

20 September 2011

# Screening report

## Iceland

### Chapter 22 – Regional policy and coordination of structural instruments

**Date of screening meetings:**

Explanatory meeting: 31 January – 1 February 2011

Bilateral meeting: 21-22 March 2011

## I. CHAPTER CONTENT

The *acquis* under this chapter consists mostly of framework and implementing regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds and Cohesion Fund programmes reflecting each country's territorial organisation. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States.

A **legislative framework** has to be put in place allowing for multi-annual programming at national and regional level and budget flexibility, enabling co-financing capacity at national and local level and ensuring sound and efficient financial control and audit of interventions. Member States must respect EU legislation in general when selecting and implementing projects, in areas that relate to regional policy and Structural Funds, such as public procurement, competition and environment, non-discrimination, equality between men and women.

Member States must set up an **institutional framework**. This includes designating and establishing all structures at national and regional level required by the regulations as well as setting up an implementation system with a clear definition of tasks and responsibilities of the bodies involved. The institutional framework also requires establishing an efficient mechanism for inter-ministerial coordination as well as the involvement and consultation of a wide partnership of organisations in the preparations and implementation of programmes.

Adequate **administrative capacity** has to be ensured in all relevant structures. This includes recruiting and training qualified and experienced staff and establishing measures to retain such staff. In this context, Member States need to make the necessary organisational arrangements, adapt procedures and organisation charts and prepare accompanying documents.

The **programming** process covers the preparation of a National Strategic Reference Framework (NSRF) and a series of operational programmes (OP) including ex-ante evaluations. Member States have to organise broad partnerships for the preparation of programming documents. They have to ensure that a sufficient pipeline of projects is established allowing for a full financial implementation of programmes. Member States will also have to carry out specific information and publicity measures with regard to the Structural Funds.

Establishing a **monitoring and evaluation** system includes the setting up of evaluation structures and processes in different relevant bodies as well the installation of a comprehensive and computerised management information system (MIS) accessible and usable for all concerned bodies.

Member States must set up a specific framework for **financial management and control** including audit. This includes designating and establishing all structures required by the regulations as well as setting up an implementation system with a clear definition of tasks and responsibilities of the bodies involved.

This chapter is not covered by the European Economic Area agreement.

## II. COUNTRY ALIGNMENT AND IMPLEMENTATION CAPACITY

This part summarises the information provided by Iceland and the discussion at the screening meetings.

Iceland acknowledged that the *acquis* regarding regional policy and coordination of structural instruments forms the basis for negotiations. Iceland emphasised its small population and very low

population density, remoteness, insularity, demographic handicaps, difficult climate and natural conditions, large and difficult waters, recent economic downturn, limited economic diversity, dependence on imported and expensive goods because of high transportation cost and small local markets. It highlighted that these factors should be taken into account in the negotiations and future implementation of EU's regional policy. It mentioned that special solutions or criteria that are in place for certain member states and outermost regions could apply in the case of Iceland, also when determining the EU's financial contribution to Iceland.

## **II.a. Legislative framework**

Multi-annual budget programming is not provided for in the National Budget planning of Iceland. The budget planning is done on an annual basis, usually introduced to Althingi (Parliament) in the autumn. Allocations for implementing multi-annual policies/programmes are reported in the annual budget bill as “binding agreements”, although they need formal approval by Althingi through the adoption of the annual national budget. Multi-annual programming is practiced by certain government agencies and funds that allocate funding to projects of more than one year’s duration (e.g. research and technology grants with up to seven years projects). The government applies long term budget projections in line with the government financial reporting act. Co-funding provided by the state can only be secured through the state budget – approved by parliament. Transfer of budgets between years and budget lines is allowed and practiced, i.e. an unused allowance is transferred to next year and also a deficit.

According to specific legislation, local authorities have their own sources of revenue, and are autonomous in determining fees collected by their own companies and agencies in order to meet their own expenses. Municipalities are required to formulate and adopt a three year plan on management, projects and budget. Local governments in Iceland do not require authorisation from supervisory authorities in order to obtain loans and issue bonds. A special credit institution exists to secure loan capital on favourable terms for municipalities. It is likely that local governments in Iceland will provide co-financing, at least at project level.

