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**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

Peer Review

Mid-term Review of Iceland

The mid-term review of Iceland was conducted in 2020 following the 2017 peer review.

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DEPUTY DIRECTOR
DEVELOPMENT CO-OPERATION DIRECTORATE
Director's Office

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To: DAC Delegates and Observers

Iceland Mid-term Review, 11 September 2020, Reykjavik – Paris

Dear Colleagues,

The week of 7 September, I conducted the mid-term review of Iceland virtually, together with Emily Bosch of DCD. I would like to thank Mr. Martin Eyólfsson, Permanent Secretary of State, and Ms. Erla Hlín Hjálmarsdóttir, Director of Results and Evaluation, and all Ministry staff for very constructive meetings and close co-operation in the lead up to the review.

During the review, we had rich and frank discussions with senior officials from the Icelandic Ministry for Foreign Affairs (MFA) and the Development Co-operation Committee, representing Members of Parliament, the Icelandic Confederations of Labour and Enterprise, municipalities, academia, and non-governmental organisations.

The mid-term review focussed on implementation of the DAC's 2017 peer review recommendations, in the context of developments that have taken place since 2017. In particular, Iceland's Policy for International Development Co-operation 2019-23 was approved by Parliament since the last peer review. While the COVID-19 pandemic presents challenges in the form of delays in programme delivery and strategic evaluations, Iceland has shown leadership in maintaining its investments on the ground in its two partner countries, Malawi and Uganda, despite pressure to suspend operations during the pandemic.

I was pleased to note that Iceland has already taken steps to address 9 out of 13 of the DAC's 2017 recommendations, in particular related to:

- Focusing development co-operation in areas where it has a comparative advantage and maintaining a poverty focus,
- Establishing and working towards an interim target of 0.35% of GNI as ODA in 2022 set in a Parliamentary resolution,
- Increasing the number of staff with development co-operation expertise.

The 2030 Agenda and current crises have given more weight to international development co-operation domestically

Although we heard that Iceland's 2019-23 Development Co-operation Policy is considered to apply only to the MFA, which has responsibility for most of Iceland's ODA, the sustainable development goals (SDGs) have brought about a whole-of-society convergence on the role and importance of international development co-operation and policy co-ordination across government. This cross-society approach was brought to light in Iceland's Voluntary National Review on implementation of the 2030 Agenda presented in July 2019. A Special Envoy for the SDGs at the MFA co-chairs the National Commission for 2030 Agenda implementation with the Prime Minister's Office, which includes all ministry and stakeholder representatives. To-date the 2030 National Commission's role is still limited to policy co-ordination; in the future this forum has the potential to be the venue to identify policy trade-offs across government as they impact developing countries. The Climate Change Action Plan 2018-30 launched by the Prime Minister is also an example of close co-operation among six different ministries and consists of 34 government measures. We learned that the SDGs are now mainstreamed in the five-year fiscal plan, in which ODA is now separated out from the rest of the budget for greater transparency.

The influx of refugees and asylum seekers starting in 2017 revitalised the role of the Refugee Council managed by the Ministry of Social Affairs that includes MFA and Ministry of Justice officials, observers from local authorities, the Directorate of

Immigration, and the Icelandic Red Cross. In the current COVID crisis, the Prime Minister's Office has also led efforts to fund COVID-19 responses for vaccine development and delivery to developing countries.

Iceland's poverty focus and comparative advantage

Iceland's 2019-23 Development Co-operation Policy defines poverty to include material deprivation, but also the lack of safety, power, and control over one's own circumstances. In particular, Iceland places strong emphasis on gender equality and the empowerment of women, as well as the rights of children. As a world leader in clean energy, with close to 100% of its electricity derived from renewable sources, working with geothermal energy actors continues to be an area of focus for Iceland, in line with the 2017 peer review recommendation. Iceland supports its priority areas of gender and women's empowerment, the blue economy, environment and energy, and human rights through core contributions to four multilateral organisations – the World Bank, UNFPA, UNICEF, and UN Women, and earmarked contributions to other multilateral partners.

In 2018, 42.6% of Iceland's gross bilateral ODA went to least developed countries (LDCs) and its total ODA to LDCs increased from 0.10% of GNI in 2015 to 0.12% in 2018. This is a step in the right direction. In its two priority countries, Malawi and Uganda (both LDCs), Iceland works at the district level with fishing communities. The coastal districts that are most in need and best suited for Iceland to invest in are selected for district level partnership. Fishing communities and households tend to be high-risk populations and Iceland's own expertise in fisheries makes it uniquely adapted to the task. Discussions are currently underway with the government of Sierra Leone to expand bilateral co-operation in coastal districts. Through multilateral and civil society partners, Iceland has also invested in some of the most marginalised and rural communities of Mozambique, West Bank and Gaza and Afghanistan.

