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Should Iceland engage in policy dialogue with developing countries?

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Abstract

This article provides a brief overview of the current status of Icelandic development cooperation, bilaterally and multilaterally, and argues that it is time for Iceland to become more engaged in policy dialogue with developing countries on issues related to public sector reform and economic policy. Iceland should also in the authors view take more advantages of the extensive knowledge that Icelandic experts possess, and the experience they have gained, both in Iceland and internationally. Iceland should be more active in offering exerts in the public service, in the academia, as well as in the private sector to provide policy advise and technical assistance to developing countries that are implementing complex economic and public sector reforms. A number of those exerts have also gained considerable international experience in implementing policy reform programs. The article then discusses two cases: (i) the case of Latvia where Iceland rushed to recognize its independence, but did little to assist the country in the post independence period, and (ii), the case of Vietnam where a country like Iceland could provide valuable assistance to a country that is achieving remarkable progress in poverty reduction, implementing important public sector reforms and creating a better business environment for foreign investors. This article is based on the authors experience as chairman of the Board of the Icelandic International Development Agency (ICEIDA) and as Special Advisor to the Minister for Foreign Affairs in Iceland from 1995 to 1999, and as World Bank specialist at the Bank's Head Quarters in Washington DC from 1990 to 1995, in Latvia from 1999 to 2003 and in Vietnam from 2003 to 2006.

1. Iceland's current development cooperation

Iceland is a member of several multilateral development organizations that provide leadership in the world and shape the way international development cooperation is conducted. Those institutions include for example the World Bank Group[1], the European Bank for Reconstruction and Development (EBRD), and the United Nations.[2]

There is still no single ministry within the Icelandic government that is solely responsible for conducting the relationship with international development institutions, however, in this area the Ministry for Foreign Affairs is most active and is for example responsible for conducting the relationship with the World Bank Group and the United Nations. Exceptions to this rule is for example the EBRD whose matters are handled by the Ministry of Commerce.

Iceland shares an Executive Directors Office with the Nordic and the Baltic Countries at the World Bank Head Quarters in Washington DC and shares an

1 The World Bank Group consists of five institutions: (i) The International Bank for Reconstruction and Development (IBRD), (ii) the International Development Association (IDA), (iii) the International Finance Corporation (IFC), (iv) the Multilateral Investment Guarantee Agency (MIGA), and (v) the International Centre for Settlement of Investment Disputes (ICSID).

2 Iceland is not a member of several multilateral development institutions, including: the African Development Bank (AfDB), the Asian Development Bank (AsDB), and the Inter-American Development Bank (IDB).

office with Sweden and Estonia at the EBRD Head Quarters in London. Iceland has an embassy at the United Nations Head Quarters in New York. However, Iceland has by most part been absent from any sort of policy dialogue with developing countries through those multilateral institutions except when supported by the other Nordic Countries who are known worldwide for their generous contributions to international development cooperation, active participation in policy dialogue with development countries, and for extensive provision of technical assistance, both bilaterally and multilaterally, including in partnership with the World Bank Group.

Iceland has a bilateral development agency called the Icelandic International Development Agency (ICEIDA) that was established by law in 1981.[3] Initially the agency was only engaged in Africa and concentrated its efforts mainly in the fisheries sector where Iceland was believed to have obvious comparative advantages in providing training, advice as well as equipment. Since 1997 ICEIDA has also provided assistance in the health and education sectors. ICEIDA now has ongoing projects in 6 countries, including Malawi, Mozambique, Namibia, Uganda as well as in Sri Lanka and Nicaragua. This small development agency thus operates in three different continents in the world, which must be considered rather ambitious, given its small budget.

The initial selection of the countries that ICEIDA supports in Southern Africa was to a large extent driven by a strong Nordic presence in that region and contacts were often made with potential African counterparts during annual Southern African Development Community (SADC) meetings which the Nordic countries also attended. However, the criteria for the selection of Sri Lanka in South Asia and Nicaragua in Central America seems rather unclear and it must be costly for ICEIDA to operate project in three distant continents simultaneously.

