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EUROPEAN COMMISSION

Brussels, 08.04.2011
C(2011) 2374 final

COMMISSION DECISION

of 08.04.2011

on a Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Iceland

COMMISSION DECISION

of 08.04.2011

on a Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Iceland

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)¹ and in particular Article 14(2)(a) thereof,

Whereas:

- (1) Regulation (EC) No 1085/2006 creates a coherent framework for Community assistance for candidate countries and potential candidate countries. Article 6(1) of that Regulation requires that the assistance shall be provided on the basis of Multi-annual Indicative Planning Documents established per country in close consultation with the national authorities. This is the first MIPD for Iceland.
- (2) In accordance with Article 4 (1) of Regulation (EC) 1085/2006 assistance for Iceland shall be provided in particular subject to the Reports and the Strategy Paper of the Enlargement package.
- (3) Iceland is listed in Annex II to Regulation (EC) No 1085/2006.
- (4) This Decision is in accordance with the opinion of the IPA Committee set up under Article 14 of Regulation (EC) No 1085/2006.

¹ OJ L 210, 31.07.2007, p. 87. Regulation as amended by Regulation (EU) No 540/2010 of the European Parliament and of the Council, OJ L 158, 24.06.2010, p. 7

HAS DECIDED AS FOLLOWS:

Sole Article

The Multi-annual Indicative Planning Document (MIPD) for the years 2011-2013 for Iceland attached to the present Decision is hereby adopted.

Done at Brussels,

For the Commission
Stefan Füle
Member of the Commission

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ANNEX

Instrument for Pre-Accession Assistance (IPA)

**Multi-annual Indicative Planning Document
(MIPD)**

2011-2013

Republic of Iceland

TABLE OF CONTENTS

Part I – Background and Context

1.	Background	3
1.1.	Purpose	3
1.2.	Country Context	3
1.3.	Relations with the EU	5
2.	Context for the planning of assistance	6
2.1.	EU Enlargement Strategy	6
2.2.	Government's national strategy	7
2.3.	Needs assessment and consultation on this MIPD	8
2.4.	Assessment of past and ongoing assistance	8
2.4.1.	Overview of past and ongoing assistance of the EU	8
2.4.2.	Overview of relevant IFIs, multilateral and bilateral assistance	9

Part II – Strategic Objectives for 2011-2013

1.	Main Strategic Objectives	10
2.	Financial Indications per Priority Area	11

Part III – EU Assistance for 2011-2013 by priority area

1	Priority Area: building administrative capacity for <i>acquis</i> transposition and implementation	11
1.1	Description	11
1.2	Objectives for EU funding for building administrative capacity	12
1.3	Expected results	13
2.	Priority Area: preparation for effective use of Structural Funds and other EU funds	13
2.1	Description	13
2.2	Objectives for EU funding for preparing to receive Structural Funds and other EU funds	14
2.3	Expected results	14

Part I – Background and Context

1. BACKGROUND

1.1. Purpose

The aim of the Instrument for Pre-accession Assistance (IPA) is to support beneficiary countries' efforts towards membership, in their preparations to take over the EU *acquis*, strengthen democratic institutions and the rule of law, reform public administration, carry out economic reforms, respect human rights, promote gender equality, support the development of civil society and advance regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and poverty reduction in these countries. The global objective of EU financial assistance to Iceland is therefore to support its efforts towards compliance with the EU *acquis*, in order to become fully prepared to take on the obligations of membership of the European Union.

Assistance to Iceland, as a developed, high-income country having transposed an important part of the *acquis* in the context of the European Economic Area Agreement (EEA), should focus on adoption and implementation of the remaining *acquis* with a view to membership, supporting the country in its efforts to progressively align and fully enforce the *acquis* by accession. Assistance should therefore be targeted at supporting a wide range of institution-building measures.

The Multi-annual Indicative Planning Document (MIPD) is the key strategic planning document for financial assistance under IPA in Iceland. This is the first MIPD for Iceland since the country's application for EU membership in July 2009. It covers the period 2011-2013.

The purpose of the MIPD is to set out the EU's strategic objectives for assistance as well as objectives for assistance in the proposed priority areas, for 2011-2013. In this framework, two strategic objectives have been identified to be financed under IPA assistance:

- to further enhance Iceland's ability to assume the obligations of membership by supporting institutional capacity building for *acquis* transposition and implementation.
- to reinforce Iceland's institutional capacity in its preparations for participation in and implementation of Structural Funds¹ and other EU funds².

