

SGI Sustainable
Governance
Indicators

2014 Iceland Report

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Executive Summary

In a historic victory in the 2009 elections, the Social Democratic Alliance and the Left-Green Movement together won a total of 34 of the parliament's 63 seats, two more than needed to secure a majority. The two parties formed a majority coalition government led by the Social Democrats, the first majority government in the country's history without the participation of both the Independence Party and the Progressive Party. This coalition survived through its entire parliamentary mandate period, despite occasionally serious difficulties in securing a majority vote on important issues.

The government's promised fisheries-policy reforms were only partially accomplished. The intention was to implement a fair and market-friendly method of fisheries management. However, the only major policy change on the issue during the review period was a new law increasing fishing fees.

Another key promise made by the 2009 – 2013 government was to review the constitution in keeping with one of the demands of the "pots-and-pans revolution" that emerged after the financial crash. For almost 70 years, the political parties had promised an overhaul of the provisional 1944 constitution, but had never been able to deliver. However, in part because of mistakes made in presenting the constitutional revision bill, it was never brought to a vote in parliament (the Althing, a unicameral body). The new parliament elected in April 2013, which is dominated by the Independence Party and the Progressives, seems likely to keep the bill in legislative limbo.

A third important item on the 2009 – 2013 government's agenda was the country's relationship to the European Union. In 2009, the government applied for EU membership, a policy that had been on the Social Democrats' agenda for some time. However, the Left-Greens have been and remain opposed to membership. The coalition made a deal to file an application and then submit any eventual agreement on accession terms to a national referendum. Though one-third of the chapters in the application have been completed, important ones on fisheries and agriculture have not yet been opened. The government that took office in May 2013 has halted the application process, making it unlikely that accession negotiations will be resumed in the near term.

In April 2011, a second referendum in just over a year was held on the issue of the country's bank failures. In 2010, the parliament had approved a bill authorizing the minister of finance, on behalf of the State Treasury, to issue a state guarantee enabling payment of deposit insurance to account holders of Iceland's failed Landsbanki bank in the United Kingdom and Netherlands, an issue known as the Icesave dispute. However, in February 2011, the president refused to sign the bill. Under the terms of the constitution, this required that the measure go to a popular vote; in this vote, 59.7% rejected the bill and 40.1% voted in favor, a defeat for the government.

Overall, Iceland is still struggling to recover ground almost five years after the onset of the crisis. Public debt levels remain high, making interest payments on the debt the second-largest individual expenditure item in the government budget, seriously weakening the government's ability to provide adequately for health care, education, or social services. As the króna has lost a third of its value in real (inflation-adjusted) terms since the crash, and half of its value in nominal terms, fuel is now twice as expensive as in 2008, and food prices are 60% to 70% higher than in 2008. Salaries have gone up by only around 10% since 2008, which means the purchasing power of ordinary citizens has fallen dramatically. Moreover, inflation-indexed housing loans have become more expensive to service, creating serious financial difficulties for many households and resulting in the loss of homes for many. Thus, the average Icelander remains much worse off than before the collapse. Yet thanks to the IMF-supported recovery program, gradual progress is being made on the economic front. Even so, one of the most important political issues during the 2009 – 2013 parliamentary mandate period, and the one that ultimately proved fatal for the government, was the deep frustration among the many households whose mortgage payments climbed steeply at the same time the market value of their homes collapsed.

Key Challenges

The October 2008 economic collapse and its consequences continue to affect the lives of Icelanders five years after the event, and will continue to do so in the years ahead. A new coalition government was formed in May 2013, after parliamentary elections in which the people of Iceland punished the former government for its work during the first four years after the collapse. Not only did the left-wing coalition lose its majority, it did so by a significant margin.

The two left-wing parties had opened their term in power in 2009 holding 34 of the 63 parliamentary seats, but ended the mandate period with just 31 seats due to internal coalition squabbling. Despite this internal tension, the Left-Green Movement, the smaller coalition partner, supported the government on critical issues such as the constitution bill. In the April 2013 elections, the left-leaning governing coalition captured just 16 seats, less than half its 2009 total. It was replaced by a center-right coalition made up of parties that had been in opposition for the previous four years. The new coalition parties had once been able to count on a total of 70% of the national vote in combination, but attracted just 51% of the vote in the April 2013 election. Hence, their position has weakened with time. However, the fact that 12% of votes were cast for parties that won no seats in parliament meant that the government's 51% share of the votes translated into a 60% share of the seats in parliament.

The new coalition quickly announced some radical reversals of its predecessor's policies. In 2008, the IMF envisaged that economic growth in Iceland would resume two years or so after the crash. However, recovery has in fact taken much longer. Economic output fell by 4.1% in 2010. Growth subsequently returned to the positive column, with output rising by 2.9% in 2011, but falling back to 1.6% growth in 2012. Hence, the rehabilitation of the economy is taking longer than expected. The strict capital controls put in place as part of the IMF-supported rescue program in late 2008 were intended to be temporary, lasting for just two to three years. Their abolition has proved to be more difficult and risky than originally envisaged. However, the new coalition has indicated that lifting these controls will be one of its priorities. Judging by the new governing parties' electoral promises, new investments aimed at further reducing unemployment also appear likely. The government has announced its intention to create more aluminum smelter plants and power plants. This is intended to help boost the economy through more foreign investment, more jobs and more tax revenues.

Iceland applied for EU membership in 2009, signaling policymakers' intention to abide by European standards and strengthen the country's institutions and regulations. However, disagreement between the 2009 – 2013 coalition parties led the application process to be put on hold in January 2013. The parties that proved victorious in the April 2013 parliamentary elections hold relatively euroskeptic views, and halted the application process altogether once taking office. The most plausible development at this stage is that the question of whether to continue the application process will be put to a national referendum in 2014. While the success of any such measure is difficult to predict, opinion polls in early 2013 suggested no more than 25% to 30% support for EU

membership, down from more than 50% through most of the period from the early 1990s until 2008. Even so, the polls show that a majority of citizens want to continue the application process.

The economic collapse also forced the 2009 – 2013 government to raise taxes considerably and cut back the public sector. Time will tell whether the new coalition will try to reconstruct the welfare system. Urgent tasks in this regard include the restoration of pensions to their earlier level and the strengthening of a health care system that has suffered heavily since 2008.

Policy Performance

I. Economic Policies

Economy

Economic Policy
Score: 7

Iceland's economic policy during the period under review continued to be dominated by the aftereffects of the financial crisis and economic collapse. The International Monetary Fund (IMF) supported Iceland's recovery from the crash through a stand-by arrangement involving a short-term IMF loan to Iceland of over \$2 billion between September 2008 and August 2011. This loan made possible another similar loan of nearly \$3 billion from the Nordic countries, for a total package of about \$5 billion. This program, along with the support of the Nordic countries, formed the backbone of Iceland's economic reconstruction program. The program combined stringent temporary capital controls to prevent the króna from depreciating further with continued monetary restraint and fiscal adjustment equivalent to about 10% of GDP during the 2010 – 2015 period. As implemented, this took the form solely of public expenditure cuts, in the sense that the ratio of general tax revenue is now about the same as it was before the crash. The promised gradual relaxation of the capital controls has been delayed.

In 2008, the IMF forecast that economic growth would resume two years or so after the crash. However, recovery has taken much longer. Economic output fell by 4.1% in 2010, recovering to rise by 2.9% in 2011, and slowing again to 1.6% in 2012. The threat of a new bout of inflation continues to hang over the economy, as a premature or disorderly relaxation of capital controls would most likely cause the currency to depreciate sharply, forcing prices to rise again.

Following the collapse, the government sought to strengthen the Financial Supervisory Authority (Fjármálaeftirlitið, FSA), whose failure to effectively supervise the banks in the years before the collapse was heavily criticized. The number of FSA personnel was increased from 63 in 2008 to 93 in 2010, and further to 117 in 2012. More significantly, a new director was appointed in 2009, who unlike his predecessor, had no party affiliation and went about his supervisory role in a manner that resulted in some 80 cases being referred from the FSA to the Special Prosecutor's Office. However, this post-crash director came under fierce attack by some of those whom he had a legal obligation to supervise, a conflict that ended in the director's dismissal in 2012. Furthermore, he was cited by a court for having accessed a bank document in an illegal fashion.

The activities of the Icelandic Competition Authority also expanded after the collapse. According to this body's 2012 annual report, the number of pending cases increased by 60% between 2008 and 2011.

The future of banking in Iceland remains uncertain, as the government had not as of the time of writing detailed plans for restructuring and reorganizing the banking system. At the close of the review period, the government owned a majority stake in one of the three large banks that were reestablished on the ruins of the failed banks. Foreign venture funds owned significant stakes in the other two banks, a situation that cannot be expected to last.

Iceland applied for EU membership in 2009. The government in power during the 2009 – 2013 period thus signaled its intention to abide by European standards and discipline and to strengthen Iceland's institutional environment, including in the area of regulatory policy. However, due to disagreements between the coalition partners, the application process was put on hold in January 2013. After the parliamentary elections in April 2013, the new government decided against pursuing the EU accession negotiations further. The question of whether to continue the negotiations may be put to a national referendum in 2014.

Citation:

The Annual Reports of the Financial Supervisory Authority 2009, 2011 & 2012. (Ársskýrslur Fjármálaeftirlitsins 2009, 2011 and 2012).

Annual report on Competition Policy Developments in Iceland 2011. THE ICELANDIC COMPETITION AUTHORITY

(http://en.samkeppni.is/media/reports/ICA_2011_en.pdf).

Labor Markets

Labor Market Policy
Score: 8

Historically, labor market policy has generally been successful in Iceland. Jobless rates were low for many decades, with only a few periods of exceptions. Indeed, at the end of 2007, the unemployment rate was just below 1%. This changed in the autumn of 2008 as a result of the economic collapse, the bankruptcy of the three biggest banks and the dramatic deterioration in the government's fiscal situation. The unemployment rate rose to 8% in 2009 and then to a record high 10% in 2010. Thereafter, it fell to 7% in 2011 and 6% in 2012. A comparison of January – March 2012 (with a three-month average of 7.2%) and January – March 2013 (a three month average of 5.8%) indicates that the unemployment rate might still be going down. Yet if these figures were high by Icelandic standards, they remained low compared to rates in the European countries such as Ireland or Spain hit hardest by the financial crisis. This outcome represented one of the biggest successes of the post-crash government of 2009 – 2013, and was facilitated by ambitious egalitarian social policies as well as by a significant drop in real wages due to the depreciation of the currency.

Citation:

<http://www.hagstofa.is/Hagtolur/Laun,-tekjur-og-vinnumarkadur>

Taxes

Tax Policy
Score: 7

Iceland's post-crash left-wing government (2009 – 2013) introduced a new three-bracket tax system for individuals in 2009. This new regime took effect in 2010. Taxes for low-income earners were reduced, and taxes for other income groups increased; thus, on average, income tax rates rose following the collapse in 2008. Capital gains tax rates were also raised from 10% to 15%. The corporate tax remained at the same level as in 2008. These changes reversed the earlier trend toward increasing inequality.