Iceland states that an assessment on the adaptations needed in the legislative framework to provide for both national and local (sub-national) level in co-financing for the Structural and Cohesion Funds assistance has not taken place – and if needed – will be evaluated and prepared in the pre-accession phase to provide for full participation of Iceland in the EU’s Structural and Cohesion Funds.

The (four year) Regional Development Policy in Iceland can be regarded as a SME Policy for economic development outside the capital area. It is specified under an independent budget line in the national budget. Transport Policy and Communication Policy are separate sectoral policies financed independently by the national budget. Environmental Policy is independent in the budget from the other policies, as is the Labour Market Policy. Funds for the implementation of the aforementioned policies are all allocated at governmental level. The policies stand independently in the national budget and are only to a small extent harmonized during execution. Increased harmonization is, however, considered necessary and such work has already been initiated.

Iceland states that its legislative framework is already largely aligned with EU policies and legislation in the areas of competition and public procurement and is partly aligned in the areas of the environment and equal treatment.

According to the EFTA Surveillance Authority and Eurostat, Iceland is defined as one statistical region (equivalent to NUTS) at level 1, one at level 2 and two statistical regions at level 3.

## **II.b. Institutional framework**

Iceland states it has established an institutional framework for implementing its regional development policy, comprising different institutions. The Ministry of Industry, Energy and Tourism produces the government's regional development plan, in cooperation with the Institute of Regional Development (a government agency under the Ministry) and in consultation with municipalities, and other bodies. The Institute of Regional Development oversees the implementation of regional policy measures, including growth agreements as key elements in the Icelandic regional policy. These agreements are based on a bottom up approach to design policy priorities and identify projects for implementation. The Ministry of Industry, Energy and Tourism has signed growth agreements with federations of municipalities and other public private partners in all areas of Iceland that are covered by the regional development plan. Regional development agencies, generally co-owned by municipalities, are the key bodies to implement growth agreements. They operate in rural areas to support and strengthen business development and innovation.

Innovation Centre Iceland is a leading Research and Development and business support institute operating at eight locations around Iceland. The Icelandic Centre for Research (RANNÍS) is an implementing office, administering several Icelandic funds, such as the Research Fund, the Technology Development fund, the Instrument Fund, and the Graduate Training Fund. It maintains the National Contact Point Coordination and support network to the EU Framework Programme.

There are a number of relevant bodies operating in the field of employment and social policies including the Ministry of Education, the Ministry of Social Affairs and Social Security, the Association of Employers, the Association of Local Authorities and the Union of Employees. The Ministries have, to varying degrees, experience of EU funding through their participation in EU programmes.

No decisions have been taken on what ministries or agencies will be responsible for carrying out the obligations under the Structural Funds. Formal designation of bodies responsible for carrying out the obligations under the Structural Funds will only occur after an Accession Treaty has been accepted by a referendum. Iceland intends to identify these bodies in due time, in order for them to be associated with and to the extent possible to participate in the necessary preparatory work.

Iceland states that the necessary institutional framework for implementing Cohesion Policy should, where possible, be built on existing institutional structures and experiences and be kept small and simple. Iceland considers having only one operational programme per fund (ERDF, ESF), potentially a single managing authority or maximum one per OP, and having one Monitoring Committee for its OPs. It indicates that the National Audit Office and the Ministry of Finance, or some of its institutions, could play a role in auditing and certification.

Co-ordination and co-operation between ministries is provided for by law or, as Iceland states, based on tradition. Stakeholder participation is extensively exercised in Iceland. National Fora are a form of open dialogue used by citizens, stakeholder groups and government alike. Such meetings have gained increased momentum after the economic crisis in 2008. In 2010 a National Forum was held in preparation for a new constitution for the Republic of Iceland. In preparation for "Iceland 2020" (a long-term government plan for development of the economy

and society), Regional Forums, based on the same principles as the National Forums, were held at the eight Regional Municipal Federations.

### **II.c. Administrative capacity**

Iceland states that it has a small but flexible government administration with well trained and experienced staff. Approximately 70% of employees in the ministries have a university degree and 70% of those who have a university degree have finished a master degree. Governmental employees with tertiary education generally have good languages skills, especially in English.

