



The DAC's main findings and recommendations

**Extract from: OECD Development Co-operation Peer Reviews
Iceland 2017**

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Towards a comprehensive Icelandic development effort

Indicator: The member has a broad, strategic approach to development and financing for development beyond aid. This is reflected in overall policies, co-ordination within its government system, and operations

Main findings

Iceland reached an important milestone as a provider of development co-operation when it joined the Development Assistance Committee (DAC) in 2013. Since then, Iceland has strengthened its strategic framework and systems for development co-operation by improving the alignment between development, foreign and trade policy and by expanding its diplomatic efforts on global development issues. The findings and recommendations of this first peer review provide a baseline to document Iceland's development co-operation activities and to help it progress over the medium term.

Iceland is a committed and active member of the international community, using its diplomatic influence in a strategic and effective way to address key international risks and shape global development in areas where it can add value: gender equality, geothermal energy, fisheries' management and land restoration. Despite its small diplomatic capacity and, more generally, small public administration, Iceland is successful at drawing on its own domestic experience, as well as on its long experience in development co-operation, to shape its foreign policy and engage upfront in international processes. In doing so, it has also enlisted the support of its national leaders, who leverage their political capital and partnerships for global development.

Iceland's successful efforts internationally on gender and equality, renewable energy, land restoration and oceans show how it rallies a range of actors behind a common objective. In particular, Iceland was engaged in international negotiations leading up to the 2030 Agenda for Sustainable Development in 2015 on all these issues, effectively advocating for a separate goal on each, and for gender to be mainstreamed across the goals. Iceland also championed the "HeforShe" campaign and organised a number of "Barbershop" conferences in 2015, aiming at rallying men and boys to uphold gender equality. These examples illustrate how Iceland is able to introduce cutting-edge perspectives into the global arena in its advocacy activities.

There is no reference to date to policy coherence for development in Iceland's legal or policy frameworks, partly because Iceland has a very limited development

footprint in the world's poorest countries. Nevertheless, domestic implementation of the 2030 Agenda offers an opportunity for Iceland to examine the impact of its policies on developing countries. Experience from the OECD shows that the centre of government is the right place to address policy coherence for development and Iceland's choice to steer the domestic implementation of the 2030 Agenda through the Prime Minister's Office is likely to help it recognise if, and how, its policies impact negatively on developing countries and to improve its capacity to identify solutions.

Iceland recognises the value of aid as a catalyst for development finance and the role that the private sector can play in achieving the Sustainable Development Goals. In reflecting on how to strengthen its efforts in these areas in its new policy for development co-operation, Iceland could build upon the areas where it has a comparative advantage and which have most potential to offer long-term benefits for sustainable development. For example, Iceland is well-known for its technical expertise and multi-stakeholder partnerships, particularly in geothermal energy. In deepening this work with the private sector, however, the small size of Iceland's development administration must also be considered.

Recommendations

- 1.1** As Iceland discusses its response to the Sustainable Development Goals at home, it needs to promote, in a light-touch manner, better understanding of policy trade-offs across government, including any impacts in developing countries.
- 1.2** In reflecting on how to deepen and strengthen its work with the private sector, Iceland could draw upon its experience working with geothermal energy actors, an area which speaks to its comparative advantage as a donor.

Main findings

With more than three decades experience as a bilateral donor prior to joining the DAC, Iceland has a long-standing focus on eradicating poverty in the world's poorest countries in line with international commitments. The main objective of Iceland's development co-operation is to support efforts by governments in developing countries to eradicate poverty and hunger and to promote economic and social development. This is anchored in Iceland's law and overarching strategy for development co-operation.

Iceland's development co-operation efforts are concentrated in least developed countries in Africa. In its development co-operation strategy 2013-16, Iceland sets out three clear priorities for its development co-operation efforts – natural resources, social infrastructure and peace-building – with gender and environment as cross-cutting issues. Within these broad themes, Iceland's specific efforts in areas such as geothermal energy align well with its established comparative advantage globally. In addition, in its bilateral partnerships with Malawi and Uganda, Iceland uses a district level approach to make its support to local communities more effective – focusing heavily on social sector support in health, education, water and sanitation, and local administration.

Furthermore, the recent integration of the former bilateral agency ICEIDA with the Ministry for Foreign Affairs is increasing the synergies between Iceland's development and foreign policy, strengthening alignment between bilateral and multilateral aid policy while also improving co-ordination between development co-operation and humanitarian assistance. As a result, Iceland's development programme has become even more focused, concentrating resources on priority themes and partners. This is improving Iceland's rationale for allocating its development assistance and the effectiveness of its programme.