The Icelandic government's crisis-management strategy, as supported by the IMF, involved significant cuts in public spending. The government committed itself to increasing total taxes from 38% of GDP in 2009 to 44% in 2014, and to reducing government expenditure from 53% to 41% of GDP over the same period. The policy reality turned out rather differently, however. In 2009, the first year after the crash, a government budget deficit of 14% of GDP was expected, but the actual deficit wound up being just 9%. Hence, faced with a

less unfavorable fiscal situation than expected, the IMF-supported program aimed to cut government spending from 50% of GDP in 2009 to 40% in 2017, while keeping revenue at 41% of GDP from 2009 to 2017. This would amount to a fiscal adjustment equivalent to 10% of GDP in eight years, a tough program by any measure, especially in view of the unusual feature that the adjustment is confined to the expenditure side of the budget equation.

Three reservations are in order. First, Iceland's tax burden is understated in official statistics because the unfunded pension obligations of the government are not included, a problem that does not afflict most other OECD countries. Second, the public debt shot up from 29% of GDP in 2007 to 93% in 2010, making interest payments on the debt the second-largest single public-expenditure item in the government budget. Third, the post-crash government of 2009 – 2013 increased fishing fees significantly and budgeted further increases for 2013 – 2014, but the new government formed in May 2013 has decided to reduce fishing fees again. This will require an alternate source of revenue to be found in order to meet the IMF program goals.

Citation:

Statistics Iceland, "Lágtækjumörk og tekjudreifing 2003-2006" (Risk of poverty and income distribution 2003-2006), April 2009.

Budgets

Budgetary Policy
Score: 7

The 2008 economic collapse dramatically increased the country's foreign debt. General government gross debt rose from 29% of GDP at the end of 2007 to 93% in 2010, and is forecast to decrease to 90% in 2013 and 82% in 2017. General government net public debt – that is, the government's foreign debt minus its foreign assets – stood at 11% of GDP at the end of 2007, 56% in 2009 and 66% in 2011, but was projected to drop to 64% in 2013.

In documents supporting the stand-by agreement with Iceland, which was completed during the period under review, the IMF expressed the view that Iceland's public debt was sustainable if the country adhered to the fund's fiscal program. Other observers have been less sanguine, given Iceland's less-than-stellar history of economic stability.

The country's financial prospects also improved somewhat when it became clear that the so-called Icesave debt to Great Britain and the Netherlands, which was associated with the collapse of the Landsbanki bank, could be served through funds obtained from the bankrupt Landsbanki itself due to better-than-

expected asset recovery. In January 2013, the EFTA Court of the European Free Trade Association states cleared Iceland of all charges in connection with having refused to guarantee deposits made by United Kingdom and Netherlands account holders, a sum worth €4 billion plus accrued interest. However, this claim will still exist as a so-called first priority claim on the old Landsbanki estate, and is now expected to be met in full.

One factor complicating assessments of Iceland's fiscal sustainability is the tenuous situation with respect to foreign exchange values and availability. As of the time of writing, foreign entities had a considerable quantity of funds locked up behind capital controls in Iceland. Investors generally wanted to move these funds out of the country, but were prevented in part by the capital controls. Once these are lifted, or the funds are otherwise able to flow outward, a shortage of foreign exchange would likely ensue, leading to a significant drop in the value of the Icelandic króna on international currency markets.

Citation:

IMF, October 2012 World Economic Outlook.

Research and Innovation

R&I Policy
Score: 8

Public and private spending on research and development (R&D) in Iceland together totaled 3% of GDP in 2007, one of the highest levels in the OECD group. About 40% of this expenditure, or 1% of GDP, was provided by the government. This high level of R&D activity to some extent reflected the ongoing transformation of the Icelandic economy from a focus on agriculture and fisheries toward manufacturing and services, and has been associated with the creation of new private firms in biotechnology, pharmaceuticals, and high-tech manufacturing, among other new sectors.

The government fosters research and innovation in the fields of geothermal energy, hydrogen power, genetics and information technology, and has in recent years sought to spur innovation. Innovation Center Iceland (Nýsköpunarmiðstöð Íslands), a government institute, was established in 2007 through the merger of the Technical Institute of Iceland (IceTec) and the Icelandic Building Research Institute (IBRI). It operates under the Ministry of Industries and Innovation and receives funding from both the public and private sectors. As a consequence of the collapse in 2008, public funding of research and development, which peaked in 2008 and 2009, was cut by about 10% in 2011. However, the drop in the value of the króna by a third in real (inflation-adjusted) terms since the crash of 2008 has made start-up and spin-off

companies viable on a significant scale for the first time, while tourism has taken off on an unprecedented scale.

Citation:

Research and Development in Iceland 2011. RANNIS - The Icelandic Center for Research

Stabilizing Global
Financial Markets
Score: 6

Global Financial System

In part because of its small size, Iceland has never tried to make a contribution to the improvement of the international financial architecture or other comparable international institutional frameworks.

On the home front, however, the government has taken significant steps to address the issues raised by the extreme instability of its financial system, which culminated in the crash of 2008.

First, the post-crash government of 2009 – 2013 significantly strengthened the Financial Supervisory Authority (FSA) and established a Special Prosecutor's Office, resulting in a few prison sentences for insider trading and market manipulation. The Special Prosecutor was expected to take about 70 additional cases to court in 2013 and 2014, thanks to the assistance of the FSA. These cases involve about 200 individuals suspected of insider trading, market manipulation, false reporting, and breaches of fiduciary trust. Understandably, this is a hotly contested issue in Iceland. While some consider the judicial aspects of the post-crash cleanup essential in order to avoid a recurrence, others, in particular those having political or business connections with the entities deemed responsible for the crash, feel the country should turn the page. Proposals seeking to incorporate the FSA back into the Central Bank signal a weakening of political resolve, as the FSA's supervision was weaker when it was part of the Central Bank.

Second, the government has sought to strengthen financial supervision by having the FSA impose tougher standards in some areas. For example, loans without collateral – essentially, one-way bets against the banks – were common before the crash, but are no longer. On the other hand, some bank customers still complain of discriminatory and nontransparent practices whereby some borrowers are allowed to write off large debts while others are not. Some of the country's biggest pre-crash business figures are today back in operation, having been forgiven huge chunks of debt by the banks.

Third, consumer protection has become more effective, in that illegal housing

loans indexed to foreign currencies are no longer offered and are (slowly) being removed from banks' balance sheets. The legality of housing loans and some other consumer loans indexed to domestic prices has also been challenged in the courts, but as of the time of writing, the Supreme Court and foreign courts have not ruled on this issue.

The government has not yet laid out a plan for the future reorganization of the banking system. This means that the future ownership structure of the banks, particularly its division between private and public or between foreign and domestic ownership remains uncertain.

II. Social Policies

Education

Education Policy
Score: 8

Public expenditure on education increased in the years before the 2008 economic collapse, but has been cut somewhat during the crisis. State expenditure on high schools, colleges and universities in 2012 was significantly less as a share of GDP than in 2008 – 2009. Teacher pay was for many years low compared with private-sector salaries; it proved difficult to fill vacant jobs at primary and secondary schools, and the low pay resulted in a large number of underqualified teachers. The economic crisis has changed this, however. Salaries have decreased in the private sector, and the tight job market has attracted qualified teachers back to the schools.

The average Icelander aged 25 to 64 has up to two fewer years of schooling than the OECD average. This means that Iceland's labor force is on average less well educated than its economic peers. Specifically, a third of Iceland's labor force has completed secondary education compared with nearly a half of Norway's labor force.

Municipalities are responsible for primary schools in Iceland. The crisis forced them to engage in considerable cutbacks and rationalization measures, for example by shortening the school year. The state is responsible for high schools and most universities. Though there have been general cutbacks in expenditures on high schools, their number has increased in recent years, particularly in rural areas supported by regional development policies.

Iceland's universities have long been seriously underfunded, even during the boom years. There are seven universities: two private ones supported by state grants, and five state institutions including two agricultural colleges. The government in power during the 2009 – 2013 period considered rationalizing the university sector either by reducing the number of universities or by inducing more cooperation between them. Some merger discussions between two of the private universities took place, but did not come to fruition. Significant cooperation between the state universities has taken place since 2011, for example through the joint employment of teachers, a joint student-registration system, and other such means. The government has cut grants provided to the public and private universities.

Social Inclusion

Social Inclusion
Policy
Score: 7

During the years before the 2008 crash, the degree of inequality grew in Icelandic society due to a regressive tax policy, which included a creeping reduction in real terms in the level of income at which low-income households were exempted from paying income tax. Due to rather high inflation rates, this development increased the tax burden of low-income wage earners. After the left-wing government came to office in 2009, measures were taken to readjust the tax system. Driven by the necessities of the crisis, the government raised taxes for all income groups, but with proportionately smaller increases for the lowest income groups. In the post-crisis years, the Gini coefficient for Iceland has decreased significantly, from 29.6 in 2009 to 23.6 in 2011.

This does not tell the whole story, however. The post-2008 crisis has led to significant cuts in public expenditure. Pensions and social reimbursements have also been cut, and remain well below their 2007 level. The strain on charity organizations that provide food and clothes free of charge to the needy increased markedly after the collapse, and still remains high. The crisis has increased the risk of social exclusion. During the period under review, the government's social policy was not able to arrest this development fully. However, medical statistics on emergency-room admissions, the use of antidepressants and the incidence of suicides do not suggest significant changes in trends since before the crash. Iceland also performs well in international poverty comparisons, suggesting that social policies during the crisis were reasonably successful even if the economic situation remains difficult.

Citation:

<http://www.oecd.org/els/soc/income-distribution-database.htm>

Health

Health Policy
Score: 7

Health care policies in Iceland have in modern times provided high-quality health care to all citizens, very efficiently. However, this has varied regionally. The capital area of Reykjavík and its surroundings, as well as the northern city of Akureyri, have had significant advantages compared with other more peripheral areas. This has meant that patients in more remote regions have had to travel sometimes fairly long distances to get specialized medical help. The economic crisis forced the government to undertake serious cutbacks in peripheral-region hospitals, closing departments and centralizing specialized care facilities. In addition, smaller regional hospitals and health care centers have had serious problems in recruiting doctors. The University Hospital in Reykjavík (LSH), by far the largest hospital in Iceland, has for some years been in difficult financial straits, as the government has been unable either to provide additional public funds or permit the hospital to raise revenue independently through means such as patient service fees. The resulting shortage of nursing and other medical staff has undermined patient safety due to heavy work pressures and long hours. Patients around the country sometime have to wait for months for appointments with specialized doctors.

Families

Family Policy
Score: 9

Icelandic family policy has long supported women's participation in the labor force. In a comparative perspective, Iceland has long had among the world's highest rates of labor-market participation by women, showing a stable rate of between 75% and 80% since 1991. The government's family policy has encouraged men and women to share the burden of child rearing. For example, in 2005, almost 90% of eligible fathers used their right to take a three-month parental leave. As a consequence of the collapse in 2008, and as a part of the ensuing economic crisis, maximum state payments during parental leave were reduced significantly from ISK 535,000 in 2008 to ISK 300,000 ISK in 2010. This was raised to ISK 350,000 in 2013, still 35% below the pre-collapse level.

Average wages for men in Iceland earn higher wages than women, a factor that has tended to discourage men from taking parental leave in the post-crisis era.

Citation:

Women and men in Iceland 2013. The Centre for Gender Equality (Jafnréttisstofa).