Administratively ICEIDA is placed under the Ministry for Foreign Affairs although in practice it enjoys considerable independence operationally. Its board of directors has seven members, six of whom are selected by the Icelandic Parliament (Alþingi), and one member who is appointed by the Minister for Foreign Affairs. The Ministers representative serves as the chairman of the board of ICEIDA. This organizational structure has for some time been a subject of controversy and the Minister for Foreign Affairs issued a policy document to the Icelandic Parliament in March 2007 where she proposed to place ICEIDA directly under the control of the Ministry for Foreign Affairs (Ministry for Foreign Affairs 2007). Operationally this would mean that both multilateral and bilateral development cooperation would be merged under one office or section within the Ministry for Foreign Affairs.[4] There

3 Lög um Þróunarsamvinnustofnun Íslands nr. 43/1981.

4 The Minister's policy document did not discuss the fact that the relationship with some multilateral development organizations is not conducted by the Ministry for Foreign Affairs. An example of this is the European Bank for Reconstruction and Development whose matters are handled the Ministry of Commerce.

was a change in government in May 2007 and Icelandic development policy and organizational structure is currently being reviewed under the leadership of the current Minister for Foreign Affairs.

The government of Iceland recently issued a document titled "Iceland's Policy on Development Co-operation 2005 – 2009" (Ministry for Foreign Affairs 2005). This policy statement commits Iceland to increase its contributions to development cooperation to 0,35 % of Gross Domestic Product (GDP) by 2009. Although this would only be a half of the contribution that Iceland promised to deliver by its initial legislation on development cooperation in 1971[5] it nevertheless represents a substantial increase as compared with previous contributions in this area.

Icelandic Ministers for Foreign Affairs have not shied away from making commitments to development cooperation internationally. In her statement at the Sixty-first Session of the General Assembly of the United Nations in 2006 the former Minister for Foreign Affairs said that "Beyond 2009, our assistance should increase even further, with the ambition of reaching the UN target of zero point 7 per cent (0.7%) of GNI (Gross National Income)." (Ministry for Foreign Affairs 2006).

Even if only a half of this increase in the Icelandic development budget materializes, in does raise questions both about how Iceland conducts its multilateral relationship with international organizations, and how it works with them and bilateral development organizations in the field. This also raises questions about the efficiency and effectiveness of the current method, the so called project based approach, which is solely used by Iceland to conduct its bilateral development cooperation through the operations of ICEIDA.

1.1 Project based approach, sector wide approach and budget support

At the multilateral level Iceland's engagement in policy dialogue with developing countries through its membership in international organizations has so far been limited. At the bilateral level Iceland uses the so called project based approach when planning and implementing its projects in the field. The project based approach means that ICEIDA defines small sector specific projects, with an agreed timetable, in cooperation with the receiving country but the financial administration of the project is maintained within ICEIDA. The projects supported by ICEIDA initially were mostly small fisheries projects and tiny social sector projects. Since 1997, however, Iceland has increasingly become involved in supporting education projects and health projects, but those still use the project approach.

Given the substantial increase in contributions to development cooperation that the government is now committed to make, the question arises whether this approach does not need to change. The small projects currently in ICEIDA's

5 Lög um aðstoð Íslands við þróunarlöndin nr. 20/1971.

portfolio are time consuming to prepare, costly to implement and monitor, and their link with the overall policy of the receiving country within the sector supported is often unclear. In addition to this the project based approach often makes aid coordination time consuming and cumbersome.

Given this new situation one may ask the question whether it is not time for Iceland to engage in policy dialogue with developing countries and use a sector wide approach in its development cooperation or provide a direct budget support in partnership with other donors, along with technical assistance that often accompanies such assistance. In the case of sector wide approach Iceland would work with other donors and direct its funds to a specific sector. Iceland would then participate in a dialogue with the receiving country, in partnership with the other contributing donors, about the overall development of that sector. In the case of budget support Iceland would along with other donors provide funds directly to the receiving countries budget and engage in an overall policy dialogue with the receiving country in partnership with other contributing donors.

When discussing project based approach, sector wide approach or budget support, one should avoid pitching the issue in either/or terms. It is not being argued here, for example, that possible Icelandic involvement in budget support to a given developing country would mean that Iceland would abandon project based approach entirely. Many small projects supported by ICEIDA in the past have been successful and it is well known internationally that investment projects can complement budget support operations.

Another issue regards the decision whether Iceland should go for sector wide approach rather than budget support. In the case of sector wide approach the funds provided by Iceland would be directed to a specific sector instead of being contributed to the general budget of the developing country in question. In this context one needs to keep in mind that the ultimate decision on what to do with the funds rests with the receiving government. So, if there is more aid funding for sector X, the government can redirect its own resources to other sectors. Thus increasing resources to one sector only can be an illusion and from this perspective, it could be better to provide funds directly to the developing countries general budget.

