



Improving the Provision of Active Labour Market Policies in Estonia

Contract number SRSS/S2019/036

Institutional and regulatory set-up of active labour market policy provision in Iceland

Research note

June 2021

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Introduction

This note provides a short overview of the institutional and regulatory framework of labour market policy (ALMP) provision in Iceland. The note has been drafted in the framework of the technical support project ["Improving the Provision of Active Labour Market Policies in Estonia"](#).¹ The project was funded by the European Union (EU) via the Structural Reform Support Programme and conducted by the OECD in co-operation with the European Commission's Directorate-General for Structural Reform Support (DG-Reform).

The main actors of the ALMP system in Iceland are the Ministry of Social Affairs (and its Minister) and the Directorate of Labour. The Minister of Social Affairs is in charge of labour market policies, being the driver for changes in legislation and supporting implementation. The Directorate of Labour is an autonomous public body that implements ALMPs, but has also a strong role in ALMP design. A tripartite body supports the executive management body of the Directorate of Labour in strategic management. The co-operation practices between the Ministry of Social Affairs and the Directorate of Labour are not formally regulated. Yet, tight co-operation does take place.

The regulatory set-up of ALMP provision allows Iceland to respond to changes on the labour market flexibly and fast. The main act regulating ALMP provision sets a very general framework for the institutional set-up and the set of ALMPs. Some further details regarding ALMP provision are additionally stipulated in the regulations by the Minister of Social Affairs. Nevertheless, the Directorate of Labour has a lot of freedom to design the ALMP details with the support of its strategic management body.

The first Section of this note provides an overview of the key stakeholders of the ALMP system in Iceland, focusing particularly on the institutions that design and implement ALMPs. The second Section discusses how the key stakeholders co-operate in the Icelandic framework, how it is ensured that the views of relevant stakeholders are taken into account and how the accountability framework is set up. The third Section presents the legal framework that regulates ALMP provision and frames the institutional set-up. The final Section summarises the good practices that the Icelandic system exhibits.

The current note is based on the legal acts and regulations of ALMP provision in Iceland, inputs provided by the public employment service of Iceland, and the presentations of the Ministry of Social Affairs and the public employment service of Iceland in the webinar ["Institutional and regulatory set-up of providing active labour market policies in Estonia: possibilities for improvement?"](#) in September 2020. The note was prepared by Anne Lauringson, Marius Lüske and Theodora Xenogiani in the OECD's Directorate for Employment, Labour and Social Affairs. A dashboard of key indicators of organisational and regulatory set-ups of ALMP systems and their capacity enabling to compare Iceland with other OECD and EU countries is presented in Lauringson and Lüske (forthcoming^[1]).

¹ See the final report: OECD (2021^[3]).

1 Institutional set-up

This section provides an overview of the two most important stakeholders in the system of ALMP provision in Iceland – the Ministry of Social Affairs and the Directorate of Labour (the public employment service, PES). In addition, the section includes a more in-depth discussion on the management of public employment service and highlights the role of different institutions in drawing up the budget for ALMPs.

1.1. The ministry in charge of employment policy and its role

The ministry in charge of employment policy in Iceland is the Ministry of Social Affairs. The legal framework assigns a significant role regarding ALMPs to the Minister.

According to the Labour Market Measures Act no. 55 of 2006 (LMMA)² the Minister is in charge of labour market policies. The Directorate of Labour (the public employment service in Iceland) carries out the implementation of the LMMA under the authority of the Minister of Social Affairs. Furthermore, the Minister of Social Affairs can decide to assign additional tasks to the Directorate of Labour.

The LMMA regulates the institutional set-up of ALMP provision on a general level and assigns several duties to the Minister of Social Affairs, but it does not assign tasks to the Ministry of Social Affairs. Nevertheless, the Minister is supported by the Department of Labour Market Affairs and Vocational Rehabilitation, which is the unit in the Ministry that is responsible for the legislation and regulations of ALMPs. It is a task of the Ministry of Social Affairs to re-draft the LMMA when this is necessary.