There are, however, areas where Iceland could show a clearer alignment between its strategic objectives and programming. These include:

- The Reykjavik-based training programmes of the United Nations University, where the poverty focus and development impacts of the programmes are yet to be established.

- Iceland's rationale for shifting allocations from fisheries' management to district-level programmes.

In 2015, an amendment to Iceland's development co-operation act mandated a new five-year development policy for 2017-21, to be accompanied by two-year rolling action plans. However, delays in forming a government following the 2016 national elections have deferred this new framework. When designing this new framework for its development co-operation, Iceland has an important opportunity to update its rationale for allocating aid and other resources across its development co-operation portfolio.

Iceland has a deliberate and careful way of looking at its cross-cutting issues of gender equality and the environment. More than 80% of its bilateral allocable aid is reported as targeting gender equality and women's empowerment – well above the DAC member average of 35%. A planned evaluation of gender will help Iceland understand the impacts of these mainstreaming activities to date and how to target future efforts. However, Iceland could make further efforts to improve the impact of environmental mainstreaming activities across its programme.

The development of a new policy could also assist Iceland to sharpen its focus on key partners and themes in line with its comparative advantage and re-examine the impacts of its programme on its core poverty and hunger objective. In doing so, Iceland will also need to clarify how its development co-operation will contribute to achieving the Sustainable Development Goals.

Recommendations

- 2.1** As Iceland develops its national plan for delivering on the 2030 Agenda and the institutional framework through which this will take place, it should clarify how development co-operation will be integrated into the plan.
- 2.2** As the Ministry for Foreign Affairs plans for a new development policy and rolling action plan for the period 2017-21, it should define criteria to prioritise activities in line with Iceland's poverty focus and comparative advantage. This should help to guide future selection of partners and funding instruments.

Main findings

In 2015, Iceland's official development assistance (ODA) stood at USD 40 million, equivalent to 0.24% of its gross national income (GNI), ranking it 28th by volume and 17th in terms of aid as a share of national income.

Iceland stands out among donors for the high proportion of aid going to the world's poorest countries. Four-fifths of its bilateral allocable ODA is spent in least developed countries, mostly in fragile states. This is double the average share of other DAC members in these countries. However, Iceland does not see itself as a fragile states donor, despite the concentration of its aid in countries which are classed as fragile. Instead, its choice of priority partner countries – Malawi, Mozambique and Uganda – reflects Iceland's commitment to allocate its aid where it is most needed and where it can best add value.

Iceland has a long-standing commitment to reach the UN's target of allocating 0.7% of its GNI as ODA. This commitment remains. However, Iceland's level of ambition diminished significantly in the wake of the financial crisis. Whereas it previously set 2019 as the year by which it would reach the 0.7% target, it is now planning for ODA to rise marginally to 0.26% of GNI by 2018 and to remain there until 2021.

While this cautious approach is understandable, current levels of ambition do not reflect Iceland's strong recovery and projected robust economic growth. Going forward, the government's five-year budgetary framework could well help plan for a gradual and sustained increase in ODA in line with economic growth.

In 2015, 78% of Iceland's ODA was provided bilaterally. The geographic allocation of bilateral ODA is consistent with its commitment to the poorest countries in sub-Saharan Africa. It concentrates on social infrastructure as well as areas where Iceland has forged a comparative advantage (e.g. gender equality and geothermal energy).

The composition of Iceland's bilateral ODA envelope is now changing as spending on refugees within Iceland increased from 1% in 2013 to 12% of Iceland's gross ODA in 2015. To date, the Althingi's approval of additional allocations of ISK 2 billion (USD 15 million) to meet these costs in 2015-16 has

protected Iceland's ability to deliver on existing commitments within its programme. Iceland has thus succeeded in managing these costs without undermining aid predictability for partner countries – an area where it has a strong reputation.

Iceland is a valued partner for its priority multilateral organisations, with lean management processes and a reputation for flexible funding. In particular, Iceland is valued for its willingness to champion start-up initiatives on environmental sustainability and gender equality. In 2015, its core contributions to key multilateral partners grew by 47%, more than those of any other DAC member, although this was largely due to the change of payment schedule for Iceland's contribution to the World Bank's International Development Association.