1.2. Country Context

Iceland is the westernmost European country located in the North Atlantic Ocean just south of the Arctic Circle, on the Mid-Atlantic Ridge. It is Europe's second largest island following Great Britain with a population of 320,000 inhabitants. The total area of the country is 103,000 km², with a population density of 3.1 inhabitants per km². Around two-thirds of the population lives in the capital area. Populated areas are concentrated on the coastline, leaving around 80% of the land unpopulated.

Due to its location between the Eurasian continental plate and the North American plate, Iceland is volcanically and geologically very active. About 79% of the land, which is of recent volcanic origin, consists of glaciers, lakes, mountainous lava desert, and other wasteland. Around 28% of the land is used for grazing, 1% is cultivated and only a very small part of the land supports forest and woodlands.

¹ European Regional Development Fund (ERDF), European Social Fund (ESF)

² European Agricultural Fund for Rural Development (EAFRD), European Fisheries Fund (EFF)

The loss of vegetation by wind erosion and sheep grazing, as well as recent volcanic activity is one of the most serious environmental problems as is nature conservation in general because of the developing tourism sector, energy and aluminium production.

Iceland is a parliamentary republic with deeply rooted traditions of representative democracy and division of powers. Its constitutional and legal order, as well as its governing institutions are stable. The administration of Iceland is small but effective.

In 2009 Iceland's GDP was EUR8.7 billion, about less than 0.1% of EU-27 GDP. The country is a small open economy. During the 1990s and for most of the past decade, Iceland restructured its economy mainly by deregulation and liberalisation. Given the degree of exposure of Icelandic banks and the lack of adequate financial sector supervision coupled with inadequate access to lender of last resort facilities in the required foreign currencies, in the context of global financial turmoil, Iceland's banking sector collapsed in 2008, pushing the economy into a monetary and financial crisis which led to deep recession. In response to the crisis and as a consequence of the public takeover of the failed banks, the government balance turned into a high deficit, equivalent to 13.5% of GDP in 2008 and 9.9% in 2009, following years of budget surpluses. The gross public debt reached 88% of GDP at the end of 2009 (EUROSTAT figures).

Iceland's main exports are fish and fish products, aluminium, ferro-silicon alloys, machinery and electronic equipment for the fishing industry, software, medical and pharmaceutical products. Its main imports are machinery and equipment, petroleum products, foodstuffs and textiles. Two thirds of external trade is with the European Union. Renewable energy sources (hydropower and geothermal energy) provide practically all of Iceland's electricity and around 80% of the primary energy supply.

Social and health standards are high in Iceland. Icelanders enjoy universal healthcare and infant mortality is lower than in any other country in the world. Post-secondary education is also universal and, at 99.9%, Iceland's literacy rate is the world's highest. According to the Global Gender Gap Index³, Iceland also has the narrowest gender gap in the world.

With a GDP per capita of EUR27,200 in 2009 (EU-27 was EUR23,600), Iceland has a relatively flexible labour market with high participation rates, averaging around 82% during the last two decades, a relatively young working population and a well managed and robust resource base. Following the financial crisis in autumn 2008 the country experienced a steep increase in unemployment, increasing from 3.1% in the second quarter of 2008 to 8.7% in the second quarter of 2010⁴. The strongest employment losses were in the construction industry, and the low-skilled labour force has been particularly affected.

The increase in unemployment affects men more than women and it has been more pronounced in the metropolitan areas. Both youth and long-term unemployment (over 12 months) have soared, with the latter, reaching 16.9% of those registered as unemployed. Long-term unemployment and migration out of Iceland have become policy issues and could represent a challenge for social cohesion in Iceland.

³ Source: World Economic Forum 2009

⁴ Source: Statistics Iceland: wages, income and labour market, July 2010

1.3. Relations with the EU

Iceland and the European Union have been cooperating extensively across a broad range of areas over the last forty years. Iceland joined the European Free Trade Association (EFTA) in 1970 and has had a bilateral Free Trade Agreement with the European Economic Community (EEC) since 1972. Iceland has been a party to the agreement on the European Economic Area (EEA) since its entry into force in 1994. This provides a framework for regular meetings between Iceland and the EU at political level, including the twice-yearly EEA Council meeting of Foreign Ministers and the EEA Joint Parliamentary Committee. In addition, bilateral meetings between Icelandic parliamentarians and members of the European Parliament take place on a regular basis.