A number of staff in different ministries have experience — through direct involvement — of EU programmes. In addition, there is experienced staff in government agencies managing projects funded by EU as well as national funds. Iceland states that it considers involving some of this experienced staff in the implementation of EU Cohesion Policy.

Iceland states that experience in planning and programming can be found in many ministries, institutions and organisations, many of which have expertise and experience in the management of funds, which make similar claims regarding handling and processing applications, monitoring and evaluation as is provided for in the Structural Funds.

Despite the existence of overall well educated/qualified staff and relevant experience, Iceland states that it is aware of the need for specialised training in relation to preparations for the implementation of EU Cohesion Policy. In the meantime, a TAIEX action plan regarding the Structural Funds and Regional Policy has been developed. The plan is on general awareness building, strategy development, institutional setup and capacity and knowledge building. It includes various activities such as seminars, study visits, and visits to member states designed for a broad target group.

Iceland also states it plans, later in the accession process, to carry out training needs assessments for the potential beneficiaries in project management, according to the special rules for the Structural Funds.

Iceland indicates that work is being undertaken assessing the existing capacity and training needs of the preliminarily identified bodies. Based on that, a provisional training programme on central, regional and local level will be developed. However, as the specific institutions that will implement Cohesion Policy have not yet been identified or designated, staff that shall be directly involved in the implementation of EU Structural Funds cannot be trained for now.

### **II.d. Programming**

Iceland has prepared a number of programming documents with some either direct or indirect relevance for implementation of EU Cohesion Policy. The government's four-year regional development plan provides financial support for long-term, viable projects. Long-term planning documents exist in the area of transport, sustainable development, use of hydro and geothermal energy resources, telecommunications and tourism, and others.

The government has recently published Iceland 2020, a policy statement and national planning document for an efficient economy and society. It includes plans for investment in human resources and the necessary infrastructures for the economy, as well as policies on how to strengthen education and culture, innovation and development, the environment and social infrastructure. The guiding principle for this document was to establish an integral vision and common objectives to ensure more targeted and effective policy-making and planning within the public sector. Iceland 2020 policy statement was developed through dialogue and collaboration between the citizens and in consultation with regional associations, local

authorities, trade unions and economic interest groups. Iceland 2020 is considered the basis for the preparation of the National Strategic Reference Framework in the framework of EU Cohesion Policy. The Iceland 2020 policy statement aims to change the process and the relationship between policy making and budget planning.

Iceland indicates that it will prepare an NSRF and OPs. the country also indicates that a time plan for these preparations would be provided in the near future.

A decision has not been taken regarding which ministry or body will be responsible for preparations of plans and strategies in relation to the SF. Iceland indicates that this is, to a large extent, due to the ongoing administrative reform which includes restructuring of the central administration, merging of ministries and changes of their portfolio. In the absence of a decision on which authority will take on specific tasks in this respect, Iceland informs that the negotiation team for chapter 22 will temporarily be the coordinating body regarding preparations. Members of the negotiation team represent all the relevant line ministries, local authorities, social partners and the most important stakeholders. These ministries and their institutions will be the main actors in preparing the necessary documents required by the regulations on the SF and on their eventual implementation.

A pipeline of projects has not been established. At present, however, a wide range of economic development projects are being supported by national or regional authorities and numerous labour market measures are either being carried out or foreseen for the near future. Work has already started to put together potential project activities, in cooperation with actors in the regions. Iceland states that a pipeline will be prepared in due time, as the programming process progresses. At the stage when the individual Operational Programmes have been drafted, a project pipeline will be developed. The creation of the project pipeline is seen as a bottom-up process and a collaborative undertaking that will include a number of ministries and stakeholders.

## **II.e. Monitoring and evaluation**

Iceland has gathered some experience in monitoring and evaluating EU co-funded programmes. Regular monitoring and evaluation of programme implementation is carried out by relevant ministries and agencies including participation in respective Monitoring Committees and the results are provided to the Commission.

