



Isle of Man
Government

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The Treasury

Background Paper

Capacity-Building Initiative for Small States Financial Sectors

The Isle of Man, Oxford University and the Small States Network for Economic Development

Rationale: Responding to Demand

Comprehensive studies of small states have reached conclusions that vindicate the views of the states themselves: they are disproportionately challenged both by capacity constraints (most notably or consequentially in financial sector management) and in the ability to engage and negotiate with larger state actors and international institutions. Both challenges have become more acute in the context of faster-than-expected preference erosion, the expanded role of the WTO and other international standards-setting bodies in framing the international trade and regulatory environments, and the widely shared view that small states must adopt positive adjustment measures and shift attention to designing and implementing export-based development strategies, seeking comparative advantage in the service sectors.¹ In the aftermath of the 2008 global financial crisis, the imperative for small states to have efficient and well-regulated financial sectors will become even greater than before.

Proposal: Strengthening Financial Sector and Negotiating Capacity in Small States

This initiative will enable selected government officials from small states – about 25 people each year – to attend a two-week executive education program in Great Britain, specifically designed for their needs. The program will be conducted by Oxford University's Saïd Business School, using the facilities of the International Business School in the Isle of Man, a small state with a vibrant and well-regulated financial sector. The Isle of Man is the first Associate Member of the Small States Network for Economic Development, which is expected to play a key role in the implementation of the initiative. It will be designed like similar short executive education programs run by the Saïd Business School and other major universities and business schools, where mid-career managers from the private and public sectors come to acquire valuable skills during a very intensive few days or weeks.

Course Purpose and Outline

In the first instance, the objective of the program will be to strengthen the financial sector management capacity of officials from small states, so as to foster a well-

¹ See, for example, *Toward an Outward-Oriented Development Strategy for Small States: Issues, Opportunities, and Resilience Building* (Commonwealth Secretariat/World Bank, 2006).

governed and regulated environment, conducive to the effective use of public funds, private sector investment, good governance and the provision of services to citizens. It will also seek to strengthen the capacity of small states to withstand external shocks. The program will include topics such as sound regulatory practices, financial legislation, the role of the courts, tax policy, public sector reform, improving the performance of government agencies in the financial sector, and anti-money laundering. The program will also include three days on negotiating skills based on the very successful Oxford Programme on Negotiation.

The program will be taught by leading professors in the relevant areas from the UK and around the world and will be overseen by an experienced program director from the Saïd Business School. Faculty involved will include professors from Oxford, London School of Economics, the Kennedy School of Government at Harvard University, and other major universities and business schools. It is intended that there will be guest speakers from the World Bank, IMF and BIS. The program will employ highly interactive and “user-friendly” teaching with detailed discussions of case studies and the running of simulations in which participants assume roles. The program will include a core curriculum on financial sector management and on negotiation, which all participants will attend together. For the balance of the program, participants will be able to choose from modules geared towards financial services or modules appropriate to small states without this specialist focus.

The program will start on a Sunday evening at the Isle of Man International Business School, followed by intensive days of teaching, case studies, role-plays, presentations and discussions on the Monday through Saturday morning. Each day, one short session will be conducted by expert practitioners from the international financial institutions referred to above or from specialists from small states where best practice can be shared. Heads of divisions of the Isle of Man Financial Supervision Commission (FSC) will lead discussions on risk-based supervision, licensing, enforcement, etc. Other sessions may include a panel comprising the Attorney general, the Legislative Drafter, and the head of policy at the FSC on developing new financial legislation. The benefits of the program being conducted in a well-regulated and governed jurisdiction will thus be leveraged.

On Saturday afternoon and Sunday there will be cultural and tourist outings, creating a relaxed environment for networking among small states officials, who could, over time, draw on the expertise of colleagues around the globe, whether on specific matters of domestic reform or on interactions with multilateral and bilateral development institutions or international standards setting bodies.

On Monday, the teaching will resume, with the sessions running from Wednesday through noon on Friday, being a version of the Oxford Programme on Negotiation, specifically tailored to the needs of small states. On Friday afternoon, the participants will fly to Birmingham for the short transfer to Oxford University, where a concluding dinner will be held in the hall of one of the colleges. They will fly back to their capitals over the weekend. The total length of the course will be two weeks.

Timing and Frequency

It is proposed that it will be an annual program, starting in the second half of 2009. The exact timing will be finalized after input from small states on when is the best time for their officials to be absent and from the Saïd Business School on the availability of faculty.

Annual Budget and Resource Mobilization

Faculty teaching fees and travel/subsistence; Participant travel hotels, subsistence and other costs for 25 officials; Facilities, materials and program direction; and including a contingency come to a total of \$750,000. All expenses for participants will be covered from the time they leave home until their return. Given that this is a new program, approximately 10 percent of the annual budget is for a contingency to cover unexpected costs.

The Government of the Isle of Man has agreed to pay approximately half the annual costs: a contribution of £200,000. In its most recent budget, a 5-year allocation of £1 million (about \$1.8 million) was made. The Commonwealth Secretariat has indicated that it would, in principle, be prepared to make an annual contribution to the balance of the required funds. The balance of the funding (of an additional \$1.8 million over five years) is being sought from bilateral and multilateral sources, several of which have expressed interest and potential support for the initiative.

It should be noted that, while the program will be provided for officials from all developing small states, at least 50 percent of the places will be allocated to officials from the poorest small states, meaning that the portion of the funding that is being sought from bilateral and multilateral sources will be paying for the participation of the poorest small states.

Selection of Participants

Given small state demand for strengthening financial management capacity and negotiating skills, and given the calibre of the proposed program, it is envisaged that there will be more applications than places. An application and selection process overseen by the Small States Network's Board of Trustees will be designed. Details of the course and application forms will be circulated to officials throughout the Network approximately six months before the first annual program.

Leveraging the Program

The size, duration, and intensity of the program should lead to the forging of strong bonds among course members. As foreshadowed earlier, this is expected to constitute a useful network for participants working on the financial sector or other issues for their small state in the years ahead. An alumni association would also link participants of different cohorts together and website will foster contact and the sharing of information amongst these officials with common interests.