mandates and policy priorities of the Strategic Development Plan (SDP)² through articulation of Strategic Goals, Objectives, Outputs and Activities in the form of Programs presented in the performance budget. The performance budget is completed first to drive policy based preparation of the line item budget.

Item 3 is covered by formulating detailed line item budget estimates that cost the activities needed to produce the outputs that will contribute to short term objectives and medium to longer-term strategic goals (outcomes).

Item 4 is covered by identifying appropriate measures of achievement that enable monitoring and reporting of planned and actual progress during budget execution.

2 The current SDP 2004-2023 is being updated in 2023.

Box 1: Budget is the main instrument for implementing National Government policy

Good budget preparation will lead to sound policy narrative presented in the performance budget that provides the direction for preparation of the line item budget. This will lead to budget hearings that focus on both policy preferences and scrutiny of proposals for increases in line item budgets. Without a well prepared performance budget the tendency will be to focus simply on requests for upward revision of line item budgets and undermine the principle that policy shall drive budget formulation. The central purpose of National Government budget preparation is to link budget to approved policy priorities in order to ensure that the budget achieves its purpose of implementing National Government policy.

This section of the SOP provides the procedures for preparation of the following:

- a) Medium-term macroeconomic framework
- b) Medium-term expenditure framework.
- c) Expenditure ceilings
- d) Budget call; e) Budget workshop; f) Pre-budget consultations.
- e) Program budget and performance measures of achievement.

Box 2: Distribution of budget preparation roles and responsibilities

Budget preparation is organised into three phases:

1. **A top-down strategic approach** consisting of evaluating the financial constraints, setting up aggregate fiscal objectives and making strategic choices within budget ceilings in accord with Government policies. The role of BEMD is dominant in this part of the process.
2. **A bottom-up strategic approach** consists of reviewing existing policies and expenditure priorities and preparing and costing performance budgets within the spending limits established during the first phase. This part of the budget process is primarily the responsibility of departments and agencies.
3. **A reconciliation mechanism** between these two approaches and a **finalisation mechanism** that produces a draft annual budget. The role of BEMD and the EBRC is dominant in this part of the process.

2.4 Procedure for preparing the medium-term macroeconomic framework

The purpose of the medium-term macroeconomic framework (MTMF) is to project available revenues for the forthcoming budget year. So that this can be matched to planned public expenditures consistent with the legal obligation that the budget must be balanced, meaning that Congress appropriates a budget in which revenues are equal to expenditures.

The macro-fiscal function performs three regular key tasks, as follows:

- Provide reliable estimates of the resources that will be available over the medium-term through macro-fiscal projections. The medium-term is defined here as three (3) years of one (1) budget year and two (2) outer years.
 - Macro-fiscal modelling entails developing baseline multi-year projections of revenues, expenditures, and financing under current policies.
- Identify risks to macroeconomic stability and debt sustainability through macro-fiscal analysis and policy development
 - Macro-fiscal analysis and policy development entail developing scenarios to assess the impact of policy changes, proposed legislation or external shocks to the baseline projections and developing policies to undertake corrective action.
- Monitor budget execution during the year and identify and analyse significant deviations from projections
 - Macro-fiscal monitoring entails consulting with units responsible for budget execution to monitor whether projections are achievable and/or if large deviations are expected. This is reported annually to Congress on the preparation of the Economic and Fiscal Update prepared by BEMD that reviews economic and fiscal developments using national statistics, budget execution reports and audit reports and other relevant information such as developments in the world economy.

2.4.1 Steps to prepare a macroeconomic framework

Step 1: The macroeconomic model is defined at the discretion of the Chief Economist in a way that is most convenient for operating the model and creating an effective dialogue with senior officials and Congress.

Step 2. Starting from gross domestic product (GDP) projections and fiscal projections to calculate different scenarios for the government's financing requirement is the main procedure for operating the MTMF. This comprises estimates of resources availability based on projections of economic growth, domestic revenues and availability of development partner's funds and other financing.

Step 3. Specific analyses are needed to prepare the MTMF. For example, projecting revenues shall be based on detailed analyses of individual taxes and seasonality. Domestic revenues tend to be stable except for fishing licenses, which can fluctuate due to market conditions pertaining to the price of fish, the status of fishing licenses negotiations and migratory patterns of tuna (moving towards or away from FSM) that may influence the amount of fishing access fees.

Step 4. The macroeconomic projections must be based on accurate and timely national accounts data, and statistics of a similar quality for the government sector, balance of payments and the real sector. The macroeconomic framework does not make monetary projections because FSM uses the United States dollar as its national currency.

Step 5. Preparing the fiscal projections requires considering changes in laws and regulations that may affect government revenue, expenditure, financing and other financial operations. For example, changes in corporate tax rates, introduction of new taxes and increases or decreases in import duties.

Step 6. The macroeconomic projections underlying the budget should include variants calculated based on different assumptions, such as changes in world oil prices and other relevant developments in the world economy that influence the FSM economy, for example, through the costs of imports.

Step 7. Fiscal risks related to contingent liabilities and policy commitments must also be assessed.

Step 8. Preparing aggregate multi-year expenditure and revenue estimates help both in formulating aggregate fiscal objectives and making strategic policy choices. Multi-year expenditure estimates provide the basis to prepare budget preparation expenditure ceilings, presented below in Section 3.1.

Step 9: The preparation of a MTMF should be a continuing activity. The framework needs to be prepared at the beginning of each budget cycle, to give adequate guidance to the budget preparation process. It shall then be updated during the further stages of budget preparation, in order to take into account intervening changes in the economic and fiscal environment. During the budget execution phase, macroeconomic projections require frequent updating in order to assess the impact of external changes or of possible slippage in budget implementation. For example, skilled labour shortages that have macroeconomic stability implications as well as budget execution ones because, for example, a shortage of project engineers will impede the delivery of on-time implementation of infrastructure projects.

2.4.2 Distribution of responsibilities

The MTMF is prepared and updated by the BEMD Chief Economist, supported by BEMD economic analyst(s), and oversighted by the Assistant Secretary Budget reporting to the Secretary of Finance and Administration. The BEMD coordinates its activities with the Division of Statistics, National Oceanic Resource Management Authority (NORMA) and the Office of the Public Auditor and other organisations of the National Government and with the relevant organisations of each of the four State Governments. The BEMD develops, maintains and updates the MTMF for the National Government and each of the four State Governments.

2.5 Procedure for preparing the medium-term expenditure framework

The MTMF provides the basis for preparation by BEMD of a medium-term expenditure framework (MTEF) that provides an indication of likely resource availability and expenditure ceilings (see section 3.1) within which National Government Departments and Agencies will frame their budget proposals.

2.5.1 Steps to prepare medium-term expenditure framework (forward estimates)

Step 1: In budget preparation, a policy is a decision that guides the provision and level of public services. New policies are to be excluded from the forward estimates (expenditure baseline). A new policy has the following characteristics:

- Public investment in a new area(s).
- Significant change in the level of services associated with an existing program.
- Major change in the implementation of an existing program.

All other approved policies that do not match the above criteria exist and are assumed to remain unchanged.

Step 2: To prepare forward estimates:

- Disaggregation is set at the level of a Division
- Costs are based on inputs.
- Current budget is the base year.
 - But adjust the base year to exclude costs that will not be incurred in the next 2 years. For

example, election costs that occur only every four years and emergency social assistance such as COVID-19 payments.

- Include the effects of past policies that have not been fully implemented in the base year, for example, a major computerisation modernisation system program that began during the course of the year.

Step 3: Calculate projected costs for the following expenditure items:

- Operating expenditures
 - a. Personnel services – based on the latest approved list of personnel;
 - b. New personnel services - proposed creation and filling up of vacant posts;
 - c. Others - requirements for retirement benefits/ terminal benefits, salary increases
 - d. Consider demand-driven changes, for example, population, cost of maintaining the existing level of service such as teachers/classrooms/pupils ratios;
 - e. Include maintenance requirements of existing as well as newly completed facilities and newly acquired assets, for example, vehicles.
 - f. Include office equipment and furniture and fixtures that have to be procured over medium-term
 - g. Travel expenses, office supplies, water, electricity, fuel, telephone, internet, security, repair and maintenance printing, rentals, etc.
- Capital expenditures
 - a. Ensure the inclusion of capital projects and the operating and maintenance costs of these projects in the expenditure baseline.
 - b. For major projects, obtain annual spending profiles of projects from the agencies concerned. For small capital goods such as information communication technology (ICT), computers, printers, equipment, cars etc., treat the current level of spending as the baseline indexed for inflation. Inflation rate is set by BEMD.

TABLE 1 EXAMPLES OF PRICE AND VOLUME DRIVERS

Economic classification	Identify the price of inputs and multiply by the volume	
	Price	Volume
Wages and salaries	Negotiated pay increases. Promotions and new staff replacing higher paid retired staff	Recruitment and departure
Goods and Services	Inflation all prices; specific inputs: Oil, local fuel, utilities, pharmaceuticals, food,	Quantities of medicine, number of vehicles, demographics (increase in numbers of school-age children)
Subsidies	Inflation	Estimates of demand
Grants from development partners		Financing agreements
Social transfers	Inflation; social security benefits, pension specific formula	Social security reform, introduction of pension scheme, demographics

➤ **Inflation****TABLE 2: ADJUSTING COSTS FOR INFLATION**

Cost of ICT Year 1	(1)	90,000
Inflation	(2)	7%
Cost of ICT Year 2	(3) = (1) + (1) * (2)	96,300

Tables 1 and 2 above show that although current policies remain unchanged, the cost of implementing policies can change. Due to a variety of reasons, such as changes in the number of children in school or when ways are found to implement policies at lower cost or variations in prices, for example, inflation. It is important to note that:

- Budgetary implications of price changes (inflation rate to be used will be issued by BEMD);
- Items based on contracts/fixed rates shall not be indexed for inflation.

It may be useful to distinguish between different types of costs as defined in Box 3.

Box 3: Definition of different types of costs

Fixed costs remain constant over wide ranges of activity of a specified time period (such as an office building).

Variable costs vary according to the volume of activity (external training cost, for example, varying with the number of trainees).

Semi-variable costs include both a fixed and variable component (maintenance is an example, where the activity is usually a set planned program and a responsive regime whose costs vary in proportion to activity (i.e. the number of call outs).

Semi-fixed, are fixed for a given level of activity but they eventually increase by a given amount at some critical point, as volumes reach a certain level, for example, a new office may be required).

Step 4: Aggregate for the overall baseline.

The costs of current policies identified for each Division should be summed, and then each Division's forward estimates should be aggregated to give a baseline expenditure plan for the whole Department.

2.5.2 Distribution of responsibilities

The BEMD is dominant in setting the MTMF and MTEF and in the setting of expenditure ceilings (see Section 3.1)) within which each Department and Agency will plan and cost budgets linked to National Government policy priorities. Over time, each Department will prepare its own MTEF, and BEMD will oversight that process.

2.6 Procedure for setting expenditure ceilings

The macroeconomic framework projections match expenditures to likely resources availability with the view of maintaining a balanced stable budget and sustainable level of expenditure. Through the expenditure ceilings issued by the DoFA, the MTEF links budgeting with the MTMF.

Expenditure ceilings are a useful tool to encourage strategic choices because resources are limited. Not everything can be done at once. Strategic choices have to be made. Without expenditure ceilings, the tendency is to encourage Departments and Agencies to prepare unconstrained budgets that are unrealistic. Moreover, ceilings linked to policy priorities provide a means to shift expenditures over time from one or more lower-priority sectors to other higher-priority sectors strengthening in the process the link of the budget to National Government policy priorities.

The setting of expenditure ceilings shall be based on an understanding of the following:

1. How resources are presently allocated.
2. Extent to which sectoral budgetary allocations are consistent with National Government stated policy priorities and the speed with which changes in resource allocations can be made in order to reflect these priorities better.

Expenditure ceilings cannot be set for some Departments and Agencies without there being implications for budgetary allocations to other Departments and Agencies. It, therefore, follows that the budget ceilings setting process should be comprehensive of all Departments and Agencies. In practice, this task can be simplified by grouping those that do not have significant development and infrastructure responsibilities and treating their funding as a single block. However, given the size of the National Government, this practice is not essential and, as such optional.

The process of developing the budgetary ceilings may take several iterations. The aim should be not so much to determine the optimum budget for each Department, but to achieve a distribution of spending resources that better reflects the National Government's policies and priorities. Since expenditure ceilings will be updated annually when the budget is prepared, this process should lead to progressive improvements in the allocation of public expenditure.

Realism is important. Taking into account implicit ongoing commitments and the time taken to implement changes in budgetary operations, it is unlikely that changes in expenditure allocations (up or down) for most Departments and Agencies would exceed 5% in real terms in any one year.

2.6.1 Steps to set expenditure ceilings

A five-step process is envisaged to be used in determining expenditure ceilings. Each step is outlined below:

Step 1: Determine forward estimates (i.e. baseline expenditure plan for each Department and Agency that includes the budget of the current year adjusted for inflation, recurrent costs of completed capital projects and effect of measures implemented during the course of the fiscal year and forward costs of the baseline with unchanged policies (see section 2.4 above).

Step 2: Deduct the total baseline allocations for all Departments and Agencies from the total resource ceiling (determined by the MTMF) to set the allocable amount that can be distributed between Departments and Agencies for operations and to finance new programs

Step 3: Distribute the allocable amount between Departments and Agencies based on a simple procedure involving:

Identifying:

- Those sectors in which budget allocations should be substantially increased.
- Those sectors in which budget allocations should grow more slowly and remain at around the current share of total discretionary expenditure.
- Those sectors in which budget allocations should be significantly reduced in nominal terms and/or as a share of total discretionary expenditure.

Determining

- How the allocable amount should be distributed between recurrent spending and spending on new investment.
- Allocating the additional resources for current spending between sectors and departments and agencies based on differential growth rates that reflect the relative priority of the sector but which also take into account:
 - The extent to which policy reform measures have been developed.
 - Any major efficiency savings that have been identified and assessed.

Allocating the additional resources for investment spending between Departments and Agencies, which take into account the following:

- The government's stated priorities for new capital spending.
- The extent to which each sector has developed a costed and appraised portfolio of new investment proposals.

Step 4: Develop a tabulation presentation of the justification for the final budget ceilings. This shall have one row per each Department and Agency and shall be focused on explaining the following:

- Its relative priority within the public expenditure program (share of total spending).
- Existing budget allocation and utilisation.
- Objectives and strategic priorities for each Department and Agency.
- Expenditure management efficiency and effectiveness measures to be undertaken by each Department and Agency.
- Proposed changes/no changes in budget allocation.

TABLE 3; JUSTIFICATION FOR THE EXPENDITURE CEILINGS

Department/ Agency	Analysis of existing budget allocation and utilisation	Policy objectives and expenditure priorities	Proposed changes/no changes in budget allocation

2.7 Procedure for preparation of the budget call

The Budget Call prepared by the BEMD is issued by the President on 15 October annually to the Congress, the judicial branch, and each Department and Agency of the Executive branch.

2.7.1 Steps to prepare the budget call

Step 1 The Budget Call is prepared by the BEMD under the supervision of the Assistant Secretary Budget and subject to the agreement of the Secretary of Finance and Administration.

Step 2: Prior to the preparation of the Budget Call, the Budget Procedures Act 1981 (BPA) and the Financial Management Regulations 2021 (FMR) should be consulted. These documents provide the legal basis for the Budget Call. In addition, guidance on the content of the Budget Call is set out in the FMR 3.3.1, page 21, and the format for budget proposals is set out in the FMR 3.3.2, page 21.

Step 3. The BEMD may exercise its authority, provided by FMR 3.3.2 page 21, to adopt new budget proposal formats and issue corresponding instructions.

Step 4. The Budget Call shall contain the following:

- Statement of the macroeconomic and fiscal situation
- Statement of budget policy priorities
- Format for budget submissions with instructions
- Instruction to establish Budget Working Group for each:
 - Department chaired by the Secretary with Assistant Secretaries and Administrative Officers as members
 - Agency chaired by Head with senior management and Administrative Officer as members
- Departments and Agencies' expenditure ceilings
- Timeline required for submission of the annual budget by 15 January
- Date, time and venue for budget preparation workshop
- Schedule of pre-budget consultations

Step 5: The Assistant Secretary Budget BEMD reviews the draft Budget Call and submits it to the Secretary of Finance and Administration on pink paper for final review and agreement.

Step 6: The Office of the Secretary forwards the Budget Call to the Office of the President for approval and the signature of the President. The issue of the Budget Call by 15 October each year marks the start of budget preparation.

2.8 Procedure for the budget workshop

The purpose of the budget workshop is to provide additional guidance on budget preparation and to allow all the organisations of the National Government to ask questions and raise issues about any aspect of the budget cycle. It also provides space for BEMD to alert and explain to all Departments and Agencies of reform changes being introduced to budget preparation and execution. In this way, the Budget Workshop aims to improve the operations of the entire budget process.

2.8.1 Steps to implement budget workshop

Step 1: The Workshop is held at the Central Facilities building and is chaired by the Vice President, who is also the Chair of the Executive Budget Review Committee (EBRC).

Step 2: The Vice President opens the Workshop and articulates the policy priorities the National Government wants to achieve with its budget and provides an overall statement of the opportunities for inclusive economic growth, fiscal resilience and sustainable development.

Step 3: The Assistant Secretary Budget summarises the medium-term economic outlook and goes through in detail the budget forms and instructions on how to complete the forms and the corresponding timetable.

Step 4: The Vice President opens a questions and answers session and, at the close of the session, formally closes the Workshop.

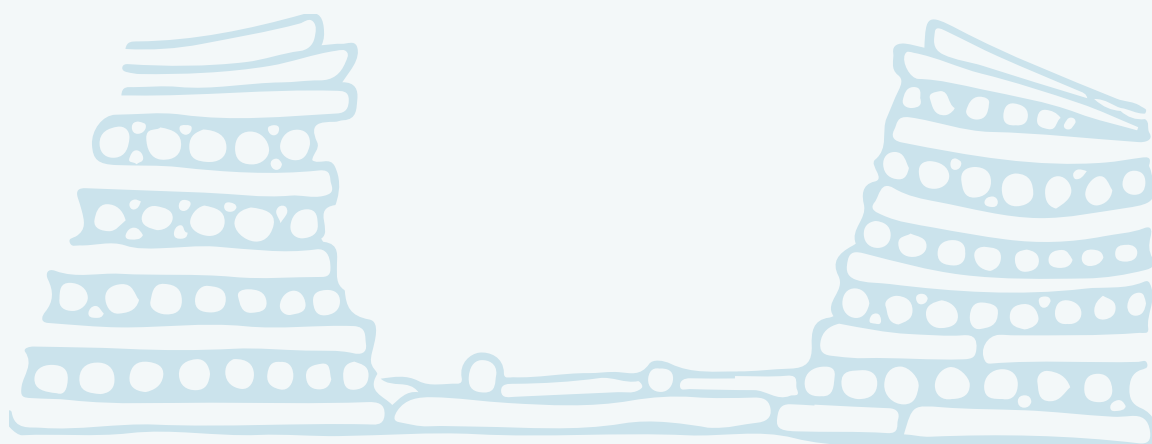
2.9 Procedure for pre-budget consultations

The purpose of the pre-budget consultations is to encourage and allow time for budget planning so that a stronger link is forged between budget and policy priorities. These consultations are called pre-budget because they focus on budget planning rather than detailed budget estimates. This is a time for each Department and Agency to consider in depth what each Department and Agency wants to achieve and how they plan to achieve it.

The pre-Budget consultations also allow further space for each Department and Agency to raise and discuss issues that may be confronting them that BEMD can help clarify and or assist with resolving. Furthermore, they provide BEMD with an opportunity to explain further reforms to operational budgetary procedures that they are introducing in the next fiscal year and what is expected. It is important that planned change does not come as a surprise but is explained in advance and any concerns addressed and technical support provided by BEMD if necessary.

2.9.1 Steps for pre-budget consultations

Step 1: Prepare the Agenda for the pre-budget consultation meetings. The Agenda below is for the Department of Resources and Development and may be suitably modified to cater for other pre-budget consultations with each Department and Agency.



1. Establish Budget Working Group
2. Organisation chart required
 - a) Office of the Secretary
 - b) Division of Tourism
 - c) Division of Marine Resources
 - d) Division of Agriculture
 - e) Division of Trade & Investment
 - f) Division of Energy
 - g) Division of Statistics
3. Fund Sources Identification
 - a) Domestic Fund
 - b) Compact II Sector Grants
 - c) Other Assistance
 - i. U.S. Federal Grants
 - ii. WB Bank Fund Assistance
 - iii. ADB Fund Assistance
 - iv. EU Fund Assistance
 - v. UN assistance
 - vi. Other assistance
 - d) Restricted Revolving Funds (If Any)
 - e) Program Funds (If Any)
4. Performance Budget – Refer to Glossary for definitions
 - a) Strategic Goals
 - b) Objectives
 - c) Outputs
 - d) Activities
 - e) Performance indicators
5. Line Items Budget
 - a) Personnel
 - b) Travel
 - c) Contractual Services
 - d) Other Current Expenditures
 - e) Fixed Assets
6. Other Budgetary needs in the Grants, Subsidies, Contributions & Capital Improvement Plans (CIPs)
 - a) Project listing under Section 8 & Section 9
7. Reports

- a) Financial and Performance Reporting
- b) Schedule of Financial and Performance reports required

Step 2 Prepare the invitation letter for the signature of the Secretary of Finance and Administration and schedule the pre-budget planning consultations and attach it to the Agenda. Specify in the invitation letter that the Vice President will Chair the Pre-Budget Consultations and that the BEMD provides the Secretariat for these consultations. Also, include in the invitation letter the purpose for the pre-budget consultations and specify that all Secretaries, Assistant Secretaries and Administrative Officers of each Department and Agency and any other relevant staff must attend these consultations at the time, date, and venue set out in the attached Pre-Budget Consultations schedule.