Iceland states that the monitoring and evaluation system in place for the EU programmes Lifelong Learning and Youth in Action could serve as a model in relation to the implementation of Cohesion Policy / Structural Funds funded programmes and projects.

Iceland uses a centralized accounting and management information system in Oracle that is used by 95% of agencies, funds and ministries. This system is fully operational and fulfils international standards.

Iceland's university and research institutions have some experience in the evaluation of EU programme implementation in the country. The Icelandic National Audit Office does system audits of EU programme and project implementation and has experience and capacity in performance audits (analysing economy, effectiveness and efficiency).

## **II.f. Financial management and control**

Iceland has an operational framework for financial management and control (including audit). The national authorities are responsible for the implementation of programmes and the proper

use of EU programme funding; monitoring and audit form the basis for the declaration of assurance each year. The Ministry of Finance is responsible for issuing regulations regarding the execution of the general budget and for the financial management of the state.

The National Audit Office (NAO) is the main supervisory body for the general budget as well as state entities. The NAO is responsible for issuing audit certificates in connection with a number of EU co-funded research projects. There is no formal internal audit performed, but various entities perform reviews based on internal audit methodology.

There is no formal legal basis and obligation for the separation of duties, in particular between payment and authorizing functions. However, the NAO has provided recommendations in its financial audits and published material (e.g. Internal control, December 1998) emphasizing the importance of segregating payment and authorizing functions, as well as segregating payment and accounting functions.

Iceland is currently undertaking a review of laws and regulations in relation to financial control and audit. Changes are expected in relation to internal audit and the function of centralised harmonisation unit within the ministry of finance that will take responsibility in ensuring audits to verify the effective functioning of management and control systems. In addition, a review of guidelines and processes for financial control is foreseen.

Iceland states that it has not yet identified and designated specific structures in charge of financial management and control and audit in the context of EU Cohesion Policy. It is however currently analysing requirements and tasks of certifying authority and audit authority and drawing up different options on the basis of existing structures.

### **III. ASSESSMENT OF THE DEGREE OF ALIGNMENT AND IMPLEMENTING CAPACITY**

By Iceland's accession to the EU, the application and enforcement of the *acquis* on regional policy and coordination of structural instruments will need to be ensured.

Iceland has experience and capacity in designing and implementing regional policy measures and in participating in EU programmes. Legislation relevant for EU Cohesion Policy is mostly in place. The administration is small but flexible and has broad experience in programming and monitoring/evaluation. Iceland has a sound experience and capacity of financial control and audit.

However, overall, Iceland is at an early stage of specific preparations for the implementation of the Cohesion Policy instruments. Under the current circumstances and conditions, Iceland's challenge is the timely establishment of institutional structures (and procedures) in line with the operational programmes that will be chosen as well as the allocation and training of staff for the implementation of these programmes. An appropriate needs analysis, including identification of the institutions responsible for the implementation of the EU cohesion policy, remains to be performed.

#### **III.a. Legislative framework**

Iceland's budget planning system allows for indicative multi-annual programming; however, it does not provide sufficient guarantees with regard to multi-annual programme budgeting. Its budget transfer flexibility is sufficient. Iceland's capacity to provide for co-financing at national and regional level through own resources or loans is also sufficient.

A certain number of municipalities have come into financial difficulties as a result of the financial crisis. Due to these difficulties it could be challenging for these municipalities to meet the co-financing requirements. A mechanism needs to be established so that there is a financially sound basis for any investment and with sufficient authority to ensure project delivery, potentially across municipality boundaries.

Iceland is already at an advanced stage with regard to alignment with EU legislation and policies in areas that are a prerequisite for the proper implementation of the EU cohesion policy. It still needs to enhance legislative alignment in some areas of the environment and anti-discrimination. Furthermore, Iceland will need to establish mechanisms/procedures to ensure the respect of EU legislation when selecting and implementing projects in the context of EU Cohesion Fund / Structural Fund programmes.

### **III.b. Institutional framework**

Iceland has an institutional framework and some experience in programming and implementing economic development and employment measures at national and regional level. Iceland states that the necessary institutional framework for implementing EU Cohesion Policy should build on existing structures and experiences. It intends to keep structures simple, planning at most two managing authorities and one single Monitoring Committee.