Among the problems with the project based approach (currently used by ICEIDA) is that it is often to a large extent managed and controlled by the donor. Therefore many donor countries are increasingly getting involved in budget support and use it as means to engage in policy dialogue with the developing country and to help the government of the receiving country to take the lead and ownership of the overall policy reform in the country. Many donor countries, including the Nordic Countries, also provide technical assistance to help the governments of developing countries prepare and implement policy reforms.

Obviously the amount of funds provided to developing countries through budget support does matter and can provide incentives for the country to engage in policy dialogue and implement policy reforms. However, one should not underestimate the value of a well informed and prepared policy dialogue with the developing country. In fact many development experts would argue that in the end good policy environment is the key to achieve sustainable economic growth and poverty reduction. Foreign aid alone cannot buy growth.

A country like Iceland that has managed to maintain strong growth and been able to implement a transition from being one of the poorest European countries before the Second Word War, to become among the richest countries in the world today, as measured by GNP per capita, should have some experience to share with the developing world. The key to success here is to remember, that while a developed country like Iceland has a lot of valuable lessons to share, the developing country should always lead the policy dialogue and also take the lead in formulating any technical assistance offered to prepare and implement policy reforms.

Iceland's experience in development since the World War II is unique and could provide invaluable lessons, especially to small developing countries, and countries in transition. Iceland has been surprisingly hesitant to offer its assistance to other countries based on this experience and its remarkable success. Iceland has also hesitated to use its experts to provide advice and technical assistance to developing and transition countries. Limiting this assistance to the fisheries sector with small projects in health and education seems rather narrow given Iceland's experience. Iceland probably has a lot of experience in the area of public sector reform, including, for example in public expenditure management.

1.2 Good policy environment, economic growth and poverty reduction

If the government of Iceland decides to change its approach and to get involved in budget support in addition to project approach there needs to some certainty that good economic policy and good governance leads to stronger economic growth which in turn provides the basis for poverty reduction in the developing world. The war against poverty in the world will not be won in the long term without economic growth.

There is still an ongoing debate about the relationship between good policy environment and economic growth. David Dollar and Craig Burnside published a famous article several years ago where the case was made that aid has positive impact on economic growth in countries with good economic policies (Burnside and Dollar 2000). They concluded that making aid more systematically conditional on the quality of policies would likely increase its impact on developing countries growth. Other authors have been more cautious in concluding that aid promotes growth in countries with sound policies (see for example Easterly, Levine and Roodman 2004) and emphasize that the seminal paper of Burnside and Dollar does not provide the final answer on this critical issue.

The debate on the relationship between economic policies and growth is likely to be ongoing for a long time. While no one has found a "Magic bullet" for growth there are some things that seem important including sensible macroeconomic management[6]; laws and policies that create an environment conducive to private

6 This would for example include: Fiscal discipline, moderate inflation, and a reasonable competitive exchange rate.

sector activity with low transaction costs; and an economy open for international trade (see for example Rajan 2005). This is consistent with the experience in Iceland. Investment in health and education also ought to be encouraged and bilaterally ICEIDA has increasingly supported these sectors through its projects.

2. Latvia – a case of missed opportunity for Iceland to engage in policy dialogue with a small country in need of assistance

When Latvia announced its independence in 1991 the government of Iceland rushed to recognize it. However little was done to assist Latvia after achieving independence. All the other Nordic countries provided extensive assistance to Latvia and, in fact to all the Baltic States, while Iceland showed little interest. This represents a missed opportunity for Iceland to participate in the reconstruction of Latvia after the devastating effects of Soviet occupation from 1945 to 1991.

While Iceland is a small country its experience in economic development and post World War II reconstruction is certainly unique. Iceland's experience in building a fully functional government with a small number of civil servants and limited financial resources could have been quite relevant to Latvia (as well as the two other Baltic States, Lithuania and Estonia) in the immediate post independence period. In fact, it could be argued that Iceland's experience was much more relevant to the situation in Latvia immediately after independence than anything the other Nordic countries could offer. However Iceland chose not to share its experience and was by most part, at least as far as participation the economic reconstruction in Latvia was concerned, as distant as during the Soviet time. It must however be recognized that Iceland did contribute to multilateral organizations such as the World Bank which supported Latvia's reform program, but bilaterally Iceland was mostly absent.[7]

It seems obvious that although the Icelandic contribution would have, in absolute monetary terms, been quite small as compared to the contribution of other larger countries that assisted Latvia in the post independence period, Iceland could certainly have made a meaningful contribution, for example, by co-ordinating its assistance with the other Nordic Countries, as Iceland is accustomed to do, or by contributing more to programs of multilateral organizations such as the World Bank. This contribution could for example have been provided in the form of much needed technical assistance to support the reform process, as budget support to the government of Latvia, as contribution to specific sector related projects, etc. Above all, Iceland could have engaged in policy dialogue with the government of Latvia and assisted in public administration reform and institution building.