Pensions

Pension Policy
Score: 7

Iceland's pension policy is partly based on a tax-financed, means-tested public social-security program, and partly on occupational pension funds and voluntary savings encouraged through the provision of tax incentives. The pension funds, which feature employee contributions of 4% of total wages and an employer contribution of 8% of wages, are aimed at giving retirees a pension equivalent to 56% of their average working-life wages. Employees can opt to pay a further 4% of their wages, with a 2% employer contribution, into a voluntary savings program. In the past, it has appeared that Iceland's pension policy was both conducive to poverty prevention and fiscally sustainable. However, the economic collapse caused heavy losses for most if not all of the country's pension funds, as they had invested in the stock of Icelandic banks that collapsed in 2008, as well as in additional companies that went bankrupt. These losses, overall totaling about a third of GDP, have caused most pension funds to cut payments to their members, imposing a further reduction in the living standards of the elderly. That said, the pension funds have made significant strides following their 2008 losses, and still have an overall assets-to-GDP ratio that is among the highest in the OECD group.

Two main issues confront the pension system. First, the Pension Fund of State Employees (LSR), the largest pension fund, has a huge unfunded gap that the state will have to finance through future tax revenue. Second, politicians have a history of raiding the pension funds, as if they believed the funds to have a social responsibility beyond that of providing pensions. Thus, there is a pending danger that the pension funds will be induced to bring part of their foreign exchange holdings to Iceland in order to relieve the balance-of-payments problems that have faced Iceland following the crash.

Citation:

Ólafur Ísleifsson (2012), "Vulnerability of pension fund balances," *Stjórnmal og stjórnsýsla*, Vol. 8, No 2., pp. 543-564. <http://www.stjornmalogstjornsysla.is/wp-content/uploads/2012/12/a.2012.8.2.17.pdf>

Integration

Integration Policy
Score: 6

Laws on the civil rights accorded to immigrants in Iceland are mainly based on Danish and Norwegian models, a fact that also reflects Iceland's obligations under the European Economic Area (EEA) agreement. This makes it difficult for citizens outside the EEA to move into the country. There is also a law governing immigrants from EEA/EU countries, with separate rules governing

immigrants from non-EEA/EU countries. The latter law focuses on the need for foreign labor in the country, and grants citizens from outside the EEA/EU no more than temporary work permits. Authorities provide instruction in the Icelandic language for foreign citizens. Citizens from other Nordic countries are eligible to vote in local-government elections after having maintained their legal domicile in the country for three consecutive years. Other foreign citizens have to wait five years for this right. The right to vote in parliamentary elections presupposes Icelandic citizenship. For some time, the Information Center for Foreigners (Alþjóðahús) offered information and other services migrants on a range of issues, including legal matters and the rights of foreigners. The center was run by the municipality of Reykjavík. In June 2010, the center was closed due to crisis-related cutbacks in municipal services. Some basic functions were at that time transferred to a municipal neighborhood service center in downtown Reykjavík. This aspect of integration policy accordingly become a victim of the economic collapse. A special institution for handling foreigners (Útlendingastofnun, UTL) operating under the auspices of the Ministry of Interior has from time to time been publicly criticized for expelling foreign citizens on weak grounds. The state-run Directorate of Labor (Vinnumálastofnun) has in recent years improved its outreach to foreigners, for example by providing important information in English on its website. The Directorate of Labor is also responsible for running the European Employment Services (EURES) office in Iceland.

Citation:

Önnudóttir, Eva Heiða (2009): Viðhorf Íslendinga til innflytjenda á Íslandi (The Icelanders attitudes toward immigrants in Iceland). In Bifröst Journal of Social Science Vol. 3, 2009. (67-95).

Lög um kosningar til sveitarstjórna nr. 5, 1998 (Law on local government elections no. 5 1998).

Safe Living

Safe Living
Conditions
Score: 8

Iceland has always been a secure place to live, with relatively few assaults, burglaries or other crimes against citizens. Some changes have occurred after the collapse in 2008, however. The coalition government of 2007 – 2009 was forced from power as a result of riots – albeit largely peaceful ones – in early 2009. While these events led only to minor injuries and some arrests, they were essentially the first riots since March 1949, when people protested against the parliament's decision to bring Iceland into NATO. In general, the broader environment ensures Iceland's internal security rather than any particular police efficiency, as Iceland's police force has long suffered from a manpower shortage, exacerbated by low pay.

The incidence of drug-smuggling has been rising for many years, as a result of which random violence has become an increasing concern for the residents of Reykjavik on weekend nights. Attacks by violent drunkards or drug users on innocent bystanders have become more common.

Global Inequalities

Global Social Policy
Score: 6

Iceland is a founding member of the United Nations, and applied for a seat on the Security Council in 2008, though without success.

The Icelandic International Development Agency (Próunarsamvinnustofnun Íslands, ICEIDA) is a state-run institution that has been associated with the Foreign Ministry since 1981. Its role is to cooperate with and assist poor nations. A few years ago, ICEIDA had projects in six countries, but this number has recently been reduced to three, including Malawi, Mozambique and Uganda. In 2009, Iceland's contribution to development aid amounted to 0.33% of GDP; however, this fell to just 0.22% in 2012, well below the long-held U.N. target of 0.7%. In 2013, Iceland joined the OECD's Development Cooperation Directorate (DAC).

Apart from its rather limited development assistance through ICEIDA, Iceland has not taken any specific initiatives to promote social inclusion in the context of global frameworks or international trade.

III. Environmental Policies

Environment

Environmental
Policy
Score: 6

Environmental policy has not been a high priority on Iceland's political agenda through the years. The Ministry of the Environment was established comparatively late, in 1990. The left-wing government of 2009 – 2013 renamed the ministry the Ministry of Environment and Resources. The country is rich in energy and water resources on land, and has substantial sea fisheries. However, there has been little discussion over the years over means of preserving these energy and water resources, reflecting an apparently rather widespread belief that these resources are essentially unlimited.

In early 2013, a significant political step was taken to address the country's nature and natural resources. First, parliament passed a new act (Lög um Náttúruvernd No. 60), that strengthened many of the country's environmental protection regulations. Second, parliament passed a resolution implementing aspects of the Master Plan for Hydro and Geothermal Energy Resources in Iceland 1999 – 2010 (Rammaáætlun). This process had been initiated by the government in 1999 on a scientific, impartial basis; it was not dominated by narrowly based or biased interests, and was open to democratic public involvement and scrutiny. The resolution stipulated which hydropower and geothermal resources could be used for power production. However, a less-environment-friendly government has now come to power, and the recent years' emphasis on environmental policy could be reversed.

Many consider the most serious environmental problem facing Iceland to be the long-standing erosion of its soil. Despite repeated calls for government action to stop the erosion, livestock – sheep and horses – remain free to roam around the countryside, causing great damage to the natural environment. This is why large swaths of Iceland's countryside are grey rather than green. The unwillingness of the government to fence in the sheep and horses in part reflects the disproportionate political power of farmers, even though the rural population accounts for only 6% of Iceland's total population.

The constitutional bill that was approved by national referendum in 2012 but was not passed by the parliament contained strong provisions concerning the protection of the environment, reflecting greater popular interest in and awareness of environmental issues.

Citation:

Althing. Taken 17. May 2013 from the link http://www.Althing.is/pdf/Althing2011_enska.pdf

Law on nature protection (Lög um náttúruvernd) 2013 nr. 60 10. apríl.

Vernd og orkunýting landsvæða (rammaáætlun) 89. mál þingsályktunartillaga þál. 13/141 141. löggjafarþingi 2012—2013.

Constitutional Bill (2012), <http://www.thjodaratkvaedi.is/2012/en/proposals.html>

Global Environmental Protection

Global
Environmental
Policy
Score: 7

The Ministry for the Environment and Natural Resources is responsible for the country's involvement in international environmental affairs. Iceland participates in the U.N. Environment Program (UNEP), and is active under the Rio Declaration and Agenda 21 in areas of sustainable development. Iceland is also one of the eight member states in the Arctic Council, a cooperation forum directed mostly toward environmental affairs and sustainable development that

includes five working groups. Two of these – Conservation of Arctic Flora and Fauna (CAFF) and Protection of the Arctic Marine Environment (PAME) – are located in Akureyri, Iceland. As of the time of writing, Iceland held the presidency of the Arctic Monitoring and Assessment Program (AMAP) working group.

Whaling in Iceland remains an active economic activity, causing much controversy at home and abroad.

Iceland is currently embroiled in a dispute with the European Union over mackerel fishing. Mackerel migrate in huge numbers from international waters into Iceland's jurisdiction, and EU policymakers have accused Iceland of taking more than its fair share of the catches. As of the time of writing, Iceland faced the prospect of EU trade sanctions on the issue.

Quality of Democracy

Electoral Processes

Candidacy
Procedures
Score: 10

Virtually every Icelandic citizen 18 years or older can run for parliament, with a few exceptions. Judges serving on the Supreme Court (Hæstiréttur) are ineligible to run for parliament, as are individuals who have been convicted of a serious felony after the age of 18, and those who have been sentenced to four months or more in custody. These restrictions do not apply in local-government elections, but the 18-year-old minimum age is the same. In local-government elections, citizens from other Nordic countries who have had permanent residence in Iceland for at least three consecutive years can stand as candidates. The registration process for candidates and parties is transparent and fair.

The minimum vote share candidates need to be elected to parliament was recently raised; a political party now either has to win a seat outright or obtain 5% of the general vote to win a parliamentary seat, a high threshold by European standards. As a consequence, 12% of voters have no representation in the parliament elected in April 2013. Moreover, two parties that attracted 51% of the vote obtained 60% of the parliament seats, and were able to form a coalition government.

Citation:

Lög um kosningar til Alþingis nr. 24/2000 (Law on parliamentary elections nr. 24/2000).

Lög um breytingar á lögum um kosningum til Alþingis nr. 16/2009 (Law on changes in law on parliamentary elections nr. 24/2000).

Lög um kosningar til sveitarstjórna nr. 5/1998 (Law on local elections nr. 5/1998).

Media Access
Score: 7

Formally, all parties or candidates have equal access to media. There are no restrictions based on race, gender, color, language or any other such factors. However, parties already in parliament or in local councils are better positioned than new parties or new candidates in elections for parliament or local-council seats. Furthermore, in the 2013 parliamentary election campaign, several media organizations systematically discriminated against small new parties that opinion polls indicated were unlikely to cross the 5% vote threshold needed to win election to the parliament. Hence, the media discrimination itself may have played a role in some parties' inability to reach the 5% threshold, perhaps

Voting and
Registrations Rights
Score: 10

significantly influencing the outcome of the election.

Iceland's voting procedure is completely unrestricted. No registration is required. As long as a citizen is registered as a voter in her constituency, she simply has to show up on Election Day and present her personal identification in order to cast a vote. Every person 18 years or older has the right to vote.

Party Financing
Score: 6

According to the 2006 law on political-party financing, public grants to political parties are of three types. First, any political party or movement with one or more member in the parliament or which attained 2.5% of the total vote in the last elections is awarded a grant every year according to its share of the votes. Second, parties in the parliament, including parties in opposition, receive annual support based on the number of their serving legislators. Third, every municipality with more than 500 inhabitants has to pay grants to every party with at least one member in the local council or which won at least 5% of the votes in the last municipal elections. The same law also addresses private contributions to politics. For example, parties are not allowed to accept more than ISK 300,000 (about €1,700) from any private actor, company or individual.

The National Audit Office (Ríkisendurskoðun) monitors the finances of parties and candidates, and annually publishes summaries that include total expenditure and income. Income must be classified by origin, identifying companies and other legal actors who contribute to the electoral campaign of the parties. Similar rules apply to contributions to candidates in pre-election periods (prófkjör).