Step 3: Each participant in the consultation is introduced, and in particular, the Assistant Secretary Budget introduces the Budget Analyst(s) responsible for the particular Department or Agency who can be called on to provide assistance and technical support.

Step 4: To initiate the Pre-Budget Consultation with a particular Department or Agency, the Vice-President Chair will explain the following:

- All Departments and Agencies must establish and operate a Budget Working Group (BWG) for the purpose of consultative policy and expenditure dialogue to ensure that BEMD budget instructions are followed in accordance with the Budget Call.
- Need for better budget planning before the preparation of detailed budget estimates, which set out how much the budget plan will cost. The Performance Budget is the budget plan and shall drive preparation of the Line Item Budget, which costs the budget plan.
- All strategic goals, outputs, and activities should be succinctly stated and under the control of the Department or Agency because they shall be accountable for implementation and/or achievement/underachievement.
- Outputs and activities that are already completed, irrelevant or unachievable should not be part of the budget of any program.
- All Departments and Agencies shall conduct a sector review in order to:
 - i) Identify outputs and activities needed to achieve strategic goals and objectives and formulate these in performance budgets (i.e. programs).
 - ii) Make decisions about sector priorities and prioritise activities to fit within the expenditure ceilings issued by BEMD.
- Strategic goals are those found in approved policy documents that collectively support the full implementation of an outward-oriented and private sector-led economic growth strategy as the overall goal of the FSM National Government.
- The Budget is an instrument of policy implementation. As such, all budget proposals shall be aligned with the policy priorities of the National Government that are to be found in approved policy documents, including the Strategic Development Plan 2004-2023 (SDP), the 2023 Action Plan, Infrastructure Development Plan 2015-2026 (IDP), other approved sector plans and any respective approved updates of all the aforesaid plans.
- All Departments and Agencies shall clearly specify performance indicators that are SMART (specific, measurable, assignable, reliable, timely) and in numeric form for the purpose of reporting on the performance of their programs to the President and Congress via the BEMD 20 days after the end of each quarter showing the variance, if any, between planned and actual accomplishment together with an explanation of variances between planned and actual accomplishment if any.

Step 5: The Assistant Secretary Budget will then take participants through the other Agenda items, usually, emphasising the following:

- The national budget comprises two components: Line-Item budget, Performance budget. In the

past, these budgets were prepared on two parallel tracks. For FY 2024, they will be prepared as an integrated budget. For presentational purposes, only the line-item components of the integrated programs of the performance budget will be copied into a separate line-item budget presentation for the benefit of Congress.

- The budget proposals must be comprehensive. All funding from whatever source, for example, domestic revenues, external development assistance, and all loans and grants from whatever sources must be included in the budget submission to provide a complete picture of domestic revenues and other external funds financing the implementation of the budget.
- All Departments and Agencies responsible for revenue collections (such as fishing licenses, postal fees, fines and penalties, taxes, investment earnings, etc.) shall provide estimates of these revenues based on current laws and shall not include any proposed changes to the fee structure that may have an impact on revenues. If any Department or Agency management thinks that the current fee structure requires review for potential adjustments, a separate analysis should be prepared and accompany the budget submission as additional information.
- For new position requests, every effort shall be made to meet each Department and Agency needs within the existing workforce. Authorisation for new positions will be carefully considered. However, shifting contract employees from contractual services to payroll into the personnel category can be done with sufficient justification. Programs managers are urged to take a closer examination of their human resources requirements and reflect in their budget submissions the actual personnel required. We must continue to streamline and realign functions and responsibilities to eliminate duplication and redundancy so as to promote the efficiency and effectiveness of the National Government administration.
- Vacant funded positions that have not been filled in the past eight months will be eliminated from the next fiscal year budget unless otherwise authorised by the President to be maintained.
- Full-time Equivalent Positions (FTE) should be identified, which should include all full-time, part-time, seasonal, hourly, and temporary personnel as well as contract workers. The number of FTEs should be categorised and calculated as follows:
 - Exempt: personnel employed on a regular basis who are exempt from the Public Scheme of Service (PSS)
 - Full-time Classified: Personnel employed on a regular basis for a minimum of 40 hours a week who are subject to the PSS
 - Part-time Classified and non-classified personnel employed on a regular basis for less than 40 hours a week;
 - Hourly Personnel employed on a regular basis and are paid by the hour
 - Seasonal/Temporary: Non-permanent personnel employed on a seasonal or temporary basis who work during heavy workload periods.
- For capital projects, each Department and Agency that plans to undertake capital or special projects in the fiscal year for which the budget is being prepared is required to use the capital project template, i.e. Project Control Document (PCD); see Annex 11 on how to complete the (PCD) to submit capital budget requests. While these Departments and Agencies will submit a separate capital budget request, the facility-related cost shall be included in the program budgets. Include lease or debt service costs for finance capital projects in the Department and Agency operating budget during the triennium in which they occur; and include operating and maintenance cost estimates in the Department and Agency operating budget for capital facilities or for land acquisition or improvement.
- All Other Foreign Grants – All non-compact foreign grants (such as US Federal Grants and any other donor-sourced financial assistance) that have been approved by Congress and which will be either wholly or partially expended in the current fiscal year must be declared and included in this budget proposal. They should be submitted in the same manner as the departmental operation budgets but as other sources of revenue, as appropriate. Furthermore, there should be links

in these programs to the overall goals and objectives of departments and agencies. Heads of an entity are responsible for ensuring that divisions, programs or units under their jurisdiction comply with this legislative requirement under Title 55.

Step 6: The Vice President then invites the Department or Agency to respond and highlight any difficulties, or issues it is experiencing, requests for clarifications or answers to questions.

Step 7: The responsible BEMD Budget Analyst(s) for the Department or Agency prepares minutes of the pre-budget consultations and submits them to the Assistant Secretary for approval.

2.10 Procedure for budget planning within expenditure ceilings

As explained by the Vice President in the pre-budget consultations, Departments and Agencies are required, to take budget planning seriously, which facilitates the preparation of budget proposals. To this end, each Department and Agency should establish a Budget Working Group to undertake the bottom-up part of the budget preparation exercise linked to BEMD preparation of the MTEF (see section 3.4) and the expenditure ceilings (see section 3.5). This process, conducted properly, will produce budget proposals clearly linked to policies through the formulation of performance budgets, i.e. program budgets.

2.10.1 Steps to conduct sector review and prioritisation within expenditure ceilings

Step 1: Define the rationale for National Government intervention. Before any possible action by National Government is contemplated, it is important to identify a clear need which it is in the national interest for the Government to address. Accordingly, a statement of the rationale for intervention should be developed.

Key questions for justifying action

1. Is the rationale for National Government intervention clear?
2. Is it reasonable to assume that intervention will be cost-effective i.e. that the benefits of intervention will exceed the costs?

This underlying rationale is usually found either in market failure or where there are clear government distributional objectives that need to be met. Market failure refers to where the market has not and cannot of itself be expected to deliver an efficient outcome; the intervention that is contemplated will seek to redress this.

Any proposed Government intervention must be justified based on reasoning and evidence. Box 4 provides an illustrative example to demonstrate the reasoning and evidence that would be required to justify government intervention in regard to addressing a deficiency in workforce skills.



Box 4: Example of market failure to justify government intervention

There is evidence that skilled workforces have positive impacts on high level economic goals such as productivity and economic growth. At the same time there is evidence of major skills deficiency in the country, which is reflected in the low numbers holding intermediate vocational qualifications compared to neighbouring countries.

There is further evidence that there are three forms of market failure that continue to cause this skills gap.

(a) Externalities leading to under investment in training by employers. Firms are concerned that once trained, an employee will leave before the firm has recouped its investment. Unless training pays off very quickly firms are therefore very reluctant to provide training to their workers.

(b) Imperfect information leading to employees being unable to judge the quality of their training or appreciate the benefits. This reduces their willingness to accept lower salaries during the training period or to receive any training at all.

(c) Credit market opportunities. Training is costly, but individuals expect to obtain higher salaries from training. Some individuals may wish to borrow in expectation that they will be able to pay back the loan through higher salaries. However, low salary employees in particular are likely to be credit constrained and unable to obtain loans for training.

These market failures mean that the level of training provided by the market is likely to be deficiently low from society's point of view. Well-designed government intervention may help to bridge this gap.

Step 2: Understand policy driven change. It is important to understand the context within which policy driven programs are being delivered and the process of change that will result from the proposed government intervention and cause the desired policy priorities to be achieved. This process is termed policy driven change.

FIGURE 1: FROM POLICY TO OUTCOMES



Key issues that influence the scope of the policy debate, setting of the policy agenda and decisions to intervene or not may be summarised as: political, economic, social, technological, environmental and legal. The translation of these issues into policy, programs, outputs and outcomes is illustrated in Figure 1.

Step 3: Comprises each Department and Agency, generating expenditure estimates for the medium-term based on government policies and priorities within the expenditure ceilings issued by BEMD. This involves a process of sector review through which each Department and Agency does the following:

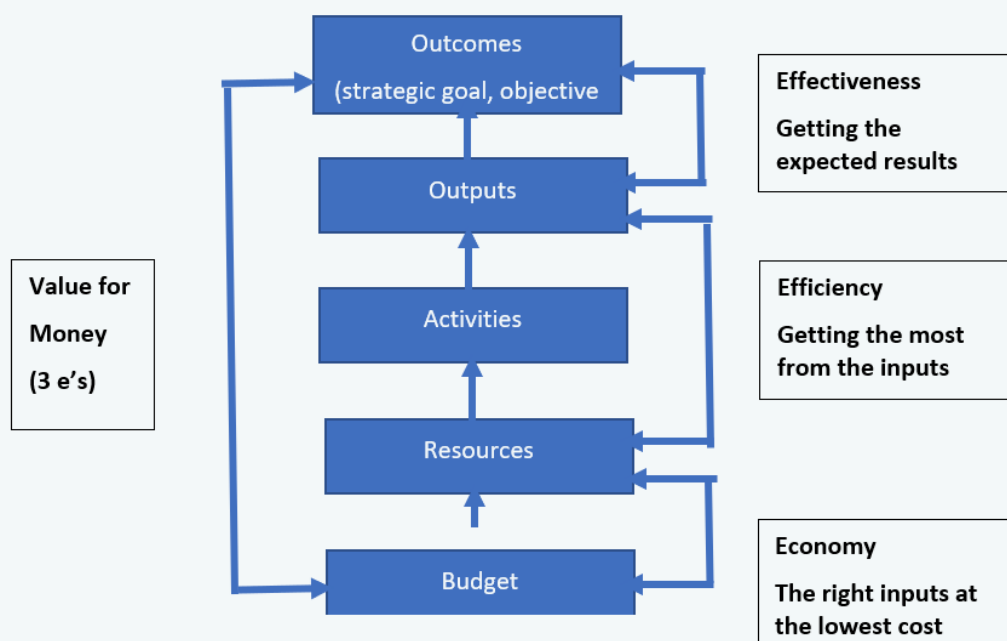
- i) Review sector objectives, policies and strategies.
- ii) Identify outputs and activities needed to achieve the objectives.
- iii) Estimate the actual costs of existing and proposed sector activities.
- iv) Identify sector activities that can be reduced or eliminated to fit within expenditure ceilings.
- v) Make decisions about sector priorities and prioritise activities to fit within the sectoral ceilings.

BEMD reviews and revises expenditure ceilings and reallocations between Departments and Agencies considered on the basis of updated MTMF and additional information generated in the review of their respective sectors.

2.11 Procedure for preparing program (performance) budget

The performance budget is a program designed through the implementation of activities and production of outputs to contribute to the attainment of one objective and one strategic goal. Hereafter for convenience, the performance budget shall be referred to as the program budget.

FIGURE 2 RESULTS CHAIN CONCEPT



All Departments and Agencies shall be held accountable for the performance of their programs. It is important that in developing program structures, each Department or Agency must have control over its program outputs and be confident that these will contribute to outcomes that will help realise objectives and strategic goals. Therefore, selecting the best combination of activities and doable measurable outputs that management is in a position to be answerable for their delivery is important. Steps in the preparation of the program budget are as follows:

2.11.1 Steps in preparing the program budget

This section is not specific to BEMD but provides general guidance that BEMD can use to assist National Government organisations in preparing program budgets. Figure 2 above illustrates the results chain concept. The idea is given a desired outcome what outputs need to be produced and what activities are required to produce the outputs, and how much they will cost. In the FSM context, an objective is a short-term measure of achievement (outcome) of no more than one year, while a strategic goal (outcome) is a medium-term measure of achievement of more than three years. Nevertheless, the results chain concept remains the same.

Step 1: Review of the previous year's budget performance

Prior to budget preparation, BEMD shall conduct a review of the financial and physical performance of its budget for the previous budget year. The focus shall be on what the budget for the previous year was designed to achieve and what the budget actually achieved. Constraints on performance shall be identified, and the measures being taken to mitigate these constraints shall be briefly described and distributed to all staff. This analysis shall be used to inform program budget preparation.

Step 2: Select an approved strategic goal and corresponding policy objective. These must come from an existing approved policy document.

In selecting a policy objective, it is important to understand the following:

- Avoid confusing policy objectives with the way in which the policy is to be implemented and the budget funds necessary to undertake the activity.
- For example
 - “Improve the standard of the budget process” is a policy objective
 - » “Enhanced operational budgetary procedures” is **the way by which the policy objective is to be implemented**
 - » “Increase spending on professional training of budget analysts” **are the additional budget necessary to implement the activity.**

Objectives should be stated so that it is clear what proposals are intended to achieve. The objectives of individual proposals should be consistent with approved statements of National Government policy and wider macro-economic objectives consistent with macroeconomic stability. It is important to determine the following:

- What are we trying to achieve?
- What are our objectives?
- Have similar objectives been set in other contexts that could be adapted?
- Are our objectives consistent with strategic goals as set out in the Strategic Development Plan 2004-2023 (SDP)?
- Are our objectives defined in such a way that progress toward meeting them can be monitored,

measured and reported?

- What factors are critical to success?
- What can we then set? What targets do we need to meet?
- Are our objectives defined to reflect outcomes (e.g. improved health, crime reduction or enhanced sustainable inclusive economic growth) rather than outputs (e.g. operations, prosecutions or job placements which will be the focus of particular programs and projects)?
- What would constitute a successful outcome?
- How might our objectives and strategic goals be measured? (see, for example, Table 4, below)

TABLE 4::EXAMPLES OF OBJECTIVES AND STRATEGIC GOALS MEASUREMENTS

Policy area	Objectives	Strategic Goals
Development of skills	Number of training places and/or numbers completing training	Value of extra human capital and/or earnings capacity
Environmental improvement	Square kilometres of ocean protected from pollution	Sustainable oceanic resources and/or improvement in the productivity of the blue economy

Step 3: Link each program to one strategic goal from the SDP and one corresponding policy objective. Note that the SDP is to be updated in 2023 and a new SDP launched before March 2024.

The key elements that need to be reflected in a good program structure are the following. The program structure should reflect and communicate the policy objective and strategic goal that the program is designed to help achieve. For this purpose, the need is to ensure that the program is realistic to be able to contribute to the achievement of the policy objective that will, in turn contribute to the achievement of the strategic goal.

TABLE 5: EXAMPLE OF LINKAGE BETWEEN STRATEGIC GOAL, OBJECTIVE, OUTPUTS AND TARGETS

Strategic Goal To address the major skills deficiency in the country by increasing workforce access to training to be reflected in the numbers of people holding vocational qualifications			
Objective	Outputs	Activity	Targets
Higher productivity for both trainees and co-workers.	Proportion of workforce with vocational training qualifications	Training courses formulated, planned and implemented	The number of training places that will be provided by a certain date
			Reduction in the percentage drop out rate by a certain date

+

Step 4: Identify outputs

Outputs are the goods and services produced for external clients. For instance, in the case of BEMD, the National Government budget document, and in-year budget reports hosted on the DoFA website are examples of BEMD outputs. Each program shall produce at least one output.

Step 5: Identify activities

In preparing the program, each activity shall be aimed toward achieving a specific output that will contribute to achieving the program objective. To ensure that all activities are planned for, so that the total costs of activities add up to the total program requirements of the BEMD, it is important to consider four types of activities. These are:

Administration activities may be categorised as those tasks of a managerial nature that are carried out to support operations. They tend to include processes rather than discrete activities such as general administration of an office which is a day-to-day activity and is not easy to break down into quantifiable units for planning and costing purposes. They mainly involve decisions/policy making and the supervision of organisational functions. In most cases, the workload or tasks performed in administration are driven by the demands imposed on the organisational structure by the service activities that justify the existence of the organisation. These influence the level of administrative support that is required to supervise the activities of functional units.

In sum, administration activities include three types of activities:

- a) Specific tasks such as supervision visits.
- b) Processes which are carried out on a day-to-day basis, such as attending to enquiries and liaising with operative units.
- c) Providing for the maintenance and upkeep of office buildings and equipment.

Service activities, in planning the number of service activities to be implemented, three factors have to be taken into account:

- a) Providing for the current level of service, assuming that the current levels contribute to the approved policy objectives.
- b) Providing for the increase in demand that will result from population increase.
- c) Increasing the level or quality of service in order to meet specific standards set for the services.

Investment activities normally involve the purchase of fixed assets, such as vehicles, and equipment, or the construction of infrastructure, such as roads and bridges, power generation, water supply, irrigation and so forth. The purchase of an office block to facilitate the permanent establishment of a bureau, which has been using rented accommodation is also an investment. For BEMD, the most likely investment activities are the purchase of vehicles and equipment such as furniture, computers, printers and other office-related equipment.

Investment activities have recurrent cost implications which shall be taken into account at the outset. For BEMD, for example, printers have recurrent costs for consumables such as printer cartridges and paper that will result in a requirement for additional budget to ensure the continuing operation of the equipment to the quality standard required, as does, of course, the operating and maintenance costs of DoFA BEMD vehicles.

Step 6: Cost the activities

Calculate projected costs for the following expenditure items:

- Operating expenditures
 - a) Personnel services – based on the latest approved list of personnel;
 - b) New personnel services - proposed creation and filling up of vacant posts; and
 - c) Others - requirements for retirement benefits/ terminal benefits, salary increases
 - d) Consider demand-driven changes, for example, population, cost of maintaining the existing level of service such as teachers/classrooms/pupils ratios;
 - e) Include maintenance requirements of existing as well as newly completed facilities and newly acquired assets for vehicles.

- f) Include office equipment and furniture and fixtures that have to be procured over medium-term
- g) Travel expenses, office supplies, water, electricity, fuel, telephone, internet, security, repair and maintenance printing etc.
- Capital expenditures
 - a) Ensure the inclusion of capital projects and the operating and maintenance costs of these projects in the expenditure baseline.
 - b) For major projects, obtain annual spending profiles of the project from the agencies concerned. For small capital goods such as ICT equipment, cars etc., treat the current level of spending as the baseline indexed for inflation.

Step 7: Develop performance indicators

Having developed the program structure that links strategic goals to the objective to outputs and activities, it is important to identify performance indicators (PI) and performance targets (PT), so that target performance can be measured against actual accomplishment using variance analysis, as presented further below.

Table 6: Types of performance indicators

Item	Number of performance indicators
Strategic goal	One (1) PI that shall measure medium to long term achievement
Objective	One (1) PI that shall measure short term achievement
Outputs	Four (4) PI that shall measure quantity, quality, time, cost.
Activities	Two (2) PI that shall measure physical progress and financial performance

Characteristics of performance indicators

A performance indicator shall be **SMART**:

- Specific, clearly defined and a clear description
- Measurable, capable of being measured, including the availability of the required information and data
- Assignable, able to specify who is responsible for information/data collection, including specific officers designated responsibility for data collection, storage, retrieval, processing analysis and use
- Relevant, results that can be realistically achieved given available resources
- Time-bound, timeline by which the target results can be achieved.

Performance indicator measures accomplishment against targets. These Indicators play a crucial role in specifying targets for measuring (quantitative) or judging (qualitative) what has been achieved. The fewer the performance indicators, the better because measuring change i.e. collecting and analysing data, has costs that need to be kept to a reasonable level. However, there must be indicators in sufficient numbers to measure the breadth of change happening, as shown in the following examples.

Strategic Goal performance indicator

A Strategic Goal of the BEMD is the “Provision of sound Economic and Financial Policy Advice”. Related to this Strategic Goal, BEMD monitoring, assessing and reporting on the implementation of policies such as the SDP and IDP. A measure of this Strategic Goal could be provided by the quality, quantity and timeliness of monitoring and assessment reports on government development planning documents.

Quality is measured by the following:

- Comprehensiveness of the report is measured by the completeness of the review sector/area by sector/area and update on the status of implementation and the short-term economic outlook.
- Target 100% coverage against accomplishment % equals variance, if any

Quantity is measured by the:

- Number of reports prepared and submitted to the Secretary of Finance and Administration, President and Congress.
- Target: 4 reports annually against accomplishment % equals variance, if any

Timeliness is measured by:

- Report submitted to Secretary of Finance and Administration, President and Congress within 15 days of the end of each quarter.
- Target: 100% against accomplishment % equals variance, if any
- The advantage of presenting numeric targets and accomplishments is that they are easily comparable. This is discussed further in the section on reporting below.

Objective performance indicator

Objective indicators measure the result of producing the output. Examples of such indicators from other sectors include: Better qualified school leavers; improved agricultural productivity; lower morbidity from communicable diseases; and Increased access to safe drinking water.

One of the BEMD objectives is “Improve and enhance national government budget preparation”. The accomplishment of this Objective could be measured by the quality, quantification and timeliness of the review and strengthening of BEMD operational budgetary procedures.

Quality and quantity are measured by the comprehensiveness of the review with all procedures being examined for shortcomings and new procedures identified to strengthen the budget process.