7 The World Bank opened an office in Latvia in January 1993 and that office remained open until June 2006. During this time the World Bank supported Latvia's reconstruction in almost every sector.

When Latvia became independent in 1991 it was clearly in need of sound policy advice, technical assistance and capacity building programs, especially in the public sector. One needs to keep in mind that the country had only been a province in the Soviet Union during the occupation and suddenly had to operate as an independent country. The case of the Baltic States was thus fundamentally different from that of the other European countries applying for European Union membership. The other Nordic countries understood this and provided extensive assistance, to all the Baltic States, both bilaterally and multilaterally. Late in the reform program, and just before joining the European Union, Latvia implemented a comprehensive medium-term reform program supported Programmatic Structural Adjustment Loan (PSAL)[8] from the Word Bank, see box 1 (World Bank 2002).

Box 1: Latvia – Programmatic Structural Adjustment Loan (PSAL) Program

The 1998-99 financial turmoil in Russia and internationally dramatically changed Latvia's macroeconomic situation and exposed a series of weaknesses in Latvia's public sector management, threatening to derail its transition accomplishments. To prevent this the government requested an IMF program which focused primarily on supporting macroeconomic stabilization efforts, and requested the World Bank to support a reform program to improve the credibility, efficiency, and effectiveness of the public sector, including addressing structural issues underlying the fiscal deficit.

Latvia's reform program was one of building up the Government's institutional capacity to effectively support and interact with the private sector as well as finalizing the transition agenda.

The PSAL program therefore focused on step-by-step capacity building and institutional reform in four distinct but overlapping areas, with the overall aim to return to sustainable growth. These were (i) returning to a macroeconomic framework conducive to robust growth; (ii) strengthening the credibility of the public sector; (iii) strengthening the public sector institutional capacity; and (iv) rationalizing the interaction between the public and private sector.

Source: World Bank 2002

8 Programmatic lending is usually used by the World Bank to support complex medium-term institutional reforms.

The preparation of Latvia's PSAL Program was initiated in 1999. The PSAL program, which was supported by extensive technical assistance, was under implementation for a few years during which Latvia took its final steps in its transition to a market economy and made good progress in its accession negotiations with the European Union with World Bank support.

As late as in 2002 and just before Latvia joined the European Union[9] many organizations, including the Nordic Countries and the World Bank were still helping Latvia through its transition process. See Table 1 in Annex I, a Comprehensive Assistance Framework, which was prepared by the author of this article in 2002 for the World Bank's Country Assistance Strategy (World Bank 2002). An overview like this is often prepared by the World Bank to facilitate donor coordination, to make aid more effective and to avoid duplication of donor efforts. As the table shows the World Bank was in 2002 still active in almost every sector in Latvia. Many bilateral donors, especially the Nordic countries, were also active. However, the European Union supported programs had, as expected this late in the accession process, become very prominent. The Country Assistance Strategy in 2002 was the World Bank's exit strategy from Latvia. The country had been successful in taking charge of its own transition, was about to join the European Union, and did not need assistance from donors much longer. Other donors were also preparing their exit strategies. The challenge for the donor community was to exit, not to fast, and not to slowly. Prior commitments had do be honoured.

During the time of Latvia's transition from 1991 the government of Iceland did not show interest in contributing to its reconstruction program. Iceland's bilateral development agency, ICEIDA, was busy with fisheries projects in Africa. The Icelandic Ministry for Foreign Affairs did not get involved in the ongoing policy dialogue with Latvia (or the other Baltic States), nor did it offer technical assistance that often is attached to budget support programs that involve policy dialogue. Iceland was not prepared to provide assistance then and even today does not get involved in operations that would have been suitable to address the needs of the Baltic States during their transition. The government of Iceland was quick to recognize the Baltic States when they announced their independence, but just was not there when the Baltic countries needed assistance.