In 2007, political parties reached an agreement as to the maximum amount of money that could be spent on TV, radio and newspaper advertisements in the 2007 elections. At that time, this amount was set at ISK 28 million (€175,000). However, there is currently no legal upper limit on electoral spending. The laws on party finances have been under revision since 2009, but no final agreement has been reached.

The law on party financing was originally drafted by a committee made up of party representatives, including the chief financial officers of the main political parties, a noteworthy arrangement in view of the fact that the National Audit Office has disclosed, among other things, that fishing firms gave 10 times as much money to the Independence Party and the Progressive Party during the 2008 – 2011 period as to all other parties combined. The Independence Party and the Progressive Party have been and remain particularly generous toward the fishing industry. The Special Investigation Committee of the parliament exposed huge loans and contributions from the banks to political parties and

politicians during 2006 – 2008, just before the crash, on a much larger scale per capita than in the United States, for example.

Citation:

1. Lög um fjármál stjórnmálasamtaka og frambjóðenda og um upplýsingaskyldu þeirra, nr. 162/2006 (Law on the finances of political organizations and candidates and about their information duties nr. 162/2006).
2. Kristinsson, G. H. (2007): Íslenska stjórnkerfið. 2. útgáfa. Reykjavík, Háskóli Íslands. (The Icelandic political system. Second edition)
3. Special Investigation Committee (SIC) (2010), "Report of the Special Investigation Committee (SIC)," report delivered to Althing, the Icelandic Parliament, on 12 April. See <http://www.rna.is/eldri-nefndir/addragandi-og-orsakir-falls-islensku-bankanna-2008/skyrsla-nefndarinnar/english/>

Popular Decision-Making
Score: 5

According to Article 26 of the 1944 Icelandic constitution: "If the Althing has passed a bill, it shall be submitted to the president of the republic for confirmation not later than two weeks after it has been passed. Such confirmation gives it the force of law. If the president rejects a bill, it shall nevertheless become valid but shall, as soon as circumstances permit, be submitted to a vote by secret ballot of all those eligible to vote, for approval or rejection. The law shall become void if rejected, but otherwise retains its force." In the 69-year history of the Republic of Iceland, this paragraph has twice led to a nationwide referendum.

The first time was in March 2010 after President Ólafur Ragnar Grímsson rejected the so-called Icesave bill. This bill set the terms of a proposed state guarantee of the obligations of the Depositors' and Investors' Guarantee Fund (Tryggingarsjóður innstæðueigenda og fjárfesta); specifically, it authorized taking out a €3.8 billion loan (€11,964 per Icelandic citizen) from the governments of the United Kingdom and the Netherlands to cover deposit-insurance obligations for citizens of those countries that had held accounts with a failed Icelandic bank. In the referendum, the bill was rejected by 98.1% of the voters, with just 1.9% in favor. However, even by the time of the referendum, the deal on the ballot was no longer under consideration. Indeed, the government ministers behind the deal did not even bother to show up to vote.

The second referendum was held after President Grímsson refused to sign the so-called third Icesave bill into law in February 2011. This time, the Althing had approved an act (No. 1/2010) authorizing the minister of finance, on behalf of the State Treasury, to issue a state guarantee covering deposit insurance related to the failure the Icelandic bank with account-holders in the UK and the Netherlands. In April 2011, another referendum was held, in which 59.7% of Icelandic voters rejected the deal and 40.1% voted in favor.

In accordance with the Act on a Constitutional Assembly (No. 90/2010), an

advisory Constitutional Council was appointed to revise Iceland's constitution, composed of 25 delegates elected in a nationwide constitutional-assembly election in the autumn of 2010. The Constitutional Council was given four months to draft a constitutional bill. The bill was unanimously approved by all 25 delegates in late July 2011 and delivered for processing to the Althing, where it was debated for nearly two years. By the end of the 2009 – 2013 mandate period, it was clear that the parliament had failed to pass the bill, a remarkable outcome in view of the fact that in October 2012, the constitutional bill was put to a national referendum and supported by 67% of voters. Furthermore, a majority of legislators, 32 members out of 63, had publicly and in writing declared their support for the bill. However, the president of the Althing, in violation of parliamentary procedure, failed to bring the bill to a vote for fear of filibuster by the opposition, a tactic that the opposition Independence and Progressive parties had successfully and repeatedly used to thwart the will of the majority in parliament.

A Law on Local Government Affairs was passed by the Althing in September 2011. This law contains a new chapter called Consultancy with Citizens (*Samráð við íbúa*), which includes paragraphs on local referenda and citizen initiatives. Under its terms, if at least 20% of the population eligible to vote in a municipality demand a referendum, the local authorities have to organize such a vote within a year. However, local councils can decide to increase this threshold to 33% of eligible voters. Thus, at least on the local level, steps have been taken to improve the opportunity for citizen impact between elections. The proposed constitutional bill contained a similar provision that would have allowed voters to demand a national referendum on most bills passed by the Althing; however, with the document's failure, this power is not yet in place.

In July 2013, the president was given a petition signed by 15% of the country's voters asking him not to ratify a new law lowering the fishing fees levied on boat owners. However, the president signed the law. Had the new constitution been in effect, the law would most likely have been referred to a national referendum, where in all probability it would have been rejected.

Citation:

Constitution of the Republic of Iceland No. 33, 17 June 1944.

<http://thjodaratkvaedi.is/2010>

<http://stjornlagarad.is/english/>

Sveitar stjórnarlög nr. 138 28. september 2011

Gylfason, Thorvaldur (2013), "From collapse to constitution: The case of Iceland," in *Public Debt, Global Governance and Economic Dynamism*, ed. Luigi Paganetto, Springer.

Access to Information

Media Freedom
Score: 7

The state's monopoly within the radio and TV markets was abolished in 1986. Private stations have gained some momentum over the years and now play a significant role in the broader media market. There were nine private TV stations in 2008 and 11 in 2011, all but one of which offered national coverage. There is only one state-run TV station. The country's current legal environment, including the Act on Radio and TV (Útvarpslög) from 2000, does not provide full protection against government influence or intervention. However, the government respects media independence; indeed, a 2004 Freedom House described the Icelandic mass media as working within an "exceptionally open and free media environment."

Owners of private Icelandic media sometimes exercise influence over news coverage. The largest newspaper is owned by a discredited banker; several journalists have recently resigned from this publication in protest. The second-largest newspaper is controlled by fishing-quota owners who installed a former prime minister and discredited Central Bank governor as chief editor, with a mandate to fight reforms of the fisheries-management system and oppose Iceland's accession to the European Union. Journalists are systematically underpaid, with their financial insecurity used as a means of stifling independent action. Some critics complain that Iceland is effectively a country without media. Even so, the position of those seeking to dominate the media has been considerably weakened by the advent of Internet-based tools such as social networks.

Citation:

Karlsson, Ragnar (2010): Íslenskur fjölmiðlamarkaður. Framboð, fjölbreytni, samkeppni og samþjöppun. (The Icelandic Media Market. Supply, diversity, competition and concern). An overview prepared for the Ministry of Education and Culture.
Statistics Iceland (Hagstofa Íslands) www.statice.is

Media Pluralism
Score: 6

Media ownership in Iceland can be divided into three blocs, two of which are in the private sector and one of which is owned by the government.

The government runs one of the two largest television stations and two of the largest radio stations in Iceland. In early 2013, there was one state-owned TV station (RUV - Sjónvarp) and two state-owned radio channels (RUV - Rás1 and RUV - Rás2). There were also three private nationwide TV channels and two nationwide private radio channels, owned by separate concerns.

Access to
Government.
Information
Score: 7

The private 365 Media Corporation (365 Miðlar) owns TV station Stöð 2, the Bylgjan radio station and Fréttablaðið, one of the country's two newspapers that prints daily editions. This company is the largest player in the Icelandic media market, and has clear connections to one of the key figures in the 2008 economic collapse, Jón Ásgeir Jóhannesson. Morgunblaðið, the second of the two big newspapers, has for decades been considered the organ of the right-wing Independence Party (Sjálfstæðisflokkurinn). Its chief editor as of the time of writing was the former Independence Party prime minister, Davíð Oddsson. Given the presence of several other smaller TV broadcasters, radio stations and newspapers, media ownership in Iceland should be considered as fairly plural given the small population of 320,000 people.

The 1997 Information Act (Upplýsingalög) was updated in 2012. With some restrictions, the act guarantees the right of access to official information. Memoranda, working documents and materials related to the Council of the State (Ríkisráð) as well as cabinet and ministerial meetings were originally exempted from the terms of the act. In 2012, a change in the Act on the Government of Iceland (Lög um Stjórnarráð Íslands) mandated that the agenda of cabinet meetings be presented to the media and published on the government's website after each meeting. A proposal in the Althing that cabinet meetings be recorded was not accepted.

Sensitive financial and personal information, as laid out in the Act on Processing and Protection of Personal Data (No. 77/2000), is not accessible unless permission is obtained from the person involved. Access to restricted information is available once the measures associated with the information are complete, after a period of 30 years for general information or after 80 years for personal information (as per the National Archives Act, No. 66/1985). Information regarding the security or defense of the state or international commercial activities is also exempted from the act. Denials of requests to access information can be appealed to the Information Committee, members of which are appointed by the prime minister. No other government or judicial body can overrule the decisions of the Information Committee.

Despite these provisions, important information is kept from the public. For example, the Central Bank recently refused a request from a parliamentary committee to see a transcript or be provided with a recording of an allegedly important telephone conversation between the prime minister and the central bank governor at a crucial moment just before the crash in 2008.

The constitutional bill that was approved by 67% of the electorate in the 2012 referendum, but which was tabled by the Althing in 2013, contained ambitious

freedom-of-information provisions designed to significantly enhance the public's access to information kept by the government. Basically, the bill aimed to bring rights to information in Iceland up to levels that have long been taken for granted in Sweden, for example.

Citation:

The National Archives Act no. 66/1985. (Lög um Þjóðskjalasafn Íslands no. 66/1985).

Information Act (Upplýsingalög). Act no. 50/1996.

Act on Processing and Protection of Personal Data. (Lög um persónuvernd og meðferð persónuupplýsinga) Act no. 77/2000.

Act on the Government of Iceland (Lög um Stjórnarráð Íslands) nr. 115 23. september 2011.

Change of Act on the Government of Iceland (Lög um Stjórnarráð Íslands) nr. 115 23. september 2011.

(Lög um breytingu á lögum nr. 115/2011, um Stjórnarráð Íslands (skrifleg framlagning mála á ríkisstjórnarfundum)).

Civil Rights and Political Liberties

Civil Rights
Score: 9

The Icelandic state fully respects and protects civil rights, and courts effectively protect citizens. If there is evidence that the state has disregarded civil rights, the courts generally rule against the government.

There are significant exceptions to this general rule, however. Most importantly, perhaps, the United Nations Committee on Human Rights (UNCHR) issued a binding opinion in 2007 to the effect that, because of its inegalitarian nature, Iceland's fisheries-management system constituted a violation of human rights. It furthermore instructed the government of Iceland to change the system and to pay damages to those whose rights had been violated. The government responded by promising to pass a new constitution with a provision declaring the country's natural resources to be the property of the nation. The UNCHR dropped the case, saying that Iceland's promise of a new constitution was sufficient action. However, the parliament has failed to act on the new constitutional bill, thereby creating conditions for renewed complaints to be filed with the UNCHR.