As an EEA state, Iceland has effectively participated in the single market for over 15 years. This required adoption of a considerable part of European Union law. The EFTA Surveillance Authority (ESA) regularly monitors Iceland's performance under the EEA Agreement. Overall, Iceland has a satisfactory track record in implementing its EEA obligations.

Iceland has been associated with the development of the Schengen agreements since 1996⁵ and is applying its provisions since 2001. Within the Schengen area, Iceland participates in extensive cooperation and coordination between police services and judicial authorities.

As regards trade relations, Iceland became a member of the General Agreement on Tariffs and Trade (GATT) in 1968 and is a founding member of the World Trade Organisation (WTO). In addition to its membership of the EFTA and the EEA, Iceland has free trade agreements - along with complementary bilateral agreements on basic agricultural products - with sixteen third countries within the framework of EFTA. In addition, a bilateral trade agreement with the EU, along with a complementary agreement on basic agricultural products relating to the EEA Agreement is in force.

In 2008, more than 54 % of Iceland's imports came from and 76 % of its exports went to the EU. The main export items are fish and other marine products although, as a share of total exports, this category declined to 40 % in 2007. Exports of manufactured goods have been growing rapidly, led by aluminium and medical and pharmaceutical products. Tourism has since 2000 accounted for, on average, 17,6% of total export revenue and in 2009 it is estimated that the sector enjoyed a 21% real increase in foreign currency revenue.

Exports of services increased significantly in the years before the crisis. Services account for almost 35 % of total export revenues.

On 16 July 2009, Iceland submitted its application for European Union membership. On 27 July 2009, the General Affairs and External Relations Council asked the European Commission to prepare an opinion on Iceland's application.

The Commission Opinion on Iceland's application for membership of the European Union was published on 24 February 2010 and recommended the opening of the negotiations for Iceland's accession to the EU. On 17 June 2010, the European Council decided to open accession negotiations with Iceland. The first Inter-Governmental Conference took place on 27 July 2010.

⁵ The agreement on Iceland's association with the implementation, application and development of the Schengen *acquis*, as based on Council Decision 1999/439/EC of 17 May 1999, was signed between Iceland and the EU on 18 May 1999. Council Decision 2000/777/EC of 1 December 2000 provides for the application of the Schengen *acquis* arrangements to the five countries of the Nordic Passport Union, including Iceland, as from 25 March 2001.

Following Iceland's application for EU membership, Council Regulation 1085/2006 establishing an Instrument for Pre-Accession Assistance (IPA)⁶ was amended to include Iceland as a beneficiary country. The amended regulation entered into force on 14 July 2010.

2. CONTEXT FOR THE PLANNING OF ASSISTANCE

2.1. EU Enlargement Strategy

The Commission's Opinion on Iceland's application for membership of the European Union of 24 February 2010 constitutes the key reference for identification of IPA programming priorities. Its main findings provide a first overview of the state of the country's alignment with EU values, policies and laws.

Being a parliamentary republic with deeply rooted traditions of representative democracy with separation of powers, efficient parliamentary control, the rule of law and respect for human rights, Iceland meets the **political criteria** set by the Copenhagen European Council in 1993, as confirmed by the June 2010 European Council. Certain issues of concern raised as regards effective independence of the judiciary, in particular the procedure for judicial appointments and the need to strengthen mechanisms to prevent conflict of interest, are being gradually addressed by the government. In terms of the **economic criteria**, Iceland is a functioning market economy and would be able to cope with competitive pressures within the Union in the medium term, provided it swiftly implements the necessary measures to continue with fiscal consolidation as well as the pursuit of structural reforms in the wake of the recession sparked by the collapse of Iceland's banking system in October 2008.

Iceland is already implementing a significant part of the *acquis communautaire* in the framework of the EEA Agreement. EU assistance in 2011-2013 will therefore address as a priority the chapters not or partially covered by the EEA and/or where significant divergences with EU *acquis* have been identified, in particular fisheries, agriculture and rural development, environment, free movement of capital, financial services, customs union, taxation, statistics, food safety, veterinary and phytosanitary policy, regional policy and coordination of structural instruments, and financial control.