3. Vietnam – a case of opportunity for Iceland's development co-operation and private sector engagement

The second case is the case of Vietnam. Vietnam is located in East Asia and has more than 80 million inhabitants. Vietnam represents one of the fastest growing developing countries in the world and a country which is achieving remarkable results in poverty reduction. Vietnam is taken here as an example of a country which Iceland could, for example, provide valuable technical assistance to, as well

9 Latvia became a member of the European Union on May 1, 2004.

as budget support through participation in the Poverty Reduction Support Credit (PRSC) programs[10] lead by the World Bank and supported by several multilateral and bilateral donors, including the Nordic Countries who have provided grant funds for the PRSC and/or technical assistance, including through a Multi-donor Trust Funds administered by the World Bank.

3.1 Participation in Poverty Reduction Support Credits (PRSCs)

An increasingly large number of donors contribute to budget support operations and participate in their preparation. PRSCs represent a new generation of budget support instruments. They are aligned with a nationally-owned reform strategy, not involving explicit policy conditionality, but rewarding progress in reform implementation. In a country like Vietnam some of the main strengths of the PRSCs is that they provide a rapid disbursement, directly to the governments budget using the country's own financial management systems and budget procedures. They help setting priorities, as well as sequencing via a flexible programmatic approach. Among the most important advantages of PRSCs is that they reduce donor coordination costs for government. For good practice principles for PRSPS, see box 2. (M. Rama, World Bank, September 19, 2007).

Regarding the partnership architecture of PRSCs the Vietnam Development Report 2007 says the following: "General budget support operations have become an important donor coordination mechanism, in the spirit of the harmonization agenda. Discussions with government in each of the policy areas are jointly conduced with all the co-financers and potential co-financers with an interest in them. From the government's perspective, this arrangement reduces transaction costs. From the donor's perspective, it increases the coherence of the support to economic reforms. Donors jointly make key decisions, including whether a policy action satisfies the criteria required to be addressed through the PRSC process, whether triggers are met, and how satisfactory is the process towards attaining each of the development outcomes." (World Bank 2006, p. 35).

Vietnam is a country that is achieving better results in poverty reduction than most developing countries in the world. It is not an aid dependent country, but donor resources, including budget support, are still important, as well as the analytical work and technical assistance that goes with it to support its economic reforms. Iceland could certainly contribute both to the policy dialogue with the country and share expertise via technical assistance in the public sector. If participating in a PRSC in a country like Vietnam Iceland could for example emphasize certain actions in overall public sector reform or in a specific sector. It is important that countries taking part in budget support operations are also willing to share their substantive expertise in some specific areas.

10 Poverty Reduction Support Credit (PRSC) is a programmatic approach to development policy lending in low-income countries.

As part of its assistance in public sector reform Iceland could help a country like Vietnam improve its business climate. According to the World Bank Iceland is among the 10 countries in the world that have the best business climates (World Bank 2007, Doing Business Report 2008) and improved business climate in Vietnam could facilitate foreign direct investment to Vietnam and encourage private sector cooperation, including from Iceland. In fact the private sector in Iceland is already getting involved in Vietnam ahead of the Icelandic Ministry for Foreign Affairs and ahead of the government's bilateral development agency, ICEIDA.

Box 2: The Policy Dialogue
Good Practice Principles for PRSCs

Ownership –	Strategic vision and policy priorities coming from the government.
Harmonization –	Coordinated framework to conduct the dialogue and assess progress.
Customization –	Recognize country specificity, on policies and results framework.
Criticality –	Focus on the actions with more potential to support change.
Transparency and predictability –	Agree on a cycle for financial support and evaluation.

(M. Rama, World Bank, September 19, 2007).

Currently Iceland does not participate bilaterally in budget support in any developing country in the world and its bilateral assistance is limited to the project based approach as discussed earlier in this article. Possible participation in budget support does however not mean that Iceland will not continue with development operations based on the project approach. One should avoid pitching the issue here in either/or terms because investment projects can complement budget support operations. For instance, a project in public financial management could be necessary to strengthen budgetary processes to the point where a country would feel confident to provide budget support. Other projects help pilot approaches, for example, on community driven development that can then be scaled up nationally, through the policy dialogue associated with budget support. For example primary school standards could be introduced through policy dialogue, but an investment project could help upgrade schools to those standards. If Iceland considered providing budget support to a country like Vietnam it could, for example, decide to provide technical assistance in public financial management prior to and/or during the budget support.