In 1998, the Supreme Court of Iceland also ruled that the fisheries-management system was unconstitutional, the same arguments as were presented by the UNCHR in 2007, but then reversed itself in 2000 under clear political pressure from government ministers. In this case, the courts did not provide the expected protection.

In several instances in recent years, Icelandic citizens have taken complaints about violations of their civic rights to the European Court of Justice, which has almost invariably ruled in their favor, casting doubt on the ability of Icelandic courts to protect civil rights effectively. Most recently, for example, journalists who had been found guilty of libel in Iceland were declared to be innocent of this charge by the European Court of Justice.

Political Liberties
Score: 10

The 1944 constitution contains provisions protecting the freedom of the press, as well the freedoms of organization and assembly. The constitutional bill that won support of 67% of the electorate in 2012, but which was not passed by parliament in 2013, expanded and updated human-rights provisions in several ways intended to expand individual rights and liberties.

Non-discrimination
Score: 8

Iceland's constitution states that every person should enjoy equal human rights regardless of gender, religion, opinion, national origin, race, color, property, birth or other status. More specific provisions are to be found in the Penal Code, the Administrative Procedure Act and the Equality Act. The Supreme Court can rule and has ruled based on those acts and the constitution. The Equality Act states that genders should be accorded equal rights in all areas of society, and that discrimination in terms of pay, hiring and employment is against the law. The Center for Gender Equality monitors adherence to this law, and is obliged to refer all major cases to the courts.

Although equal rights are guaranteed by law, the reality is that discrimination occasionally occurs in Iceland, especially against women, disabled persons and foreigners. In the 2012 presidential elections, blind and physically disabled voters were denied the right to have an assistant of their own choice to help them vote at polling stations. Instead, they had to vote with help from public officials working at the polling stations. Following complaints from an organization representing the handicapped (Öryrkjabandalagið), changes were made in the electoral laws that allowed blind people or those unable to use their hands to choose their own voting assistants, who were subsequently sworn to secrecy. This change was implemented for the first time in the 2013 parliamentary elections.

The state's failure to abide by the binding opinion of the United Nations Human Rights Committee that the discriminatory element of Iceland's fisheries-management system must be removed signals a less-than-full commitment to effective nondiscrimination.

Citation:

The Penal Code (Almenn hegningarlög no. 19/1940).

The Administrative Procedure Act (Stjórnslutölög no. 40/1993).

The Gender Equality Act (Lög um jafna stöðu og jafnan rétt kvenna og karla no. 10/2008).

Act on changes on the Act on Parliamentary Elections (Lög um breytingu á lögum um kosningar til Alþingis nr. 24/2000 og lögum um kosningar til sveitarstjórna nr. 5/1998 (aðstoð við kosningu). Lög nr. 111 16. október 2012.

Rule of Law

Legal Certainty
Score: 9

The Icelandic state authorities and the state administration respect the rule of law, and as a rule make decisions accordingly. Therefore, their actions are generally predictable. However, there have been a number of cases in which court verdicts and government actions have been appealed to and overruled by the European Court of Human Rights. There have also been examples of Supreme Court verdicts that have been overruled by the European Court of Justice. Some of these cases, including recent ones, have dealt with journalists' free-speech rights.

A recent case of a different kind has a bearing on legal certainty. The Supreme Court has ruled several times – first in June 2010 and most recently in April 2013 – that bank loans indexed to foreign currencies rather than to domestic prices were in violation of a law passed by parliament in 2001. This means that the asset portfolios of the Icelandic banks that collapsed in 2008 contained loans that turned out to be illegal. These examples have demonstrated that the banks did not act according to the law. Neither the government or any government institutions, including the Central Bank and the Financial Supervisory Authority, paid sufficient attention to this problem while it was going on. A governor of the Central Bank was even among those who had drafted the 2001 legislation deeming foreign-currency-denominated loans illegal; yet the Central Bank turned a blind eye in the pre-crisis years. Even after the Supreme Court ruled these loans illegal, the banks have been slow to implement the ruling by recomputing the thousands of loans in question. Individual bank customers have had to sue the banks in an attempt to force them to follow the law.

Citation:

Lög um vexti og verðtryggingu (Law on interest and indexation) no. 38 2001.

Judicial Review
Score: 8

With a few notable exceptions, Iceland's courts are not generally subject to pressure by either the government or powerful groups and individuals. The jurisdiction of the Supreme Court to rule on whether the government and administration have acted in conformity with the law is beyond question.

According to opinion polls, confidence in the judicial system ranged between 50% and 60% before the economic collapse in 2008, before collapsing to about 30% in 2011. It has since recovered slightly, to around 40% in both 2012 and 2013.

Many observers consider the courts biased, partly because virtually all judges attended the same law school and few have chosen to supplement their education by attending universities abroad. Of the six Supreme Court justices who ruled the constitutional-assembly election of 2010 to be null and void, five were appointed by ministers of justice from the Independence Party, the party of the three individuals who filed the technical complaints about the election.

Since the 2011 merger of the Ministry of Justice and Human Rights into the Ministry of the Interior, judges have been appointed by the minister of the interior. All vacancies are advertised, and the hiring procedure is transparent. However, there have been cases in which the minister's reasoning behind Supreme Court or district court appointments has caused controversy.

In connection with Iceland's application for EU membership in 2009, the European Union expressed concern over the recruitment procedures for judges. The constitutional bill approved by 67% of the electorate in the 2012 referendum proposed that judicial appointments either be approved by the president or by a two-thirds vote of parliament.

Citation:
www.capacent.is

Appointment of
Justices
Score: 4

All judges, both in the Supreme Court and in district courts, are appointed by the minister of the interior alone, without any cooperation with or oversight by other government bodies. However, all vacancies on the Supreme Court are advertised, and the appointment procedure is at least formally transparent. As part of the appointment process, an evaluation committee of five persons is appointed and is tasked with recommending a single applicant. A change to the Act on Courts in 2010 barred the minister from appointing any other persons than those found most qualified by the committee unless such an appointment is approved by the parliament. This represented an improvement in the sense that the minister could no longer appoint judges on his or her own authority, without external review.

Many appointments to the courts continue to be controversial. In many cases, the scrutiny of Supreme Court candidates is superficial, for instance failing to review the frequency with which the lower-court judge's verdicts have been

overturned by the Supreme Court. This is one of several factors that has undermined popular confidence in the Supreme Court. As another example, a retired Supreme Court justice whose appointment aroused serious controversy some years ago has recently published a book criticizing his former court colleagues for their alleged opposition to his appointment, as well as for some of their verdicts that he deemed misguided.

Under the terms of the constitutional bill drafted during the period under review, judicial appointments would have been either approved by the president or by a two-thirds parliamentary majority.

Citation:

Act on Courts. (Lög um dómstóla nr. 15 25. mars 1998).

Change of the Act on Courts. (Lög um breyting á lögum um dómstóla nr. 15 1998 með síðari breytingum (skipun dómara) nr. 45 26. maí 2010).

Corruption
Prevention
Score: 7

Corruption among officeholders in the narrow sense of financial corruption has not been considered a serious problem in Iceland. Even so, it does occur in the form of politicians granting favors, and in some instances, paying for personal goods with public funds. Post-2006 regulations on political-party support might help contain such problems in the future, as political parties are today required by law to disclose the sources of their funds. In very rare cases, officeholders in Iceland are put on trial for corruption. The state has no policy specifically addressing corruption, under the premise that no such policy is necessary. Appointment corruption – the appointment of unqualified persons to public office – remains a serious problem. While other, more subtle forms of corruption are harder to quantify, they almost surely also exist.

The collapse of the Icelandic banks in 2008 and the subsequent investigation by the parliament's Special Investigation Committee (SIC), among other bodies, brought to light the subservience of the government and state administration to the banks. This was expressed through weak restraints on the financial sector's phenomenally rapid growth, as well in the form of lax supervision during the boom period. Moreover, it has come to light that three of the four main political parties, as well as individual politicians, accepted large donations from the banks and affiliated concerns. When the banks crashed, 10 out of the 63 members of parliament owed the banks more than €1 million euro each based on the pre-crash value of the króna; indeed, these personal debts to the failed banks ranged from €1 million to €40 million, with the average debt of the 10 MPs standing at €9 million. The SIC did not report on legislators that owed the banks lesser sums – say, only €500,000. Nor, as of the time of writing, was it

clear whether the loans of the failed banks to politicians, including the new minister of finance, have been or will be repaid or written off.

In May 2011, a former cabinet secretary in the Ministry of Financial Affairs was found guilty of insider trading (innherjaviðskipti) as a result of having sold his stock in Landsbanki just before the economic collapse in October 2008. Courts ruled that the information the official had been privy to through his job constituted insider information on the serious situation of the bank, which failed in the collapse. The Supreme Court sentenced the cabinet secretary to two years in prison and ordered him to pay back the large sum of money he had saved as a result of his actions (but not the interest he earned on the money). In November 2011, parliament approved rules which obliged serving members to declare their financial interests, including salaries, means of financial support, assets and jobs outside parliament. This information is publicly available on the parliament's website.

Citation:

Special Investigation Committee (SIC) (2010), "Report of the Special Investigation Commission (SIC)," report delivered to Althing, the Icelandic Parliament, on 12 April.

Rules on registration of parliamentarians financial interests. (Reglur um skráningu á fjárhagslegum hagsmunum alþingismanna og trúnaðarstörfum utan þings. Samþykkt í forsætisnefnd Alþingis 28 nóvember 2011.).

Governance

I. Executive Capacity

Strategic Capacity

Strategic Planning
Score: 3

Researchers widely agree that long-term strategic planning in Iceland is often vague, with comparatively weak execution, supervision and revision of plans. When specific objectives are established through planning, there are typically insufficient incentives or institutional mechanisms in place to ensure their achievement. As a result, the government often has enough flexibility to delay implementation or change strategic plans. In one clear example, the parliament approves a strategic plan on regional policy every four years (Stefnumótandi byggðaaætlun), meant to provide a guide to the next four-year period. However, this strategic plan is only a parliamentary resolution that lacks the status of a law, meaning the government has no binding obligation to implement the plan. Over the years, only some elements of these four-year plans have been implemented.

Policymaking is in the hands of the cabinet ministers, who rely on the staff of their respective ministries for advice and policy implementation.

Citation:

Special Investigation Committee (SIC) (2010), "Report of the Special Investigation Commission (SIC)," report delivered to Althing, the Icelandic Parliament, on 12 April.

Parliamentary resolution on regional policy (Tillaga til þingsályktunar um stefnumótandi byggðaaætlun fyrir árin 2010–2013. Þskj. 43 — 42. mál).

Scholarly Advice
Score: 6

The government occasionally consults academic experts. Traditionally, however, these have primarily been lawyers involved in preparing laws or who participate in various areas of the public administration, as well as the occasional economic or engineering expert. Moreover, experts consulted were often affiliated with the political parties of the ministers seeking their advice. Truly independent experts complained that their views were not taken seriously

in the policymaking context. Thus, non-governmental academic experts cannot be considered to have had a strong influence on decision-making in the past.

However, the 2008 economic collapse changed this pattern. The need for scholarly advice on judicial, financial and economic issues, as well as on questions of public administration, increased markedly. This was particularly the case in connection with the preparation of the April 2010 parliamentary Special Investigation Committee (Rannsóknarnefnd Alþingis, SIC) report, which investigated the causes of the economic collapse. A number of experts in various fields, including law, economics, banking, finance, mass media, psychology and philosophy, contributed to the report. While no data exists on the broader use of academic advice in government decision-making in the post-crisis years, the SIC experience may have expanded the role of experts overall.