Iceland's multilateral allocations target four priority partners, complement bilateral efforts and are generally aligned with its overall strategy. A possible exception is its support to United Nations University scholarship programmes within Iceland; an evaluation currently underway should help to identify how these allocations can better align with the goals of Iceland's development co-operation. Finally, Iceland's regional approach to geothermal energy in the East African Rift Valley draws on its domestic expertise, building partnerships for leverage and scale.

In 2015, as part of the integration of ICEDA into the Ministry for Foreign Affairs, Iceland introduced a new single budget line for development co-operation. This makes allocations for development co-operation across bilateral, multilateral and humanitarian portfolios more transparent and strengthens Iceland's ability to target assistance where it is most needed.

Recommendations

- 3.1** In line with Iceland's continued economic recovery and forecasts for robust economic growth, Iceland should increase its ODA in real terms, using its five-year budgetary framework to establish a more ambitious timeline for meeting its 0.7% UN ODA to GNI commitment.
- 3.2** Iceland should ensure that its Reykjavik-based scholarship programme aligns with the overarching poverty focus of its programme and that it achieves tangible development results.

Main findings

Since joining the DAC in 2013, Iceland has continued to strengthen its institutional framework to deliver quality development co-operation. In 2016, Iceland integrated its bilateral development agency, ICEIDA, within the Ministry for Foreign Affairs – meaning almost all of Iceland's bilateral and multilateral development co-operation activities are now managed within the ministry.

The merger aimed to increase the flexibility and improve the co-ordination of Iceland's system. Although it is too early to assess the full impact of the merger, bringing all development co-operation activities under one institution has improved the alignment of Iceland's foreign, trade and development co-operation policies. Importantly, the merger has already helped to build synergies across channels of delivery and approaches, while safeguarding Iceland's pre-merger commitments to partner countries.

Permanent, ad-hoc and informal structures for whole-of-government co-ordination are in place in Iceland. These structures allow for more systematic policy co-ordination and for leveraging relevant expertise on development-related matters when needed. Moreover, Iceland's new integrated structure for the administration of development co-operation activities is making such co-ordination an easier task – which in turn is making Iceland's development co-operation more flexible and pragmatic.

An important aspect of the new integrated setup is that Iceland's embassies in Malawi, Mozambique and Uganda receive only one direction from headquarters. Iceland's Ambassador to these countries also heads its Directorate of International Development Cooperation in the Ministry for Foreign Affairs. In addition, the new single budget line for development funding simplifies the process of resource allocations across channels. As a result, Iceland has reduced transaction costs while increasing the effectiveness of its decision-making processes and flexibility of its funding.

The 2016 reform of Iceland's development co-operation committees, whose membership and competencies had been overlapping, has strengthened its advisory system. Iceland's single new Committee on International Development Cooperation has a stronger mandate and broader composition, which usefully brings together key development co-operation

stakeholders and is improving awareness and understanding of development co-operation in Iceland's Althingi.

Despite its pragmatic and flexible approach, and adaption to new circumstances and reform, Iceland still needs to give time for the merger to filter through, so as to ensure that the reform bears long-lasting results. To support this process, Iceland will need to finalise its organisational structure (and corresponding unit functions) and continue reflecting on how to harmonise career incentives and staff conditions of service.

Staffing levels fell as a result of Iceland's economic crisis and cuts to its development co-operation budget. Staff levels have now stabilised, but there is awareness that capacity needs to grow in specific areas (e.g. humanitarian assistance, global public goods, results management, and fragile states). Encouragingly, development co-operation staff have received training in results-based management and evaluation to support implementation of Iceland's development policy and improve the quality of Iceland's aid programme.

There is scope for Iceland's Ministry for Foreign Affairs to integrate the specific needs of the development co-operation programme into its broader human resource management. The integration of all development co-operation activities under the ministry risks diluting development expertise through the ministry's staff rotation system, exacerbated by the lack of tailor-made training on development for all diplomats. At the same time, the merger provides an opportunity for the Ministry to make more staff aware of development-related activities.

Recommendations

- 4.1** As it consolidates the merger of its bilateral agency with its Ministry for Foreign Affairs, Iceland should review the implementation of its recent reforms to ensure that it remains a responsive, flexible and high-quality development co-operation provider.
- 4.2** The Ministry for Foreign Affairs should take care to retain staff with development co-operation expertise through careful planning of rotations, promotional opportunities and focusing on future training needs for both development professionals and diplomats.