3.2 Technical Assistance and Multi-donor Trust funds

Iceland could provide technical assistance (TA) to a country like Vietnam bilaterally by funding Icelandic experts that would go to Vietnam and assist the government for an agreed period of time. This could also be done by establishing a trust fund within the World Bank that would provide support in certain areas, for example, in public financial management. Iceland could also join a mechanism like a Multi Donor Trust Funds (MDTFs) lead by the World Bank but supported by other donors, see Box 3.

Box 3: Vietnam - Multi-Donor Trust Funds

Donors have pooled resources to support the implementation of reform programs in a range of areas, from the modernization of public administration (with the Ministry for Home Affairs (MOHA) as counterpart) to the implementation of Comprehensive Poverty Reduction and Growth Strategy (CPRGS) (with the Ministry of Planning and Investment (MPI)). In Vietnam, one of the broadest Multi-Donor Trust Funds (MDTFs) currently in operation was set up in 2004 to support the public financial management modernization initiative. The counterpart in this case is the Ministry of Finance (MOF).

The MDTF for public financial management is jointly funded at present by the Like-Minded Donor Group (LMDG), including the Canadian International Development Agency (CIDA), the Danish International Development Agency (DANIDA), the Department of International Development (DFID), the Netherlands Ministry for Development Cooperation (NMDC), the Norwegian Agency for Development Cooperation (NORAD), the Swiss Development Cooperation (SDC) and The Swedish Agency for International Development Cooperation (SIDA). It is administered by the World Bank, but executed by the government of Vietnam. Under this arrangement the government is responsible for identifying its own technical assistance needs. The World Bank plays a supportive role on technical matters, at the government's request. It also clears transactions, on a non-objection basis.

This MTDF supports technical assistance in six areas: state budget management, state revenue management, public debt management, SOE financial management, state asset management and price management. This technical assistance is helping the government identify options, articulate priorities and specify reform requirements. It is also building up the government's capacity to plan, implement and operate new financial management processes.

The MDTF for public financial management reform also serves a coordinating mechanism. The donors involved would otherwise have required the government to access funding through separate donor agreements, requiring compliance with multiple donor procedures. MOF is thus spared potential inconsistencies in approaches and overlapping of activities.

Source: World Bank 2004

When providing technical assistance to a developing country there are certain things that donor country needs to be kept in mind. The government receiving the technical assistance must take the lead in defining what the TA needs are. The donor funding the assistance can provide support in increasing the quality of the technical assistance proposal from the government, but it is important to engage the receiving government and its institutions in defining the technical assistance needs from the very beginning. For this to work the donor country must allow the receiving country enough time and flexibility to define what the real TA needs are. Of course it is important to make sure that things happen within a reasonable amount of time. Both the speed and quality are important. When preparing technical assistance projects quality is more important than speed. Above all, however, is that the government receiving the technical assistance takes ownership of the technical assistance project. Government ownership of the TA project is key to success and it leads to better implementation. This should however not discourage the donor to comment on government proposals and provide advice to help ensure good quality of the technical assistance project. During this process it is also important to build trust with the receiving government and ensure that the donors role remains supportive and advisory. Technical assistance driven by the donor country only often have limited value.

Since Iceland emphasizes the use of its own experts when providing assistance to developing countries it could start by creating its own bilateral technical assistance facility. However coordination with other donors, especially the Nordic countries and the World Bank would probably add value to the Iceland's contribution.

3.3 Private sector development and cooperation

It is obvious that a country like Vietnam could provide opportunities for private sector cooperation between Vietnamese and Icelandic companies that could benefit both countries. Vietnam for example has a large and vibrant fisheries and energy sectors that both need technical assistance and investment. One should not underestimate the importance of the private sector in building a healthy and strong economy in a developing country. The current law governing ICEIDA do not allow much room for cooperation with the private sector in Iceland other than sharing information.[11] This is yet another example of a missed opportunity in Iceland's development cooperation. Both bilateral development agencies of developed countries and multilateral development organizations recognize the important role that the private sector plays in a developing country. This is why institutions like the World Bank and the regional development banks, including the Asian Development Bank, work extensively with the private sector in developing countries and actively promote private sector development. This is done for example by providing loans and buying equity in private companies, as well as providing valuable information to private investor about the business and investment climate in developing countries, etc. The World Bank for example issues a report annually on Doing Business in most countries in the world that assesses the business climate in those countries and provides valuable information for foreign investors about most recent developments in each country (World Bank 2007).