However, Iceland has not yet decided on the designation of the implementation structures. It does not intend to do so before the Accession Treaty has been accepted in a referendum in Iceland. This would result in the decision on the institutional set-up for EU Cohesion Policy (that also affects decision on setting-up relevant Operational Programmes) being outside the negotiations under this chapter, which would in practice limit the meaningfulness and scope of negotiations. Furthermore, in the light of past experience, it is likely that the time between the closing of the negotiations and the entering into force of the Accession Treaty would be rather limited for the successful completion of the preparations of the Cohesion Policy.

Therefore, Iceland would need to decide, at an early stage, on the institutional set-up for implementing EU Cohesion Policy and provide a credible time and action plan for preparations and formal designation.

Iceland's Ministries function mostly in vertical structures with a limited level of interconnectivity, coordination or cooperation. Appropriate inter-ministerial coordination mechanisms with regard to EU Cohesion Policy programmes will need to be established.

### **III.c. Administrative capacity**

Iceland has a generally well qualified staff in Ministries and public agencies, and some of its staff has direct experience in planning and managing EU funded programmes and projects.

However, experience with multi-annual programming and management of EU-funded projects is limited, mostly to the EU programmes implemented under centralised management. Substantial capacity building needs to exist in most areas relevant to Cohesion Policy (implemented under shared management principle), including strategic planning, project management, evaluation, monitoring and control.

In addition, during the pre-accession phase, Iceland will only receive assistance under IPA component I, also through centralised management. It will not benefit from the Structural Funds precursor instrument IPA components III (Regional Development) and IV (Human Resources Development). It will not gain experience of implementation through decentralised



management but will gain some practical experience of implementing regional development grant schemes under IPA component I (Institution building).

Given that the implementation structures (e.g. Managing Authority, Certifying Authority, and Audit Authority) have yet to be determined, capacity building currently provided, or planned to be provided, is generic and targets the various stakeholder groups to improve the general awareness and understanding of the principles, practices and responsibilities that are required in Structural Funds delivery.

### **III.d. Programming**

Iceland has produced a number of programming documents, the most relevant of which is the recently adopted Iceland 2020 policy statement. Iceland 2020 is seen as a precursor of the National Strategic Reference Framework (NSRF) and of individual operational programmes. While being in itself a fairly solid document, it is too early to judge on the operational value and effectiveness of Iceland 2020.

There is no apparent State mechanism to identify ‘best practise’ or mechanism to replicate it in other parts of Iceland. Past experience should be more systematically taken into account in programming.

Iceland has not started establishing a pipeline of projects. While some experience in project development is available, this is very limited in relation to needs under Cohesion Policy implementation. Iceland will have to mobilise adequate resources to prepare a comprehensive and good quality project pipeline for implementation under future Structural Funds (including the preparation of accompanying technical studies and financial analyses).

Iceland will have to make provisions for the carrying out of specific information and publicity measures with regard to the Structural Funds

### **III.e. Monitoring and evaluation**

Iceland has some experience in monitoring and evaluation, both within ministries and other institutions. It disposes of some running systems of monitoring and evaluation of EU programmes as well as an accounting and management information system.

However, in relation to the implementation of Cohesion Policy, Iceland will need to mobilise adequate resources for the proper establishment of a monitoring and evaluation system. This will include the setting up of an integrated management information system which not only combines physical and financial monitoring, but also allows access and contribution to the data collection and entry by a broad group of management bodies and final beneficiaries. It further needs to enable the linking up of electronic accounting systems with the management information system.

Iceland needs to build on existing capacities and experiences and prepare an overall evaluation strategy and establish appropriate departments in relevant bodies (notably Ministries) dealing with all forms of evaluation (including cost-benefit analysis).

### **III.f. Financial management and control**

Iceland has a solid framework for financial management and control (including audit) for all state expenditure. It is limited, however, in terms of instruments relevant to cohesion policy.

Iceland needs to designate its financial management and control system (including internal and external audit) for the Structural Funds and pay due attention to the separation of functions and the independence of key bodies such as the Certifying Authority and the Audit Authority.

---