The Small Countries Financial Management Programme

Second Independent Evaluation

July 2020

Main Report

I. INTRODUCTION

A. Background

1. Small states face many challenges to economic growth and the achievement of their Sustainable Development Goals (SDGs). There is no official definition of what constitutes a small state. Various definitions are based on land area, population size, gross national product and physical/geographic characteristics. The most commonly used definition is the World Bank's: states with populations of 1.5 million or less. However, the 50 members of the IMF/World Bank Small States Forum[1] include eight states with populations greater than 1.5 million that share similar challenges[2]. Also, some small states are not included because they are not members of the World Bank (e.g., Cook Islands) or are not members of the United Nations. The Commonwealth classifies Papua New Guinea as a small state, but the World Bank does not. Various organisations have been established to support the small states including regional organisations such as the Caribbean Community, the Pacific Islands Forum, the Indian Ocean Commission and the Alliance of Small Island States that give members a consolidated voice on various issues.

2. Although they face similar challenges, small states are not homogeneous[3]:
   - **Population:** Many small states are micro states (i.e., with populations of 200,000 or less) while others have populations that exceed 1.5 million. Related development challenges include small domestic markets, small private sectors and limited opportunities to create economies of scale.
   - **Geography:** Small states are found in all regions, and about two-thirds are island states, particularly in the Caribbean, Pacific and Indian oceans. However, there are also some small landlocked states.
   - **Remoteness:** While many small states are remote (i.e., long distances from international markets), others are not. Related development challenges include high transport, energy and communication costs.
   - **Land area:** While many small island states have very small land areas, other small states are larger (e.g., Bhutan; Lesotho).
   - **Environmental challenges:** Many small states have fragile environments and are adversely affected by global warming (e.g., rising sea levels; vulnerability to natural disasters and typhoons) and dwindling fish stocks. Natural disasters pose special challenges for fiscal management and financial sector regulation. This is made more challenging because most small states have budgetary constraints, limited financial resources, borrowing constraints and often weak policy and regulatory environments. Governments need pre-arranged funding when disasters strike, but no single financial instrument can address all risks. Rather a combination of market-based instruments like insurance, financing (e.g., loans; credits) and budgetary instruments (e.g., budget reserves/reallocations) are required but the optimal mix depends on a country's risk profile[4].

3. Small states accounted for 11 of the 36 states/territories on the 2019 Harmonized List of Fragile Situations. The Asian Development Bank (ADB) came to a similar conclusion in a 2015 evaluation[5] that found that ADB's Pacific portfolio contained the highest number of countries affected by fragile and conflict-affected situations among ADB's regional departments.

[1] The Small States Forum is a group of finance ministers and central bank governors that convenes each year on the sidelines of the World Bank Group/IMF Annual Meetings. In 2018 the Small States Forum provided a platform to discuss: (i) disaster risk management and debt management in the face of shocks; and (ii) technology, innovation and connectivity, which included the use of FINTECH, to deepen financial markets, enhance responsible access to financial services, facilitate cross-border payments, strengthen remittance systems and better manage risks associated with the use of these technologies. In 2019 the topics discussed were: (i) debt vulnerabilities in small states; and (ii) financial resilience to disaster shocks.

[2] Botswana; Gabon; The Gambia; Guinea Bissau; Jamaica; Lesotho; Namibia; Qatar.

[3] This material draws on World Bank Group. Support to Small States. October 2019.

[4] IMF/World Bank Group. Small States Forum. Boosting Financial Resilience to Disaster Shocks. 2019

[5] During the evaluation period, the Federated States of Micronesia, Kiribati, Nauru, the Republic of the Marshall Islands and Tuvalu were all classified as fragile states. Vanuatu and Palau moved in and out of the fragility classification during the evaluation period. Asian Development Bank. Independent Evaluation Department. ADB Support to Small Pacific Island Countries. Corporate Evaluation, March 2015.

4. Small countries are sovereign states with governments with a head of state and/or parliament, a set of laws and policies, economic ministries, regulatory bodies and ministries or departments that provide physical and social infrastructure and services. Small countries face challenges in adopting and implementing policies and practices that are consistent with the increasingly complex frameworks of rules and conventions for the financial and fiscal sectors. Small states typically have limited capacity to effectively absorb development assistance, which is often large relative to the size of the economy and the budget.

5. Because thin institutional capacity[6] is recognized as a constraint, many donors provide small states with support for capacity building, policy/regulatory development and implementation and institutional reform. For example, public sector management operations, which combine policy-based grants/loans and technical assistance grants, dominate ADB assistance to Pacific Island countries. This assistance focuses on core government functions, including public financial management (PFM) and the reform of public sector institutions, including state-owned enterprises. ADB concluded that it takes many years to achieve a transformative impact on the capacity of state institutions[7].