Conclusions

It is time for Iceland to consider providing assistance to developing countries and transition countries beyond small projects using the project based approach only. Iceland should engage in policy dialogue with developing countries in selected policy areas agreed to with the receiving country. This is probably best done in partnership with other multilateral and bilateral development institutions. Iceland should also consider making more use of its experts in providing technical assistance to developing countries and countries in transition. This would provide Iceland with an opportunity to try new approaches and better share its own experience in development and reconstruction with developing countries and transition economies, including through participation in budget support operations in partnership with other donor countries.

In the case of Latvia, a small country like Iceland could have made a valuable contribution during Latvia's post independence transition period by providing more support in cooperation with multilateral organizations like the World Bank that was engaged in almost every sector in the country shortly after independence. Iceland could also have made any contribution to Latvia more valuable by working closely with the other Nordic Countries that had large bilateral programs in Latvia (as well as in the other Baltic States) and also took advantages of cooperation with the World Bank.

In a country like Vietnam, a small country like Iceland could also make its contribution more effective by participating in the PRSC process lead by the World Bank and supported several countries, including Nordic Countries that have provided funds for the PRSC and/or technical assistance funds through

11 Lög um Þróunarsamvinnustofnun Íslands nr. 43/1981. See paragraph 3. d).

Multi-donor Trust Funds (MDTFs) that help prepare and implement policy reform actions. Iceland could also establish its own technical assistance facility and coordinate its activities with other multilateral and bilateral donors.

Iceland should also in the authors view take more advantages of the extensive knowledge that Icelandic experts possess, and the experience they have gained, both in Iceland and internationally. Iceland should be more active in offering exerts in the public service, in the academia, as well as in the private sector to provide policy advice and technical assistance to developing countries that are implementing complex economic and public sector reforms. A number of those exerts have, in addition to their experience in Iceland, also gained considerable international experience in implementing complex policy reform programs in developing countries.

Table 1. Comprehensive Assistance Framework (ongoing assistance – plain text, planned assistance – *italics*)