Main findings

Iceland's strategy for development co-operation (2013-16) provides an overarching framework for providing effective development co-operation, in line with the Paris, Accra and Busan commitments.

Iceland monitors progress on a number of these commitments and has been improving its performance over time. Iceland makes good use of district-level systems, is well aligned with national and district development priorities, co-ordinates with other donors in a meaningful way, and unties all of its aid.

Iceland is making its programming and budgeting processes more predictable and flexible through a new rolling five-year budgetary framework. In addition, Iceland also uses input targets for humanitarian and multilateral core contributions, which aims to avoid large deviations from stated priorities and to provide greater predictability for its partners.

Bilateral embassies also have a degree of flexibility in their operations, with the possibility of reallocating up to 10% of their budget within programmes. Such flexibility is commendable, especially given that the fragile contexts in which Iceland operates may require funds to be re-programmed at short notice.

Since 2012, Iceland's bilateral activities have adopted a programmatic approach, starting in Malawi and then in Uganda. In these programmes, Iceland emphasises building the capacity of district stakeholders, transferring responsibilities to district-level partners to provide essential social services (health, water and sanitation, education) and fostering local ownership. Iceland shares its lessons with other donors working in its partner countries, which is good practice.

Iceland applies performance-based conditions to mitigate risks in its district activities. These conditions are mutually agreed and based on clear requirements, which translates into better development outcomes. Notwithstanding this, Iceland and its partners could reflect on how to ensure greater national-level buy-in to ensure investments at district level endure beyond the life of the programme.

Iceland co-ordinates with other donors – in particular Nordic donors – to maximise the impact of its limited resources. Iceland also has strong partnerships

with a range of development actors. The regional geothermal energy programme in the East African Rift Valley is a good illustration of Iceland's ability to make the most of its expertise and local knowledge through a partnership for leverage and scale-up.

Iceland has strong relations with civil society, especially Icelandic organisations working in the humanitarian domain. Iceland plans to scale up such partnerships in the future, including by working more with civil society groups in partner countries. In the meantime, Iceland has been streamlining its procedures for working with and funding civil society organisations and is in the process of implementing framework agreements.

To enhance its work with civil society organisations, Iceland could further reflect on the added value of this type of work. Doing so would help Iceland build upon the comparative advantages of these organisations, while raising awareness of development co-operation domestically. In doing so, Iceland could capitalise on the stronger mandate of its new Committee on International Development Cooperation to advise, to provide oversight, to increase awareness of, and to improve transparency in Iceland's development co-operation activities.

Iceland does not have an overarching strategy for engaging in crisis contexts. However, it does have very solid strategies for crisis management in Afghanistan and the Middle East. These strategies could provide a good basis for a policy on crisis management, which would help to ensure alignment between the overall objectives of Iceland's development co-operation and its work in crisis-affected areas.

Recommendations

- 5.1** The Ministry for Foreign Affairs could use its existing country strategies in crisis-affected areas to develop clear and consistent policy directives for crisis management across Iceland's development programme.
- 5.2** The Ministry for Foreign Affairs should make clear its strategic vision and rationale for selecting civil society partners. It could also improve guidance on how to work with these partners.

Main findings

Iceland is planning to improve links between results and funding decisions across its development co-operation programme. This is driven by a 2015 amendment to its development co-operation act which provides for a more joined-up approach to development results reporting and more active parliamentary oversight by the Althingi.

The amendment provides for a new approach to results management in Iceland's expected 2017-21 policy on development co-operation and accompanying action plan. This places greater emphasis on commitment to, and alignment with, the Sustainable Development Goals and discussions. Moreover, all line ministries in Iceland must submit a "results framework" to the Finance Ministry as a part of the new five-year Statement of Fiscal Policy and Fiscal Strategy Plan for the public sector. The Directorate for International Development Cooperation is a separate expenditure area and will be held accountable for its results through the budget approval process.

In designing its new action plan, Iceland should continue to improve how it measures outcomes for development results. It should also reflect on how to measure results at country level in a way that can align with core strategic objectives. This does not mean trying to directly attribute Iceland's local-level efforts in the achievement of the global goals. Rather, it implies demonstrating commitment to – and alignment with – those goals prioritised by partners as part of Iceland's overall effort.

Iceland is strengthening its evaluation culture, using evaluations for evidence-based decision making and accountability. From the outset of a programme, reviews (internal and external) and external evaluations are planned for, funded and shared by partners to strengthen mutual accountability and promote learning.