6. Relative to the size of their GDPs, small states generally have larger governments and public sector wage bills than do larger states. Small countries face many economic management and fiscal challenges related to a disproportionately high cost of public administration, limited fiscal revenue, overstretched civil services and exposure to external economic shocks such as the Global Financial Crises and changes in exchange rates and resource prices, especially oil.

7. Managing small economies is a challenge even for the most skilled policymakers. Despite their small institutions and limited human resources, these countries must manage their economies, adopt laws and implement policies to deal with the full range of governance activities. The financial sector and fiscal management are particular challenges in the increasingly globalised world and related economic volatility and risks. Successfully managing those risks and volatility requires strong institutions. Because small countries are more open and vulnerable, the quality of their institutions matters even more than it does in large countries[8].

8. The donor community has a strong interest in good governance, particularly in the areas of financial regulation and public financial management because of: (i) the increasing use of direct budget support, large, quick disbursing policy-based loans and results-based lending to scale-up aid to help achieve the Sustainable Development Goals (SDGs);[9] (ii) a recognition that well-functioning financial regulation and public finance management systems are essential for sustainable economic development; and (iii) transparency and accountability in these areas reduce opportunities for corruption. Typically, the World Bank and the IMF lead the efforts to make transformative improvements in the areas of financial sector supervision and public financial management. The regional development banks and bilateral donors support these efforts.

9. The Isle of Man shares common characteristics with small countries (e.g., small population; small institutions; limited resources). While the United Kingdom is responsible for foreign affairs and defence, the Isle of Man has a parliament, the Tynwald, and its own laws, courts, government, a treasury and a financial services authority encompassing both banking and insurance.[10] The Isle of Man faces many of the issues confronting small countries and has considerable expertise and experience in dealing with financial sector and fiscal challenges.

[6] Independent Evaluation Group. World Bank Group. World Bank Group Engagement in Small States: The Cases of the OECS, Pacific Island Countries, Cabo Verde, Djibouti, Mauritius, and the Seychelles — Clustered Country Program Evaluation. May 2016.
[7] Asian Development Bank. Independent Evaluation Department. ADB Support to Small Pacific Island Countries. Corporate Evaluation, March 2015.
[8] United Nations University. World Institute for World Development Economic Research. Discussion Paper No. 2001/37. Small States in a Global Economy. The Role of Institutions in Managing Vulnerability and Opportunity in Small Developing Countries. Deborah Bräutigam and Michael Woolcock. July 2001
[9] The proceeds of these large loans are managed and disbursed using country public financial management systems and anti-corruption safeguards.
[10] Although the Isle of Man prints its own currency for local use, its formal currency is the British Pound and the Bank of England sets monetary policy, interest rates, etc.

10. The distinctive nature of managing small economies is largely unrecognised by institutions that provide conventional leadership training programmes. While the IMF does provide courses and training that are tailored to the Caribbean and Pacific island states and African countries that cover fiscal affairs, the financial sector and statistics, those courses are technical in nature and do not focus on management issues. The world's leading universities provide executive training programmes. However, those programmes are expensive and are typically designed for senior corporate managers and government officials from OECD countries rather than for officials from developing countries, especially from small developing countries.

B. Objectives of the Small Countries Financial Management Centre

11. The Isle of Man established the Small Countries Financial Management Centre (SCFMC) in June 2009 to fill a gap in the leadership and management training for senior officials working on fiscal management and the financial regulation in small countries. The SCFMC was *"established with the objective of reducing poverty and improving financial governance through the promotion of education relating to the government financial sector in small countries or countries whose economy or infrastructure has been adversely affected by wars or conflicts by:*

(a) the organisation and provision of targeted executive education and technical training courses and material conducted by practitioners and academics to provide improved skills, deeper understanding and general best practice around financial regulation, risk management, and broader management of government financial activities;

(b) the provision of an international forum for sharing knowledge, encouraging debate and discussion, and driving innovation by the advancement of education and training by hosting conferences, seminars, working groups and networking events for global regulators and industry practitioners from small countries;

(c) the establishment of an international research and training centre for developing, facilitating, promoting and carrying out research and training into global regulatory issues concerning the international financial services markets in small countries in order to obtain a better understanding of such issues and to publicise, disseminate and publish the useful results of such research and provide a forum for their discussion;

(d) the development of ideas and best practice which are unbiased by any particular regime and are based on rational, scientific bases, drawing on and reflecting the practical experience in small countries and elsewhere, and understanding of global regulators and industry practices and thereby the achievement of international regulation." [11]