- Operational budgetary procedures reviewed, and shortcomings and gaps identified
- Target: 100% of all existing procedures clarified and strengthened against accomplishment of % equals variance, if any
- Target: 100% of strengthened and new budget procedures implemented over 3 years against accomplishment of 0% equals variance, if any.

Output indicator

Output indicators typically measure the quantity, quality and timing of outputs. Examples of such indicators include:

- Quantity *number of beneficiaries.*
- Quality: *number of electric streets lighting poles installed that pass inspection.*

- Timing *number of electric street lighting poles installed on time according to work-plan*
- Cost: *Amount of budget spent or overspent on the outputs.*

BEMD output performance indicator example

For the BEMD, some examples of performance indicators are the following:

“Deliver effective management and execution of national government budget process”. The accomplishment of this could be measured by the quality and timeliness of the submission of the Recommended Budget to Congress.

Quality is measured by the following:

- Comprehensiveness of the budget that includes all domestic, development partners and another financing of the budget;
- Performance indicators for all Department and Agencies budgets to measure success;
- Target: 100% against the accomplishment of % equals variance, if any.

Timeliness is measured by:

- Budget calendar preparation dates met on time;
- Target: 100% against accomplishment % equals variance, if any;
- The advantage of presenting numeric targets and accomplishments is that they are easily comparable. This is discussed further in the section of reporting, below.

Activity performance indicator

Activity indicators measure spending and physical progress based on regular reports. Activity indicators examples include:

Physical activity indicators

Number of persons on a training course

- Number of trainees successfully completing the course
- Number of regional organisation meetings attended in the year

Financial activity performance indicator

Budget for the activity and the actual cost

Practicality of choosing performance indicators

Since the activities that National Government implements tend to be procedural in nature it can be difficult to identify and apply performance indicators to specific outputs. However, this should not be used as an excuse for not measuring performance. In regard to National Government it may be more practical to simply report on progress of an activity financial and physical progress. An example located in the Annexes number 9.

2.12 Program budget checklist

Upon completion of the structure of program budget preparation, it is necessary to review the work done and to check it for program logic, comprehensiveness, quality and accuracy. A checklist is helpful in this regard, so that no dimension of the program budget is inadvertently overlooked.

The purpose of the program budget checklist is to verify that the:

- Inputs shall implement the activities;
- Activities shall produce the outputs.
- Outputs shall achieve the program objective;
- Objective shall contribute to achievement of the strategic goal.

This checking is important because it provides another opportunity to question whether the results chain inherent in the program will actually achieve its objective and contribute to strategic goal attainment.

The questions asked at each stage of the preparation of the program should be revisited and reviewed to ensure that all relevant aspects of the program are assessed once again. If this check reveals inconsistencies then the program should be modified.

A useful tool for managing the review process is the Log-Frame, presented below.

The Log-Frame provides a helpful structure for assessing the linkage between the mobilisation of inputs, implementation of activities, production of outputs, the result of outcomes and achievement of the program objective.

FIGURE 3: LOG FRAME TO CHECK PROGRAM BUDGET COMPLETENESS

Strategic Goal:		Date of Preparation:	
Objective			
STRUCTURE	KEY PERFORMANCE INDICATORS	VERIFIABLE KEY PERFORMANCE INDICATORS	KEY ASSUMPTIONS
Objectives			
Is the strategic goal that the program objective will contribute to clearly identified and logically linked to the program objective?	Have SMART performance indicators been identified to assess the achievement of the program?	Have data sources been identified that are available to measure the performance indicators. Can the appropriate data be collected on time? Have officers been assigned to the collection, storage, retrieval, analysis and use of performance data?	Are there identifiable external conditions necessary to achieve the strategic goal and objective? Can any risks to the stability of these external conditions be mitigated?
Objective			

What is the expected result? Will the expected result achieve the strategic goal? Is the objective logically linked to the strategic goal?	Have SMART performance indicators been identified to assess the achievement of the program objective?	Have data sources been identified that are available to measure the performance indicators. Can the appropriate data be collected on time? Have officers been assigned for collection, storage, retrieval, analysis and use of performance data?	Are there identifiable external conditions necessary to achieve the objective? Can any risks to the stability of these external conditions be mitigated?
Outputs			
What will be produced to achieve the objective? Will these outputs lead to the achievement of the strategic goal?	Have SMART performance indicators been identified to assess the achievement of the outputs? Will the type, quantity, quality and timing of outputs achieve the objective? Are the performance targets appropriate to the performance indicators?	Have data sources been identified that are available to measure and report on the KPIs for the delivery of outputs? Can the appropriate data be collected on time? In selecting indicators, ensure that there is an adequate and timely data source for collection and use to measure performance; if there is not, select an alternative performance indicator. Have officers been assigned for collection, storage, retrieval, analysis and use of performance data?	What factors might restrict the outputs from achieving the outcome? Can the risks of these factors if any, be mitigated and how might this be accomplished?

Activities			
What activities will be undertaken to produce the outputs? Are the activities logically linked to the delivery of the outputs? Do the activities have clear objectives? Is there a better lower, cost combination of activities that will achieve the same results? Are there gaps in the scope and number of activities? Have activities been included in programs simply because a Department has been carrying out these activities for a number of years? If yes, is it feasible to remove said activities and still obtain desired results? Are there different combinations of activities that would produce the same outputs? Is there the necessary capacity to implement the activities to produce the outputs? If capacity is a constraint and assuming that additional resources will not be available, what other measures could be taken to improve capacity?	Is it clear when the activities will be undertaken and by when and by whom?	Have data sources been identified that are available to measure the activities? Can the appropriate data be collected on time? Have officers been assigned for collection, storage, retrieval, analysis and use of performance data?	What factors might restrict the activities from achieving the outcome? Can risks be mitigated and how?

Inputs			
What financial and other resources will be required to implement the activities? Are all activities costed over a three-year period?	Has an effective procurement plan been drawn up?	Are the sources of data on budget utilisation verifiable and is there an effective reporting system in place?	What factors might restrict the supply of inputs? Can risks be mitigated and how?
Are the costed activities within the budget ceiling for the DOA?	Does it clearly show what resources will be supplied and specifications of quantity quality, time, and cost? Inputs delivered at the right quantity, right quality, right time and right cost are crucial to success.		

2.13 Procedure for budget proposals form process content review

2.13.1 Date for submission of budget proposals

Annual budget proposals are due by 15 January to the Office of the President whereby the date of receipt is noted and forwarded to the BEMD for review. This section sets out how the BEMD review of budget proposals is to be undertaken.

2.13.2 Purpose of the review of budget proposals

The objective of the BEMD Form Process Content Review is to ensure that the budget preparation process is disciplined in regard to adhering to budget instructions and formats issued with the Budget Call.

2.13.3 One budget with two components

The budget has two (2) components: a line item budget and a performance budget. These are not two (2) separate budgets, but two (2) parts of the same one (1) unified budget.

The performance budget component sets out what the Department/Agency wants to achieve and how they plan to achieve it through the implementation of activities designed to obtain outputs that contribute to short-term objectives and medium to long term strategic goals.

The line Item component sets out how much the implementation of the performance budget activities will cost in regard to Personnel, Travel, Other Current Expenditures, Fixed Assets and Contractual Services. The two components of the budget must be prepared and evaluated as one budget.

2.13.4 Components of the review process

The indicators that make up the components of the review process set out here include the indicators stated in 3.3.2 of the Financial Management Regulations 2021 (FMR) and additional indicators not in the FMR.

2.13.5 Steps to conduct the form review

Form Review to ensure that the submitted budget proposal is compliant with budget instructions, is complete and follows the structure and sequence prescribed in the Budget Call. The following indicators guide the Form Review:

- Submitted in hard copy and soft copy
- Completeness - both Line Item Budget and Performance Budget submitted plus Grants, Subsidies and Contribution; Capital Investment and Human Resource Development requests
- Compliance – budget proposals submitted in the required format and adhere to the instructions of the Budget Call
- Budget proposals must contain the following elements unless otherwise instructed by the BEMD
 - a) Letter of transmittal signed by the Department Secretary or Head of Agency copied to the Administrative Officer
 - b) Table of contents
 - c) Compliant with format and instructions included in the Budget Call
 - d) Evidence of Budget Working Group duly constituted and meeting
 - e) Summary information/overview
 - f) Budget tracking sheet for current fiscal year
 - g) Budget tracking sheet for current fiscal year and for two subsequent years
 - h) Revenue estimates
 - i) Program information for current fiscal year
 - j) Program plans
 - k) Program summary financial data
 - l) Program personnel supplemental data

If the budget proposal does not meet the Form indicators stated above it is returned for urgent revision and will not be considered further until it meets the Form indicators.

2.13.6 Steps to conduct the process review

Process Review - to determine whether the budget proposal submission reflects the coordination, consultation, participation, organizational/institutional processes, including information sharing and consensus building, envisioned by the Budget Call. The following indicators guide the Process Review.

- Budget Working Group - existence and quality of a formal and duly constituted Budget Working Group (BWG) of the Department/Agency chaired by the Secretary (Head of Agency as appropriate for Boards and Commissions and Offices) and comprising Assistant Secretaries and Administrative Officers (i.e. evidence of memorandum setting up BWG, evidence of meetings, information sharing and discussion – to be submitted with the budget proposal).
- Leadership involvement - extent to which the budget proposal reflects the vision, policies and participation of the Department/Agency leadership, especially the Secretary (Agency Head as appropriate), as indicated by the participation of the Secretary and Assistant Secretaries in Budget Working Group meetings.

2.13.7 Steps to conduct the content review

Content Review - to assess the substance and logic of the budget proposal with emphasis on the clarity, comprehensiveness, and quality of the planning, expenditure programming and costing processes of the performance and line item budget components.

- Quality and comprehensiveness of the performance and line item components of the budget focusing on:
 - Mathematical accuracy
 - Past three years proposed, recommended and approved budget, current proposed budget year and two subsequent fiscal years estimates
 - Consistency with mandates
 - Consistency with approved policy priorities
 - Quality of the program logic and completeness of the program with robust linkages between Strategic Goal, Objective, Outputs, Activities, and performance indicators where applicable.

2.13.8 Rating system

- Full compliance: The budget proposal fully complies with the Form, Process and Content review and is ready for further consideration.
- Substantial compliance: The budget proposal complies with the basic requirements. It is recommended that the areas that are found lacking (i.e. state the areas lacking) be revised by the submitting Department/Agency before the budget proposal is considered further.
- Deficient: The budget proposal does not comply with the basic requirements and its objectives are significantly compromised. In this case, it is recommended that the deficient areas (state the areas) be revised urgently otherwise the budget proposal in its present form cannot proceed further.

2.13.9 Distribution of responsibilities

The BEMD Budget Analysts under the supervision and direction of the Assistant Secretary Budget conducts the Form, Process, Content review.

2.14 Procedure for budget proposals expenditure policy review

2.14.1 Purpose of the budget expenditure policy review

Once the budget proposal has been designated full compliance it is subject to review in regard to the agreed Budget Expenditure Policy. The Budget Expenditure Policy is prepared by the Assistant Secretary Budget based on the latest available evidence and projections of available funding, so that proposed budget expenditures can be trimmed to match expected revenues.

2.14.2 Steps to conduct budget expenditure policy review

Step 1: Based on available evidence and projections prepare the parameters of the Budget Expenditure Policy, which sets out what is affordable for the budget year under preparation.

An example of the Budget Expenditure Policy for FY2024 is presented, below.

Step 2: The budget Expenditure Policy is used as a guide to reduce proposed budget expenditures in line with expected revenues in order to arrive at a balanced budget.

Budget Expenditure Policy FY2024

PROJECTED AVAILABLE REVENUE FOR FY2024

1. Local Taxes	\$10,150,000
a. Domestic Unrestricted	
2. Fishing Fees	\$60,000,000
3. Corporate Income Fees	\$7,000,000
4. Other License & Fees	\$3,522,294
5. Carry Over	\$4,000,000
Sub-total (Total Local Revenue)	84,672,294

6. FSM Trust Fund Investment	
a. 20% Earmark from Fishing License Fees	\$12,000,000
b. 50% Earmark from Corporate Income Fees	\$3,500,000
Sub-total (Total FSM Trust Fund Investment)	\$15,500,000

AVAILABLE LOCAL REVENUE FOR FY2024	\$69,172,294
---	---------------------

Other Revenue	
a. Compact Sector Funds	\$2,612,592
b. U.S. Federal Grants	
c. Other Foreign Assistance	

AVAILABLE REVENUE FOR FY2024	\$71,784,886
-------------------------------------	---------------------

Estimated available revenue for FY2024 is \$71,784,886, of this amount \$69,172,294 is available from Domestic resources and \$2,612,592 is from Compact Sector Grant.

- Formulating FY2024 Budget Expenditures – With the given limited funds to formulate the National Government priorities in operations, grants, subsidies, contributions and Capital Investment, the following expenditure policy is established to maintain consistencies between important line Departments and Agencies in order to address the most needed budgetary needs to start up implementation of Fiscal Year 2024 activities.
 - a. Personnel
 - i. No new position
 - ii. No increase on existing salary level
 - iii. Remove cost of living allowance (COLA) line item
 - iv. Make sure the 45% pay increase effective 1 January 2023 is reflected in all Public Service Scheme (PSS) positions
 - b. Travel
 - i. Consideration can be made to mandated travels

- c. Contractual
 - i. Consider realistic increases
- d. Other Current Expenditures
 - i. Maintain FY2023 Budget Level
- e. Fixed Assets
 - i. No vehicles
- f. Grants, Subsidies and Contributions
 - i. Maintain FY2023 Budget level
- g. Capital Investment & Human Resources Development Project
 - i. Maintain FY2023 Budget level

Step 3: Based on the results of the Form Process Content Review and Budget Expenditure Policy Review the BEMD may hold budget hearings with all Departments and Agencies for the purpose of hearing justifications on respective proposed budgets and for explanation of BEMD recommendations on proposed overall budget.

Step 4: On completion of the budget proposals Form Process Content Review, the Budget Expenditure Policy Review, BEMD led budget hearings, the BEMD compiles the budget proposals into a recommended budget and submits it to the Executive Budget Review Committee (EBRC) chaired by the Vice President by 1 March each year.

2.15 Procedure for Executive Budget Review Committee hearings

2.15.1 Steps for budget hearings

Box 5: Membership of the Executive Budget Review Committee

The EBRC is chaired by the Vice President. The members of the EBRC include the Secretary of Finance and Administration, Secretary of Justice, Director of the Office of Personnel, and Chief of Staff of the Office of the President. The BEMD is the Secretariat to the EBRC. At the discretion of the Vice-President other Secretaries may become members of EBRC.

Step 3: The proposed budgets of the Departments and Agencies are presented to the EBRC for detailed review and discussion. Each Department and Agency presents its budget proposal, which is reviewed and assessed by the EBRC in the form of questions from the EBRC and justifications from each Department and Agency. The aim of this discussion is to arrive at a proposed budget that takes into account the following:

- a) Revenues are equal to expenditures.
- b) Consistent with approved policy priorities.
- c) Performance budgets demonstrate a consistent logic, so that the implementation of activities shall produce outputs that will obtain short term Objectives and contribute to attainment of medium to long term Strategic Goals of the National Government.
- d) Performance budgets, where applicable, have SMART performance indicators and Departments and Agencies have in place the procedures and staff to monitor and report on financial and non-financial performance.

- e) Presentation of line-item budgets are derived from performance budgets and although presented separately for the later presentation to the Congress are consistent with each other
- f) Comprehensiveness to include all sources and types of domestic and international funding.
- g) Results of the BEMD evaluation of budget proposals including the Form Process Content Review, Budget Expenditure Policy Review undertaken by BEMD and the Budget Hearings chaired by BEMD together with BEMD recommendations.
- h) Any changes in expected revenues that may have implications for the size and composition of the annual budget.

Step 3: The BEMD assists the EBRC with the finalisation of the Recommended Budget based on the conclusions and recommendations of the EBRC.

Step 4: The Vice President, Secretary of Finance and Administration. Assistant Secretary Budget present the recommended balanced budget to the President for consideration.

Step 4: Subject to the approval of the President, the BEMD prepares the President Budget Transmittal Letter to the Speaker of the Congress and prints the Recommended Budget in yellow cover and submits it to the President for submission to the Congress for review and approval.



3. BUDGET ADOPTION

During the legislative review and adoption of the budget, the role of BEMD is to be on hand to respond to any questions or requests for information from Congress.

3.1 Procedure to support legislative review and adoption of the budget

No later than April 1 of each year, the President shall submit to Congress the Recommended Budget for the next fiscal year.

3.1.1 Steps for review and adoption of the budget

Step 1: The President's budget message to Congress shall be prepared by the BEMD. The message shall include the following:

- a) Whether the recommended annual budget is a balanced budget
- b) That the recommended budget represents the National Government blueprint of expenditures and sources of financing for the upcoming fiscal year
- c) Summary budget table by revenue and expenditure and narrative explaining the summary table
- d) Revenue projection by fund source table with its narrative
- e) Proposed expenditure table by budget type and its narrative
- f) Summarised list of capital investments i.e. financial investments, capital improvement and project subsidies that the President plans to include in the budget.
- g) Statement of the economic and fiscal situation and medium-term outlook
- h) Macroeconomic and fiscal targets governing the budget
- i) Overall economic and fiscal revenue and expenditure strategies underpinning the budget, including the expenditure ceilings distributed to Departments and Agencies.

Step 2: The Assistant Secretary Budget leads the formulation of any responses to Congress in consultation with and following the direction of the Secretary of Finance and Administration.

Step 2: A staff of BEMD is designated by the Assistant Secretary Budget to log the date and time, and content of any requests from Congress to BEMD and log the form and content of the BEMD response.

3.2 Appropriation bill

Congress reviews the President's recommended budget and either adopts the budget in its original form or a modified budget during the legislative review process, which is completed through the passage of an Appropriation Bill.

The first year's estimates are approved by Congress, which constitutes the annual Budget, while the second and third years are indicative. The President's signing of the Appropriation Bill completes the adoption stage of the annual budget cycle.

3.3 Procedure for preparation of the Citizens' budget

3.3.1 Citizens budget preparation following signing of the appropriation bill

The preparation of a Citizens' Budget is necessary because the Budget document cannot be published because it contains names of National Government staff. The Citizens' Budget is intended to be available to the public through the DoFA website. The intention is to make available to the public the Budget approved by Congress in an easily understood, user-friendly document that shows how the budget is financed from domestic and external sources and how the budget is allocated, and what the budget is intended to achieve. The Citizens Budget should be a careful mix of easily understood visual charts and succinct interesting text. Hosting of the Budget on the DoFA website should be accompanied by online survey to monitor public reaction to the Citizens Budget, which will help pave the way for continuous improvement year on year of the Citizens Budget.

3.3.2 Steps to prepare Citizens' budget

Following the Appropriation Bill, the BEMD prepares the Citizens' Budget. This is accomplished by the assigned Budget Analyst(s) completing the following:

Step 1: Study the Appropriation Bill and prepare suitable charts showing the following:

- Sectoral allocation of the budget.
- Department (and Division) and Agency allocation of the budget.
- Amount of approved expenditure for each line item of the Budget by Department (and Division) and Agency.
- Total sources of financing for the domestic budget revenues by type e.g. tax, non-tax and external by type e.g. grant, loan.
- Debt profile.
- Summary text to explain each chart.

Step 2: Text summary of the highlights of the budget, for example:

- Macroeconomic assumptions such as the projected rate of growth and inflation and employment outlook.
- Opportunities and constraints on economic growth.
- Sources of funds to finance the budget.
- Sectors, Departments and Agencies that have the largest budgets and what these allocations are intended to achieve.
- Sectors, Departments and Agencies where budgets have increased and others have decreased and why.

Step 3: The preparation of the Citizens Budget is oversighted by the Assistant Secretary Budget and posted on the DOFA website after review and approval by the Secretary of Finance and Administration.

Step 4: The highlights of Budget execution reports showing progress and achievement are selected by the Assistant Secretary Budget after ensuring they can be easily understood and making suitable modifications, if required, for hosting on the DoFA website after review and approval of the Secretary of Finance and Administration.

4. BUDGET IMPLEMENTATION

It is important to note that budget execution covers a number of areas, including payroll, internal controls, procurement and so forth. This section only focuses on those budget execution activities for which the BEMD has operational responsibility.

4.1 Procedure for administering implementation of the budget

Budget execution is essentially ensuring the highest standard operations of three required key tasks.

1. Ensuring that the budget will be implemented in conformity with the Appropriations passed by Congress
2. Timely, reliable monitoring and reporting of the transactions that enable budget execution covering both financial and performance information?
3. Using financial and performance information as a budget management tool to correct budget execution if required and to inform future budget preparation.

4.1.1 Steps in administering implementation of the budget

4.1.1.1 Roster of Eligible Allottees

Step 1: A Roster of Eligible Allottees is maintained by the Assistant Secretary Budget. The Allottees are responsible for ensuring that funds are expended for the program, projects and services identified in the budget. These expenditures must be within appropriation limits. The rosters are used by BEMD to verify eligible Allottees prior to processing an allotment.

4.1.1.2 Allotment Control Ledger

Step 2: Allotment means the delegation of authority to a person to create legally enforceable financial obligations, in accordance with legislation. The Assistant Secretary Budget shall maintain an Allotment Control Ledger.