1.2. The public and private employment services and their role

The set-up of PES

The Directorate of Labour (Vinnumálastofnun / VMST) fills the function of the public employment service in Iceland. The VMST bears overall responsibility for public job mediation and provides ALMPs. The VMST has also many other core responsibilities that go beyond the usual tasks of a public employment service. For example, the VMST handles day-to-day operations of the Unemployment Insurance Fund, the Maternity and Paternity Leave Fund and the Wage Guarantee Fund. Furthermore, the VMST issues temporary work permits, registers foreign labour and deals with many other tasks concerning the labour market. The main acts regulating the VMST activities concerning labour market policies are the LMMA and Act no. 54/2006 on Unemployment Insurance.³

The VMST provides ALMPs under the authority of the Minister of Social Affairs. Nevertheless, the VMST is an autonomous public body, in its decision-making and functioning. The LMMA provides a framework for the Minister to intervene if necessary, but it is not a general practice.

² <https://www.althingi.is/lagas/nuna/2006055.html>

³ <http://www.althingi.is/lagas/nuna/2006054.html>

The role of PES

The VMST implements the LMMA. However, the LMMA describes ALMP provision on a very general level. As such, it is up to the VMST to design specific ALMPs (target groups, conditions, organisation of provision) as well as to provide these ALMPs.

Regarding co-operation with other stakeholders, the LMMA mandates that the VMST seeks collaboration with other service providers. Furthermore, the VMST can co-operate and receive information from the social services of local government, professional rehabilitation funds, employers, lifelong learning centres, and recognized educational institutions within the general education system and higher education.

The role of private employment services

Several private employment services operate in Iceland, mainly mediating job vacancies. The VMST is not responsible for licencing and supervising the national private employment services, but it has to ensure that the private employment services do not charge jobseekers for recruitment. The VMST publishes an overview of the national recruitment agencies on its website to keep jobseekers informed of the possibilities available.

Foreign service providers who post workers temporarily in Iceland must register with the VMST and there the VMST has also a supervising role.

1.3. The management of public employment service

The strategic management of PES

The CEO and the Executive Board of the VMST are responsible for the strategic management of the VMST. A tripartite body called the Board of Directors supports the CEO and the Executive Board in the strategic management of the VMST.

Composition of the Board of Directors of the Directorate of Labour

The Board of Directors has 10 members (and 10 alternate members to substitute the members when needed). In total, trade unions have 4 representatives, employers 2, the government 3 and municipalities 1 representative. The Minister of Social Affairs appoints the Board of Directors for a four-year term according to LMMA.

More specifically, the Icelandic Confederation of Labour (ASI, a trade union) and the Confederation of Icelandic Employers nominate two members, The Federation of State and Municipal Employees (BSRB, a trade union), The Icelandic Confederation of University Graduates (BHM, a trade union), the Ministry of Finance and the Association of Icelandic Local Authorities nominate one member. The Minister appoints (without nomination) two members of the Board, the Chairman and the Vice Chairman. The alternate members are appointed the same way.

The Chairman and the Vice Chairman do not have additional rights or responsibilities compared to the other members of the Board of Directors. For example, they do not have access to more information, they do not have more say on the choice of topics to be discussed or more rights in making decisions.

In addition to the Board of Directors of the Directorate of Labour, there are two other similar bodies in the VMST. One of them is the Board of Directors of the Unemployment Insurance Fund, which has 9 members in almost the same composition as the Board of Directors of the Directorate of Labour, but only the Chairman is appointed by the Ministry of Social Affairs. The second body is the Board of Directors of the Self-Employed Individuals' Insurance Fund, which has 4 members: one from the Icelandic Farmers'

Association, one from the Union of Small Fishing Vessel Owners, one from the National Federation of Lorry-Drivers and the Chairman appointed by the Minister of Social Affairs.

Responsibilities of the Board of Directors of the Directorate of Labour

The Board of Directors oversees the operation and activities of the VMST regarding ALMPs. As some of the key tasks according to LMMA, the Board is expected to discuss and approve the annual work plan and annual budget of the VMST presented by the CEO of the VMST.

In addition to an annual work plan mandated by the LMMA and in the Unemployment Insurance Act, the VMST proposes a development plan for 3 years ahead. The VMST aims to incorporate national level strategies (goals set by the Government) in both of these plans. The Board of Directors of the Directorate of Labour approves both the annual work plan and the 3-year development plan.