	Improved Productivity and Economic Growth			Strengthening Governance: Public Sector Reform and Anti-corruption			Balanced and Sustainable Development Outside Riga				Social Sector Services and Their Delivery			
Donor /Component	Macro	Investment Climate/ Reg. Framework (including Privatization)	Financial System	Public Sector Reform	Anticorruption	Reg. Framework for monopoly infrastructure	Rural Development	Municipal/Regional Development	Infrastructure	Environment	Health	Education	Social Assistance & Pensions	Housing
World Bank Group	- SPN of PSAL II - *Preparation of PSAL III* - *ESW: Labor Market Study* - *CEM covering sustainability, including review of growth and competitiveness in Key Sectors of the Economy*	- FIAS Administrative barriers to investment, 1999 - SPN of PSAL II - IFC activities include complex privatization, very large projects, and assisting SMEs through investments in financial intermediaries - *Prep. of PSAL III*	2001 FSAP (The banking sector is 95 percent privatized) *Planned ESW: Financial Management Assessment (Review Latvia's Regulatory framework for financial management).*	- Programmatic assistance for PSAL II and III, including PHRD Grant, - Public Expenditure Review - IDF for Administrative Procedures and Information Laws *Planned ESW: Public Sector Reform Review (after completion of PSAL)*	- Ongoing: PHRD Grant for PSAL II - *Planned PSAL III*	Policy advice through preparation of PSALs, PPIAF Grant (Energy, Telecommunications and Municipal Infrastructure)	*Planned ESW: Note on Enhancing Productivity and Competitiveness of the Rural Sector. The note would provide an update on the latest developments and policy/institutional development needs, including in the context of EU accession*	- Grant of change program (growth issues at the urban level) - *Planned ESW on Regional / Municipal Development, including to assist the government in analyzing functions and responsibilities of proposed size of local governments*		- SPN of Municipal Solid Waste Management (Riga) and Liepaja Solid Waste Management Project - *Planned Baltic Sea GEF*	- SPN of Health project (Health care restructuring strategy) - *Planned: Health & APL Investment program following agreed strategy, including consolidation of hospitals*	- SPN of Education Improvement Project, (Improving the efficiency and quality of education system) - *Planned ESW: Priorities of Education Sector Reform* - *Planned Education 2 Project* - *Planned ESW: Knowledge Economy*	- SPN of Welfare Reform Project, (Support the development of an efficient and effective social welfare system), - Advisory work on pension reform and social assistance under PSALs	*2001 Housing ESW including guarantee instruments for financing housing improvements. ESW: Housing Policy Dialogue*
EU (Phare, ISPA, SAPARD)/EIB/EBRD		- EBRD: Equity investments in commercial banks, Baltic Investment Fund, Baltic Post Privatization Fund, Baltic Small Equity Fund - EU Phare: TA support to Latvian Development Agency and Latvian Privatization Agency - Investment and export promotion	- EU Phare: TA Support to State Treasury, Bank of Latvia, Unibanka (completed) - Support to Securities market Commission (completed)	EU Phare - Public Administration Reform (TA Completed) - Modernization of Tax and Customs administration (TA and investment) - Public Expenditure Management (TA) - *Economic and Social Cohesion (TA)*	EU Phare - Prevention of corruption within the court system - Anti-Corruption Training, Legislation and Information Program (TA) - *Preventing, Combating and Reducing Organized Crime (Capacity building)*	EU Phare - Energy sector restructuring TA (Gas and electricity sector restructuring and liberalization)	EU Phare: - TA for preparation of Rural Development Plan - Economic and Social Cohesion (investment and grant schemes) - TA for Development of Common Agricultural policy mechanisms -*SAPARD: Development of sustainable agriculture, integrated rural development and improvement of the environment*	- EIB Credit line for Municipal Infrastructure -EBRD Municipal Infrastructure (Water and Environment) EU Phare: - TA for Regional development - Cross border cooperation program (TA), - *Economic and Social Cohesion (Invest. and grant schemes)* - *Capacity dev. for Regional policy and cohesion (TA)*	- Substantial investment support from EU/ISPA: e.g., Via Baltica, and Riga-Kalsnava Rail Riga Port Yard (Also to Riga Road to Riga Airport) Cofinancing: EIB, EBRD	EU Phare - Development of systems for dealing with hazardous waste -Substantial investment support from EU/ISPA: e.g. Jelgava, Ventspils, Jurmala Water Services projects, Ventspils, Liepaja, Vidzeme Region Solid Waste Management Projects (Also to Riga Water Services Project) Cofinancing: EIB, EBRD	EU Phare: - ACCESS program (To promote NGO/civil society development in environmental and social sectors) - Drug control and drug abuse prevention (TA and investment), - - - Further Approximation of Legislation and Enhanced Institution Building for Occupational Safety and Health	EU Phare: - Participation in EU Community programs on research and development (5th Research and development Framework) and on Education and training	EU Phare - Program for Social Protection Reform (TA), - Improvement of the working environment in private and privatized enterprises (TA)	EU Phare - Special Preparatory Program for Preparation for Structural Funds - Urban pilot project (Urban development strategy for east in Latgale region)
Other Donors	- IMF Stand-by agreement - *Denmark Analysis of labor market and Impact of EU accession*	- Nordic CoM (expert skills) - Denmark, Belgium, Canada, UK, Sweden, (expert skills), Germany (Advice on privatization), *Finland*	-IMF Monitoring, UK, Norway, Sweden, Finland, Germany, *Sweden*	- UNDP, OECD SIGMA program - Denmark, Canada, UK, Netherlands, Germany, Sweden, Soros Foundation, *Finland*	- Sweden, Finland, Soros foundation, *Denmark, Finland, USA, Sweden*	- UNDP (Municipal housing) -Netherlands, *Denmark, Sweden*	- UNDP - Netherlands, Sweden, Finland, UK, Germany, Denmark, *Sweden, Finland*	- UNDP, NIB (Loan) -Sweden, Finland, UK, Germany, Denmark, Canada, *Belgium, Finland*	NIB	-Sweden, Denmark, Finland, Canada -*Cofinancing of ISPA projects: NEFCO, NIB, Sweden, Finland, Belgium*	-Finland, Sweden, Netherlands, Canada, Soros foundation -*UNDP, Netherlands, Sweden, Finland*	-UNDP -Netherlands, Denmark, Finland, Sweden, Canada, France, Soros foundation, *Finland*	- UNDP - Finland, Sweden, Denmark, UK, Netherlands, *Sweden*	Netherlands, *Denmark, Netherlands*

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