As became clear in academic debates over the new constitutional bill in 2012 – 2013, some academic experts follow the political line of the party or government that asks for their advice.

Interministerial Coordination

GO Expertise
Score: 6

The Prime Minister's Office has a comparatively small staff of experts. Indeed, this office has the fewest staff members of any of the country's ministries, and consequently has a rather limited capacity for independently assessing ministerial draft bills. The 2009 – 2013 government coalition reduced the number of ministries from 12 to eight by merging several of them, a long-overdue reform. A primary justification was that some ministries lacked broad-based expertise, and the merger would render this expertise more widely accessible. This seems to have shown to be effective in some cases at least. The new coalition government of the Progressive Party (Framsóknarflokkurinn) and the Independence Party (Sjálfstæðisflokkurinn) has already partially reversed this reform by splitting up the Ministry of Welfare, thereby increasing the number of ministers from eight to nine.

GO Gatekeeping
Score: 10

The Prime Minister's Office (PMO) has no formal authority to return items envisaged for cabinet meetings, but can do so in principle. The working rule is that items can be approved in cabinet meetings only if all ministers achieve consensus. The prime minister can return items even if this authority is not explicitly granted by law.

Line Ministries
Score: 8

Due to a long and strong tradition of ministerial power and independence, line ministries have considerable flexibility in drafting their own policy proposals without consulting the Prime Minister's Office (PMO). If a line minister belongs to the same party as the prime minister, there is usually some PMO

involvement. However, little or no such involvement takes place if the line minister is a member of a different party. After the publication of the parliament's Special Investigation Committee (SIC) report, a committee was set up to evaluate and suggest necessary steps toward the improvement of the state administration. As one means of improving the overall work routines and conditions of the executive branch's political head, this committee proposed clarifying the leading role of the prime minister in law and even in the constitution. As of the time of writing, this suggestion had not been implemented.

Citation:

Skýrsla starfshóps forsætisráðuneytisins (2010): Viðbrögð stjórnsýslunnar við skýrslurannsóknarnefndar Alþingis. Reykjavík, Forsætisráðuneytið.

Cabinet Committees
Score: 6

Cabinet committees prepare cabinet meetings in a comparatively small number of cases. A Budget Committee and some ad hoc committees do prepare items for cabinet meetings, but the majority of items on cabinet-meeting agendas are prepared by individual ministers. Often, two or more ministers coordinate and consult with one another in the course of their preparations for cabinet meetings. The aftermath of the 2008 economic collapse led to more and broader cooperation between ministers, particularly between the prime minister, the minister of finance and the minister of commerce. However, this was a temporary arrangement intended to coordinate the cabinet's immediate reactions to the economic crisis. Five ministerial committees exist, aimed at coordinating issues that overlap between two or more ministries' policy areas. These include the Ministerial Committee on Public Finances (Ráðherranefnd um ríkisfjármál), with four ministers; the Ministerial Committee on National Economy (Ráðherranefnd um efnahagsmál), with four ministers; the Ministerial Committee on European Affairs (Ráðherranefnd um Evrópumál), with four ministers; the Ministerial Committee on Equality (Ráðherranefnd um jafnréttismál), with four ministers; and the Ministerial Committee on Economic Development (Ráðherranefnd í atvinnumálum), with two ministers. In February 2013, new regulations for ministerial committees were put in place. These permit the prime minister to nominate new ministerial committees on single issues in order to secure coordination on matters of overlapping authority. Records must be taken of all meetings in ministerial committees, but these are not made public.

Citation:

Rules on procedures in ministerial committee meetings. (REGLUR um starfshætti ráðherranefnda. Nr. 166/2013 22. febrúar 2013).

Ministerial
Bureaucracy
Score: 7

Ministry officials and civil servants play an important role in preparing cabinet meetings. However, according to the 1969 law on the Icelandic state administration, no cooperation between ministries is presumed in cases when the ministers themselves are not involved. The involvement of too many ministries and ministers has in some cases been found to be a barrier to progress in policymaking, a consequence of strong ministerial powers and independence. Today, coordination between line ministries does not take place on a regular basis, and occurs essentially randomly in those instances when it does take place. While the prime minister has now been given the power to nominate coordination committees, the period under review did not see an increase in the frequency with which such committees were created.

Informal
Coordination
Score: 7

There is some evidence of rising levels of informal cooperation between groups of ministers outside cabinet meetings, or in the context of “super-ministerial groups,” as they were called in the parliament’s Special Investigation Committee (SIC) report. The SIC pointed out that examples of such cooperation dating from the time immediately after the collapse demonstrated a need for clear rules on reporting what is discussed and decided in such informal meetings. The SIC report also identified a tendency to move big decisions and important cooperative discussions into informal meetings between the chairmen of the coalition-government parties. However, the report’s call for clearer regulation was not acted upon during the period under review, the informal meetings without any reporting requirements still remain.

The SIC report also pointed out that the minutes kept at ministerial meetings have been inadequate, as have those taken during committee meetings in the Althing.

Citation:

The SIC report from 2010. Chapter 7. (Aðdragandi og orsakir falls Íslensku bankanna 2008 og tengdir atburðir (7). Reykjavík. Rannsóknarnefnd Alþingis).

Evidence-based Instruments

RIA Application
Score: 1

Regulatory impact assessment (RIA) is not and never has been applied in Iceland.

Quality of RIA
Process
Score: 1

There is no tradition of RIA in Iceland. Therefore, the issues of participation, transparency and quality of evaluation are not relevant in this context.

Sustainability
Check
Score: 1

There is no tradition of RIA in Iceland. Therefore, sustainability checks are not relevant in this context.

Negotiating Public
Support
Score: 6

Societal Consultation

Iceland has a long tradition of formal and informal consultation between the government and labor-market associations. The economic collapse in 2008 led to even closer cooperation in this field. In February 2009, the government, the municipalities, and the major labor-market actors signed the so-called Stability Pact (Stöðugleikasáttmáli), which took the form of a declaration by the state, the municipalities, and the labor-market organizations on how the country's economy could be revived. The main goal of this pact was to restructure the economy in such a way that by the end of 2010, the inflation rate would drop significantly, the government's budget deficit could be kept to 10% of GDP, and the króna could begin appreciating. However, open conflict concerning aspects of this pact quickly emerged, especially between the government and labor-market organizations, the latter of which argued that not enough had been done to create jobs. In the spring of 2010, the main employers organization (SA) withdrew from the pact.

In general, cooperation with civil society is selective and biased, but does occur. The most well-known recent example is represented by the work of the Association of Households (Hagsmunasamtök heimilanna, HH). The HH was established after the 2008 collapse to represent households whose mortgage payments had climbed steeply at the same time the value of their homes had collapsed, a situation that left about a quarter of home owners with negative equity in their homes. HH has claimed that the government is more willing to consult with the banks than with representatives of the association the issue of families threatened with loss of their homes. On average, three families have lost their homes every day since the crash of 2008. Many voters thought that the 2009 – 2013 coalition government did not do enough for home owners, a factor that contributed to the coalition's huge loss of votes in the parliamentary elections of 2013.

The revision of the 1944 constitution set in motion by the Althing in 2009 offered an important role to the public, in that this was meant to be a people's constitution as opposed to one drafted by politicians. Accordingly, a national assembly was held, comprising 950 individuals selected at random from the national registry. In addition, a national election was held in which 25 constituent-assembly representatives were chosen from a list of 522 candidates. However, because the Supreme Court chose to invalidate the constitutional assembly election on flimsy technical grounds – the first such invalidation of a national election in an OECD country – the Althing appointed the 25 elected

representatives to a renamed Constitutional Council. The Constitutional Council engaged in a wide-ranging process of consultation, inviting the general public to participate in the project through the council's interactive website. After four months of work, it unanimously passed the world's first crowd-sourced constitution. In a national referendum in 2012, 67% of the electorate expressed their support for this constitutional bill overall, and between 57% and 83% of the voters expressed their support for the bill's most important individual provisions, including those on electoral reform (one person, one vote), direct democracy through increased use of national referenda, and national ownership of natural resources. Despite this overwhelming level of popular support, the parliament failed to pass the bill, leaving the bill in a political limbo. Never before has the Althing failed to respect the result of a consultative referendum.

Citation:

Constitutional Bill (2012), <http://www.thjodaratkvaedi.is/2012/en/proposals.html>

Euractiv.com, <http://www.euractiv.com/enlargement/icelanders-opens-way-crowdsourcing-ews-515543>

Policy Communication

Coherent
Communication
Score: 6

The government of Iceland generally speaks with one voice. However, in the so-called West Nordic administrative tradition, in which every minister is responsible for the state institutions subordinate to his or her ministry, every minister has the power to make decisions without consulting other ministers. Nonetheless, ministers do not often contradict each other, and generally try to reach decisions through consensus. This said, the 2009 – 2013 mandate period proved to be an exception. In the beginning, the left-wing coalition government maintained an environment in which every minister's independence and authority to make decisions in his or her area was respected. However, in late 2009, some members of the Left-Green Movement parliamentary group, even government ministers, began to oppose measures brought by the government to parliament. For example, Minister of Health Ögmundur Jónasson resigned in October 2009 due to a disagreement over the Icesave deal with the United Kingdom and the Netherlands. Later, three Left-Green Movement legislators withdrew from the party group. This brought the government close to becoming a minority government, forcing it to negotiate with the opposition on some big issues. Jón Bjarnason, the minister of fisheries and agriculture between 2009 and 2011, was steadily opposed to Iceland's application to the European Union, and left the government in 2011. However, despite these repeated eruptions of internal dissent, the 2009 – 2013 government was able to

finish out its term in office.

Implementation

Government
Efficiency
Score: 6

As a rule, because of the strong position of the executive branch with respect to the legislative branch, bills envisaged or proposed by the government in parliament rarely fail to be approved. Thus, the government has substantial influence, and achieves almost all of its policy objectives.

However, there are some recent examples of government failure in this regard. First, in 2009 and again in 2011, decisions by the Althing were overturned by the public in national referenda. On both occasions, the issue was a bill on Icelandic state guarantees for the so-called Icesave debt to Great Britain and Netherlands. The constitution grants the president of Iceland the right to refuse to ratify laws, thereby referring them to a national referendum. In the summer and autumn of 2009 and 2010, and after serious difficulties in winning Left-Green Movement support for the initial Icesave bill, the government finally managed to get the bill approved in parliament by a slender margin. The president refused to sign in this case, claiming that the people had the right to settle the matter. In a referendum in March 2010, the Icesave debt law was overwhelmingly rejected, partly because a new deal more favorable to Iceland was already on the table, thus rendering obsolete the agreement that the electorate was being asked to accept or reject. About 60% of the electorate participated in the referendum. The second Icesave-related referendum came after the government reached a new and more viable agreement with the United Kingdom and Netherlands in early 2011. More than two-thirds of MPs gave their vote to this agreement, including some members of the opposition. But the president refused to sign this time too, ordering that the electorate be asked to accept or reject the measure by referendum. In April 2011, 59.7% of the electorate voted against the bill and 40.3% voted in favor. Thus, twice in one mandate period, power over government policy was transferred to the people through referenda.