On 9 November 2010, the Commission adopted its 2010 enlargement package. The 2010 Progress Report for Iceland, first of its kind, confirms and further supports the priorities for pre-accession financial assistance that were identified in the Commission Opinion.

⁶ OJ L 210, 31.07.2007, p. 87. Regulation as amended by Regulation (EU) No 540/2010 of the European Parliament and of the Council, OJ L 158, 24.06.2010, p. 7.

Implementing modalities

In terms of implementation, due to the country's level of economic and social development and its extended degree of alignment with EU legislation under the EEA Agreement, IPA financial support for Iceland will be exclusively implemented under IPA Component I "Transition Assistance and Institution Building", through centralised management by the European Commission. IPA financial assistance to Iceland will be channelled through three main tools: the Technical Assistance and Information Exchange (TAIEX) instrument, multi-beneficiary programmes and a National Programme.

TAIEX will provide targeted and rapid assistance on preparations for the implementation of the *acquis* including strengthening the institutional and legislative capacity. Technical assistance to Iceland through the TAIEX instrument can either be short or medium term depending on the scope of the required assistance.

Iceland can furthermore be expected to participate in selected multi-beneficiary programmes of particular interest, such as the Strengthening European Integration Facility (SEI), the Infrastructure Project Facility (IPF), statistics, taxation, preparation for participation in EU agencies.

The detailed provisions of the IPA assistance will be spelled out in a National Programme. The National Programme will primarily focus on areas where bigger needs would justify fully-fledged twinnings, specific technical assistance projects, grants or procurement of equipment. Support for Structural Funds-type pilot projects can also be considered in this framework.

In the field of communication and information, an EU Information Centre will be set up in Reykjavik and communication activities such as conferences, workshops, stakeholders' visits, cultural events, exchange visits etc. will be organised, aiming at informing the general public about the EU and its policies.

Iceland's ownership will be ensured through its involvement in the identification of projects, programming, implementation and monitoring of the EU assistance.

In EUR million

Component	2011	2012	2013
I-Transition Assistance and Institution Building	10	12	6

2.2. Government's national strategy

Due to its EEA membership, Iceland's legal order is to a large extent already aligned with the EU legislation. Following the country's application for EU membership and in view of the upcoming accession negotiations, the government has already started looking through the *acquis* in order to identify the existing gaps between the national and the EU legislation and to prepare for membership in an effective way.

The Icelandic government has started building up the necessary internal structures for managing the accession process.

In order to handle the upcoming accession negotiations with the European Union, the Icelandic Minister for Foreign Affairs has appointed Iceland's negotiation committee. The

negotiation committee consists of the Chief negotiator, 10 chairpersons to lead the individual negotiation teams and seven other members.

The negotiating teams will cover legal issues, areas under the EEA, fisheries, foreign and security affairs, financial affairs, economic and monetary affairs, regional policy and coordination of structural funds, justice and home affairs, agriculture and rural development. A special group of experts will work with the negotiation committee and the negotiation teams, i.e. lawyers, economists, international relations experts etc. At the same time the government places emphasis on the interests of the local authorities vested in each of these issues. The Minister for Foreign Affairs will regularly report to the Parliament. The Parliament will play part in the overall process, along with the administration and interested parties, which will be given the opportunity to address issues before being finalized.

Furthermore, in order to tackle the consequences of the 2008 economic and financial crisis in socioeconomic and macro-economic terms, the Icelandic government has commenced work on the initiative "Moving Iceland Forward 2020". This is intended to be an integrated development strategy covering various areas including transport, communications, rural development, municipal amalgamation, tourism with the main aim of supporting economic growth. This strategy aims at revising the country's industrial policy, reorganise the public services, government systems and administration. In its preparation of the "Moving Iceland Forward 2020" strategy, the Icelandic government intends to take into consideration the EU's policies and requirements. Iceland will be invited, in close cooperation with the Commission, to turn this programme into a draft National Reform Programme (NRP) as provided for under the Europe 2020 Strategy. In turn, as provided for under the regulations governing the structural funds, the priorities set out in this NRP will serve as the policy priorities in designing the national strategic reference framework (NSRF).