4.1.1.3 Allotment of Funds

Step 1: An Allotment Advice Form is used for the issuance of an allotment based on a request to BEMD by an Allottee or a duly designated Sub-Allottee (see an example of an allotment form in the Annex section). The Budget Analyst shall review and determine if the requesting entity is an eligible Allottee. Most importantly, the Budget Analyst has to ensure that any funds to be allotted, irrespective of the funding source, must be authorised by an applicable appropriation law i.e. when Compact funds are intended for the FSM, the appropriation shall be a National appropriation law and for the State Compact funds a State appropriation law is required

Step 2: To ensure the complete review of the request for an allotment made by an Allottee is to make sure a file is created by the Budget Analyst and each file at a minimum should contain the following:

- a) Official allotment request by Allottee
- b) Approved Advice on Allotment
- c) Copy of Appropriation Law
- d) Copy of Resolution
- e) Copy of Grant Award (if applicable)
- f) Allotment Analysis Sheet

Step 3: The Assistant Secretary Budget shall initial on the Advice of Allotment indicating concurrence that a review by BEMD has been undertaken for a particular allotment request and therefore is recommending that the Secretary of Finance and Administration make the final approval of the Advice of Allotment. The Secretary of Finance and Administration shall sign for approval and indicate the date of signature.

4.1.1.4 Types of allotments

Step 1: There are three types of Allotments:

(1). **Operational Allotments:** allotments are issued for all funds provided to the FSM National Government and for all Compact current funds provided to the States in which an appropriation law has been adopted.

- These include current account program funds and Compact sector funds. The allotments shall specify an expiration date as provided by the appropriation laws. The funds in the allotment are available for obligation only during the fiscal year or as specified in the appropriation laws. Any unobligated or un-allotted funds shall return to the appropriate accounts (Compact or General Fund) and be made available for re-appropriation.

(2). **Capital Allotments:** allotments on an aggregate or on a project basis for all Capital account funds. Allotments are issued after receipt of a Project Control Document (see annexes section), which presents information on the type of project, implementation time for the project, anticipated contractual terms, contractor, and name of the project inspector. Such allotments are normally issued for the term of the project and will be monitored by the project inspector until the satisfactory completion of the project by the contractor.

- Assistant Secretary Budget will review each Project Control Document for compliance with terms of the appropriation laws and/or the Compact and its related agreements prior to the issuance of an allotment.

(3). **Lapsing of Allotment:** Upon the expiration of an allotment for an operational account, all unobligated funds, as certified by the Secretary of Finance and Administration, will be returned to the National Treasury and will be made available to other capital projects.

- Allotments for capital projects have no set expiration date and are in force for the duration of the project. Upon completion of a specific project, any remaining balance of unobligated funds, as certified by the Secretary of Finance and/or the State Finance Officers, will be available for allotment to other capital projects upon enactment of an appropriation bill and preparation of a Project Control Document.

4.1.1.5 Apportionment

Apportionment serves as a tool to allocate a portion of funds in regular instalments during the year to manage cash flow and also to ensure that appropriations are sufficient for the full fiscal year

Step 1: Apportionments are issued on a quarterly basis, with each quarterly share comprising between 20 to 30 per cent of the funds available for the upcoming fiscal year. The BEMD must also ensure consistency with other cash flow requirements, i.e. infrastructure development plan and legislation relating to Compact Grant assistance when preparing the allotment and apportionment document.

Step 2: The apportionment schedule may be modified during the course of the year provided that modification does not cause the apportionment to exceed the 20 – 30 per cent limit per quarter.

Step 3: In cases where apportionment schedules are not submitted to BEMD by the end of August, the BEMD shall assume a 30/30/20/20 per cent apportionment schedule.

Step 4: If the FSM National Government does not enact a National Budget prior to the end of September, the current fiscal year's allocation schedule shall be used.

4.1.1.6 Supplementary budget

Step 1: Supplemental budget requests are submitted to BEMD by the Departments or Agencies to review and recommend to the President.

Step 2: Supplemental budget requests are reviewed by BEMD in the same way as budget proposals.

Step 3: Upon approving and submitting a supplemental budget to Congress, President shall accompany the budget proposal with a statement of reasons for supplemental or omission from the annual budget. Enactment of a supplemental budget after the adoption of an annual budget is subject to the same budget review process and the balanced budget requirement.

4.1.1.7 De-allotment of funds

Step 1: Allotted funds may need to be de-allotted or cancelled as a result of an amendment of the appropriating law, specific de-obligation instructions required by grant managers, or an error that has occurred with a previously processed allotment.

Step 2: The same allotment of advice form for allotting funds is used to request for de-allotment of funds and shall be completed by an Allottee of the funds and sent to BEMD for processing (see an example of the form in the Annex section). It is important to note that the Allottee is responsible for the management of the appropriated funds and shall take the initial steps in processing a de-allotment request. However, BEMD shall take necessary steps to stand up and maintain operationally its own monitoring of the appropriation laws to determine which laws have their amounts reduced and coordinate with the Allottees to immediately effect de-allotment of funds, especially for allotted funds which have not been fully expended.

Step 3: The request for de-allotment of funds will be reviewed by the BEMD to arrive at a determination of whether certain funds already allotted for a program or project should be de-allotted.

Step 4: In instances where amendment of the original appropriation law resulted in a reduction of the amount in the appropriation law while an allotment has already been issued, The Assistant Secretary Budget shall ensure funds are still available to enable a de-allotment to occur. For example, \$100 appropriation amount; \$50 allotment; \$50 expenditure; and \$50 unexpended fund balance. Under this

scenario, after receiving a request to de-allot from the Allottee, BEMD shall de-allot up to the amount of the unexpended fund balance, which is \$50.

Only after a de-allotment has been fully implemented that new expenditures shall be allowed to be incurred. Careful coordination must be exercised by the relevant offices, i.e. Allottee and BEMD budget analysts, to ensure no new obligations or payments are made against funds when a de-allotment request is still being processed. In such cases where a de-allotment has not been processed and expenditures have already been incurred, it is difficult to make corrective entries at this point.

Step 5: Upon processing the de-allotment form, the Budget Analyst shall indicate the purpose of the de-allotment and subtract the object-class amounts to reflect a zero balance. In each of these instances, prior to issuing the de-allotment advice form, the Budget Analyst shall confirm that there are no current obligations against the funds to be de-allotted.

Step 6: Once funds have been de-allotted the Budget Analyst shall ensure the relevant funding source worksheets are also updated accordingly. The de-allotment process is crucial to prevent over-spending of funds.

4.1.1.8 Disbursement

It is important to note the following financial regulations:

- The administration and management of all funds appropriated from the General Fund or made available to the National Government shall remain in the custody and control of the Secretary of Finance and Administration until they are obligated and disbursed in accordance with the law.
- Such funds shall be deemed to be obligated as of the date the person or entity to whom the funds are allotted enters into a legally binding written agreement supported by documentary evidence;
- The Secretary of Finance and Administration shall disburse such funds as may be required to liquidate valid obligations within 30 days of their becoming payable, as indicated by valid documentary evidence of such obligation and a valid claim for payment if required by the term of the obligation document.

4.1.1.9 Reprogramming of funds

Reprogramming of funds occurs when funds are utilised for purposes other than those contemplated at the time of appropriation. A form entitled Request for Change in Allotment is used for reprogramming funds (see an example of a reprogramming form in the Annex section).

Step 1: The head of a Department or Agency writes to the Secretary of Finance and Administration and uses the same form for de-allotment i.e. Request for Change in Allotment, to request for reprogramming by specifying which funding category (object-class) is required to be increased or decreased. The President, Speaker, Chief Justice and Public Auditor may reprogram up to 10% from the funds appropriated for operating expenses of each of the three National Government branches, i.e. Executive Branch, Legislative Branch, and Judiciary Branch along with the Public Auditor's Office.

Step 2: The Secretary of Finance and Administration instructs Assistant Secretary Budget to stand up and maintain tracking of the total reprogramming for the Executive Branch, Legislative Branch, Judiciary Branch, and the Public Auditor's Office to ensure reprogramming for each of the branches and the Public Auditor's Office are maintained within the 10% operating expenses appropriation requirement. Reprogramming requests that may cause the 10% limit to be exceeded will be returned unprocessed.

Other restrictions governing reprogramming are:

Reprogramming into or out of any line item for the Grants, Subsidies, Contributions, and Investments Capital and Human Resources sections of the annual budget is not permitted. Reprogramming of funds into or from the personnel budget line item is not permitted. In instances where it is determined that program funds have become insufficient in these line item budgets, the recourse shall be for the program managers to initiate a supplemental budget request through President for Congress to consider increasing the line item budgets or an increase from the 10% reprogramming limit may be warranted to accommodate the programs' deficit issue.

- Reprogramming requests for the US Federal Programs and other program funds shall require the approval of the grant managers. US Federal Programs and other program funds are sanctioned by Congress resolution; accordingly, the 10% redirection or reprogramming required in the annual budget appropriation shall not apply in this instance. Reprogramming limits for different programs differ from one program to another.
- The grant terms and conditions are set by each grant manager in the grant award and allow various reprogramming limits as long as a common threshold of \$250,000 is not exceeded, as such reprogramming would constitute a significant change in the scope of work and the program managers are required to seek approval from the grant managers.
- In the event of a major natural disaster or other emergency threatening the lives or safety of citizens of the Federated States of Micronesia requiring immediate government action, Public Law 13-63, requires an emergency account to be established in the DoFA National Treasury. All governmental expenses related to such an emergency shall be charged to such account. The President is authorised to reprogram up to \$200,000 of the funds appropriated from local revenues or other funds not dedicated to specific purposes under the Compact or other agreements with foreign governments to such account. The President shall present a funding request to Congress to cover emergency expenditures.
- The President will report to Congress within one month of the last day of each financial quarter all amounts reprogrammed inter or intra a Department or Agency.
- The end of the fiscal year marks the completion of the execution phase of the budget cycle. Unobligated and un-allotted funds are returned to the General Fund for re-appropriation.

4.2 Budget monitoring and in year reporting

Monitoring involves collecting relevant information that indicate what is happening and help determine if implementation of activities is on track or if any timely corrections may be needed to improve efficiency or effectiveness. Monitoring information can also inform decisions on when an evaluation is needed to understand how or why certain results are being observed, as well as provide useful input into planning or conducting an evaluation.

4.2.1 Steps in monitoring and reporting

BEMD oversees budget monitoring and reporting and is responsible for the following:

Step 1: Monitors in cooperation with the Customs and Tax Division of the DoFA actual revenue versus estimated revenues to ensure that resources are available as planned.

Step 2: Monitors financial and nonfinancial program accomplishments in accordance with budget and target outputs.

Step 3: On receipt of in-year budget reports, the assigned Budget Analyst reviews and makes recommendations to the Assistant Secretary Budget that are subject to the approval of the Secretary of

4.2.2 Reporting formats and instructions

Allotments are recorded as they are made and published in an annual Allotment Report see Annexes number 17. In accordance with the Budget Procedures Act 1981 reports on financial and nonfinancial performance are produced quarterly and show financial and physical progress. The reporting formats and instructions are located in the Annexes at number 16. How to analyse these reports and make recommendations is placed at number 17 in the Annexes.

4.2.3 Distribution of responsibilities

Lead responsibility for monitoring and reporting is the Department or Agency. The BEMD responsibility is to ensure that reports are submitted on time to the required quality in accordance with formats and instructions issued by BEMD. The BEMD Budget Analyst(s) reviews budget monitoring reports and makes recommendation to Assistant Secretary Budget who decides if any action from BEMD is required.



5. PROGRAM BUDGET EVALUATION

5.1 What is evaluation?

Evaluation can be undertaken both before and after the implementation of a program. A pre-implementation evaluation is a desktop review that examines the program structure for reasonableness as to the assumptions that guide its formulation and linkages to policy objective(s) and relevant output and outcome indicators.

The difference between monitoring and evaluation is illustrated in Figure 4. Monitoring and evaluation aim to address different performance levels. The focus of the former is ongoing implementation while the latter is concerned with what happened and why.

Evaluation often takes monitoring data as a starting point, and supports a deeper understanding of why and how results are or are not being achieved. Monitoring and evaluation are both directed at assessing effectiveness (the degree to which a program budget is successful in producing a desired result) and efficiency (delivering output at the lowest cost without sacrificing quality or effectiveness). Implementing M&E requires performance indicators, performance targets and performance information. The setting of indicators and targets, and the collection, storage, retrieval, processing, analysis and utilisation of performance information is fundamental to good program budget M&E.

5.2 Operating principles of evaluation

Evaluation should be:

- **Impartial** and independent from policy-making;
- **Unbiased** in measurement and reporting;
- **Useful and relevant** to important questions and decisions;
- **Participatory**, to the extent possible, involving relevant stakeholders and beneficiaries;
- **Shared** widely, publicly, and transparently, with results communicated in a useful and actionable manner;
- **Credible**, based on the inclusion of the aforementioned principles

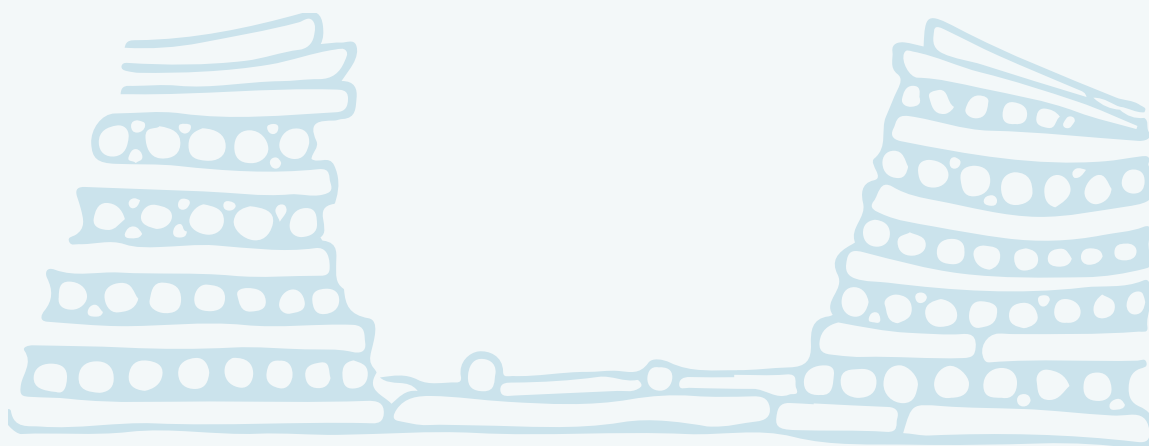
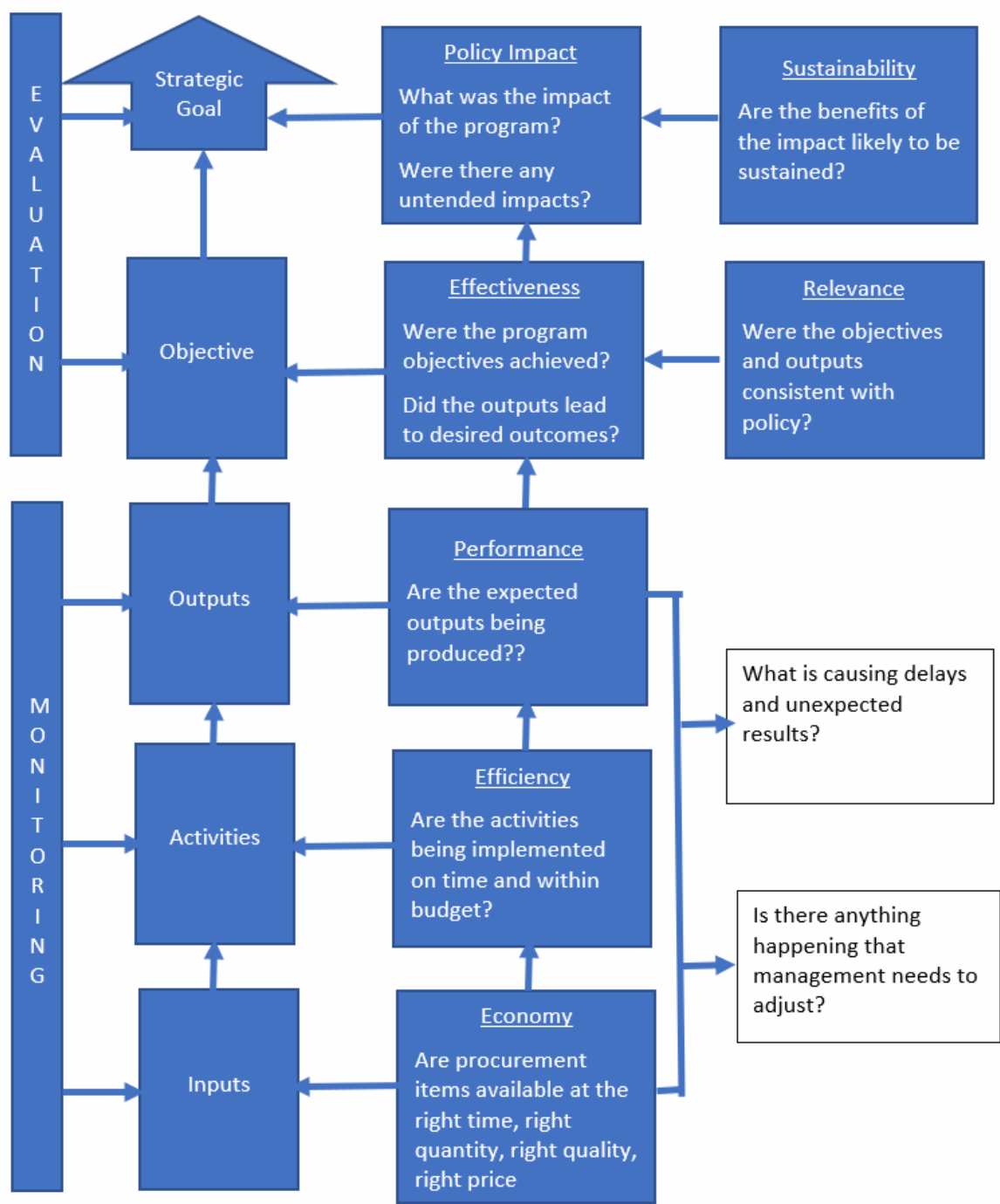


FIGURE 4: SCOPE AND DIFFERENCE BETWEEN MONITORING AND EVALUATION

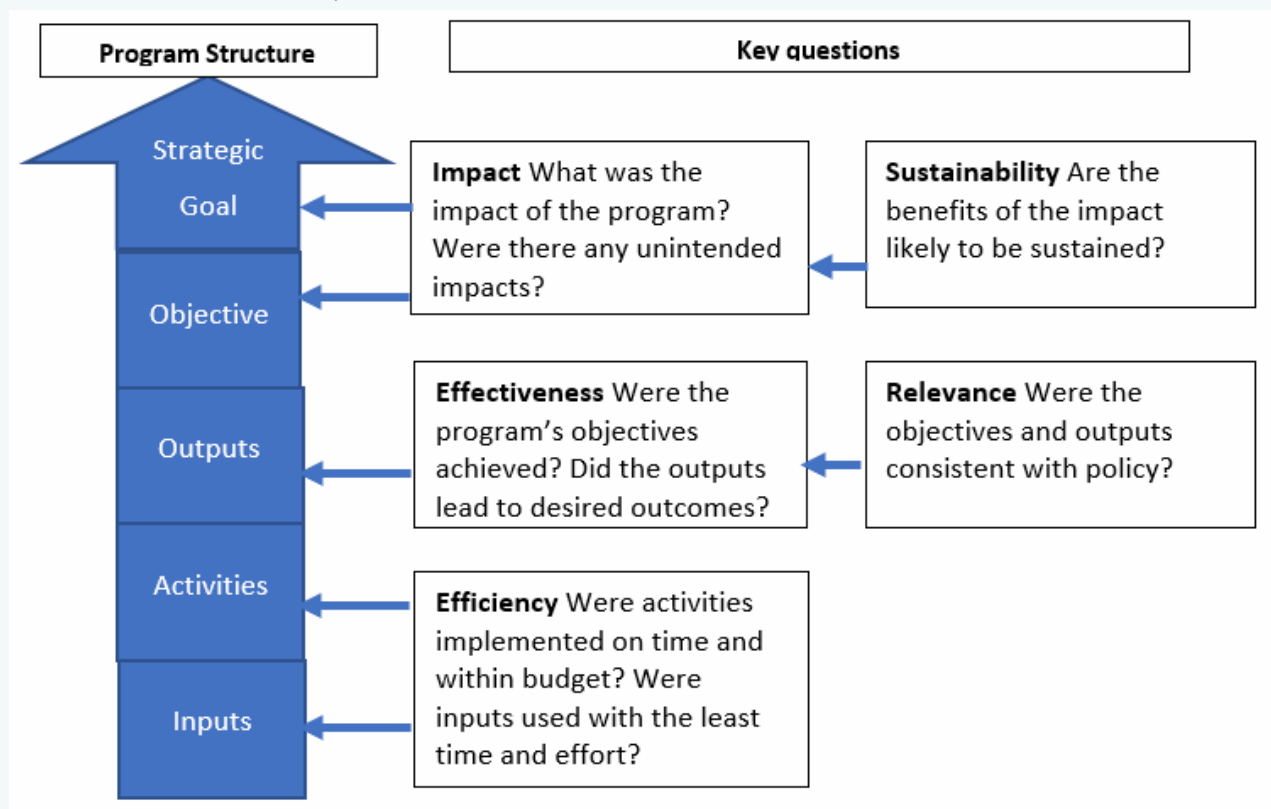


5.3 Key evaluation questions

Good evaluation is about asking relevant questions including:

- To what extent were the SMART objectives achieved?
- To what extent were outputs delivered and when?
- To what extent were the anticipated outcomes produced and by when?
- What continuing change is expected as a result of the above?
- How well did the process of delivering the outputs and the outcomes work?
- Were there significant unintended effects?
- What was the cost to the public sector?

FIGURE 5 KEY EVALUATION QUESTIONS



Fundamental or key evaluation questions to be asked of any program are summarised in Figure 5.

