

Iceland

Key facts and issues

Iceland is a unitary country, with almost 30% of its public expenditures conducted by its subnational governments (middle range in terms of public spending decentralisation). Iceland has a population of 330 000. Between 2008 and 2014, Iceland's subnational governments significantly cut back their investment (-10 percentage points), making it the 2nd sharpest fall in subnational investment in the OECD. With 64% of its population living in intermediate regions, Iceland is one of the least urbanised countries in the OECD. Nevertheless, predominantly rural regions are losing population: 40 out of 10 000 people moved away from Iceland's rural areas from 2011-13, the 2nd highest rate in the OECD.

The GDP per capita at USD 46 600 is more than 13% above the OECD average. The capital region is outperforming the rest of the country on most indicators except unemployment, while gaps in educational attainment for primary and tertiary education have narrowed since 2003. Iceland has experienced rising gaps in unemployment rates (since 2001) and the gender gap in labour force participation (since 2011).

Iceland: regional, urban and rural development policies

Policy Area	Enabling Document, Strategy, or Framework	Strategic Objectives and Means	Lead Ministry, Agency or Committee
Regional	Parliamentary Resolution on a Strategic Regional Plan for the years 2014-17	Focus on infrastructure and building capacity of subnational governments to achieve balanced growth; address demographic challenges and unemployment; promote economic diversification and innovation	Steering Committee for Rural development; Ministry of Industries and Innovation
Urban	No over-arching framework	Population size and settlement pattern does not call for a national urban policy	
Rural	Parliamentary Resolution on a Strategic Regional Plan for the years 2014-17	Rural policy of Iceland is contained in its regional policy given the country's largely rural character	Ministry of Industries and Innovation (Minister of Fisheries and Agriculture)

General policy approach

Although Iceland is not a populous country, it nevertheless has a Regional Policy 2014-17 with 8 regional plans, financed through associated contracts. They seek to avoid depopulation and minimise regional disparities. The Icelandic Regional Development Institute supports regions (all rural areas) through financial assistance and loans, as well as regional strategy development to implement government goals. It also supports a network of 8 industrial regional development agencies focused on promoting innovation using a range of instruments. Rural policy is also managed by the same ministry, through its Minister of Fisheries and Agriculture with special priority given to regions with long-term depopulation, unemployment and heavy dependence on single industries.

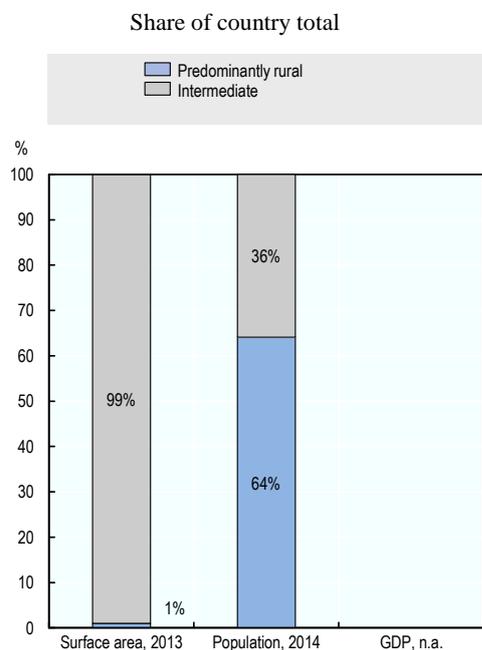
Recent policy changes

- Introduction of Iceland 2020, a macro-policy statement, developed through consultation with Islanders. The statement presents 20 macro objectives and 30 actions.
- One of the actions includes the development of the 8 regional action plans for which the prioritisation of specific projects is determined by the local population of each region in the fields of economic and innovation development, education, marketing and culture.
- A new governance network was set up to support regional policy and planning as part of the “hourglass strategy” with principles of vertical and horizontal co-operation and citizen participation. This network involves all 8 ministries and takes a horizontal approach to regional planning.