Furthermore, based on the estimations provided by the CEO/Executive Board, the Board of Directors of the Directorate of Labour annually submits proposals to the Board of Directors of the Unemployment Insurance Fund on funding of unemployment benefits. The same proposal includes also tasks to be carried out by the VMST on behalf of the Unemployment Insurance Fund under a service agreement.

The Board of Directors of the Directorate of Labour and the CEO/Executive Board report to the Minister of Social Affairs on the employment situation and the outcomes of ALMP provision in a report at the end of each year.

Meetings of the Board of Directors of the Directorate of Labour

The CEO/Executive Board prepare the documents for the meetings of the Board of Directors. The staff of the Ministry of Social Affairs are not involved in this process. The level of detail in the documents depends on the topic. The documents provide a general overview of relevant activities, while some documents go more in-depth in presenting and discussing the details. The CEO shares the documents with the Board of Directors at least 48 hours before the meeting.

The CEO attends the meetings of the Board of Directors with freedom of speech and the right to make proposals. Other members of the Executive Board of the VMST also attend all meetings and additional staff are called in to present specific topics as needed. The discussions during the meetings are rather in-depth.

The Board of Directors of the Directorate of Labour has above all a supervisory and supportive role regarding the VMST. Hence, the major decisions of the Board need further approval by the Minister of Social Affairs.

Regional dimension of strategic management

In addition to taking part in the strategic management of the VMST on the national level, the social partners are involved in the system of ALMP provision also at the regional level in Iceland.

The Minister of Social Affairs appoints seven regional labour market councils. In each regional labour market council, two members are appointed by trade unions, two by the employers' organizations, one nominated by the municipalities, one nominated by the minister responsible for education. The Minister of Social Affairs appoints the Chairman and the Deputy Chairman of the labour market councils. The Minister of Social Affairs also decides on the location of labour market councils after receiving the recommendations from the CEO of the VMST and the Board of Directors of the Directorate for Labour.

The seven regional labour market councils advise the VMST on the organization and selection of ALMPs regionally. However, whilst the labour market councils are consulted, they do not have any decision-making power and do not have a role in approving regulations. Furthermore, the role of the labour market councils

has been gradually decreasing over the past years. These councils generally have a small role today and this role varies between regions.

Each labour market council submits a report to the Board of Directors of the Directorate of Labour on the state of labour market each year in November, together with proposals for the ALMPs for the following year. These proposals are not binding for the Board of Directors.

The executive management of the PES

The CEO is responsible for both strategic and executive management in the VMST.

The Minister of Social Affairs appoints the CEO of the VMST for five years (renewable term). Preceding the appointment, the CEO is chosen through a public competition process. A special competence committee composed of three people is entrusted to assess the qualifications of applicants for the CEO position. The conclusion of the committee is advisory for the Minister. This means that the proposal of the committee is not binding, although in practice it is generally imposed.

The CEO appoints the staff of the VMST and is legally and operationally responsible to the Minister of Social Affairs. The tasks of the CEO, according to the LMMA, include preparing the annual work plan and budget, as well as informing and making proposals to the Board of Directors of the Directorate of Labour.

The VMST Executive Board consist of the CEO and five Executive Directors of the main divisions of the VMST (HRM, Law and Public Administration, Finance, Recruitment and Counselling Services, IT and Analysis).

1.4. Institutions involved in drawing up the budget for ALMPs

ALMPs by the VMST are financed by the state budget and unemployment insurance contributions.

The first input to start the budgeting process is prepared by the VMST Executive Board (the strategic and executive management body). The draft budget is then used by the Minister of Social Affairs in the discussions to draw up a state budget in the Government.

The overall budget for the ALMPs is passed by the Government and by the Parliament in the framework of the state budget, which is then agreed with (or disagreed and sent back to the Government) by the VMST Executive Board.

The VMST Executive Board with the support of the Board of Directors of the Directorate of Labour (the supporting tripartite strategic management body) can ask for an increase in the overall budget when a need arises in the middle of a financial year (e.g. when labour market situation worsens). These proposals then need to be approved by the Minister of Social Affairs and the Government to become effective.

The detailed budget by different ALMPs is prepared by the VMST and approved by the Board of Directors of the Directorate of Labour.

2 Co-operation practices and accountability framework

This section provides a short overview on the co-operation practices between the key institutions tasked with ALMP design and implementation and discusses how the views of other stakeholders (above all the social partners) are taken into account. It also briefly discusses the accountability framework of the Icelandic ALMP system.