5.4 Types of evaluation

Planned evaluation activities shall be set out in an evaluation plan. Evaluations vary in purpose, scope, design and methodology. The evaluation plan will state the schedule and type of evaluation to be conducted, which over time is likely to include one or more of the following:

- Interim evaluation during the implementation of the program that assesses the prospects of achieving planned results;
- terminal evaluation at the completion of the program that assesses the extent of achievement made towards achieving the actual results; and

- ex. - post evaluation that assesses the longer-term outcomes of the program in terms of policy impact on some agreed date after program completion.

Evaluations can often provide a more in-depth measure of change that has resulted from program implementation by identifying the extent to which program outcomes (results) were achieved. Some will have long gestation periods before they are obtained and thus are not easily measured by regular monitoring and reporting. In addition, evaluations provide a basis decision-making about future programs based on analysis and discussion of the findings. Furthermore, they maintain the chain of accountability by following the use of public funds through to the end results of the program.

5.5 Approval to undertake evaluations

The scope, type, timing and budget of all evaluations will be determined by the Secretary of Finance and Administration. A simple desktop evaluation may be carried out by BEMD, while larger and more complex evaluations will be contracted out to the suitable person (s). Both types of evaluations are subject to the approval of the Secretary of Finance and Administration.

5.6 Publication of all evaluations with exceptions

It is the policy of DoFA that all evaluations should be registered and all evaluations, with some exceptions, see below, should be published. The DoFA will host a register of its evaluations and the reports of evaluations on its website in order to make them freely available to the public. All evaluation reports produced that contain important policy sensitivity, national security or commercial in-confidence considerations will not be published. Budget documentation will include summaries of major evaluation findings. It is recommended by DoFA that other oversight and implementing agencies adopt this policy on public access to information.

5.7 Example of ex post evaluation of capacity building program

To show the scope and work involved in the evaluation, consider the following example. Evaluation of capacity building program ideally examines all levels of results (i.e. outputs and outcomes). These are:

- Quality of output
- Capacity built
- Capacity utilised; and
- Impact of capacity utilised

However, the links between each level tend to be difficult to demonstrate. This is due to the following:

- Elapsed time between levels of results;
- Other investments contribute to capacity-building.
- Importance of the enabling environment for capacity to be utilised; and the
- Interaction with the enabling environment for impact as a result of capacity utilised.

Such an evaluation would entail considerable cost, time and expertise. Even if such an evaluation was scaled down to focus only on measuring capacity built, it would still be costly, time-consuming and require key evaluation skills.

Table 7, provide example of the scope, data requirements and analysis of such an exercise.

TABLE 7. DATA REQUIRED DATA SOURCE AND MOST-APPROPRIATE TOOLS FOR MEASURING CAPACITY BUILT

Indicator	Data required	Data source	Tool
Pass-rate	Test results	Training organisation or trainer	Competency test results
Quantum of capacity built	Existing capacity: sum of study years plus years of experience Capacity added by training, equivalence to experience and 'life' of training.	Records kept by the organisation(s) involved in relevant work in the target area(s); Previous similar estimates Expert opinion	Document review Key stakeholder interview
Quality of training course	Assessment of content of training course	Training organisation or trainer	Expert document review
Attendance	How many trainees attended how many training sessions	Attendance sheets kept by the training organisation or trainer	Document review
Quality of delivery of training	Trainees' opinions	Trainees	Post-training survey
Trainee satisfaction	Trainees' opinions	Trainees	Post-training survey
Reports—stock of knowledge	Review of reports	Organisation	Expert review

5.8 Strategy for implementing evaluation

Due to the significant time, cost and expertise needed to carry out ex-post evaluations the implementation of program budget evaluation will be phased in gradually in line with need, availability of expertise and reasonable cost. Program budget ex-post evaluation will focus first on a simple desk review of available information. As capacity develops and in line with demand and affordability, more in-depth evaluations will be implemented, as determined by DoFA.

Evaluation will be implemented gradually in four steps, as follows:

Step 1: A desktop study that compares original program forecasts of time and cost with actual time and cost. This helps to introduce the concept of evaluation and is inexpensive, and the required skills and information needed are readily available.

Step 2: Focus on each stage of program implementation, comparing the implementation of the program with the original program work plan for a program with high investment value. Where delays and reasons for delay are identified measures could be introduced for future program implementation.

Step 3: Evaluate one outcome for one program with high investment value, for example, capacity built as a result of the capacity-building program. Evaluations of outcomes are costly and should only be conducted about every five years.

Step 4: Evaluation could be extended to outcomes for two programs with high investment value.

To provide technical support and the assurance of evaluation quality, BEMD will participate directly in certain major evaluations, usually via steering committee membership.

The lessons learned from evaluations should highlight the strengths and weaknesses in preparation and implementation that affected performance and impact. This information will be disseminated to policymakers and budget managers in a manner determined by DoFA. The knowledge obtained from the evaluations can then be used to guide policy formulation and improve program preparation and implementation.

5.9 Evaluation report

The format of the evaluation report will depend on the scope and type of the evaluation. Typically, the ex-post evaluation will contain the following information.

Title of Evaluation

Name of the program budget is evaluated, and its location.

Introduction

Scope and duration of the evaluation,

- Reasons for carrying out the evaluation
- Questions to be answered by the evaluation
- Names, positions of persons undertaking the evaluation.

Evaluation method

Description of the evaluation methodology

- Verifiable sources of qualitative and quantitative information used.

Findings

Presentation of the evidence and analysis.

Conclusions

Extent to which outcomes were obtained

- Impact of outcomes
- Sustainability of impact

Recommendations

- Future program design and financing decisions
 - usually broken down into urgent and less urgent recommendations
 - immediate (1 year)
 - short-term (2 years)
 - medium-term (3 -5 years)

6. ANNEXES

6.1 summary of the budget process

6.1.1 Budget preparation

The President initiates the annual budget process by consulting with Cabinet members, most especially with the Secretary of the Department of Finance and Administration (SoFA) and the Overseas Development Assistance and Compact Management (ODACM) of the Office of the President (OP) to provide key information for the development of the annual budget. The information shall include funds estimated to be available for appropriation from the General Fund and any Special Funds of the National Treasury for the ensuing fiscal year.

All Departments and Agencies of the National Government are the principal parties responsible for the preparation of the proposed annual budget. The preparation stage begins with the development by BEMD of medium-term projections that identify estimated revenues (domestic, Compact, and other sources) available to meet the overall operations of the national government.

The President provides general guidance to each entity concerning specific objectives to be achieved in a budget which is issued in the form of a budget call by 15 October of each year. The Budget Call is prepared by BEMD. Each entity then prepares its budget identifying estimated revenues and expenditures and performance (program) budget activities, outputs, and objectives designed to achieve strategic goals. These estimates and supporting documentation are summarised in draft form and submitted to BEMD through Office of the President.

The National Government uses two Excel budget formats for the preparation of the draft budget document: 1) Program budget, which focuses on strategic goals, objectives, outputs and activities and measures of achievement to enable monitoring and reporting of actual against target performance, which is a National Government policy and Budget Procedures Act 1981 legal requirement; 2) Line-item budget, refers to objects of lines of expenditures in categories of personnel, consumables, contractual services, travel, and fixed assets. This is a requirement of Congress to show a line-item budget, but at the same time, all organisations must include in their performance budgets all related line items.

During this process, the BEMD reviews and evaluates budget proposals and sets out a budget consultation schedule for each of the organisations to meet with an Executive Budget Review Committee (EBRC) about their budgets in order to review and finalise a recommended budget in accordance with the objectives defined by the President in the budget call. The EBRC which is chaired by the Vice President includes as members Chief of Staff of the Office of the President, Secretary of Justice, Director of Personnel and Secretary of Finance and Administration. The BEMD acts as Secretariat to the EBRC. The RBRC recommends the budget to the President. The President reviews and approves the recommended annual budget and sends it to Congress for enactment by means of a Budget Transmittal Letter prepared by BEMD. This completes the preparation stage of the annual budget process.

6.1.2 Budget Adoption

Congress reviews the President's recommended budget and either adopts the budget in its original form or as modified during its review process. The approval of the budget is completed through the passage of an appropriation bill. The President's signing of the appropriation bill completes the adoption stage. A summary of the Appropriation Bill is posted on the Congress website. A detailed

Appropriation Bill is sent to the DoFA. This bill is not available to the public because it contains names and corresponding information on salaries and pay grades.

Should the President and Congress be unable to agree on an appropriation bill before the beginning of the fiscal year, then a continuing resolution or some form of interim budget is passed to provide for continuation of government services until an appropriation bill is passed into law.

6.1.3 Budget Execution

The actual implementation of the budget is the process by which the budget adopted by Congress and President is executed. This involves the collection of revenues, allocation of allotments, incurring of obligations, and expenditures of the revenues in accordance with the budgeted amounts and restrictions contained in the particular appropriation for each entity or program.

The DoFA provides administrative control of the budget through its BEMD. The BEMD reviews the budget appropriation law issues allotment advice based on the apportionments which establish program spending limits. Monitors in cooperation with the Customs and Tax Division of the DoFA actual revenue versus estimated revenues to ensure that resources are available as planned. Monitors financial and nonfinancial program accomplishments in accordance with budget and target outputs. The end of the fiscal year marks the completion of the execution phase of the budget cycle. Unobligated and un-allotted funds are returned to the General Fund for re-appropriation.

6.2 Budget Call FY 2024

October 15, 2022

Memorandum

To: All Department, Offices, and Agencies Heads

From: The President

Subject: Fiscal Year 2024 Budget Call

As required by FSM Public Law 14-61, every Department, Office, Agency, and Branch of the government must prepare and submit to the Office of the President a comprehensive proposed budget for its core operation and other programs on or before January 15 of each year. Therefore, I am now transmitting herewith the attached budget call, containing the budget policies, guidelines, and instructions for your use in the preparations of your FY2024 budget request.

Past years have been difficult for us all; however, with the opening of borders and anticipation of normal business, FY2024 formulation would require the maximisation of services in all aspects of government deliveries. Apparently, Covid-19 has reshaped the behaviour of some of our international activities in the utilisation of advanced technology. FY2024 marks the post-era of the amended compact, therefore, the use of domestic resources will be critical to address the essential services driven by existing policies and goals sustaining our economy and plans to improve our infrastructure development projects. Although signals toward an extension of the amended compact are favourable, immediate implementation of FY2024 funding from the U.S. (Compact Assistant) is not certain. I ask we all bear this in mind while developing our FY2024 budgets.

Budget Policy

Accelerating economic growth through the implementation of an outward-oriented and private sector-led economic growth strategy remains the overall goal of the FSM National Government. To achieve this, we must allocate our financial resources based on the strategic policy frameworks developed and adopted to carry out the overall goal of this nation.

Your budget requests must link to your annual strategic goals and objectives as outlined in our FSM Strategic Development Plan (SDP), the Infrastructure Development Plan (IDP), other more recent sector plans, and the priorities of this Administration.

You should assess your performance objectives and evaluate your department's capacity to determine activities that will have the greatest positive impact on those strategic goals assigned for your department/offices. It is essential that your proposed performance targets are rigorous but achievable within the given timeframe.

I urge you to develop your budget at a level that is realistic to address the reopening of our borders and maintaining factual costing to reflect the realities of our islands to ensure government services reach our business partners and communities in the FSM.

Budget Guidelines

Revenue Estimates - Agencies, offices and departments responsible for revenue collections are required to provide an update of the FY2023 projection based on collections to date, as well as revenue targets for FY2024 and forecasts for FY2025 and FY2026. Revenue estimates should be based on current laws. If any department, office or agency believes that current fee structures require review for potential adjustments, a separate analysis should be prepared and accompanied by your submission as additional information.

Medium-Term Budget Framework - In developing your respective budget, as per P.L. 14-61, you must include expenditure estimates for FY2025 and FY2026.

Activities and outputs – those that are already completed, irrelevant or unachievable should not be budgeted.

New Position Requests – Every effort should be made to meet agency, office, and departmental needs within the existing workforce, however, new positions for FY2024 will be accommodated if they can be fully justified.

Full-Time Equivalent Positions (FTE) – The number of FTEs requested should be identified, including all full-time, part-time, seasonal, hourly, and seasonal, temporary personnel as well as exempt and contract workers.

Travel - consolidated travel plans are required for FY2024 that include the date, description of the workshop, conference, or event, the outcome of the meeting that would benefit the FSM and who will be travelling. Travel plans will be scrutinised as to be essential as there remains much uncertainty around how the world will open up to international travel in FY2024.

Performance indicators (outcome measures) - must be clearly identified as part of the budget request. These indicators should be specific, observable, and measurable in context.

Grants, Subsidies & Contributions – All departments, offices, and agencies are to review their requests under this category to ensure all obligations due to international organisations are included. For the capital investment programs, it is important that continuous programs be considered to be rolled into the annual operational budget.

Federal/Foreign Grants/ODA – All US Federal program grants and other foreign assistance grants or ODA that are requested must be included in the FY2024 budget proposals. They should be submitted in the same manner as your core departmental operation budgets, which is “performance-based” or “project-based”. Furthermore, you should be able to link these programs to the overall goals and objectives of your department. Those who are travelling on federal or other grant programs must submit a travel plan for the year. International travel programs will be scrutinised as to whether they are essential.

Compact Sector Grant & SEG - NDOE must submit a project-based proposal, in addition to the Integrated Plan, which should outline the SEG-funded portion of its budget around the SEG initiatives for continuous funded programs. COM-FSM must maintain its Compact Education Sector Grant level at \$1.0M in accordance with JEMCO Resolution 2011-2 and submit a comprehensive performance and expenditure plan that reflects all sources of funding, including SEG.

Capital Investment and Human Resources proposals are to be submitted using a project-based proposal template.

For better coordination and preparation, I have attached the Budget Timetable, which must be adhered to. Further detailed information on the budget instructions, guidelines, required budget templates (forms), as well as other relevant information, are available from the Division of Budget & Economic Management of the Department of Finance and Administration.

Lastly, I remind you all to take care in preparing your budgets, as the practice of cutting and pasting of last years’ budgets often produces errors and is not acceptable. Take the time and attention to produce a budget that reflects your commitment to this Administration and the people of FSM.

H.E. President David W. Panuelo

Xc: Vice President (Chairman of Review Committee)

Speaker, FSM Congress

Chief Justice, FSM Supreme Court

6.3 Budget working group terms of reference

6.3.1 Purpose

To strengthen and enforce discipline during budget preparation and execution in accordance with legal rules, regulations and Budget and Economic Management Division instructions governing the National Government budget process

6.3.2 Membership

- For a Department:
 - Secretary (Leader), Assistant Secretaries (rotating Deputy Leader) Administrative Officer, other staff as required by the Secretary.
- For an Agency, (including Board, Commission, Office)
 - Head of the Agency (Leader), Deputy Heads (rotating Deputy Leader) Administrative Officer, other staff as required by the Head of Agency.

6.3.3 Meetings

Meetings will be held commensurate with ensuring that the description of tasks, below, is carried out to the highest professional standard.

At least two (2) members of the Budget Working Group must be present to make it quorate.

6.3.4 Description of tasks

The Budget Working Group has no statutory role and no formal decision making powers. It will be responsible for implementing the following tasks:

The Budget Working Group must ensure that its budget proposal clearly sets out:

- What the Department/Agency wants to achieve
- How the Department/Agency plans to achieve it
- What it will cost
- How success will be measured

In this regard the Budget Working Group shall endeavour:

1. To ensure that budget preparation is orderly, timely and in full compliance with the Budget Call and the instructions and formats issued by the Budget and Economic Management Division.
2. To provide policy guidance over the size and composition of its proposed budget ensuring quality of content and consistency between the performance budget and the line item budget.
3. To ensure the quality of budget preparation and to endorse submission of its annual budget proposal.
4. To ensure during budget execution that progress reports on actual and planned performance are sent to the President and BEMD within 20 days of the end of each quarter.

6.4 example of program activity costing methodology

6.4.1 Objectives of costing

The objective of costing is:

- To identify the inputs required i.e. resources to be used to implement activities
- To translate these inputs into costs
- Allocate these costs to activities wherever applicable.

6.4.2 Apportionment of costs

Step 1: Identify all costs of the program including personnel, travel, contractual services, other current expenditures and fixed assets.

Step 2: Costing inputs

All departments and agencies have cost information.

Costs contained in accounting records can be used to project future costs that are similar to or repre-

sent the extension of the past or present use of resources.

Where there is no cost information, it can be identified by obtaining a quotation from a supplier.

Expenditure on inputs can then be matched to activities.

6.4.3 Example of approach to activity costing

Assumptions

The public health nurse in Village A with responsibility for covering a population of 10,000 is to increase the target coverage of the existing 40% of the population of Village A to:

- 50% in Year 1
- 60% in Year 2
- 70% in year 3

Three important planning considerations

In planning the activities to meet the targets, the following three factors need to be taken into consideration:

1. Maintain the existing level of service
2. Increase in the service to meet the additional demand generated by population growth
3. Increase in the service to meet the increase in target coverage.

All three of these factors need to be taken into consideration.

TABLE 6: CURRENT NUMBER OF PEOPLE WITH WHOM PUBLIC NURSE HAS CONTACT BY TYPE OF CONTACT

Types	People	Visits	Total
Community discussions	50	45	2,250
School discussions	45	25	1,125
Individual consultations	625		625
			4,000

TABLE 7: INCREASE IN POPULATION

Population growth	Current	Year 1	Year 2	Year 3
3%	10,000	10,300	10,609	10,927

TABLE 8: INCREASED IN TARGET COVERAGE BASED ON INCREASE IN POPULATION

Total population	10,000	10,300	10,609	10,927
Coverage	40%	50%	60%	70%
Target coverage	4,000	5,150	6,365	7,648

Activities identified in this example are:

- Administration: operation of public nurse office designated as 1 activity
- Service: community discussions, school discussions, and individual consultations designated as 3 activities
- Investment: purchase of vehicle designated as 1 activity.

TABLE 9: PLANNING THE NUMBER OF ACTIVITIES

	People			Activities		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Community discussions	2895	3600	4300	58	72	86
School discussions	1449	1800	2160	32	40	48
Individual consultation	806	994	1193	806	994	1193
Administration				1		

How to calculate Table 9:

From Table 6 take the target coverage in Year 1 of 5,150

Calculate the % increase in Year 1 from the current year, which is 28.75% or rounded to 29%

Increase each of the service activities in Table 6 by 29% to determine the new number of activities; for example, 45 activities from Table 6 increase by 29% = 58 activities; 25 activities from Table 6 increase by 29% = 32 activities; from Table 6 increase by 29% = 806 activities.

This new number of activities times by the number of people in Table 6 meets the target population coverage in Year 1 given in Table 8; for example, 58 activities times 50 people = 2,805; 32 activities times 45 people = 1,449; 806 activities times one person per activity = 806 + 1449 + 2895 = 5150.

Using Year as the base, repeat the calculation for Year 2

Using Year 2 as the base, repeat the calculation for Year 3

TABLE 10: IDENTIFYING COST OF INPUTS

Administration	Type	Quantity	Cost
	Consumables		2,000
	Utilities		1,500
	Communications		500
	Vehicle maintenance	1	1,000
TOTAL			5,000
Service			
Community discussions	Fuel		450
School discussions	Fuel		550
Individual consultations	Medicine		135
Investment	Vehicle	1	5,000
TOTAL			6,100

TABLE 11: COSTING ACTIVITIES FOR THREE YEARS

	Year 1			Year 2			Year 3		
	Activity	Cost	Total	Activity	Cost	Total	Activity	Cost	Total
Community discussions	58	450	26,100	72	450	32,400	86	450	38,700
School discussions	32	550	17,600	40	550	22,000	48	550	26,400
Individual consultations	806	135	+108,000	994	135	134,190	1193	135	161,055
Investment	1	5000	5000						
Administration	1	5000	5000	1	5000	5000	1	5000	5000
TOTAL			161,700			193,590			231,199

How to calculate Table 11

Take the cost of each activity from Table 9 and times the number of activities from Table 10.

To calculate salaries see section 12 of the annexes.

Questions to ask to determine if the costs are appropriate

- Do all the inputs and costs seem realistic based on knowledge of each input and cost?
- Have the correct assumptions been made about the types and quantities of inputs?
- Is there any overlap or duplication of activities and inputs?
- Are there options for reducing the costs of activities through better use of resources?
- Are all the inputs required, or could the same output be achieved with fewer inputs?
- Is there an appropriate balance between administration costs and delivery of service costs with relatively more expenditure on services?

6.5 Budget preparation forms

6.5.1 Project Control Document

FEDERATED STATES OF MICRONESIA

NATIONAL GOVERNMENT

+PROJECT CONTROL DOCUMENT

PROJECT REFERENCE NO:_____ **PCD NO:**_____

Section1 General Instructions

Read all General and Detailed Instructions prior to filling out the Project Control Document (PCD). All final PCD documents cannot be hand-written.

All public projects and programs of the Government of the Federated States of Micronesia must follow

the requirements of the Financial Management Act of 1979 (FMA) and the Financial Management Regulations 2021 (FMR). The FMR 10.2 requires that prior to allotment of national government funds for any public project, the Allottee of those funds shall complete the PCD in a form specified by the Assistant Secretary Budget or Designee. The PCD shall:

- a. Describe the project or program and its public purpose in sufficient detail to permit determination of the legality of proposed expenditures, including the line item of the applicable national appropriation law.
- b. Specify the project budget and any portion that is funded from other funding sources.
- c. Provide such detail as to the nature and types of expenditure to be made.
- d. Designate all Project Administration listed under Section III-C
- e. Certify that the Allottee or sub-Allottee has read, understands and will abide by the regulations and other applicable laws.

The Project Inspection Official must be an employee of the national or state government or a qualified independent contractor. Identifying and obtaining acceptance of a qualified project Inspection Official is the responsibility of the Allottee. The project Inspection Official designated in the PCD shall provide project management and oversight so as to ensure the adequate responsibility of funds expended and completion of the project. No project funds shall be received, controlled, or handled in any manner by the project Inspection Official unless otherwise provided by law. Administrative expenses of the project Inspection Official shall not be paid out of project funds unless otherwise provided by law.