2.3. Needs assessment and consultation on this MIPD

In order to identify the areas and priorities for assistance, a number of sources have been drawn upon. The primary source for this assessment has been the Commission Opinion on Iceland's application for membership of the European Union of 24 February 2010. The Opinion analyses Iceland's capacity to meet the criteria set by the Copenhagen European Council of 1993 and indicates the areas where Iceland has to make particular efforts in order to align with European legislation.

In addition, scoping missions in specific fields, organised under the TAIEX instrument in autumn 2010 contributed in providing a deeper needs assessment. Further information to be gathered through the screening process will also feed further programming as appropriate.

The Icelandic government and relevant stakeholders, including civil society, were consulted on the draft MIPD in July 2010. A consultation was furthermore carried out with EU Member States embassies in Iceland as well as representatives of International Financial Institutions. Received comments have been incorporated into the MIPD in the most appropriate manner.

2.4. Assessment of past and ongoing assistance

2.4.1. Overview of past and ongoing assistance of the EU

Upon entry into force of the amended IPA Regulation, Iceland started benefiting from financial assistance through the Technical Assistance and Information Exchange (TAIEX) instrument and participation in existing multi-beneficiary programmes. The first National Programme for Iceland will be devised for 2011 and information activities are foreseen for 2010-2011.

The TAIEX instrument provides targeted and quickly mobilised assistance on preparations for the implementation of the *acquis* including strengthening institutional and legislative capacity. In 2010, TAIEX supported first hand needs of the Icelandic administration. Scoping missions in autumn 2010 have resulted in specific needs assessments of key sectors for the accession process and the delivery of well targeted assistance to the final beneficiary by public sector experts from EU Member States. Assistance has been provided for example in the fields of agriculture, statistics, regional policy and coordination of structural instruments, financial services and environment. TAIEX support is closely coordinated with the National Programme and multi-beneficiary programmes to ensure coherence and synergies between the different strands of assistance.

Emphasis has been placed in the first place on the sectors highlighted as priorities in the Commission's Opinion on Iceland's application for EU membership, while Iceland's requests in other fields of the *acquis* are also being considered in parallel.

Under the multi-beneficiary IPA programmes, Iceland is eligible as of 2010 for participation in the Strengthening European Integration Facility (SEI) and the Infrastructure Project Facility (IPF). In addition, Iceland could participate in the programme for statistics for medium size projects, complementary to the ones implemented through the National Programme. The objective of the SEI is to reinforce the ability of the beneficiaries to effectively design and develop programmes and projects to be submitted for financing under IPA multi-beneficiary programmes as well as to enable the implementation of a number of accession-related actions of various public/private actors.

The purpose of the IPF is to support preparation and the implementation of investment projects in a number of areas that may be financed by the beneficiary countries, IPA resources, the International Financial Institutions (IFIs) and/or other donors.

Iceland could also participate in the multi-beneficiary programme 'EU agencies preparatory actions', which aims at supporting the beneficiary country to prepare for participation in EU agencies, such as the Community Fisheries Control Agency (CFCA), European Agency for Safety and Health at Work (EU-OSHA) and the Trans-European Transport Network Executive Agency (TEN-T EA).

Preparations for the establishment and operation of an EU Information Centre in Iceland in 2011, which will be central to the organisation of EU related events and public outreach, are ongoing. Its activities will include web and social media based communication, information tools/publications and audio-visual material, organisation of events including visits and cultural events, media relations, networking, stakeholders and strategic partners relations.

The objective of the information and communication activities is to improve public knowledge and understanding of the European Union and its policies in Iceland as well as to explain the process of EU accession to allow for a better understanding of the implications of accession by the Icelandic citizens and interest groups.

2.4.2. Overview of relevant IFIs, multilateral and bilateral assistance

A number of international financial institutions (IFIs) have been or are being financing projects in Iceland, including the Council of Europe Development Bank (CEB), the European Investment Bank (EIB), and the Nordic Investment Bank (NIB). Neither the World Bank nor the European Bank for Reconstruction and Development (EBRD) currently have operations in Iceland. The International Monetary Fund (IMF) is providing balance of payments (BOP) support to the country.