Iceland: Main regional, urban and rural development policy tools

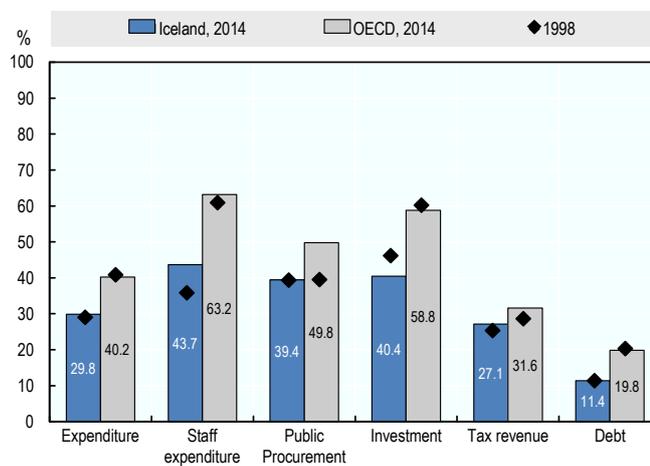
Policy Instrument	✓	Examples
Transport Infrastructure investments and systems of cities	✓	Iceland Transport Plan 2015-2018
Other Infrastructure investments	✓	Iceland Telecommunications Plan
Service delivery (subsidies for public services)	✓	Subsidies for public transportation
Business development/ innovation support	✓	<i>Non hub:</i> Innovation Centre , comprising free counselling interviews over the phone and web to established SMEs and entrepreneurs, “Átak til atvinnusköpunar” – a fund that supports small entrepreneur projects, entrepreneur programmes in specific regions targeting new innovative ideas (Ræsing), Tourism development through creative tourism (Skapandi ferðaþjónusta), Incubator Centres affiliates (Selfoss and Borgarnes), regional development agencies, support to regional Marketing Offices, regional plan of action funds
Urban renewal		
Urban form and land use		
Sustainability policies	✓	Environmental impact assessment for public and private projects, as well as transposition of EU directives on the matter; also emphasis on sustainable wood industry
Rural-urban linkages		
Clusters/technology platforms/ centres of expertise	✓	Science and Technology Policy Councils and centres of excellence
Special economic zones		
Rural landscape preservation		
Skills/training programmes		
Capacity building for subnational governments	✓	Local Authorities' Equalization Fund

Land, population and economy in rural and urban regions



Subnational government role in public finance

Share of general government

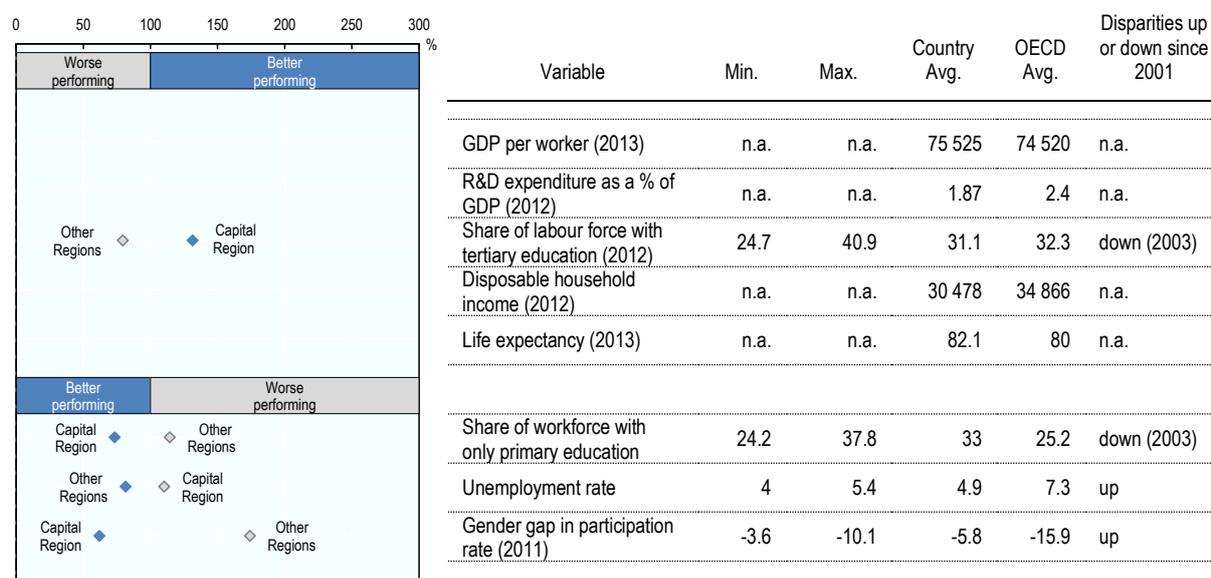


Number of subnational governments

Municipal level	Intermediary level	Regional or state level	Total
74			74

Regional differences in GDP per capita levels, 2013

Data not available

Inter-regional disparities (as a % of the country average)

Note: Each diamond represents a TL2 region. Unless specified, all data are for 2014. Disparity is measured as the difference between the top and bottom region in the country.