If the PCD form is unsatisfactory the Budget Officer must return the form to the Allottee or designated sub-Allottee for resubmission.

SECTION 2 DETAILED INSTRUCTIONS

Project Reference Number	This is an account number to be assigned by the Assistant Secretary Budget during the processing of the PCD.
PCD Number:	This is a control number to be assigned by the Allottee or sub-Allottee
Part I	Application Information
I-A	Fill in the name, title, address of the Allottee or sub-Allottee
1-B	Indicate whether the project is a new project, an amendment of the previously appropriated project(s), or a supplemental budget.
I-C	Mark the applicable funding authorisation number. Examples of the "Others" category include Overseas Development Assistance (ODA) and U.S. Federal Programs and Grants. Provide the specific section of the public law.
I-D	State the title of the project as provided in public law or as designated in the grant award.
Part II	Project Information
II A	Mark the applicable type of project
II B	State the location of the project. For the purpose of clarity, the location should include as much detail as possible (municipality, village, island, section, etc.
II C	Attach the full description of the project in sufficient detail, including project purpose, objective, environmental impacts, and risk management plans. The technical and certified design and scope of work must be completed and submitted for infrastructure projects and other projects of a technical nature.

III	Project Implementation
III A	Proposed Implementation - Describe the complete implementation plan for the project. At a minimum, the timing of short-, medium- and long-term objectives should be identified, along with any periodic fund disbursement requirements. Please also provide a proposed progress assessment schedule. For projects categorised as a one-time purchase, such as fixed assets, travel costs, humanitarian assistance, etc., the implementation plan should include a minimum of cost accountability and justification.
III B	Project Implementation Schedule - Identify time requirements for the listed project activities. Use the remarks section to describe the scope of work following the implementation schedule.
III C	List the authorities responsible for administering the project. Project Inspection Official cannot also serve as the implementing agent.
Part IV	Budget Information
IV A	Indicate the funding source summary to be used for the project.
IV B	Indicate the funding source authority to be used for the project.
IV C	Describe the line item budget breakdown for the funds.
IV D	Indicate whether funding is sufficient to complete the project.
IV E	If funding is not sufficient, then list other sources of available funds to complete the project.
Part V	Justification for Approval
V 1	Describe how the people in the community will directly benefit from the project, including the expected number of people who will benefit from the project. Not applicable is not a valid response.
V 2	Identify and describe how this project is linked to National or State development goals and initiatives.
V 3	Indicate whether the project will be on public or private property.
V 4	If on leased property, please attach a duly executed lease agreement or easement document.
V 5	Describe the plan for operations, maintenance, and sustainment of the project after completion. For infrastructure projects, attach the maintenance plan.
Part VI	General Assurance
	Allottees must endorse to assure and certify that he/she will comply with all applicable FSM State and national laws, regulations and requirements, as they relate to the application acceptance and use of funds provided herein in the case of federal grants, overseas development assistance and compact funds. The Allottee ensures that he/she will comply with all applicable federal regulations, foreign aid terms and conditions and the compact fiscal procedures agreement.

FEDERATED STATES OF MICRONESIA

PROJECT CONTROL DOCUMENT

SECTION 3 PCD FORM

PROJECT REFERENCE NUMBER		PCD NO	
-----------------------------	--	--------	--

PART 1 APPLICATION INFORMATION

1 A. NAME TITLE ADDRESS OF ALLOTTEE/SUB-ALLOTTEE 1-B. TYPE OF APPLICATION

I A NAME, TITLE, ADDRESS OF ALLOTTEE/SUB ALLOTTEE	1 B TYPE OF APPLICATION	
	1 NEW	
	2 AMENDMENT	
	3 SUPPLEMENTAL	
	I C FUND AUTHORISATION	
	1 CFSM PL	
	2 STATE PL	
	3 OTHERS	

I-D.TITLE OF THE PROJECT

PART II. PROJECT INFORMATION

II.A TYPE OF PROJECT

1 ECONOMIC DEVELOPMENT		2 INFRASTRUCTURE DEVELOPMENT	
3 SOCIAL DEVELOPMENT		4 GOVERNMENT SERVICES	

II. B TYPE OF PROJECT

1 STATE	
2 LOCALITY	

II.C DESCRIPTION OF THE PROJECT/EXPECTED PROJECT OUTPUTS (SUBMIT ATTACHMENT IF NEEDED)

FEDERATED STATES OF MICRONESIA

NATIONAL GOVERNMENT

PROJECT CONTROL DOCUMENT

PROJECT REFERENCE NO:		PCD NO	
-----------------------	--	--------	--

PART III. PROJECT IMPLEMENTATION

III.A PROPOSED IMPLEMENTATION

III.B PROJECT IMPLEMENTATION SCHEDULE

ACTIVITY	J	F	M	A	M	J	J	A	S	O	N	D	YEAR
BID PREP/ADVERTISE- MENT													
PROJECT IMPLEMENTA- TION													
PROJECT COMPLETION													
REMARKS													

III. C PROJECT ADMINISTRATION

1 ADMIN.AGENCY		4 PROJECT MANAGER	
2 INSP. OFFICIAL		5 IMPLEMENTATION	
3 OWNER (RECIPIENT			
		a FORCE ACCOUNT	
		b CONTRACT	
		c LOCAL	

FEDERATED STATES OF MICRONESIA

NATIONAL GOVERNMENT

PROJECT CONTROL DOCUMENT

PROJECT REFERENCE NO		PCD NO	
----------------------	--	--------	--

PART IV BUDGET INFORMATION

IV.A FUNDING SOURCE SUMMARY		IV.B FUNDING SOURCE AUTHORITY	
1 GENERAL FUND		A NATIONAL GOVT.	
2 COMPACT		B STATE GOVT.	
3 FEDERAL GRANTS		C US FEDERAL GRANT	
4 ODA		D ODA	
TOTAL		TOTAL	

IV.C BUDGET CATEGORY

	CURRENT FUNDING	TOTAL TO DATE
1 PERSONNEL		
2 TRAVEL		
3 CONTRACTURAL SERVICES		
4 FIXED ASSETS		
5 CONSUMABLES		
	TOTAL	

IV.D ARE THE FUNDS SUFFICIENT TO COMPLETE THE PROJECT?	YES		NO	
--	-----	--	----	--

I*V.E. IF NO, WHAT OTHER SOURCES ARE AVAILABLE TO COMPLETE THE PROJECT? (EXPLAIN)

FEDERATED STATES OF MICRONESIA

NATIONAL GOVERNMENT

PROJECT CONTROL DOCUMENT

PROJECT REFERENCE NO		PCD NO	
----------------------	--	--------	--

PART V. JUSTIFICATION FOR APPROVAL

1 DESCRIBE HOW PEOPLE IN THE COMMUNITY WILL DIRECTLY BENEFIT FROM THE PROJECT

2 IDENTIFY AND DESCRIBE HOW THIS PROJECT IS LINKED TO NATIONAL OR STATE DEVELOPMENT GOALS AND INITIATIVES.

3 IS THE PROJECT TO BE ON		PUBLIC PROPERTY	PRIVATE PROPERTY	
		NOT APPLICABLE		

4 IF ON LEASED PROPERTY, PLEASE ATTACH A DULY EXECUTED LEASE AGREEMENT OF EASMENT DOCUMENT
--

5 DESCRIBE IN DETAIL THE PLAN FOR OPERATIONS, MAINTENANCE AND SUSTAINMENT OF THE PROJECT. AFTER COMPLETION OF INFRASTRUCTURE PROJECTS, ATTACH THE MAINTENANCE PLAN

FEDERATED STATES OF MICRONESIA

NATIONAL GOVERNMENT

PROJECT CONTROL DOCUMENT

PROJECT REFERENCE NO		PCD NO	
----------------------	--	--------	--

PART VI GENERAL ASSURANCE

The applicant (Allottee/Sub Allottee) makes the following assurance, which must be sustainable.

A GENERAL ADMINISTRATION			
1 The applicant agrees to administer the project in accordance with approved plans and all applicable laws, regulations, policies and procedures as established by the state or national government and foreign agencies for projects funded by external sources.			
2 The applicant assures compliance with all reporting requirements, including 55 FSMC Section 225 and Section 3.5 (Allottee reporting) of the Financial Management Regulations, as amended.			
3 The applicant assures that the project will be used for public purposes. All equipment purchased under the project will remain the property of the government and may be available for use in support of other public projects.			
4 All construction projects require a blueprint or design.			
B Financial			
1 The applicant will comply with all applicable financial regulations and policies, the Financial Management Act, the Compact Fiscal procedure Agreement and including OMB circulars and with the terms and conditions of such grants. The applicant will comply with all applicable procurement laws and regulations.			
2 The applicant assures maintaining sufficient financial control and accounting procedures to assure proper disbursement of and accounting for the project funds paid to the recipient of a contract.			
3 Failure to comply with the above may result in the withholding of all future allotments, suspension from the allottee roster.			
Allottee		Date	

6.5.2 PERSONNEL LINE-ITEM BUDGET TEMPLATE

Detailed

- Line-item sources will be from the most recent data on the Personnel Actions (Name, Position, Title and Employment Status or Pay Grade reference to Public Sector Service Remuneration (PSSR) Classifications.
- Professional premium rate 150% maximum
- Foreign Service premium rate 120% maximum
- New Position Requests - Every effort should be made to meet Departmental, Offices, and Agencies staff needs within the existing workforce. However, new positions for FY2024 will be accommodated if they can be fully justified.
- Full-Time Employees Count - Number of full-time employees under a program or a division
- Fringe Benefit 15% - the fringe benefit is calculated against all budgeted personnel line items.
- Cost of Living Allowance COLA (\$ 40.00). (Bi-weekly x 26 Pay Period - COLA is only applied to PSS employees.
- Budget Information needed – Name, Position Title, FY2023 Pay Grade Level, FY2023 Approved Pay Grade Level and FY2024 Proposed Pay Level from Departments and Agencies
- Refer to the following sample of the Personnel Budget.

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

PERSONNEL LINE-ITEM BUDGET TEMPLATE

Budget Code	Names	Division	Office	Position	Purpose of travel	FY2023 approved	FY2024 proposed	FY2024 recommended	FY2024 approved

Personnel budget codes

8001	Personnel budget	8021 Life	
8008	Overtime Budget	8022 Combined	
8010	Salaries	8050 Benefits SS	
8015	Overtime	Other Personnel Cost	
8020	Benefits		

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

6.5.3 TRAVEL LINE-ITEM BUDGET TEMPLATE

Detailed

- Line-item sources will be from the most recent per diem domestic and international rates.
- Airfare rates – should be the most recent rates from domestic and international airlines and travel agencies.
- Branches, Departments, Offices, Agencies, Boards, and Commissions need to submit a schedule of planned FY2024 travel.
- Budget information needed – Itinerary, No. of Trips, No. of travellers, No. of days travelling, type of travel, name of travellers.
- Purpose of travel and Approved FY2023 Budget level; Proposed FY2024 Budget level



TRAVEL LINE-ITEM BUDGET TEMPLATE									
Budget Code	Names	Division	Office	Position	Purpose of travel	FY2023 approved	FY2024 proposed	FY2024 recommended	FY2024 approved
	ITINERARY		TYPE & DESCRIPTION						

Travel budget code

8101	Travel Budget	8110	Travel & Transportation
------	---------------	------	-------------------------

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION



6.5.4 CONTRACTURAL LINE-ITEM BUDGET TEMPLATE

Detailed

- Line-item sources will be from contract arrangements, subscriptions, legislations, policies setting representation allowances, official allowances and market prices.
- Budget Information Needed – Descriptions of the contractual item, type of contract and data from FY2023 Approved Budget Level, Proposed, FY2024 Budget Level.

CONTRACTUAL LINE-ITEM BUDGET TEMPLATE									
Budget Code	Names	Division	Office	Position	Purpose of travel	FY2023 approved	FY2024 proposed	FY2024 recommended	FY2024 approved

Contractual Services Budget Codes

8301	Contractual Service Budget	8345	Representation Allowance
8310	General Contractual Services	8346	Presidential Allowance
8320	Professional Services	8347	Non-FSM Government Employee Salary
8321	Employee Housing & Households Goods Storage	8350	Insurance & fees
8325	Recruitment & Repatriation	8351	Leased Equipment
8327	Compensation Non-Payroll	8352	Leased Housing & Office
8328	Education Allowance	8354	Leased Land
8329	Training & Registration Fee	8360	Dry docking
8330	Scholarships	8370	Bank charges
8340	Official Allowance	8371	Custodial Fees
8343	Meeting Allowance	8372	Money Management Fees
8501	Construction Budget	8514	Architecture & Design
8510	Project Management & Administration	8515	Mobilisation
8512	Construction Management	8518	Construction Payment
8513	Survey & Investigation	8630	Construction Contingency

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

6.5.5 OTHER CURRENT EXPENDITURE BUDGET TEMPLATE

Detailed

Line-item sources will be from market prices of consumable goods and billings.

Budget Information Needed – FY2023 Approved Budget Level, Proposed, FY2024 Budget Level

OTHER CURRENT EXPENDITURES LINE-ITEM BUDGET TEMPLATE									
Budget Code	Names	Division	Office	Type/Description		FY2023 approved	FY2024 proposed	FY2024 recommended	FY2024 approved

Other Current Expenditure Budget Codes

8201	Consumable Goods Budget	8232	Rental services
8210	Books & Library Materials	8234	Repair & maintenance services
8211	Instruction Materials	8236	Utilities
8212	Communications	8238	Warehousing
8214	Customs & tax	8250	Miscellaneous Goods & Services
8215	Mail/Transportation	8255	Discount/Fluctuation
8216	Dues: Membership & Subscription	8260	Medical Supplies
8220	Food	8262	Pharmaceuticals
8222	Freight	8264	Dental Supplies
82248228	Equipment & Furniture	8267	Medical Referral Medical Services
8230	Office Supplies & Materials	8268	Medical Claims
8228	POL	8279	Contribution, Subsidies & Grants
8230	Advertising, Printing & Reproduction		

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

6.5.6 FIXED ASSETS LINE-ITEM BUDGET TEMPLATE

Detailed

- Line-item sources will be from market prices of assets and appraised properties.
- Budget Information Needed – FY2023 Approved Budget Level, Proposed, FY2024 Budget Level
- Departments need to provide current vehicle inventory by divisions and sites.

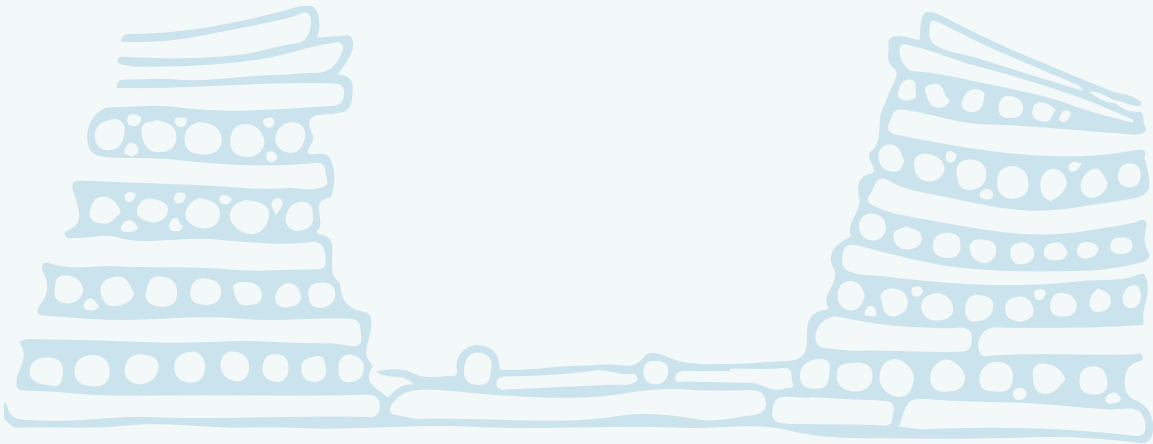
FIXED ASSETS LINE-ITEM BUDGET TEMPLATE							
Budget Code	Division	Office	Type/Description	FY2023 approved	FY2024 proposed	FY2024 recommended	FY2024 approved

Fixed Assets Budget Expenditure Codes

8601	Fixed Assets Budget	8614	Vessels & Boats
8610	Equipment	8616	Heavy Machinery
8611	Furniture & Fixtures	8620	Buildings
8612	Vehicles	8630	Land

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION



6.5.7 Line Item Budget Template

This template groups all line item into line item budget. (Generic example)

Department: insert name of department						
LINE ITEM BUDGET SUMMARY	FY2021 approved	FY2022 proposed	FY2022 approved	FY2023 proposed	FY2025 approved	FY2024 Proposed
Personnel						
Travel						
Contractual Services						
Other current expenditures						
Fixed Assets						
Total;						

Insert Office of Secretary and use same template for each Division						
LINE ITEM BUDGET DETAILED		FY2021 proposed	FY2022 approved	FY2023 proposed	FY2023 approved	FY2024 Proposed
PERSONNEL						
Name	Position					
Repeat for all staff	Repeat for all staff					
Vacant	Position					
	Position					

Instructions for Personnel template

Provide names and positions of all staff and corresponding previous approved budget and proposed budget.

1. Indicate approved positions that are vacant.
2. Indicate new proposed positions.

Insert Office of Secretary and use same template for each Division						
LINE ITEM BUDGET DETAILED				FY2023 roposed	FY2023 approved	FY2024 Proposed
TRAVEL						



Describe departure to destination; Number of persons Number of days	State whether international or domestic	Person(s) travelling	Purpose of travel			

Insert Office of Secretary and use same template for each Division

LINE ITEM BUDGET DETAILED		FY2023 proposed	FY2023 approved	FY2024 Proposed
CONTRACTURAL SERVICES				
Name	Position			
Name	Position			
Name	Position			

Insert Office of Secretary and use same template for each Division

LINE ITEM BUDGET DETAILED		FY2023 proposed	FY2023 approved	FY2024 proposed
OTHER CURRENT EXPENDITURES				
Item	Purpose			
Repair & maintenance	Vehicles			
Office supplies (paper, toner etc.	Palikir & field offices			

Insert Office of Secretary and use same template for each Division

LINE ITEM BUDGET DETAILED		FY2023 proposed	FY2023 approved	FY2024 proposed
FIXED ASSETS				
Item	Purpose			
Vehicle	Administrative support			
Furniture	Office equipment			
Computers	Office equipment			

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

6.5.8 Performance Budget Template

A. MISSION				
Performance Level	Performance Description	Performance Budget	Division	Performance indicator State type of indicator: (time, quantity, quality and target) If no suitable indicator identified leave blank
A1 STRATEGIC GOAL	Describe strategic goal	Insert total budget i.e. sum of all activity costs from line item budget	Insert name of division	
A1-1 OBJECTIVE	Describe objective			
1.1 ACTIVITY	Describe activity			
1.2 ACTIVITY	Describe activity			
1.1 (A) OUTPUT	Describe output			
A2 STRATEGIC GOAL	Describe strategic goal	Insert total budget i.e. sum of all activity costs from line item budget		
A2-1 OBJECTIVE	Describe objective			
2.1.1 ACTIVITY	Describe activity			
2.1.2 ACTIVITY	Describe activity			
2.1.3 ACTIVITY	Describe output			
2.1(a) OUTPUT	Describe output			

Instructions for completing the program (performance) budget template

COLUMNS 1 AND 2

MISSION: briefly state the legal mandate of the Department or Agency.

STRATEGIC GOAL: provide brief accurate description.

OBJECTIVE: provide brief accurate description.

ACTIVITY: provide brief accurate description.

OUTPUT: provide brief accurate description.

Continue same for all strategic goals and corresponding objectives, outputs, activities

COLUMN 3: cost of all activities related to strategic goal i.e. sum of line budget items

COLUMN 4: Insert name of the division.

COLUMN 5: provide numeric performance indicator and numeric targets for each output and activity. For example, quantity, quality, timeliness, where this is not practicable leave blank.

6.6 Template for integrating the line item budget and the performance budget

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

This annex provides a template for integrating the line item and performance budgets. This means allocating the costs identified in the line item budget to the corresponding activities in the performance budget

Steps to integrate the line item and performance budget

Step 1: Personnel

Simple baseline calculation

Assume a member of staff works earns a salary of \$15,000 per year for the following schedule.

40 hours per week with 2 weeks holidays = 2,000 working hours per year

$\$15,000 / 2,000 \text{ hours} = \7.50 per hour

More accurate baseline calculation

In 2023 there are 105 weekend (Saturday and Sunday) days and 260 weekdays (Monday to Friday).

So if you worked 8 hours every weekday you would work total of 2,080 hours (260 days * 8 hours)

You then convert annual salary to hourly rate of \$ 7.21 per annum ($\$15,000 / 2,080 = \7.21)

What about the public holidays

Public holidays vary annually e.g. floating holidays (extra day) when a public holiday falls on a weekend.

Given annual variations below is a table showing how the total number of holidays in a year affects the hourly rate

\$15,000 annual salary 2023		
Holidays	Working Days	Hourly Rate
6	254	\$7.38
7	253	\$7.41
8	252	\$7.44
9	251	\$7.47
10	250	\$7.50

Personnel cost per activity

Once the hourly rate is established simply estimate the number of hours a member of staff will work on an activity.

For example:

Staff A at hourly rate of \$7.21 spends 900 hours on Activity 1, 700 hours on Activity 2, 480 hours on Activity 3, total of 2,080 hours.