The IMF has a two-year Stand-By Arrangement (SBA) with Iceland for SDR 1.4 billion, of which SDRs 560 million were made available immediately after the IMF approved the SBA

in November 2008. On 29 September 2010, the IMF Board approved the third review and disbursed the fourth tranche of SDRs 105million. These resources are not for sector investment but are used to strengthen international reserves. At the same time, the Nordic countries and Poland agreed to fill the financing gaps under the programme, for a total of EUR1.9 billion: EUR1.775 billion and EUR125 million, respectively (a first EUR300 million Nordic loan tranche was disbursed in December 2009 and was followed by a second tranche of EUR587.5 million in June 2010). These loans accompany, and are conditional on, the IMF SBA.

Over the period 1998-2010 the CEB approved a number of projects for a total value of EUR233 million, two-thirds of which are in the geothermal energy sector and the remaining mainly in construction (schools).

The EIB has been cooperating with Iceland since 1994 within the framework of the EFTA Facility. So far, 14 projects have been signed for a total amount of EUR710 million, in particular in the sectors of energy, transport infrastructure, water supply and wastewater collection and treatment. The EFTA Facility was extended in 2009 for a further four-year period (2010-2013) allowing additional loans totaling EUR800 million to be committed.

The EIB's role under the Facility is to finance projects of common interest to Iceland and EU countries, predominantly for the development of renewable geothermal energy for power production for all electricity users in Iceland and an electricity-intensive industry.

The Commission, in its proposal to the Council and Parliament on the future external mandate of the EIB for the remainder of the current financial perspective, included Iceland under the regions and countries eligible or potentially eligible, with the aim of allowing Iceland to benefit from EIB lending and loan guarantees covered by EU budget guarantee.

Coherence and concentration of assistance are crucial for the effectiveness of IPA assistance. In this respect, effective co-ordination and complementarity with other donors and stakeholders will need to be ensured when programming IPA assistance to the country.

The Commission will work with various International Financial Institutions and potential bilateral stakeholders to ensure efficiency and proper co-ordination of the financial assistance. Stakeholders' coordination meetings will be organised by the EU Delegation in Reykjavik as appropriate, with possible participation from the EU embassies. Iceland's EU accession process is expected to shape the agenda for other stakeholders' interventions in the country.

Part II – Strategic Objectives for 2011-2013

1. MAIN STRATEGIC OBJECTIVES

In light of the decision of 17 June 2010 of the European Council to open accession negotiations, the overall objective of pre-accession assistance to the Republic of Iceland is to support the country's efforts to fully comply with the accession criteria by the date of accession. These comprise the political and economic criteria, as well as the ability of the country to assume the obligations of EU membership by accession.

Due to Iceland's level of alignment with EU law stemming from its participation in the internal market through the EEA, IPA assistance will specifically target identified institution-related gaps in all chapters of the *acquis*, with a strong focus on chapters not or only partially covered by the EEA as well as informing the general public about the EU's policies and legislation.

Particular emphasis will also be laid on the preparations for Iceland's participation in common EU policies and implementation of Structural Funds and other EU funds following accession.

EU assistance should therefore also support preparations for the implementation of the Community's cohesion policy by introducing strategic planning and management principles which guide the implementation of EU structural instruments.

On this basis, two strategic objectives corresponding to the above mentioned areas of intervention are therefore identified under IPA component I:

- to further enhance Iceland's ability to assume the obligations of membership by supporting institutional capacity building for *acquis* transposition and implementation.
- to reinforce Iceland's institutional capacity while preparing for participation in and implementation of Structural Funds and other EU funds.

2 FINANCIAL INDICATIONS PER PRIORITY AREA

Indicative Financial Allocation Per Priority Area (%)	
Priority Area	2011- 2013
Building administrative capacity for <i>acquis</i> transposition and implementation	50%-70%
Preparations for participation in and implementation of Structural Funds and other EU funds	30%-50%

Part III – EU Assistance for 2011-2013 by priority area

1 PRIORITY AREA: BUILDING ADMINISTRATIVE CAPACITY FOR *ACQUIS* TRANSPOSITION AND IMPLEMENTATION

1.1 Description

Iceland's public administration is small. The central government has approximately 700 civil servants and is composed of 10 ministries, each with authority over a number of agencies. The size of the ministries is small ranging from 26 (Ministry of Economic Affairs) to 214 (Ministry for Foreign Affairs) with an average size of 58 staff members. The size of the agencies varies from 2 to 4000. Around 12% of the population works in the state sector.