Other examples of government policy weakness include the failure of the majority government of 2009 – 2013 to deliver on three of the most important elements of its platform. The government promised a new constitution, a reform of the fisheries–management management, and a deal on EU accession that could be put to a national referendum. It failed to deliver on all three promises, partly due to internal dissension and partly due to the obstructive tactics of the opposition. This included the extensive use of filibuster for the first time in the history of the Althing.

Ministerial
Compliance
Score: 9

Ministers usually follow party lines in the exercise of their duties and decisions, but individual ministers have considerable authority to make independent decisions. However, non-collective decisions are rare.

In the government in office during the 2009 – 2013 period, signs of disagreement emerged that had little to do specifically with ministerial actions. For example, when the Althing voted in 2009 for the government resolution on Iceland's application for EU membership, one of the Left-Green Movement officeholders, Minister of Agriculture and Fisheries Jón Bjarnason, voted against the resolution. During his time in the ministry, Bjarnason several times expressed his opposition to the EU membership process, and frequently declared that Iceland should withdraw its accession application.

Monitoring
Ministries
Score: 10

After years of no official monitoring or oversight of line ministers' activities, new regulations on government procedures were adopted in early 2013. Under these regulations, the Prime Minister's Office must review bills from all ministries, with the sole exception of the national budget bill. Accordingly, all bills need to be sent to the Prime Minister's Office no later than one week before the cabinet meeting in which the bill will be introduced. Before the bill can be discussed by the cabinet, a statement from the Prime Minister's Office needs to be processed (Reglur um starfshætti ríkisstjórnar, No. 11/2013). This regulatory change can be seen as a step toward stronger monitoring of line-ministry bills through formal procedures.

Citation:

Regulations on government procedures. (Reglur um starfshætti ríkisstjórnar. Nr. 11/2013 9. janúar 2013).

Monitoring
Agencies,
Bureaucracies
Score: 3

The monitoring of agencies by ministries is quite weak. In the past, agencies have often spent more money than allotted to them in the government budget. The ministries themselves have in some cases engaged in the same practice of spending taxpayers' money in excess of budget allocations. The problem is exacerbated by the fact that, due to capacity constraints and other reasons, the National Audit Office (Ríkisendurskoðun, NAO) has been able to monitor only a small fraction of the agencies under its jurisdiction. From 2000 to 2007, the office audited only 44 out of 993 government agencies, or just 4.4% of the total, a very low percentage. In 2009, the first full year after the economic collapse and the fall of the big banks, almost half of this office's staff efforts (43%) was devoted to financial auditing related in some way to the collapse and its consequences. Moreover, state funding for the NAO has been reduced; from 2011 to 2012 the number of personnel fell from 47 to 42. Thus, if anything, the effectiveness of the NAO has decreased in recent years.

Citation:

Nation Audit Office Annual Report 2013. (ÁRSSKÝRSLA RÍKISENDURSKOÐUNAR 2012. APRÍL 2013).

Task Funding
Score: 8

Over the years there has been more or less constant strife between the local and central governments over the issue of grant-based funding. The division of responsibilities between the central government and local governments has changed over time, but not broadly. In 1996, full responsibility for primary education was transferred from the central government to the municipalities. This transfer was in general accomplished without imposing a heavy financial burden on local governments, but a lack of funding did cause serious economic problems for many of the smallest municipalities, forcing some of them to amalgamate with neighboring municipalities. The full responsibility for handicapped affairs was transferred to the municipalities in 2010 and took effect in January 2011. No great conflicts between the state and local authorities over funding for handicapped services have occurred. Further transfers of responsibility have been discussed, including responsibility for elderly care and for high schools.

Constitutional
Discretion
Score: 10

Subnational or local government in Iceland has no formal constitutional status (although the constitutional bill approved in the 2012 referendum would have granted this status). The only paragraph in the 1944 constitution that concerns subnational government states that municipal affairs shall be decided by law. General rules on local government are found in the Local Government Act (Sveitarstjórnarlög), which states that local authorities shall manage and take responsibility for their own affairs. The parliament or the ministry responsible for local-government affairs (currently the Ministry of the Interior) can in general make decisions or laws that affect local authorities. Icelandic local authorities are free to engage in any governing activities that are not forbidden by law.

Citation:

Eythórsson, Grétar (1999): The Iceland National Report. In Jacob, Linder, Nabholz and Heierli (eds.): Democracy and Local Governance. Nine Empirical Studies. Institute of Political science, University of Bern, Switzerland (p. 62-88).

Local Government Act. (Sveitarstjórnarlög nr. 128/2011).

National Standards
Score: 8

A diverse set of special laws on local-government services and activities is intended to set national standards. In most cases, these laws set minimal service standards. This is most apparent in areas such as primary education, child protection and social services. However, the central government seems in some cases unable to monitor local-government compliance with these standards effectively.

Adaptability

Domestic
Adaptability
Score: 7

Though not an EU member state, Iceland has, as a member of the European Economic Area (EEA) since 1994, integrated and adapted EU structures into its own law to a considerable extent. Under the EEA agreement, Iceland is obliged to adopt around 80% of EU law. Iceland is also responsive to comments made by the Council of Europe (CoEU), the Schengen Agreement states, and U.N. institutions. As one of the five full members of the Nordic Council of Ministers, Iceland is bound by every unanimous decision taken in the council. However, the council deals only with issues connected to Nordic cooperation. The structure and organization of Iceland's government accords well with international practice, and seems to be under constant review. The left-wing government (2009 – 2013) chose to streamline and rationalize the ministry structure in order to weaken the long-standing links between special-interest organizations and the line ministries, a long-overdue reform. Through a process of mergers, the overall number of ministries was reduced from 12 to eight. Among these, the Ministry of Interior was established by merging the Ministry of Communication and Municipal affairs with the Ministry of Justice; the Ministry of Industries and Innovation was established by merging the Ministry of Agriculture, the Ministry of Fisheries and the Ministry of Industry; and the Ministry of Welfare was established by merging the Ministry of Social Affairs with the Ministry of Health Affairs. A new center-right government formed in May 2013 partially reversed this reform by splitting up some of these mergers and increasing the number of ministers from eight to nine. Thus, as of the time of writing, the ministry structure was in a state of flux.

International
Coordination
Score: 5

Iceland is an active participant in international forums, but seldom initiates measures intended to shape or improve international policies. Iceland was a founding member of the United Nations, the International Monetary Fund and the World Bank, and in 1949 was a founding member of NATO. In 2008, Iceland sought a U.N. Security Council seat, but lost to Austria and Turkey. For the most part, Iceland has worked cooperatively in international affairs without taking any significant initiative in the international coordination of reform. A few years ago, the country participated in peacekeeping efforts in Iraq, and it participates in the work of the Organization for Security and Cooperation in Europe (OSCE) on a modest scale. In 2009, Iceland applied for EU membership. Negotiations were ongoing until early 2013, when a compromise within the coalition government led to a temporary freeze in the process, which was increasingly opposed by the Left-Green Movement. At that point, 11 chapters had been closed, 16 were open, a negotiating position had been delivered in two, and negotiating positions had not yet been delivered in

four. Among this last group were two important chapters, those relating to fisheries and agriculture. The new coalition government (taking office May 2013) has withdrawn from the negotiations. As of the time of writing, a committee was to evaluate the status of the negotiations and of the country's relationship to the European Union in general. Subsequently, a national referendum on whether to withdraw the application or not was to be held.

Citation:

The Icelandic webpage on the negotiations: <http://eu.mfa.is/negotiations/status-of-talks/nr/7109>.

Organizational Reform

Self-monitoring
Score: 5

In the Icelandic political and administrative system, there is no formal system of self-monitoring in the area of organizational reform. Monitoring of institutional arrangements does not occur on a regular basis. Institutional arrangements are reconsidered from time to time. The 2009 – 2013 coalition government engaged in some reshuffling with respect to ministerial portfolios. These changes were intended to strengthen policy coordination and administrative capacity. The center-right government that took office in May 2013 immediately split up some of these mergers by, inter alia, dividing the Ministry of Welfare. At the time of writing, the number of ministries had been increased to nine, and the new coalition had announced that at least one further split would take place.

Iceland has a long history of increasing the number of ministers and parliamentary seats in order to satisfy the demands of politicians for seats in the cabinet and in parliament.

Institutional Reform
Score: 8

Iceland's most recent governments have sought to improve the state's strategic capacity by reshuffling and merging ministries. The government in office during the 2007 – 2009 period took some steps in this direction, and the subsequent 2009 – 2013 coalition government took further steps by reducing the number of ministries from 12 to eight. This was combined with some reshuffling of responsibilities between ministries. Some of the ministries were small, constituting a weak link within the state administration. The capacity of these small units to cope with complex issues such as international negotiations and contracts was found to be insufficient. Further, the informality of such small units was seen as a disadvantage. The coalition government that took office in May 2013 has partially reversed these reforms by again increasing the number of ministries, and as of the time of writing had indicated that further splits were likely.

II. Executive Accountability

Citizens' Participatory Competence

Policy Knowledge
Score: 9

Icelandic citizens seem to be generally well informed about government policy. In local surveys, most citizens have been familiar with policies in general, and more so with respect to policies that either interested them or directly affected their everyday lives. This has been more true of domestic policies than international politics, in part because Iceland's political landscape is not highly complex. It is relatively easy to develop a comprehensive overview of the politics, parties, and the issues. Iceland is a small country with extensive interpersonal networks, and its relatively isolated island status contributes to its citizens' inward-looking domestic focus.

Some of the voters' immediate responses to the economic collapse in 2008 show an ability to adapt quickly to changed circumstances, as shown in a survey performed in connection with the parliamentary elections in 2007 and 2009. In this survey, the percentage of voters agreeing with the claim that the country was mainly governed in accordance with the popular will declined from 64% in 2007 to 31% in 2009. The authors of an article in an Icelandic scientific journal in Iceland (Samtíð) recently argued that the general defeat of the four traditional nationwide political parties in the 2010 local-government elections could at least partly be explained by a dramatic decline in trust in politicians and political institutions following the collapse. In the biggest municipalities, almost all nationwide parties lost a considerable share of votes in 2010, and in Reykjavik and Akureyri, parties outside the traditional system came to power. It was argued that this trend was made more dramatic by the publication of the parliament's Special Investigation Committee (SIC) report only six weeks before the elections, which put scathing criticism of politicians and political institutions into the public eye. In the parliamentary elections in April 2013, the Progressive Party (Framsókn) made the largest proportionate gains, going from 14.8% of the vote in the previous parliamentary elections to 24.4%. This was clearly due to the party's clear proposal to write off up to 20% of Icelandic homeowners' mortgage debts, something the 2009 – 2013 coalition government had been reluctant to do. In the same election, the governing coalition lost more than half of its seats in the Althing, and the new coalition government is led by the Progressive Party.

As another example, the two national referenda on the Icesave agreement between Iceland, the United Kingdom, and the Netherlands in 2009 and 2011 triggered an outburst of public debate, suggesting strong interest in the issue among ordinary people. Similarly, the national referendum on the constitutional bill in 2012 attracted 49% of the electorate to the polls despite a lack of encouragement from the traditional political parties, which offered little or no support for the referendum. Even so, some observers complain that unprecedentedly low trust in politicians, especially after the crash, has turned many voters away from politics and the news, making them less well informed about political choices and national affairs than previously.