Productivity and catching-up trends among regions

Average annual labour productivity (GDP per worker) growth rate [diamonds] and deviation from the growth rate of the country's productivity frontier [bars], 2000-2013
See country page notes for classification of regions

Data not available

Contribution to labour productivity growth, 2000-13

Data not available

Percentage contribution to national GDP growth, 2000-13

Data not available

Country page notes

Main indicators

OECD average	represents the weighted average of OECD country/region values for the given year or closest year available.
OECD Regional Well-being framework	considers a combination of individual characteristics and local conditions in eleven dimensions that shape people's material conditions (income, jobs and housing) and their quality of life (health, education, access to services, environment, safety, civic engagement and governance, community, and life satisfaction).
Gross domestic product (GDP); GDP per capita; and labour productivity (GDP per worker)	is the standard measure of the value of the production activity (goods and services) of resident producer units. Regional GDP is measured according to the definition of the System of National Accounts (SNA 2008). To make comparisons over time and across countries, it is expressed at constant prices (year 2010), using the OECD deflator and then it is converted into USD using purchasing power parities (PPPs). For regional labour productivity, GDP (gross value added for Turkey) is divided by the number of workers (at place of work) or, for GDP per capita, the number of residents. For comparisons of current (per capita) GDP across countries, GDP for 2015 is converted to USD using PPPs for 2015.
Subnational government role in public finance	is mainly derived from the OECD National Accounts, harmonised according to the new standards of the System of National Accounts (SNA 2008), with the exception of Chile, Japan and Turkey, which are still under SNA 1993. General government includes four sub-sectors: central/federal government and related public entities; federated government ("states") and related public entities; local government i.e. regional and local governments and related public entities, and social security funds. Subnational governments are local (regional and local) governments and state governments (in countries with a federal or quasi-federal government system).
Gini index (regional income inequality)	The Gini index is a measure of inequality in terms of GDP per capita among all regions of a given country, with equal weight for each region. The index takes on values between 0 and 1, with zero interpreted as no disparity.
R&D expenditure	is the total gross domestic expenditure on research and development by the government, higher education, business, and private non-profit sectors.
Household disposable income and poverty rate	is the income generated directly from market transactions, adding all current transfers from the government, except social transfers in kind, and subtracting current transfers, such as income or regular wealth taxes and social contributions. It is expressed in USD Purchasing Power Parities (PPP) at constant prices (year 2010) and using a standard equivalised size for households across the OECD. Due to a lack of data, the indicator is expressed in per capita terms for the Czech Republic, Estonia, Hungary and New Zealand. The poverty rate is here taken as the percentage of people with disposable household income per capita of less than half the country median.
Participation rate, unemployment rate, youth unemployment and NEETs	The (labour force) participation rate is the ratio of the labour force (employed and unemployed) aged 15+ to the population (15+). The gender gap is the difference between the participation rates for women and men. Unemployed persons are defined as those who are without work, are available for work, and have taken active steps to find work in the last four weeks. The unemployment rate is defined as the ratio of unemployed persons to the labour force. Youth unemployment considers the unemployed and the labour force aged between 15 and 24. "NEETs" refers to 18-24 year-olds who are neither in employment nor in education and training (as a percentage of the population of 18-24 year-olds).
Primary and tertiary education	Primary education includes primary education, pre-primary education and lower secondary education (ISCED 0-2). Tertiary education includes both university qualifications and advanced professional programmes (ISCED 5-8). Shares are defined with respect to the labour force aged 15 and over.
Elderly	are those aged 65+. The elderly dependency rate is the ratio of the elderly to the working age population (15-64).
Air pollution	is the 1km ² grid cell population weighted average of satellite-based estimates of small particulate matter (PM _{2.5}).
Life expectancy	measures the number of years a newborn can expect to live, if death rates in each age group remain constant.

Typology of regions with respect to productivity

Frontier	is the region leading its country in terms of labour productivity, measured by the real gross domestic product per employee. In some countries the leading region accounts for a small percentage of the total workforce. Where this is the case, the frontier is the weighted average of regions with the highest labour productivity levels accounting for 10% of the country's total employment.
Catching-up regions, diverging regions and regions keeping pace	is a classification of regions based on their labour productivity growth relative to the frontier. It is based on the growth in labour productivity between 2000 and 2013 (or closest year available). Regions where labour productivity grew/dropped by at least 5 percentage points more/less than in the frontier over the period are classified as catching-up/diverging regions (about 0.4 percentage points annually), with regions that are keeping pace falling within the +/- 5 percentage points band.

Typologies of regions with respect to population or other functions

Regions (TL2 and TL3)	are classified by the OECD into two territorial levels that reflect the administrative organisation of countries. OECD's large regions (TL2) represent the first administrative tier of subnational government. OECD small (TL3) regions are contained within a TL2 region. Reference to the 20% richest/top or poorest/bottom regions, indicates the top/bottom-performing regions according to the indicator accounting for 20% of the (relevant) population.
TL3 typology (urban, intermediate, rural)	TL3 regions have been classified as: predominantly urban (PU), intermediate (IN) and predominantly rural (PR) based on the percentage of regional population living in rural communities, combined with the existence of urban centres where at least one-quarter of the regional population resides. The terms "urban", "intermediate" and "rural" refer to these categories.
Metropolitan area	is a functional urban area with 500 000 or more inhabitants defined by population density and commuting flows.

Further details and information: OECD (2016) *OECD Regions at a Glance 2016*, http://dx.doi.org/10.1787/reg_glance-2016-en.