There are 76 municipalities in Iceland of varying size, from 120,000 inhabitants in the municipality of Reykjavik, to 50 in Árneshreppur. Their remit is wide and includes, inter alia, town planning and primary education. Municipalities play an important role in local democracy and benefit from a considerable degree of discretion in fulfilling their responsibilities. There is no regional self-government level. The last two decades, the central administration, in cooperation with the Icelandic Association of Local Authorities (IALA) has been making efforts to strengthen the local level by promoting municipal mergers through democratic processes. This has been burdened by the difficult geographical conditions and

bad communications. The number of municipalities has decreased significantly, from over 200 in the early nineties to 76 today. Nevertheless, still over 70% of them have less than 2000 inhabitants.

Overall, the public administration is small with limited financial resources. Significant cuts have furthermore been made to public expenditure in order to emerge from the financial difficulties following the crisis in 2008. The cuts put further constraints in Iceland's capacity to prepare for the EU accession in addition to the already limited size of the public administration.

The first priority of IPA assistance will be targeted at supporting institution-building needs of the Icelandic central and local administration, as well as of its independent authorities and regulatory bodies, in order to enable it fully adopt, translate, implement and enforce the EU *acquis* by accession.

1.2 Objectives for EU funding for building administrative capacity

By the day of accession, Iceland will need to be able to fully apply the *acquis*.

Being part of the EEA Agreement, Iceland is already implementing a significant part of the *acquis*. Further streamlining is however needed in most of the sectors with an emphasis on *acquis* chapters not or only partially covered in the EEA. Based on carried-out needs assessments, fisheries, agriculture and rural development, environment, free movement of capital, financial services, customs union, taxation, statistics, food safety, veterinary and phytosanitary policy, regional policy and coordination of structural instruments, and financial control will be considered as priority fields for support.

Iceland will need to build its administrative capacity in order to fully adopt, translate and implement the EU legislation, and set up all the necessary structures required for EU membership. Assistance will be provided for example to the ministries, agencies, regulators and municipalities for the purposes of explaining the EU law in a required field, assisting with its transposition, and ensuring its effective implementation.

Support could be provided alternatively through TAIEX, SIGMA, Twinning, Twinning light and technical assistance, encompassing a wide range of activities, including experts' visits, training, study visits, seminars, provision of *acquis*-related equipment, etc.

Completed translation of the entire *acquis* is required by the time of accession. Although Iceland, due to the EEA membership, has already translated part of the *acquis*, there is still considerable work to be done, not least given continuous adoption of EU legislation. The current translation capacity of the Translation Centre of the Ministry for Foreign Affairs, despite having been recently increased, is not deemed sufficient to cope with the workload.

Currently, the *acquis* comprises some 120,000 pages, of which, in May 2010, Iceland had translated around 45,000 pages. The current capacity of its translation centre would allow translation of a further 40,000 pages during the next two years. IPA assistance, in the form of a grant through the National Programme, is therefore envisaged to cover further needs in this field.

Iceland, as a member of the European Economic Area (EEA), is eligible to participate in all Community programmes and agencies. Iceland is already participating in several EU programmes and agencies. However, participation in Community programmes can entail sizeable expenditure for the country. IPA support may be used to prepare for participation and to co-finance the country's participation costs. Furthermore, IPA funding could also be used in order to build up additional administrative capacity to allow bigger participation in programmes and agencies in areas of interest for Iceland.

1.3 Expected results⁷

Within the scope of this MIPD, Iceland is expected to make considerable progress towards implementation of the *acquis*, in selected areas so that:

- Iceland's legal framework is aligned with the *acquis*, in the areas where IPA assistance has been provided;
- Comprehensive strategies and/or actions plans are set in order to ensure enforcement of the EU rules by accession in the sectors supported by IPA;
- The administrative capacity of the Iceland's ministries, agencies and regulators and institutions is reinforced and the country has relevant structures in place for the implementation of the *acquis* upon accession;
- Iceland participates in a larger number of EU programmes and agencies, according to its interests;

2. PRIORITY AREA: PREPARATION FOR EFFECTIVE USE OF STRUCTURAL FUNDS AND OTHER EU FUNDS

2.1 Description

Following the financial and economic crisis, the Icelandic authorities have taken important economic stabilisation measures, aimed at fiscal consolidation, exchange rate stabilisation and financial sector restructuring, with the aim of restoring the Icelandic economy and regaining confidence of the population in the political, economic and social system.