Activity 1 Staff A, cost is: $900 * 7.21 = \$6,489$

Activity 2 Staff A, cost is: $700 * 7.21 = \$5,047$

Activity 3: Staff A, cost is: $480 \times 7.21 = \$3,460$

Step 2: Travel

Assume the following:

International: 4 return trips to attend mandated regional/international organisation meetings and mandated visits Pohnpei/Destination A; cost \$4,000; Pohnpei/Destination B, cost 3,500

Domestic: 3 return trips Pohnpei/Chuuk, cost; Pohnpei/Kosrae. Cost; Pohnpei/Yap, Cost

Simply align each trip to the relevant travel related activity, i.e. attend annual regional organisation meeting Pohnpei/Guam return cost \$3,500 and do the same for each travel

Step 3: Contractual Services

The calculation is the same as for Personnel, above, if the contract staff is working on more than one activity. However, if, for example, the contract staff is a Grant Writer and is only assigned to the one activity of preparing Grant Proposals/Requests there is no need to break down the cost of services simply assign it to the activity of Preparing Grant Proposal/Requests.

Step 4: Other Current Expenditures

Assume the following:

- Communication – cost \$2,250
- Office supplies – cost \$3,750
- Vehicle maintenance and repair – Cost \$720
- Printing and reproduction – cost \$ 900
- Utilities – cost \$2,700

The Other Current Expenditures (OCE) supports all activities except for domestic Travel to States and Travel overseas, so exclude all activities related to Travel. Simply then allocate across the other activities.

For example, assume that that there are 5 activities, but excluding Travel related activities there are 4 activities that OCE supports. Simply divide OCE by 4 activities because OCE supports all non-Travel activities, to obtain cost of OCE supporting 1 activity i.e.

- Communications is $\$2,250/4 = \562.5
- Office supplies $\$3,750/4 = \937.5
- Vehicle maintenance and repair $\$720/4 = \180
- Printing and reproduction $\$900/4 = 225$
- Utilities $2700/4 = \$675$

Step 5: Fixed Assets

Assume the following

- 2 desktop - computers cost \$3,000
- 2 office desks - cost \$1,400
- 1 vehicles - cost \$15,000

For example, say there are 5 activities and the fixed assets will support all 5 activities, but not equally.

Assume that 1 desktop computer will support 3 activities and 1 desktop computer will support 2 activities. 2 office desks will support 2 activities, and 1 vehicle will support all 5 activities.

Simply calculate as follows:

- 1 desktop computer is \$1500/3 activities = \$500 per each of the 3 activities
- 1 desktop computer is \$1500/2 activities = \$750 per each of the 2 activities
- 2 office desks \$1,400/2 activities = \$700

1 vehicle is \$15,000 supports 4 activities: Estimated that the vehicle will work for 40% of the time activity 1, 30% of the time activity 2, 20% of the time activity 3, 10% of the time activity 4.

Simple calculation

- $\$15,000 \times 40\% = \$6,000$ allocated to activity 1
- $\$15,000 \times 30\% = \$4,500$ allocated to activity 2
- $\$15,000 \times 20\% = \$3,000$ allocated to activity 3
- $\$15,000 \times 10\% = \$1,500$ allocated to activity 4

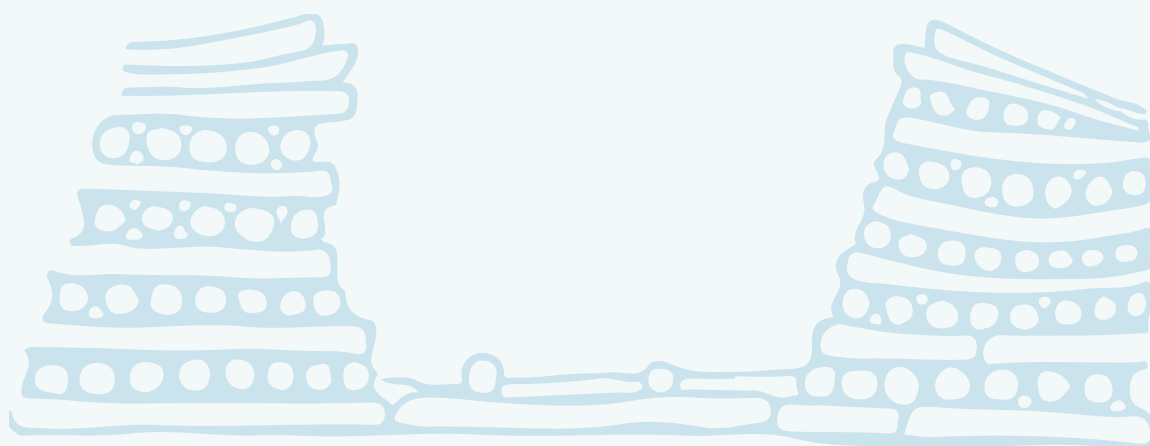
After performing the necessary calculations complete the following template for your specific budget.

	PERSONNEL	TRAVEL	CONTRACTURAL	OCE	FIXED ASSETS	TOTAL
Mission						
Strategic Goal						
Objective						
Activity						
Outputs						



6.7 Important budget preparation dates to remember FY2024

DATE	ITEM
October 15, 2022	Release Budget Call.
October 24, 2022	Conduct Budget Workshop at Central Facility.
October 26 to December 09, 2022	BEMD starts pre-Budget Consultations with Departments and Agencies. During this period preparation of the Budget Plan i.e. the Performance Budget is completed and it drives preparation of the Line Item Budget (cost of the Budget Plan i.e. Performance Budget)
January 15, 2023	Departments and Agencies submit budget proposals for FY2024 and plan for two ensuing fiscal year's budget proposals.
January 16 to January 31 2023	BEMD analyses Budget submissions and submits the budget documents to EBRC for review.
February 01 to March, 15 2023	EBRC starts its budget reviews and consultations with departments and agencies.
March 16 to March 17 2023	Recommendations submitted to EBRC and the president for FINAL decisions
March 30 to March 31, 2023	BEMD prepares Budget Book, Transmittal Bill for submission.
April 1, 2023	President submits balanced budget plan for FY2024 to Speaker of the FSM Congress.
May 19 2023	Mid-Year Review.
MAY 2023	Congress holds budget hearings and deliberations.



6.8 Budget execution forms

6.8.1 Advice of Allotment template

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

PREPARED BY:		ADVICE NO:01N23412	
CLEARED BY:		DATE: 1/5/2023	
		FISCAL YEAR: FY2023	
ADVICE OF ALLOTMENT			
ALLOTTEE: SECRETARY R&D		DEPT: R&D	
ADDRESS: PALIKOR POHNPEI		ACTIVITY: MICRONESIAN ISLANDS FORUM	
ACCOUNT NO:		BOC: 01 GENERAL FUND	EXP. DATE: 09/30/2023
TYPE OF ADVICE: ALLOTMENT			

SUB. ACCT:	ACCT. DESCRIPTION	APPROPRIATION	PREVIOUS ALLOT-MENT	THIS ACTION	ACCUMU-LATED ALLOTMENT	UNALLO-CATED BALANCE
8001	PERSONNEL					
8101	TRAVEL			25,000.00	25,000.00	-25,000.00
8201	CONSUMABLE GOODS		15,000.00	42,000.00	57,000.00	-57,000.00
8301	CONTRACTUAL SERVICES			50,000.00	50,000.00	-50,000.00
8401	SINGLE AUTHORI-ZATION	132,000.00				132,000.00
8601	FIXED ASSETS					
TOTAL COSTED	03077	132,000.00	15,000.00	117,000.00	132,000.00	0.00

JUSTIFICATION:

TO ALLOT ADDITIONAL FUNDING OF \$117,000 INTO THIS ACCOUNT AS PER ATTACHED PCD AND PL 22-169.

BUDGET PERIOD BEGINS: 10/01/2022

PUBLIC LAW:	Section:	
22-153/22-169	8(4)(p)	
		Secretary Department of Finance and Administration
GRANT AWARD #:		DATE:

6.8.2 Request for Change in Allotment template

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

REQUEST FOR CHANGE IN ALLOTMENT

FROM DEPARTMENT/OFFICES

TO: FSM BUDGET OFFICER

DATE:

FROM:

SUBJECT: REQUEST FOR CHANGE IN ALLOTMENT

IT IS REQUESTED THAT ALLOTMENT ACTION BE TAKEN AS FOLLOWS

ACCOUNT:

PROGRAM/PROJECT:

TYPE OF FUND: GENERAL FUND

OBJECT CLASS		PREVIOUS ALLOT- MENT	THIS ACTION	CURRENT ALLOT- MENT
8001	Personnel	24,838.00		24,838.00
8101	Travel	12,500.00		12,500.00
8201	Consumable goods	3,750.00	7,500.00	11,250.00
8301	Contractual services	49,617.00	(8,549.00)	41,067.01
8401	Budget authorisation			
8601	Fixed asset		1,049.99	1,049.99
	TOTAL	90,705.00		90,705.00
	JUSTIFICATION			

The above object class allotment cannot be changed without the approval of the Budget Officer. The Allottee will ensure that obligations and expenditure are in accordance with the above object class and that the total funds allotted for each object class are not exceeded. The funds allotted by this action will be administered in accordance with the provisions of applicable law, including but not limited to the Financial Management Act of 1979.

APPROVED:**DATE:****DEPARTMENT OF FINANCE AND ADMINISTRATION CERTIFICATION**

All funds requested to be reprogrammed as reflected above are certified to be available and correct.

Signature:_____

Date:_____

6.9 budget reporting important dates to remember

FY2024

1.	Reports Required from Allottees	
	a.	May 01 (No Later Than) – Allottee shall submit a report to Congress of the FSM.
	b.	October 31 (No Later Than) – Allottee shall submit a report to Congress of the FSM.
2.	Reports Required from Secretary of Finance and Administration.	
	a.	January 31 (No Later Than) – Shall submit unaudited financial statements to the FSM Congress.
	b.	Ten days prior to each session of Congress, the Secretary of Finance and Administration shall submit an updated revenue estimate to the Speaker and Chairman of the Ways and Means Committee of the FSM Congress.
3.	Reports Required from the Departments and Agencies of the National Government	
	a.	Within 30 days of the completion of each quarter of each fiscal year, each department of the Executive branch and agency of the National Government shall transmit to Congress and to the president a report on its activities during the quarter just completed, including:
	b.	Within 20 days of the completion of each quarter of each fiscal year, the BEMD and Treasury Unit shall collate and provide the necessary information required for the departments to prepare their reports as required under subpart 1.3 (1) above.
4.	Economic and Fiscal Update Reporting	
	(a)	At least once a year and Economic and Fiscal Update must be prepared by the Budget and Economic and Management Division Department of Finance and Administration.



6.10 budget reporting forms

6.10.1 Quarterly Physical and Financial Report of Operations and Absorptive Capacity

Quarterly Physical and Financial Reporting

Department/Division: [] Prepared by: {Print name, sign and date}. This quarter: [insert quarter and fiscal year]

Program/Project:

1	2	3	4	5	6	7	8	9	10	11
Code	Output	Target	Actual	Variance	Accomplishment	Allotment Released	Actual obligations incurred	Variance	Absorptive Capacity	Remarks

Instructions

Column 1 shall be the number assigned to the Strategic Goal and the expenditure code.

Column 2 shall refer to the outputs of the performance budget related to the Strategic Goal.

Column 3 shall refer to the target output for the quarter being reported.

Column 4 shall refer to the actual output for the quarter being reported.

Column 5 shall refer to the difference between Column 4 and Column 3.

Column 6 shall refer to the physical accomplishment expressed in percentage Column 4 divided by Column 5.

Column 7 shall refer to the allotment released for the quarter being reported.

Column 8 shall refer to the actual obligations incurred, as reflected in the register of allotments and obligations for the quarter being reported.

Column 9 shall refer to the difference between Column 8 and Column 7.

Column 10 shall refer to the financial accomplishment expressed in percentage Column 8 divided by Column 7.

Remarks shall refer to other relevant information.

The report shall be submitted to the Department of Finance and Administration Budget and Economic Management Division within 30 days of the end of each quarter.

6.10.2 Quarterly Physical and Financial Activity Report of Operations

+Quarterly Activity Physical and Financial Reporting

Department/Division: [] Prepared by: {Print name, sign and date}. This quarter: [insert quarter and fiscal year]

Variance Analysis of Activity Physical Performance							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Code	Activity Description	Activity Indicator	Target Performance	Actual Accomplishment	Variance (4-5) = (6)	% (6/4) = (7)	Remarks
	Agriculture extension service	Number of farming training courses	150	50	100	-67	

Variance Analysis of Activity Financial Performance							
Code	Activity Description	Activity Indicator	Budget Amount	Actual Cost	Variance	%	Remarks
	Agriculture extension service	Number of farmer training courses	2,500	2800	300	-12	

Instructions

Column 1 shall refer to the expenditure code.

Column 2 shall refer to a succinct, accurate description of the activity.

Column 3 shall refer to a SMART (specific, measurable, assignable, relevant, time-bound) indicator expressed as a number.

Column 4 shall refer to the target performance expressed as a number

Column 5 shall refer to the actual performance expressed as a number

Column 6 shall refer to the variance between the target and actual performance column 4 minus Column 5

Column 7 shall refer to the variance expressed as a percentage Column 6 divided by Column 5.

Column 8 shall refer to any other relevant information.

6.10.3 Annual Budget Allotment Report

FSM NATIONAL GOVERNMENT

DEPARTMENT OF FINANCE AND ADMINISTRATION

Executive, Legislative, Judicial, and Other Branches	Acct. No.	FY Appropriation To Date	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	Total Allot.	Remain Un-allotted De-allotted
FY Approved Budget								
Personnel								
Travel								
Contractual Services								
Other current expenditure								
Fixed assets								

The Allotment Register and Annual Allotment Report maintain a record of all allotments in the above format covering the following:

- Operations Budget
- Grants, Subsidies, Contributions
- Capital Investment and Human Resources
- Public Projects, Social Programs and Priority Projects – Chuuk State
- Public Projects, Social Programs and Priority Projects – Kosrae State
- Public Projects, Social Programs and Priority Projects – Pohnpei State
- Public Projects, Social Programs and Priority Projects – Yap State
- US Federal Programs
- Foreign Grant Assistance

6.11 Analysing Financial and Performance Reports

This section provides some examples of how financial and performance reporting can be used to make recommendations to inform budgeting.

6.11.1 Example of how to use physical output and financial reports

The BEMD shall use quarterly reports to prepare analyses and recommendations for the assets in making expenditure allocation decisions. This can be presented on less than one page. The following examples illustrate the idea.

EXAMPLE 1

Name of Department/Division

Strategic Goal: Inclusive Economic growth

Objective: Increase agricultural productivity

Output 1: Agriculture support services delivered

Analyst: Print name, position, signature, and date

Performance Indicators	Target 2020	Actual 2020	Variance %
Quantity Number of farmer training courses	150	50 *	-67+
Quality Production-related and postproduction technologies commercialised.	34	1	-97%
Timeliness There were no timeliness PIs included in the report.			
Budget amount	5000	5000	0

Analysis

The output shows a significant shortfall in the number of individuals assisted compared to the target. However, the target was ambitious.

While the only quality measure for this output shows an extreme underperformance, it is not unusual for the commercialisation of technologies to be extremely variable from one time period to the next, as it is often hit or miss. Setting targets for the commercialisation of technologies is problematic.

This output was generally delivered satisfactorily and within budget.

Recommendation/s:

Agriculture is a sector priority in the SDP 2004-2023 and in the 2023 Action Plan. It is recommended that funding for this output continue at existing real levels.

EXAMPLE 2

Strategic goal: Strengthen good governance.

Objective Effective public administration

Output: Increased administrative capacity

Analyst: Print name position signature and date

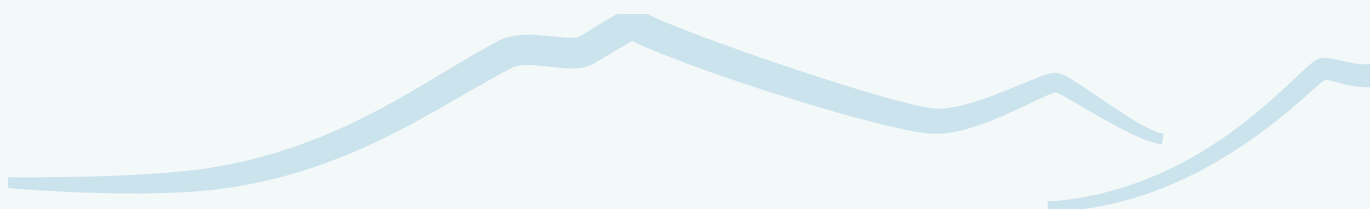
Performance Indicator	Target 2020	Actual 2020	Variance %
Quantity			
Number of equipment	350	350	0
Quality			
% of equipment pass verification	100	90	-10%
Time			
% of suppliers paid on time	100	100	0
Budget amount	200,000	200.000	0

Analysis

All targets were met except for the quality target. This was due to the verification process finding fault with some of the equipment supplied. The faulty equipment was returned to the supplier. Although the quality target was not met, it proved that the verification process is working. The defective equipment was replaced by the vendor.

Recommendations(s)

This is a one-off purchase; no recommendations are made.



EXAMPLE 3

Strategic goal: Strengthen Good Governance

Objective: Effective public administration

Output: Increased administrative capacity

Analyst: Print name position signature and date

Performance Indicator	Target 2020	Actual 2020	Variance %
Quantity			
Number of offices undergoing renovation	4	4	0
Quality			
% of works passing inspection	100	100	0
Time			
Months	4	4	0
Budget amount	100,000	150,000	33

Analysis

All targets were met in full except for the budget amount. Once the work started, it was realised that the budget would be insufficient, and supplementary was requested. The maintenance of these offices will help to improve administrative service to the public.

Recommendations

Improving all types of services to the public is a high policy priority. It is recommended that funding continues at real levels so that the value and productive use of public assets are maintained.

It is recommended that all departments and agencies make a greater effort to better-cost-planned operations. Particularly as this is the first in a planned series of renovations. Moreover, all departments and agencies should focus on timely maintenance to avoid more costly renovation works. The program should continue at real funding levels taking into account potential price rises.

Example of how to use activity financial and physical performance report

Variance Analysis of Activity Financial and Physical Performance

Program Code	Activity Description	Activity Indicator	Target	Actual Achieved	Variance	%
(1)	(2)	(3)	(4)	(5)	(4-5) = (6)	6/4 = (7)
	BEMD capacity building	Number of training modules	40	40	0	0

Variance Analysis of Activity Financial Performance

Program Code	Activity Description	Activity Indicator	Budget Amount	Actual Cost	Variance	%
(1)	(2)	(3)	(4)	(5)	(4-5) = (6)	(6/4) = (7)
	BEMD capacity building	Number of training modules	2500	2800	-300	-12%

Analysis

The review and analysis of the physical activity implementation and financial performance are done in tandem to have a complete picture of the extent and latitude of performance. The above example illustrates that activities are also linked to one objective.

The above example shows the number of training modules for BEMD staff. Implementing the modules matched the target, but the budget was over than estimated by 12%. Arranging training courses involve a number of actions so as to complete the activity, including determining the number of trainees per course, preparation and dispatch of invitations, scope, content and duration of the training, preparation of course materials and identification and agreement with trainers.

This list of actions to implement the activity is intended to be illustrative and not exhaustive. The number of actions needed to implement an activity is a matter of judgement. The important point to note is that all actions needed to implement an activity need to be identified and costed otherwise, the risk is that the activity will be underfunded. This appears to be the case in this example.

6.12 Policy impact assessment

6.12.1 Rationale

This Annex sets out for use by BEMD the procedure and template for the purpose of ex-ante policy impact assessment. The aim is to

- Stand up a standard operating procedure consistent with BEMD mandate of providing financial and economic policy advice to the national Government

6.12.2 Definitions

- Ex-ante policy impact assessment involves doing a prospective analysis of what the impact of a National Government action, might be, so as to inform policy making.
- Ex-post policy impact assessment aims to understand to what extent and how a National Government policy intervention corrects the problem it was intended to address.
- Policy intervention is defined, as an idea or a plan for the National Government to take action to address a problem or improve a situation consistent with the mandate of the BEMD: Examples of such policies emanating from BEMD may include a reorganisation of the budget process; introduction of a shared nationwide private investment (domestic and foreign) approval procedure; and regulations to address market failures.

From the definition of the term policy intervention, it follows that BEMD may be on occasion the implementer of a specific policy, or a policy implementer in partnership with other National Government organisations, non-government organisations from the private and voluntary sectors or BEMD may simply propose a policy that others will implement.

Purpose of the template

The Policy Impact Assessment (PIA) template is designed to facilitate the presentation of proposed policy intervention by the National Government and its possible impacts. The Template provides a standard format for BEMD to present the potential impact of a policy proposal in line with its mandate, as a provider of financial and economic policy advisory services. The PIA template aims to present in a simply understood way the costs and benefits of preferred policy option and potential impacts on different groups, including business and voluntary and community organisations where applicable. It provides a mechanism for assessing why the Government should intervene (i.e. act) and allows comparison with other policy options, including the option of doing nothing. The Template is designed to be used for ex-ante policy impact assessment, as defined above. Although it could be also used for ex post policy impact assessment with some modification.

Steps for preparing and approving policy intervention

Step 1: Any staff member of BEMD can propose to the Assistant Secretary Budget a policy intervention. If the Assistant Secretary considers that the idea has merit the proposed policy intervention will be discussed with the Secretary of Finance and Administration.

Step 2: The proposed policy intervention is developed further subject to the approval of the Secretary of Finance and Administration who communicates the decision to proceed or cease to the Assistant Secretary Budget.

Step 3: The Budget Analyst(s) designated by the Assistant Secretary to lead preparation of the policy impact assessment opens a file and logs the file number provided by the Assistant Secretary budget in the policy impact assessment register. Movements of the policy impact assessment are logged in the said register, dated and signed.

Step 4: The Assistant Secretary Budget designates the staff to work on the proposed policy intervention and supervises the work of developing the rationale for Government intervention including establishing the evidence base to justify the proposed Government action.