2.1. Co-operation practices between the Ministry and the public employment service

The Ministry of Social Affairs co-operates frequently with the VMST. This includes both the co-operation between the CEO and the Minister of Social Affairs as well as the CEO and the Director General of the Department of Labour Market Affairs and Vocational Rehabilitation in the Ministry. The staff members from both the Ministry and the VMST collaborate regularly as well.

The CEO and the Department of Labour Market Affairs and Vocational Rehabilitation meet frequently to discuss developments and challenges regarding the labour market and ALMPs. In addition, the VMST provides various reports to the Ministry upon request.

The CEO of the VMST generally has good access to both the relevant staff in the Ministry as well as to the Minister when needed. However, the Minister cannot intervene in the implementation of ALMPs (i.e. how the VMST serves individual citizens).

Nevertheless, there are no regulations nor formal agreements of co-operation between the Ministry and the VMST on matters regarding ALMP's. As such, the co-operation practices stand on the will to co-operate and co-operation takes place when it is needed.

2.2. Co-operation practices with other key stakeholders

Iceland is a small country with short communication channels and short chain of command. As such, involving stakeholders and building partnerships are common practices.

The VMST collaborates actively with numerous partners in the public, private and third sector, both on the national and regional level.

Furthermore, temporary bodies can be set up to co-ordinate specific topics across policy fields. During the periods of crisis, like the economic crisis in 2008 and the current Covid-19 crisis, a co-ordination group on employment and educational measures has been established on the initiative of the Minister of Education and Culture and the Minister of Social Affairs. The currently established co-ordination group has already started working on their proposals to respond to the crisis as of April 2020.

Regarding co-operation with social partners, the representatives of social partners are represented in the Board of Directors of the Directorate of Labour, the Board of Directors of the Unemployment Insurance Fund, etc. (see Section 1.3). As such, they can easily provide their inputs for policymaking. The regional directors of the VMST consult with social partners and other stakeholders on the regional level regarding ALMP needs. The role of the regional labour market councils varies between regions and their role has in general decreased over the last years.

The co-operation practices in Iceland ensure coherence between ALMPs and broader national strategies and objectives. For example, the national level Board of Directors of the Directorate of Labour involves representatives from different stakeholders, such as trade unions and employers, but also representatives of the Ministry of Finance. This ensures that the views of these different stakeholders are taken into account at the highest level. The coherence between national objectives is supported by the possibility set up temporary inter-ministerial bodies to co-ordinate specific issues across policy fields.

2.3. The accountability framework

The VMST is accountable for its operation and actions to the Ministry. The CEO and the Executive Board report to the Minister of Social Affairs.

The performance of ALMPs and the labour market are monitored using statistics and analysis, and conducting surveys. Nevertheless, the monitoring and evaluation framework should be developed further in the VMST (OECD, 2019^[2]). This means that the accountability framework is still an area for improvement in the system of ALMP provision in Iceland.

3

The regulation of key aspects of active labour market policy provision

This section gives a short overview of the main legal regulations of ALMP provision and the organisations tasked with adopting regulations concerning ALMPs.

3.1. The main legal documents

The main legal document regulating ALMP provision is the Labour Market Measures Act (LMMA). The aim of the LMMA is to provide individuals with the appropriate assistance to participate actively on the labour market. In addition, the act is intended to promote a balance between supply and demand for labour in Iceland.

The LMMA provides a general framework for ALMP provision, stating that the VMST arranges and organises ALMP provision and puts contracts with service providers in place to execute ALMPs. The LMMA also highlights the six broad categories of ALMPs and stipulates that the VMST should set the specific ALMPs.

Designing specific ALMPs is an internal work process in the VMST, conducted in the Department for Counselling and Recruitment of the VMST. While the initiative to design and redesign ALMPs comes from the VMST, it is a practice to consult and co-operate with other stakeholders during this process. As Iceland is a small country, it is easy to involve relevant stakeholders in the process informally.

Different targets and target groups for ALMPs are set in the yearly work plan that is approved by the Board of Directors of the Directorate of Labour. Information on approved ALMPs is published on the website of the VMST. This information is also provided to jobseekers when they register at the VMST (along with information on the obligations and rights for jobseekers).