The crisis has affected employment, namely amongst youth and low-skilled labour, and reduced the participation rate among elders. The authorities have started a series of projects for activating and retraining unemployed people. Approximately one third of the workforce is without any formal qualifications after having concluded compulsory education and the share of early school leavers is high. Recent reforms in the vocational education system should help to address some of these issues. The authorities have also announced measures in the education sector that should reduce spending and increase efficiency and diversification. In addition, the crisis has led to outflows of educated professionals and workers to neighbouring countries, particularly those previously working in the financial sector.

There is a risk that emigration will have a negative effect on the labour market in the medium term. Since unemployment has not been traditionally an issue of concern for Iceland, there is no national scheme yet to tackle long-term unemployment.

Having regard to Iceland's specificities (sparsely populated, two thirds of the population living in the capital area, remoteness, harsh climate, economic dependence on certain products), regional policy in Iceland is primarily understood as a rural development policy for economic development in areas outside the capital region.

The initiative "Moving Iceland Forward 2020", on which the government is working, is an integrated development strategy covering various areas including transport, communications, rural development, municipal amalgamation and tourism in order to support economic growth. It is elaborating on action plans for Iceland's regions to strengthen the commercial sector along with the living standards. It develops programmes for the advancement of

⁷ The listed results are limited to the progress expected in the areas where IPA support will have been granted; they do not extensively refer to the level of alignment and implementation of the *acquis* that Iceland will have to reach by accession in the framework of the overall pre-accession process

employment, education and public service inside each region. The future use of Structural Funds and agricultural and fisheries funds is expected to be integrated into this overall strategic planning.

A strategy describing the implementation of the Structural Funds⁸ will be an important pillar in the overall national development plan, so will a strategy for implementation of the agricultural and fisheries funds in the associated rural development plan. Iceland will be invited, in close cooperation with the Commission, to turn this programme into a draft National Reform Programme (NRP) as provided for under the Europe 2020 Strategy. In turn, as provided for under the regulations governing the structural funds, the priorities set out in this NRP will serve as the policy priorities in designing the national strategic reference framework (NSRF).

Local actors and social partners will have a major role to play in the accession process. Iceland benefits from a well-established dialogue with social partners and civil society at large, particularly in the fields of agriculture, fisheries, environment, employment and social policy. Furthermore, with very high trade union participation, trade unions will play a particular role in the public dialogue on European issues. Such actors are expected to play a key role in IPA programming and implementation, especially in the fields of direct relevance for their activities. Involvement of municipal actors needs to be ensured, this being particularly important in the absence of any formal administration at sub-regional level.

2.2 Objectives for EU funding for preparing to receive Structural Funds and other EU funds

One specific objective of EU assistance will be to support Iceland's preparations for participation in the EU's common policies and implementation of Structural Funds and other EU funds. Additional administrative capacity and structures will in particular need to be built up in order to allow smooth management and implementation of projects financed within the scope of the EU cohesion policy. IPA could also support Iceland's socio-economic development in a way that would increase absorption capacity of EU funds upon accession.

In this sense, pilot projects modelled on future Structural Funds projects, aimed at supporting competitiveness, employment, sustainable energy consumption, human resource development and other fields that would be eligible upon accession for cohesion policy funding, could profit from IPA assistance. IPA could also be provided to support the participation of the civil society and the municipal actors in regional and social development projects. In addition, a project preparation facility could be foreseen, assisting the Icelandic authorities in the identification and preparations of projects to be further financed under Structural Funds.

2.3 Expected results

The main results to be achieved in the field of socio-economic development within the scope of this MIPD will be:

- Iceland to develop a co-ordinated approach towards economic, social, regional and rural policy;
- Iceland to implement selected pilot projects;
- Iceland to develop capacity allowing, by the time of accession, for implementation of the cohesion policy and management of other EU funds;

⁸ In order to prepare for effective future use of Structural Funds, Iceland will have to adopt a National Strategic Reference Framework and accompanying operational programmes.

- Iceland to prepare mature project pipeline that is ready to be implemented upon accession.