Step 5: The work undertaken is signed off by the Assistant Secretary Budget and summarised in a Policy Impact Assessment. Once completed to the satisfaction of the Assistant Secretary Budget the Policy Impact Assessment is submitted to the Secretary of Finance and Administration.

Step 6: Subject to the approval of the Secretary of Finance and Administration the Policy Impact Assessment is submitted to the President for consideration and if the President, so decides it is presented to Cabinet for review and approval.

Steps for preparing Policy Impact Statement template

Simplification is the key to the structure of the Policy Impact Assessment template. The aim is to provide a comprehensive, coherent document that is easily understood by all who read it.

The steps for completing the Template are contained within the Template and provide simple to-follow instructions. The first page is a summary sheet, and the remaining pages provide the details with corresponding instructions.

Title: [The title should be simply stated and contain within it the desired outcome of the policy intervention]. For example: Increased Foreign and Domestic Private Investment nationwide	POLICY IMPACT STATEMENT (PIA) PIA No: [number will be assigned by Assistant Secretary Budget and logged in the PIA Registry)
Lead Department or Agency: [state name of lead department and where applicable partnership with other National Government and State Governments organisations and Non-Government Organisations]	Date: [insert date PIA is submitted to the Secretary of Finance and Administration]
Legal Framework: [reference the legal framework within which the proposed policy will operate and how might the policy, if implemented, change that legislation]	Type of policy intervention: {describe clearly, for example, new nationwide regulations to establish common procedure for private investment approvals}
	Contact for enquiries: [insert name, position, phone, email]

SUMMARY ANALYSIS	
Estimated cost of policy intervention in [insert year] prices:	
Costs: \$ (itemise all costs in \$) For example: personnel workshops domestic travel consumables administration enforcement equipment (ICT)	Benefits: \$ (itemise all benefits in \$) For example: Increased export earnings more employment opportunities higher revenues skills and knowledge transfers
Net Present Value (NPV) All financial costs should be identified and all estimated benefits monetised (i.e. dollar value) to obtain net financial benefit (difference between costs and benefits and then discounted to arrive at NPV (example of how to calculate NPV is located at end of this template?)	
What is the problem under consideration? (provide description of the problem no more than 4 lines)	
Why is Government intervention necessary? (provide explanation why government is best placed to address the problem no more than 4 lines)	
What are the objectives of the proposed policy intervention? (provide statement of objectives no more than 2 lines)	
What will change as a result of the intervention? (provide statement of what will be the outcomes of the intervention no more than 4 lines)	
How will we measure success? (state what will be the indicators of success no more than 4 lines)	

Provide description of the do nothing option i.e. current situation and continuing impact (no more than 4 lines)

Is the intervention likely to impact on international trade, investment and employment? (if yes describe impact no more than 4 lines)

I have read the proposed policy assessment and am satisfied that given available evidence, it represents a reasonable view of the likely costs and benefits and impact of the proposed policy intervention

Signed:_____

Print name:_____

Position:_____

Date:_____

DETAILED ANALYSIS

Item (all items must be addressed)

Guiding Questions

Problem under consideration and rationale for intervention

What is the issue being addressed (i.e., is there a market failure or a government objective)?

What are the current or future harms that are being tackled?

What sectors/markets/stakeholders will be affected, and how, if the government does intervene?

Why is the government, best placed to resolve the issue?

Could the issue be resolved without intervention (e.g. through the market, innovation, or other stakeholder-led change)?

Rationale and evidence for the level of analysis

Explain why the level of evidence presented and data gathered are appropriate to the problem under consideration.

Where evidence is unavailable or where there is low confidence/high uncertainty in the evidence, please explain the approach taken in relation to any gaps or limitations in the evidence used (for example, where there is less evidence in one area, what information has been used to supplement the evidence base).

Description of options considered	Include a description of the “do nothing” option and other intervention regulatory options. Should include considering international comparisons and practices. How would the options deliver the desired outcomes? How will the options interact with existing legislative and regulatory requirements?
Policy objectives	What are the intended outcomes? What will change as a result of the intervention? Can the objectives/outcomes be described in a SMART (or similar) way? What will the indicators of success be?
Summary and preferred option with description of the implementation plan	<i>How will the preferred option be given effect, will there be transitional arrangements?</i> <i>Explain how the intervention would lead to the intended achievement of the policy objective.</i> <i>When will the arrangements come into effect?</i> <i>Who will be responsible for the ongoing operation and enforcement of the new arrangements?</i> <i>Does the approach to implementation enable sufficient flexibility and scope for experimentation/piloting /trialling?</i>
Costs and benefits of each option (including administrative burden)	Summarise the expected costs and benefits of the proposed approach.
Summary of the potential trade implications of the measure	For measures with impacts on international trade and investment, you need to demonstrate those impacts in consultation with the Department of Resource and Development. For example, for goods and services regulations, Departments should include an assessment of whether the measure introduces different requirements for domestic and foreign businesses, or different requirements for businesses from different countries and demonstrate how the measure is consistent with the FSM’s international obligations.
Monitoring and Evaluation	How will the impact of the new arrangements be monitored? What are the main external factors that will have an impact on the success of the intervention? How will you assess whether the original objectives have been met, or whether the intervention should be amended? What are the current monitoring and evaluation provisions in place for the current system, and how can they maintain the appropriate flexibility? Will you need to collect extra data that is not already being collected to assess whether the policy has been successful?

6.12.3 Distribution of responsibilities

The Chief Economist BEMD leads the preparation of the Policy Impact Assessment Template with assistance from the economic analyst(s) and budget analyst(s) under the oversight of the Assistant Secretary Budget. The Assistant Secretary Budget presents the completed Template to the Secretary of Finance and Administration and subject to the approval of the Secretary of Finance and Administration the completed Policy Impact Assessment Template may be presented to the President for consideration and subject to the approval of the President to the Congress for its approval.

6.12.4 Net Present Value

Understanding net present value discounting

Discounting is a technique used to compare costs and benefits that occur in different time periods. Individuals and the public as a whole prefers to receive goods and services sooner rather than later, and to defer costs to future generations. This is known as 'social time preference'; the 'social time preference rate' is the rate at which society values the present compared to the future.

The discount rate is the reciprocal of the compound interest rate as shown in the following example. Assume that a \$100 is invested in a fixed deposit account at 10 per cent per annum for a period of 4 years. The value of the \$100 would grow as follows:

Beginning of year 1	100.00
10% interest	10.00
End of year 1	110.00
10% interest	11.00
End of year 2	121.00
10% interest	12.10
End of year 3	133.10
10% interest	13.31
End of year 4	146.41

Because the same amount is deposited for four years and interest is re-invested the original \$100 deposit grows to \$146 by the end of year four. Looked at another way the "present value" of \$146 in four years' time, discounted at 10 per cent is \$100. The discount factor = $1 / (1 + r)$ where r is the rate of interest expressed in decimals. The present value of 1 is 1. Assume second year income is discounted 10 per cent below that of year one. Thus $r = 0.10$ and the second year discount factor is 0.909 and so on as shown below.

Year 1	1.000
Year 2	$1000 / 1.10 = 0.909$
Year 3	$0.909 / 1.10 = 0.826$
Year 4	$0.826 / 1.10 = 0.750$

The discount rate is used to convert all costs and benefits to “present values” so that they can be compared. The recommended discount rate is the interest rate at which funds can be borrowed. Calculating the present value of the difference between the streams of costs and benefits provides the net present value (NPV). The NPV is one of the primary criterion for deciding whether government interventions can be justified.

6.12.5 Example of using net present value to choose between two options

The following provides an example of NPV calculation to determine between two alternative project options.

TABLE 5: EXAMPLE USING NET PRESENT VALUE TO DETERMINE THE CHOICE BETWEEN TWO OPTIONS

Options A and B are both expected to improve the quality of departments work and reduce staff costs through capacity development and organisational restructuring. The base case of each Option has been estimated, as follows.						
Option A requires \$10 million in initial capital expenditure to realise benefits of \$2.5 million per annum for the following four years, \$2.0 million in reduced staff costs and \$0.5 million in quality improvements.						
Option B requires \$5 million in initial capital expenditures to realise \$1.5 million of benefits for the following four years, \$1 million in reduced staff costs and \$0.5 million in quality improvements						
Calculation of present values						
Year	0	1	2	3	4	NPV
Discount factor	1	0.9962	0.9339	0.9019	0.8714	
Discount rate 3%						
Costs/Benefits						
	-10.00m	2.50m	2.50m	2.50m	2.50m	
Option A						
Present Value		2.42m	2.33m	2.25m	2.18m	-0.82m
Costs/Benefits						
	-0.5m	1.50m	1.50m	1.50m	1.50m	
Option B						
Present Value	-0.5m	1.45m	1.40m	1.35m	1.31m	0.51m
Option B yields a positive NPV of \$0.51m compared to \$0.82m negative NPV for Option A. Therefore, Option B is the preferred choice.						

Note: Costs/Benefits is the net difference between the financial benefits of the Option and its financial costs. The net difference constitutes the net cash flow which is then discounted to calculate net present value.

The NPV can easily be calculated in Excel using the NPV function formula.

6.13 Procedure for monitoring and reporting on public financial management Reform Roadmap 2023 – 2026 implementation

6.13.1 PFM Steering Committee

The existing PFM Steering Committee chaired by the Secretary of Finance and Administration will continue to provide leadership and overall management of Roadmap implementation. The Committee will meet quarterly to review progress and to address any issues related to Roadmap implementation.

The BEMD will act as the Secretariat to the Committee. In this capacity, it will also be responsible for presenting quarterly progress reports on Roadmap implementation to the Committee based on reports from those responsible for implementing the Roadmap. Progress Reports will be reviewed by the Committee and for hosting on the DoFA website suitably modified for the public. In addition, the Secretariat will also make recommendations for the consideration of the Committee pertaining to any issues affecting Roadmap implementation.

6.13.2 Progress report format

The Number, Activity, Responsibility, Due Date are taken from the Roadmap Action Plan. The progress report provides a summary of work accomplished and highlights any difficulties that the Committee will need to address. This is followed by a summary of next quarter's expected accomplishments.

PFM Roadmap 2023-2026 Progress Report

No	Activity	Responsibility	Due date
This quarter: Prepared by ...Date:			
Summary of progress			
Briefly describe progress in the last quarter and highlight any difficulties.			
Next quarter expected progress.			
Briefly describe what is expected to be accomplished next quarter.			

6.13.3 Distribution of responsibilities

Assistant Secretaries of the DoFA will prepare the Roadmap Progress Reports and submit them to BEMD within 10 days of the end of each quarter. BEMD Budget Analysts will review the Progress Reports and report to the Assistant Secretary Budget. The BEMD, as Secretariat to the Committee will table the Progress Reports for discussion at meetings of the Committee. If required, the Committee will recommend any follow-up actions.

6.14 Template for the Annual Economic and Fiscal Update

According to the FMR 2021, section 11.4, page 87, at least once a year the Economic and Fiscal Update must be prepared by the BEMD and submitted to the Congress. The Economic and Fiscal Update must provide:

- a) Updated information on the economy and fiscal situation of the FSM.
- b) An overview of the fiscal strategy presented in the budget package.
- c) A comparison of the budget package with the most recent published budget policy statement.

The Secretary of Finance and Administration may require more regular fiscal updates to be prepared.

The following presents the format for the Economic and Fiscal Update.

Cover

- DoFA cover and date

Abbreviations

- Abbreviation followed by name in full

Notes

- The fiscal year of the Government ends on 30th September

Executive Summary

- Main points of the Economic and Fiscal Update

Economic Update

- Focus on recent economic developments
 - Include statistical Tables on real GDP national growth rates; real GDP growth by sector showing trends
 - Include chart on inflation showing trends
 - Provide supporting text to explain Tables and Charts
- Macroeconomic forecasts
 - Focus on medium term economic outlook
 - Compare to recent years
 - Include Table showing macroeconomic forecasts
 - Provide supporting text to explain Table

National Government Fiscal Update

- Revenues and expenditures
 - Include Table showing National Government revenue and external grants for last 6 years (audited and estimate)
 - Include Table showing National Government current and capital expenditure for last 6 years

(audited and estimate)

- Provide supporting text to explain Tables
- Fiscal Strategy
 - Discuss National Government fiscal strategy
 - Include Table on Fiscal Responsibility Ratios
 - Provide supporting text to explain Table
- National Government assistance to State Governments
 - National government assistance to state
 - Include Table showing national Government Revenue Sharing for last 6 years
 - Provide supporting text to explain Table
- FSM trust fund
 - Include Table on Trust Fund balance last 6 years
 - Include Tables and Charts on Trust Fund Cash Flow and Performance Summary last 6 years
 - Provide supporting text to explain Tables
- Overseas Development Assistance (ODA)
 - Include Table last 6 years on ODA by key growth sector
 - Provide supporting text discussing ODA trends, amounts mobilised by year and major projects
- Compact Trust Fund
 - Include Table showing recent performance of the Compact Trust Fund last 6 years
 - Provide supporting text to explain Table
- Public projects
 - Include Tables showing public projects by appropriation; expenditure by category; by state and category all Tables last 6 years
 - Provide supporting text to explain Tables
- Government Debt
 - Include Table showing audited debt by year last 6 years and public debt forecast
 - Include Chart showing share of government debt by National Government and State Governments
 - Provide supporting text explaining Table and Chart and discuss trends, outlook and sustainability of debt
- Consolidated accounts of the nation
 - Include Tables showing National Government and State Governments Revenue and Expenditure Accounts
 - Provide supporting text explaining drivers of revenues and expenditure by National and State Governments
- Appendix 1 2023 Action Plan Update
 - Update the 2023 Action Plan Matrix
- Appendix 2 Statistical Tables

- Table1: FSM Constant Price GDP by Industry (\$ millions)
- Table 2: Constant Price GDP by Industry Sector (annual percent change)
- Table3: FSM Current Price GDP by Industry (\$ millions)
- Table 4: Current GDP by Industry (annual percent change)
- Table 5: Consumer Price Index by Major Group (annual percent change)
- Table 6: Visitor Arrivals by Purpose
- Table 7" Visitor Arrivals by Origin
- Table 8: FSM Commercial Banking Survey (\$ millions)
- Table 9: Interest Rates of Domestic Money Banks
- Table 10: FSM Balance of Payments (\$ millions)
- Table 11: FSM External Debt
- Table 12: Population by State
- Table 13: Age and Sex Distribution and Households by State and Outer Islands
- Table 14: Labour Force Indicators by State and Outer Islands

6.15 Compact budget procedure

6.15.1 Legal basis

Public Law 13-72, section 3, recognises the right of the State Governments and the National Government to appropriate and expend Compact funds in accordance with their own respective laws, policies and plans... It also recognizes the necessity of complying with the conditions and restrictions attached to the Compact funds and empowering the President with authority to ensure compliance with such conditions and restrictions and ensuring accountable financial management of all Compact funds.

Within 90 days prior to the beginning of a fiscal year, the National Government submits to the US Government a proposed budget for each Compact sector funds for Joint Management Committee (JEMCO) to review and approve. The JEMCO is chaired by the US Office of Insular Affairs (OIA) and its membership comprises 3 representatives of the US Government and 2 representatives of the FSM National Government. Based on an agreement between the National Government and the State Governments and OIA, each year by November 5, the Division of ODA and Compact Management shall transmit to President and the State Governors the Compact sector grant allocations or control numbers, including carryover balances received from OIA.

Steps in preparing compact budgets

The progression in preparing for the official submission of the Compact budgets to the US Government is as follows:

- By May 15 of each year, the National Government and the State Governments submit their Compact budgets to the President. Based on this submission, a preliminary budget is developed by BEMD and sent to OIA by May 21.
- From May 22 onward to June 30, the National Government and the State Governments hold internal consultations and take into consideration any of OIA's feedback from its review of the preliminary

Compact budgets and make necessary adjustments. Within this period, specifically by May 30 (Public Law 14-61), Congress shall authorize by resolution for the President to submit the recommended FSM Compact budget request to the US Government through the OIA. The final consolidation and submission of the Compact budgets to OIA shall be made by July 3 (Public Law 13-72).

Each of the State governments will submit its own Compact budgets based on sector grant allocations or control numbers issued by OIA during the first quarter of each fiscal year. BEMD ensures that each of the National Government and State Governments budgets are based on the division formula statute for Compact funds, which includes the Supplemental Education Grant.

The formula has changed several times, starting with Public Law 13-72 to its latest change required by Public Law 18-57 as follows:

Chuuk Government – 42.22%;

Kosrae Government – 12.00 %;

Pohnpei Government – 28.13%

Yap Government – 17.55%

National Government – 0.00% (after JEMCO funds College of Micronesia).

BEMD reviews and compiles the Compact budgets along with the National Government Compact budget and further submits these budgets to the US Government through the President.

The President signs the official submission letter for the Compact budgets to OIA, and BEMD makes the final transmittal of the Compact budget by uploading it to OIA's official website by July 3.

The National Government and State Governments Compact budgets are reviewed and approved by JEMCO no later than 30 days before the beginning of a fiscal year (Public Law 13-72). The US Government, through OIA forwards the official grant award notices to the National Government through a diplomatic note no later than October 1 of each year. The return of signed grant awards for Compact sector grants by the President signifies acceptance of funding amounts and terms and conditions that may be attached to a grant.

The awarding and acceptance of new grant awards, including Federal Grant awards, between the US Government and FSM follows the same procedure which applies to Compact grant awards, except with the final acceptance of grant awards that are intended for the State governments where the enactment of the appropriation law is completed at the State government level.

Once a grant award has been accepted, BEMD transmits a communication informing Congress of the acceptance of the sector grants intended for FSM and for Congress to sanction the Compact budget along with the proposed and recommended budget President had earlier submitted to Congress. Notices are also sent by BEMD to each State budget office formally informing the State governments of their approved or disapproved Compact budgets and for the States to enact appropriation laws for the approved Compact-funding.

As the State governments and the National government enact appropriation laws for their share of the Compact funding, copies of the enacted appropriation laws are required to be submitted to the President through BEMD) as a pre-requisite for issuance of allotments (Title 55, chapter 2 section 216 and Public Law 13-72 section 12).

Activity	Group of actions constituting an activity designed to produce an output.
Effectiveness	The extent to which strategic goals (outcomes) are achieved.
Efficiency	Getting the most from the inputs at the lowest cost
Impact	Change attributable to an intervention, such as an action or process (e.g. policy, program, project, investment).
Inputs	Financial and physical resources used to produce an output. Physical resources include human and material resources, always measured in dollars.
Fiscal space	The scope of the government budget that allows it to provide funds for a new policy while maintaining macroeconomic and fiscal stability. Fiscal space can be created by the government raising taxes, securing outside grants, borrowing and reducing lower-priority expenditures.
Forward estimates	The forward estimates identify the costs of current policies that are assumed to remain unchanged. However, the costs of implementing unchanged policies can change due, for example, to price variation increases (i.e. inflation) and population changes (i.e. increase in the number of school-age children). Forward estimates are used primarily for ascertaining fiscal space (i.e. available funds for new policies) and informing the setting of expenditure ceilings at the initial phase of the annual budget preparation within which departments/divisions, agencies, offices and commissions frame their budget proposals.
Measure	A number assigned to some aspect of an agency's operations according to a specified set of rules, for example, input, output, outcome, cycle time, unit cost, etc. (e.g. cost to produce a report, number of days from request of service to delivery).
Medium-Term Expenditure Framework	Establishment of expenditure baselines (forward estimates) for ascertaining fiscal space, informing the setting of expenditure ceilings at the initial phase of the annual budget preparation, and adding performance-informed budgeting based on the formulation of strategic plans and use of performance indicators that provide an indication of what public expenditure is achieving.
Medium-Term Macroeconomic Framework	A fiscal framework based on realistic revenue forecasts, containing a statement of fiscal policy objectives and a set of integrated medium-term macroeconomic and fiscal targets, and projections
Mission Statement	Describes what an organisation currently does as its core function, how well it performs the function, for whom it is provided, and when it is established by legislative mandate.

Objective	One-to-three-year aim of a department or organisation established for each activity and output. If the objective is reached, the department or organisation should contribute to achieving its strategic goal.
Operating Performance	How efficiently or effectively an organisation conducts activities to produce outputs and outcomes.
Operational Goals	The day-to-day tasks/goals an agency must accomplish to reach its tactical and strategic goals; usually applicable to first-line supervisors and managers.
Outcome Measures	The number that indicates whether the strategic goal was accomplished.
Outputs	Units of work completed. Includes goods and services from government processes. Output refers to the quantity of what is produced.
Performance	The term is commonly used to describe both the doing of work and what is achieved or accomplished.
Procedure	An established official way of doing something comprising a series of steps conducted in a certain order or manner
Process	Work steps that, when performed, resulting in an output.
Quality	There are two main quality dimensions – error rate and customer satisfaction. Measures of error rates include accuracy, reliability, consistency, durability, and appearance.
Quantity	The amount of output resulting from a given service or activity.
Results	The consequence of a particular action, operation, or course.
Standards	A measurement for the level of performance. The standards need to be developed or selected based on data, research, or other empirical means.
Strategic Goal	High-level, long-term goals established in the FSM economic summit and approved policy documents that drive the performance budget. What an organisation needs to achieve to fulfil its 5-10 year strategy for mission accomplishment.
Timeliness	A comparison of the actual cycle time to the production of an output.
Unit Cost	The resources expended to produce one unit of work, e.g. cost to fill a pothole or issue a check.
Unit of Measurement	The unit used in quantifying for measurement of a particular performance aspect (e.g. minutes, hours, days, years, tons, pounds, etc.).



Department of Finance and Administration

📍 Trahn Annim Bldg · 2nd floor Palikir, · Palikir, 96941 · FSM
P.O.Box PS 158, · Palikir, Pohnpei FM · 96941
☎ (691) 320-2640/5852
🌐 www.dofa.gov.fm