The four training programmes offered by Iceland in the fields of fisheries, gender equality, geothermal energy, and land restoration were re-aligned since the last peer review and grouped under an autonomous GRÓ Centre for Capacity Development, Sustainable use of Natural Resources and Societal Change, which is linked to the MFA but operates under the auspices of UNESCO. As a result, the programmes appear to be more closely aligned to the development co-operation policy, in line with the 2017 peer review recommendation. Efforts are underway to link the results of these programmes, which reflect Iceland's expertise and comparative advantage, back to the impact on poverty, which is a welcome initiative.

Institutional consolidation and expanding human resource opportunities

As of January 1, 2020, the title of the Minister changed to the Minister for Foreign Affairs and International Development Co-operation. While a formal evaluation of the 2016 merger of ICEIDA with the MFA will only be commissioned in the autumn of 2020, we heard that Iceland is reaping mostly positive gains from the consolidation of its bilateral agency with MFA. In May 2020, the Directorate of International Affairs and Development Co-operation was further streamlined and consolidated into three core departments.

Most stakeholders interviewed agreed that the consolidated institutional arrangement has resulted in systematic knowledge exchange between diplomats and development officials and better-informed multilateral policy making in the MFA. The link between policy and implementation has become more explicit, with closer exchanges between MFA and embassies and permanent missions on issues related to Iceland's development cooperation priorities, thereby enabling a more effective participation in multilateral fora. Development experts on the ground find they have gained political legitimacy and traction as they came into the fold of Embassies and the MFA. The recent appointment of the former Director General of the Directorate of International Affairs and Development Co-operation to the only Permanent Secretary of State post is a strong signal that development co-operation is an integral part of Iceland's foreign policy.

I was pleased to see the significant efforts Iceland has made to fulfil the 2017 peer review recommendation to attract and retain staff with development expertise. Human resources rules and regulations were able to adapt to the specific needs of development co-operation, notably hiring mid-career professionals with development expertise and experience. Seven such new experts were hired in 2018-19. The fact that a development expert can also move to the diplomatic stream and vice-versa again goes to show how the system has adapted to the practicalities of integration to offer more diverse career tracks. Iceland also finds ways to capitalise on forthcoming opportunities, for example, ahead of assuming the chair for the Nordic Baltic constituency at the World Bank it seconded staff to Denmark, the previous chair.

Bringing a stronger focus on partnerships

The latest consolidation brings “partnerships” under the same department at a time when a new strategy for civil society and private sector partnerships are being developed. Civil society expects that clarifying government’s partnership with the private sector will lead to clearer rationale and criteria for its own partnership with government (advocacy, development awareness, implementation, independent actors in their own right), and will also encourage the three partners to work more together. The recent expansion of the pool of civil society partners is a welcome development given the limited number of actors operating in Iceland, and the forthcoming evaluations on framework agreements used for humanitarian aid and the governance of CSO partnerships are likely to inform the new strategy and partnership modalities, as recommended in the 2017 peer review. Iceland no longer provides direct support in the form of small grants from embassies to local civil society, although support to local civil society is provided via its multilateral support and through Icelandic NGOs to sister organisations in partner countries.

Iceland has found ways to incentivise its own small and medium enterprises (primarily companies in the energy sector, fisheries, and land restoration) to promote sustainable business and development in partner countries. Building on this experience, it recently established a SDG challenge fund that provides seed money to SMEs that wish to operate in developing countries. To date, four projects operating in Viet Nam, India, Côte d'Ivoire, and Senegal have received grants for fish processing technologies, microcredit, dairy and food-processing, and the sustainable use of sea cucumbers. Iceland is pragmatic about the need to work and partner with other Nordic and Nordic-plus countries, their investments funds, and development finance institutions to diversify their palette of instruments.

I was encouraged to see that Iceland is taking the DAC recommendation on ending sexual exploitation, abuse, and harassment to heart, not only ensuring direct partners’ adherence, but also in collaboration with others in multilateral organisations, and the ongoing effort to arrive at agreement for humanitarian country-based pooled funds.

Scaling-up ODA

We are encouraged to learn that Iceland has set – and still plans to meet – an intermediary target of 0.35% GNI as ODA in 2022. This is in line with the 2017 peer review recommendation to increase its ODA. In 2019, Iceland provided USD 67 million in ODA (equivalent to 0.27% GNI), a 1.6% decrease from the previous year, despite a small increase in in-donor refugee costs. The latest economic figures show that Iceland’s economy contracted by 9.3% in the second quarter of 2020. In the face of economic uncertainties around the effects of the COVID-19 pandemic, it will be important for the five-year budgetary framework to reach the 0.35% of GNI as ODA in 2022 on the trajectory to the internationally committed target of 0.7%, reaffirmed by Iceland in its Development Co-operation Policy. Although Iceland continues to be a relatively small provider of development co-operation, it has maintained its rank as the 15th largest DAC country in terms of ODA:GNI. One particular challenge Iceland faces is keeping administrative and overhead costs as low as possible given its small size and the fixed costs required in pursuing a bilateral programme in three countries, seconding experts, running a training programme, and also actively managing its multilateral, private sector, and civil society partnerships.