While Iceland does not regularly commission impact evaluations, those it has undertaken have shown positive and sustainable impacts for the poorest after Icelandic aid ended. When evaluations show poor results, the flexible, transparent and pragmatic nature of Iceland's programming helps it to change course quickly, minimising harm and maximising opportunities.

The release of Iceland's 2016 evaluation policy presents a new opportunity to extend Iceland's learning on evaluation to multilateral, humanitarian and civil society partners. In addition to extending knowledge, the policy should also help Iceland to improve evaluation planning, safeguard the independence of the evaluations themselves and ensure they adhere to the DAC's best practice guidance on evaluation.

Iceland is a transparent donor, committed to regularly publishing programme information on its website. However, surveys show that despite high public support for development co-operation, public knowledge about Iceland's efforts is poor. With a new external Committee on International Development Cooperation in place, and an updated development communication strategy, Iceland has the necessary tools to improve awareness of – and accountability for – its development co-operation programme. In doing so, Iceland could make better use of country-based evidence on development impact and the global goals as key entry points to improve public and political awareness of Iceland's international development work.

Recommendations

- 6.1** In its new policy and action plan for development co-operation, Iceland should develop a more comprehensive approach to managing for results at the strategic, programme and activity levels, aligning with the Sustainable Development Goals and partner government frameworks.
- 6.2** Iceland should use its Committee on International Development Co-operation and new media platforms to improve public and political awareness of its development results, using annual public opinion surveys as a measure for success.

Main findings

Iceland's humanitarian strategy is driven by international humanitarian law and the Good Humanitarian Donorship principles. Iceland is also following the evolution of global humanitarian policy, including through commitments at the 2016 World Humanitarian Summit. Iceland intends, for example, to increase its support to humanitarian pooled funds, to add to its predictable core or lightly earmarked funding to its multilateral partners. As such, Iceland is a good system player in the UN-led humanitarian architecture.

Iceland approved a supplementary, allocation for 2015-16 to address the Syrian refugee crisis; this indicates good capacity to match strategic objectives with adequate resources, and also fosters co-ordination between relevant ministries within the government.

Iceland actively co-ordinates with other donors, taking advantage of its membership of the Nordic donor group and the Nordic plus group to reinforce its messages to its multilateral partners. Iceland's strategic focus on gender equality throughout its humanitarian and development programming helps create coherence between these different instruments.

Iceland complements its limited humanitarian funds by seconding technical experts to its partner UN humanitarian agencies' missions, via standby partnership agreements. This is a good way for Iceland to increase its involvement and visibility in crisis management and humanitarian action.

Iceland is helping build the resilience of vulnerable populations through support to social sectors at district level. While this provides an opportunity to strengthen sub-national systems, sustainability remains an issue. Iceland should ensure its development co-operation investment is sustained by government ownership and appropriate national funding. This will help ensure an effective transition and avoid over-dependence on long-term humanitarian support.

Iceland has a range of reasons for engaging in crisis contexts. These include its membership of the North Atlantic Treaty Organization (NATO) and the Organisation for Security and Co-operation in Europe (OSCE) and its role in responding to the current refugee crisis. In such contexts, Iceland uses a range of

crisis management instruments from humanitarian aid to development and peacebuilding missions. However,

there are no overarching guiding principles or strategies for engaging in individual crises, which reduces the potential for synergies among the various Icelandic programmes.

The merger between ICEIDA and the Ministry for Foreign Affairs creates an opportunity to better link humanitarian action, development co-operation and peacebuilding in crisis areas. In the new setup, the Icelandic Crisis Response Unit (ICRU) has yet to find its role. Created for security expert deployment in international missions, it is now under the responsibility of the Directorate for Development Co-operation and is also used to deploy humanitarian expertise in crisis areas. The ICRU has already proven its effectiveness in managing a range of peacebuilding humanitarian deployments to crisis countries. Given the inter-twined nature of humanitarian, security and development issues in current crisis environments, and in order to promote a streamlined structure for crisis response, Iceland should consider whether the ICRU could usefully serve as the official co-ordinating body in future. This reflection should be informed by the evaluation of past crisis responses.

Recommendation

7.1 Iceland should designate a single co-ordination mechanism for responses in crisis-affected countries, giving due consideration to existing structures, for example the ICRU.

Access the full report

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