The LMMA is closely related to the Unemployment Insurance Act No. 54 of 2006 that stipulates the general activity requirements for benefit recipients. These two acts make up the backbone of the work carried out by the Ministry of Social Affairs and the VMST regarding ALMPs.

Additionally, there are currently two other regulations supporting ALMP provision:

- 1) Regulation No. 1223/2015 on Studies and Courses That Are Recognized as ALMPs.⁴ This is a regulation by the Minister of Social Affairs that sets a short list of training measures that are considered to be ALMPs.
- 2) Regulation No. 1224/2015 on Participation in ALMPs Regarding Jobseekers Insured under the Unemployment Insurance Scheme and on the Payment of Grants from the Unemployment Insurance Fund.⁵ This is a regulation by the Minister of Social Affairs that regulates ALMP provision

⁴ <http://www.stjornartidindi.is/Advert.aspx?RecordID=645ef5fd-1f23-4ea6-a188-9072f7679fbb>

⁵ <http://www.stjornartidindi.is/Advert.aspx?RecordID=5fa163c2-db28-415e-ad34-97d293fc5e28>

for the recipients of unemployment insurance benefits. The regulation sets the activation criteria for jobseekers to be eligible for unemployment benefits and stipulates the types of ALMPs that can be provided for the benefit recipients. Compared to the LMMA, this regulation describes the types of ALMPs in more detail.

3.2. Stakeholders in charge of regulations

Table 1 summarises, which of the key stakeholders (Parliament, Government, Ministry, etc.) adopts the regulation concerning the main aspects of ALMP provision (general aim of ALMP provision, general set-up of PES, etc.).

In Iceland, the general framework of ALMP provision is stipulated in one main act that is passed by the Parliament. Two regulations by the Minister of Social Affairs support the implementation of this act by providing additional frameworks and guidelines. The details of ALMP design are drafted by the PES (VMST) in co-operation with other stakeholders when needed. The general framework of ALMP design is approved by the supervisory body of the PES (the Board of Directors of the Directorate of Labour).

Table 1. Regulation of ALMP provision in Iceland

	Act (passed by the Parliament)	A decree or order implementing the act, by the Government	A decree or order implementing the act, by the Minister	A decision by the PES supervisory body	A decision by the PES executive management
General groups eligible for ALMPs	X		X		
General aim of ALMP provision	X		X		
Set-up and purpose of PES	X		X		
List of specific ALMPs					X
Aim of specific ALMPs					X
Conditions of specific ALMPs (duration, sums)					X
Target groups of specific ALMPs					X
(Annual) budget for ALMPs	X				
(Annual) budget for each ALMP					X

Note: PES – public employment service.

Source: Legal texts and regulations of Iceland and input from the VMST.

4 Summary of good practices in the system

Iceland's labour market performance is outstanding in international comparison, making the country a particularly interesting case to look at. Both Iceland's employment rate and labour force participation rate are higher than in any other OECD country.

The institutional and regulatory framework of Iceland's ALMP system combines several good features that may contribute to the good employment outcomes.

- 1) The system is very responsive. Iceland's way of achieving flexibility in designing ALMPs is to grant the Executive Board of the VMST the right to take decisions on ALMP design with the support of the Board of Directors of the Directorate of Labour, without needing approvals by the Government or Parliament. As the LMMA only gives a very general framework, it is possible to quickly and flexibly draw up new ALMPs or redesign the existing ALMPs in case necessary.
- 2) When the VMST sees the need to change the LMMA, they can easily contact the Ministry of Social Affairs, which can initiate the change in the law and/or relevant regulation. While major changes can take some time, the process is still relatively quick and agile as the country is small and can react quickly.
- 3) Similarly, the VMST can flexibly reallocate budget for specific ALMPs within the overall budget of ALMPs. However, additional negotiations between the Minister of Social Affairs and other Ministers are necessary in case an overall increase in the budget is necessary.
- 4) The system is largely consensual. The LMMA provides a general framework for the institutional set-up of ALMP provision, encouraging the involvement of all relevant stakeholders. As a result, the inputs of all relevant stakeholders are strongly represented in the system of ALMP provision (for example via the Board of Directors) and complement the views of the Minister of Social Affairs (the political will).

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