12. The focus on the financial regulatory and fiscal areas reflects the SCFMC's belief that improving the leadership and management skills of senior officials working in these areas results in systemic improvements in managing the economies of small countries. The SCFMC's main activity is putting on the Small Countries Financial Management Programme (SCFMP), an executive training programme. In technical areas, the SCFMP covers best practices for financial regulation, risk management, anti-money laundering, public financial management and the broader management of government financial and fiscal activities. The SCFMP also covers a range of management topics (e.g., leadership, strategic management, negotiation, influencing, organisational change, stakeholder consultation). The two-week course is targeted at senior public sector officials from small developing countries and has been run annually since 2009. It is designed and run by the SCFMC and Associate Fellows of the Saïd Business School at Oxford University, one of the world's leading academic centres of excellence, in their personal capacities.

13. The SCMFC put on its first customized regional programme in 2018, the Cook Islands' Negotiation Programme. While not formally undertaken by

[11] Memorandum and Articles of Association of the Small Countries Financial Centre. 17 June 2009. Page 1.

the SCFMC, two of its faculty members and the SCFMC Executive Director, working as consultants, presented a four day High-Level Forum on Governance and Strategy in Accra, Ghana in March 2018. The workshop, which was designed for central bank deputy governors, was organised and funded by one of the IMF's Regional Technical Assistance Centres (AFRITAC West 2).

C. Description of the Small Countries Financial Management Programme

14. The objective of the SCFMP is to address the leadership and management needs of senior officials working in the financial regulatory and fiscal areas in small developing countries. One week of the programme is held in the Isle of Man and the other at Oxford. The faculty is a mix of presenters and academics from some of the world's leading business schools and universities and experienced practitioners.

15. Box B.1 in Appendix B compares the topics and focus of the 2013 and 2019 SCFMPs. The structure of the SCFMP has remained broadly consistent over time covering management issues (e.g., negotiation; leadership; stakeholder consultation; change management), financial regulatory issues including anti-money laundering and risk management and fiscal issues including cash and debt management and taxation. The focus on small countries and sharing information on the Isle of Man's economic journey have been consistent features of the SCFMP. While remaining broadly consistent in terms of coverage, based on feedback from each session,[12] the SCFMP has evolved and has been refreshed to update content, case studies and to add a few new topics. [13] There was also an increasing emphasis on, and an improvement in the presentation of, the challenges over the years. In addition to the common sessions, the SCFMP also includes sessions on technical topics. For those modules, participants are separated into two groups – those involved in financial regulation and those working in the fiscal area. The SCFMP is designed to be a practical executive training programme. Interactive teaching methods are used with participants raising questions and role-playing. Real world experience, simulations and case studies are included in the programme. Extensive use is made of group discussions. Participants from different regions are distributed across groups to ensure a cross-fertilisation of ideas and experiences.

16. The challenge is a unique feature of the SCFMP. It is designed to strengthen the relationship between the SCFMP and the day-to-day jobs of the participants, thereby increasing the likelihood that the skills and knowledge learned will be used on-the-job. As part of the application process, participants are required to prepare a challenge related to their work, and their supervisors are required to sign off on it. During the programme, the challenges are refined and strengthened based on what is being learned during the SCFMP and with input provided by the speakers and other participants. The participants are encouraged to consider new ways of thinking about their challenges, how to reframe them and how to provide leadership in tackling the challenges in practical ways, given the realities of working in small developing countries.

17. A total of 267 people have attended the SCFMP since it was first offered in 2009 – 98 between 2009 and 2012 and 169 during the evaluation period (2013-19). There was a good distribution between participants involved in financial sector regulation (177) and fiscal management (121). [14] There was also reasonable representation from the three regions – the Caribbean (102), East Asia and the Pacific (83) and Africa, the Indian Ocean and Rest of the World (82) (see map).

18. The participants from the Caribbean include those from the Eastern Caribbean Central Bank, which is located in St. Kitts and Nevis.

[12] The SCFMC follows good practice and solicits feedback from participants on the quality of the training. This is now done at the end of each day, when before it was done at the end of the course. This strengthens the accuracy of the self-evaluation since the sessions are fresh in the minds of the participants, and less recall is needed.

[13] For example, a module on FINTECH was added in 2019, which participants found provided good exposure to a new issue. Financial technology (FINTECH) "is used to describe new technology that seeks to improve and automate the delivery and use of financial services. At its core, FINTECH is utilized to help companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing specialised software and algorithms that are used on computers and, increasingly, smartphones." (Source: Investopedia).

[14] In addition, 9 participants were from other organisations that were broadly related to economic management.

SCFMP's Participating Countries