Citation:

Önnudóttir, E.H. and Hardarson, Ó. Th. (2009): Óánægðir lýðræðissinnar: Afstaða Íslendinga til lýðræðis. (Dissatisfied democrats: The Icelanders' attitudes towards democracy). In Gudmundsson, H.S. and Ómarsdóttir, S. B. (2009) Rannsóknir félagsvísindum X. Reykjavík, Háskólaútgáfan.

Eythórsson, G & Kowalczyk, M (2013): Explaining the low voter turnout in Iceland's 2010 local government elections. In: Samtíð. An Icelandic journal of society and culture. Vol 1. 2013. (<http://samtid.is/index.php/samtid/article/view/2>)

Legislative Actors' Resources

Parliamentary
Resources
Score: 3

Ordinary parliamentarians in Iceland have access to some experts employed by the parliament. While the 28-person Committee Department (Nefndasvið) is tasked with informing, consulting with and assisting the Althing's standing committees, individual members can also turn to this department for assistance. However, a department of this size, primarily servicing the committees, is not sufficient as source of information for more than 50 out of 63 parliamentary members (eight to 12 are generally ministers, and have access to other resources). The 2007 – 2009 coalition government enabled parliamentary members in constituencies outside the capital area to hire half-time personal assistants to improve their access to information and expertise. However, this policy was ended soon after the collapse in 2008, due to the need to cut costs in the parliament.

Obtaining
Documents
Score: 7

Iceland's Information Act (Upplýsingalög, No. 140/2012) grants standing parliamentary committees the right to request almost all government documents needed in the course of their work. However, they cannot force the government to give up classified documents. Exempted documents include minutes, memos and other documents from cabinet meetings, letters between the government and experts for use in court cases, and working documents marked for government use only (except those containing a final decision about a case or information that cannot be gathered elsewhere). The government can restrict access to documents if exceptional public interests are at stake, such as

the security and defense of the country, international relations or business agreements (as when government institutions are in competition for a contract). The parliament's Committee on Foreign Affairs has a special legal status that allows it to request government documents it needs in order to fulfill its legal obligations. The chair of the committee and the foreign minister can require that the committee's work and discussions be kept confidential. The Budget Committee can also request the government documents it needs to fulfill its legal obligations.

In a widely discussed case relating to what has been called "the most expensive telephone call in Icelandic history," the Central Bank refused to release the recording or transcript of a telephone conversation between the prime minister and the Central Bank governor that took place just before the crash of 2008, despite repeated requests from a parliamentary committee. This dispute had not been resolved at the time of writing. Hence, the right to request documents clearly does not always translate into the right to obtain them.

Citation:

The Information Act (Upplýsingalög nr. 142/2012)

Summoning
Ministers
Score: 9

Parliamentary committees can legally summon ministers for hearings, but seldom do so. The foreign minister usually attends or is summoned to meetings of the parliamentary Committee on Foreign Affairs. The cabinet parties at any given time have a majority in the parliament, and therefore also in all parliamentary committees. Even in the turbulent times after the 2008 economic collapse, no minister was summoned to speak in front of a hearing.

The Special Investigation Committee (SIC), which was created by the Icelandic parliament in December 2008 to investigate and analyze the processes leading to the collapse of the three main banks in Iceland, summoned several ministers and ex-ministers during its 2009 – 2010 period of activity.

The most striking example of a high official being held accountable was the 2012 trial of former Prime Minister Geir Haarde before the High Court of Impeachment, following his 2010 indictment by the Althing. Haarde was found guilty on one count of having showed serious negligence as prime minister in the years and months before the economic collapse in 2008, but was not punished.

Summoning Experts
Score: 10

Independent experts are frequently asked to appear before standing parliamentary committees. In the wake of the dramatic events of 2008, committees have more frequently summoned experts, mainly in the person of

Task Area
Congruence
Score: 5

lawyers, economists, and finance and banking experts. In the Althing's work on the new constitution, political scientists were asked for advice and counsel, as they had been during the work of the Constitutional Council.

During the period under review, the initial 12 ministries of the state administration were merged into a total of eight ministries. The 12 parliamentary committees whose areas of responsibility coincided almost fully with the original 12 ministries were also reduced to eight. In the process, however, the degree of congruence was reduced. At the end of the 2009 – 2013 mandate period, only four of the eight standing parliamentary committees fully coincided with ministry responsibilities: the Economic Affairs and Trade Committee coincided with the Ministry of Finance, Economy and Commerce; the Industrial Affairs Committee coincided with the Ministry of Industries and Innovation; the Foreign Affairs Committee coincided with the Ministry of Foreign Affairs; and the Welfare Committee coincided with the Ministry of Welfare. Others did not coincide. Two of the standing parliamentary committees have a special role with respect to the government. The committee responsible for financial issues and budget preparation has the authority to request information from institutions and companies that ask for budgetary funding. The Committee on Foreign Affairs has advisory status vis-à-vis the government regarding all major international policies, and the government is obliged to discuss all major decisions concerning international affairs with the committee. Parliamentary committees rarely oppose or contradict the ministries, as the government parties have a majority in the committees. Thus, the fact that the task areas of parliamentary committees and ministries nearly coincide is not a guarantee of effective monitoring, as the majority and chairperson of every committee belong to the governing parties. Minority members from the opposition benches can, however, use the committees as a venue to voice their opinions.

Audit Office
Score: 10

Iceland's National Audit Office is fully accountable to the parliament. It reports to parliament and performs its important function quite effectively, given its significant manpower constraints and inadequate funding. These latter issues mean that a vast majority of the agencies under its jurisdiction have never been subjected to an audit. No significant strengthening of the office's staffing or financial resources has occurred in recent years. Its total staff has fallen from 49 individuals in 2009 to 42 in 2012.

Ombuds Office
Score: 10

The office of the Parliamentary Ombudsman (Umboðsmaður Alþingis), established in 1997, takes up cases both on its own initiative and at the request of citizens and firms. It is independent in its work, efficient and well regarded. The office has a staff of 11, including seven lawyers.

Media

Media Reporting
Score: 7

Iceland's main TV and radio stations provide fairly substantive in-depth information on government decisions. Radio analysis typically tends to be deeper than that found on television. The small size of the market limits the financial resources of TV stations. Critical analysis of government policies by independent observers, experts and journalists is a fairly recent phenomenon in Iceland. The parliament's Special Investigation Committee (SIC) report had a separate chapter on the mass media before and during the economic collapse in 2008. The report criticizes the mass media in general for not having been critical enough in their coverage of the Icelandic banks and other financial institutions during the boom period. The report argues on the basis of several content analyses that media coverage of the banks was to a large extent biased toward the banks' own worldviews. This was likely associated with the fact that the owners of the banks also owned the main newspapers and the main private TV station. One of the key players in the economic collapse and its aftermath, Jón Ásgeir Jóhannesson, still holds at least close to a majority ownership in the country's biggest private media company, 365 Miðlar, which owns a TV station (Stöð2), several radio stations (including Bylgjan), one morning paper (Fréttablaðið) and the Internet site Visir.is. Jóhannesson's wife is owner of more than 90% of 365-miðlar stock. However, Jóhannesson no longer owns a bank.

Parties and Interest Associations

Intra-party
Democracy
Score: 8

In the April 2013 parliamentary elections, four out of 15 parties gained more than 10% of the votes. These were the traditional parties that constitute Iceland's four-party system. The four main parties all hold their national conventions every second year. The conventions are the supreme decision-making forums for the parties. The conventions issue resolutions on many major issues, tying the hands of politicians who are in many ways obliged to abide by these general directives. In all parties, representatives from all regional and local party units have the right to participate in these conventions. The number of representatives attending is proportional to the number of party members in each unit. The nomination processes vary slightly among parties. Today, all parties except the Progressives have primary elections in which only party members have the right to vote. In the case of the Social Democrats, party membership is not required, but a signed declaration of support is necessary. The Progressives have different rules, under which most constituencies have a constituency board (Kjördæmisráð) that nominates

Association
Competence
(Business)
Score: 8

candidates to a constituency congress (Kjördæmisþing). Local-party units send representatives to these congresses in proportion to their number of members.

The 2012 constitutional bill proposed that the selection and ranking of party candidates in parliamentary elections be left to the voters on Election Day, by allowing voters to rank candidates on their preferred party lists, and even by voting for candidates across party lists. This would be more democratic in that it would significantly reduce the number of safe seats. At present, it is quite common for candidates with relatively minimal popular support in the form of internal party elections to win office as a result of their party's overall support.

The main interest organizations in Iceland have had and still have considerable influence on public policy, and a long history of involvement with the political parties. Their judgment is uneven, however. In March 2008, shortly before the crash, the Chamber of Commerce made the following pronouncement: "The Chamber of Commerce recommends that Iceland stop comparing itself with other Nordic countries, because we are superior to them in most respects."

The Confederation of Icelandic Employers (Samtök atvinnulífsins, SA) has in modern times been closely, albeit not formally, associated with the right-wing Independence Party. Likewise, the Icelandic Confederation of Labor (Alþýðusamband Íslands, ASI) has a long history of close links to the parties on the left, although its formal ties to the Social Democratic Party were severed in 1942. Until its breakup in the 1990s, the cooperative movement, with its strong ties to the agricultural sector, was closely linked to the Progressive Party (Framsókn), which has its origins in the farmers' movement.

All major interest organizations in Iceland have long maintained a staff of skilled employees, and create research-based policy proposals that are usually well grounded, coherent and in line with the organizations' goals.

After the 2008 economic collapse, both the employers' organization and the employees' organizations signed an agreement with the government and the Federation of Municipalities aimed at securing economic stability (Stöðugleikasáttmáli). The agreement dealt with the restructuring of the economy by keeping wages and prices down, among other issues.

During the 2009 – 2013 mandate period, the Federation of Icelandic Fishing Vessel Owners demonstrated its political strength through heavy resistance to government plans to change laws on the fishing-catch quota system. However, it was unable to block a considerable increase in the fishing fees paid by the vessel owners to the state. Nonetheless, the group was strong enough to help

defeat the broader overhaul of the system promised by the government. A former editor of Morgunblaðið has written that “it means political suicide to rise against the quota holders in rural areas.”

The left-wing government of 2009 – 2013 left power without accomplishing its fisheries-management goals, even though it managed to raise fishing fees significantly. One of the first actions of the new government (taking office in May 2013) was to propose a lowering of fishing fees, triggering a petition against the move that over the course of a few days attracted 35,000 signatures, or 15% of the electorate. The president ratified the law even though it was virtually certain to have been soundly rejected if it was put to referendum.

Citation:

Gunnarsson, Styrmir (2009), Umsátrid (The Siege), Veröld, Reykjavík.

Association
Competence
(Others)
Score: 9

Iceland has many active noneconomic interest organizations, working in various fields. Although many have a reasonable level of prominence, only a few have the capacity and competence to exert significant influence on public policy. The largest two are the Organization of Disabled in Iceland (Öryrkjabandalagið), with 35 member associations and a staff of 11, and the Consumers’ Association of Iceland (Neytendasamtökin), with a staff of seven and 9,200 members. The Nature and Wildlife Conservation Organization (Náttúruverndarsamtök Íslands), with a staff of just one, is influential despite its size. This group has managed to feature prominently in public debates about power plants, both on issues of hydropower and geothermal power, and has expressed reservations about further construction of aluminum smelters around the country. The Constitutional Society (Stjórnarskrárfélagið) which has no paid staff, has also made its voice heard in the debate over Iceland’s proposed new constitution.

This country report is part of the Sustainable Governance Indicators 2014 project.

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