Iceland has made substantial efforts to provide more detailed and accurate reporting to the OECD – DAC, including on the tying status of its ODA and in-donor refugee costs. Pressed by civil society to be more transparent around the costing of in-donor refugees counted as ODA, the Icelandic government is taking action together with municipalities and local government to be more transparent and harmonised in their approach. The upcoming statistical peer review of Iceland is an opportunity to examine progress in both these areas to ensure quality, reliable, and consistent reporting.

Public and political awareness of development co-operation is increasing

The Development Co-operation Committee includes a range of stakeholders from businesses, labour unions, civil society, and MPs. As required by law, they comment and give advice on legislation sent to Parliament. Development co-operation members were happy to have been consulted on some recent initiatives like the SDG fund, but there seemed to be a consensus that more could be made of the committee to raise awareness of development issues and to help shape overall development co-operation policy. The broad membership of the committee is at once a strength, giving stakeholders a chance to feed directly into a political process, and a challenge since it makes it very difficult to meet frequently and adopt a more strategic, less reactive work programme. Members felt there was an opportunity, for example, to use the committee to see how Iceland’s development co-operation is fit for the future.

So far, the public has demonstrated solidarity for development co-operation even despite hardships being felt in Iceland due to the economic downturn. As recommended in the 2017 peer review, annual public opinion surveys were launched starting in the spring of 2019, and show a public very much disposed to the government's international development efforts. Iceland was recently awarded the best fundraising on a global scale for the sheer volume of resources mobilised by its National Committee of UN Women. New media platforms to raise public awareness since the last peer review include *Heimsljós*, an online public information forum on development and humanitarian issues. A recent decision to set aside a small amount of funding for civil society and private sector partners to communicate results for advocacy and outreach in Iceland is expected to help reinforce public and political support.

Setting up a home-grown system to manage for results

The MFA is currently putting in place a home-grown results-based management system linked to the SDGs and results on the ground, as called for by its policy for development co-operation. In this regard, MFA officials visited DFID to learn about their corporate results framework. Iceland does not directly implement its programmes instead relying on district-level officials for monitoring and evaluation, so building up the local monitoring and evaluation systems and capacity are paramount. Embassy staff are also being trained to ensure a more "results-oriented" focus. Linked to efforts to build a corporate results framework, a new database will be launched at the end of 2020 to track contributions by SDG (www.openaid.is). Now that district-level plans have been approved, it will be important to finalise a new generation of partner country strategies that will set out the results Iceland wishes to contribute towards in its three partner countries. Similarly, a harmonised results-based monitoring system for all four training programmes under GRÓ is a welcome development.

Towards a regional humanitarian policy and piloting the humanitarian-development-peace nexus

Iceland's forthcoming humanitarian strategy moves towards a more regional humanitarian policy, and will continue to place a strong emphasis on rapid response, and predictable and flexible funding, and transparency. It does this through core support to humanitarian UN organisations (OCHA, CERF, WFP, UNHCR) and country-based pooled funds. Experts that are deployed in humanitarian contexts via stand-by agreements with UN organisations were formerly part of the International Crisis Response Unit, and are now part of the MFA. We were interested to learn about Iceland's pilot to operationalise the humanitarian-development-peace nexus in Uganda through a multi-year cost-sharing arrangement with UNICEF working in refugee hosting communities to support humanitarian and development assistance, the deployment of an expert through UNFPA, and look forward to hearing about the complementarity of humanitarian, development, and peace actions, including with other development partners on the ground.

Conclusion

Overall, I was very encouraged by the progress made by Iceland to address the DAC's 2017 recommendations. I was impressed by the ability of the Icelandic system to adapt to new opportunities and to take decisive action. The next peer review will come at a crucial time after a number of important evaluations have taken place, and it will allow a more in-depth assessment of progress on implementing a number of new and forthcoming strategies, how Iceland manages for results and links this to the SDGs, as well as exploring the results of new private sector instruments and country partnerships.

Yours sincerely,



Mayumi Endoh

CC: Ms. Susanna Moorehead, DAC Chair
Mr. Jorge Moreira da Silva, DCD
Mr. Rahul Malhotra, DCD
Ms. Emily Bosch, DCD