

REGULATION
on the Icelandic Regional Development Institute
no. 347/2000

SECTION I
Functions and Administrative Structure

Article 1

Administrative Status

The Icelandic Regional Development Institute is an independent state-owned agency and falls under the ultimate authority of the Minister of Industry.

Article 2

Purpose and Functions

The purpose of the Icelandic Regional Development Institute is to promote the economic development of the rural regions of Iceland and employment and industry in these areas. In order to foster growth, innovation and change in business and industry, the Institute shall *inter alia* provide loans and consultancy, finance and organise projects, and support high-quality employment consultancy services. To encourage the economic development of the rural regions of Iceland the Institute shall make proposals and plans on the basis of data collection and research activities.

Article 3

Annual General Meeting

An annual general meeting of the Icelandic Regional Development Institute shall be held not later than 1 July each year. The Executive Board of the Institute shall decide the date, venue, and agenda of the meeting. The annual general meeting shall address measures taken in and future prospects for regional affairs and the activities of the Institute.

The annual general meeting shall be attended by the Minister of Industry and the Institute's Executive Board and senior managers. Invitations to the meeting shall also be sent to representatives of economic development agencies and local authorities, members of parliament, representatives of other institutions and parties involved in economic and regional development affairs, the media, and other interested parties.

Article 4

Duties of the Executive Board

The Executive Board of the Icelandic Regional Development Institute shall formulate policy for the Institute and ensure that it is carried out. Meetings are convened by the Chairman of the Executive Board.

The Executive Board may delegate to a Loans Committee under the direction of the Chief Executive Officer the task of making decisions on individual loans in accordance with rules and procedures laid down by the Executive Board. These rules and procedures shall specify *inter alia* the objectives of the lending activities, the policy on loan terms and conditions, and the maximum lending to and risk contribution of a single company. They shall also provide details of the composition and working procedures of the Loans Committee, its decision-making criteria, the applications process, the disclosure of information to applicants, and the

response time. They shall also include a requirement for regular reporting to the Executive Board for the purposes of its supervisory functions.

In its decision making the Icelandic Regional Development Institute shall treat parties that are in a comparable position equally. Particular care shall be taken to ensure that facilities provided by the Institute to companies and individuals create the least possible disruption to the competitive position of other business enterprises outside the Reykjavík metropolitan area.

Article 5

Duties of the Chief Executive Officer

The Minister of Industry shall appoint a Chief Executive Officer to the Icelandic Regional Development Institute for a term of five years at a time on receipt of the recommendation of the Executive Board. The head of the Lending Division shall act for the Chief Executive Officer in his absence. The Chief Executive Officer shall have charge of the Institute's executive management and day-to-day operations and in such matters shall be guided by the policy and directions issued by the Executive Board. He shall submit proposals to the Executive Board regarding working procedures and policy. The Chief Executive Officer shall also act as head of the Loans Committee. In respects other than as prescribed in the Act on the Icelandic Regional Development Institute and this Regulation, the duties of the Chief Executive Officer shall be governed by the provisions laid down in the Act on Credit Institutions Other Than Commercial Banks and Savings Banks, no. 123/1993.

SECTION II Operations

Article 6

Working Arrangements

In addition to the office of the Chief Executive Officer, the operations of the Icelandic Regional Development Institute shall be divided into the following divisions:

1. Lending Division, which deals *inter alia* with loan applications, consultancy, the disbursement of loans, project funding, appraisals, and development projects relating to companies and economic factors.
2. Development Division, which deals with collaboration with economic development agencies and institutions and data gathering and information processing, and oversees studies, research, and other development activities in the area of regional affairs and business and industry.
3. Legal Division, which deals *inter alia* with legal matters, collection, and overall control of documentation.
4. Operations Division, which deals *inter alia* with the running of the Institute, its bookkeeping, the collection of loans, and the preparation of operating budgets and payment plans.

Article 7

Plan

At the start of each year the Executive Board of the Icelandic Regional Development Institute shall have a plan drawn up for the Institute's activities in the relevant year. This plan shall consist of two parts: an action plan and a plan for lending activities. Lending activities shall pay that part of the Institute's operating costs that may arise from such activities. The plans shall be submitted to the Minister of Industry for his information not later than on 15 February of each year.

The action plan shall include details of the projects that the Executive Board wishes to have carried out and that do not fall under normal duties. It shall also include an operating plan for matters other than lending activities. It shall set out how budgetary funding and other revenue shall be allocated towards operating costs, participation in the costs arising from the activities of economic development agencies, project funding, and the purchase of shares.

The plan for lending activities shall set out the policy on lending for the year and an operating plan and budget for lending operations. It shall also provide *inter alia* a breakdown of necessary additions to the provision to cover losses on loans granted as regards normal loans and high-risk loans. By high-risk loans is meant loans carrying a higher level of risk than their interest-rate differential can cover.

The plan for project funding shall include details of the projects on which the Institute intends to work in the year and their desired objectives. It shall set out the projected level of the Institute's contribution to individual projects and that of its collaborative partners.

SECTION III **Employment Consultancy**

Article 8

Promotion of Employment and Industry

The Icelandic Regional Development Institute shall seek to create an increased diversification of business and industry in the rural regions of Iceland and their adaptation to changing conditions, including through the promotion of research and development activities and a greater increased use of information technology in company operations.

The Icelandic Regional Development Institute shall enter into agreements with economic development agencies, institutions, local authorities, independently operating consultants, or other parties, to provide employment consultancy in specific fields, industrial sectors, or geographic areas. The Institute shall also work to promote co-operation and co-ordination in the area of economic development.

The Institute shall provide economic development agencies with professional assistance in the areas of economic development and innovation, act as conduits for information, assist in continuing education, and contribute to co-ordinating the activities of the economic development agencies and enhancing co-operation between them. The Institute shall establish links with organisations that are engaged in industrial or regional development, organise collaborative projects, and assist in the search for collaborative partners in matters requiring particular specialisation.

Article 9

Strengthening of Community Infrastructure

The Icelandic Regional Development Institute shall work in co-operation with economic development agencies, local authorities and public institutions, and other parties to strengthen community infrastructures. This may include educational and cultural activities, transport and communications, environmental issues, and services.

The Institute may also contribute to local planning activities under the terms of the Planning and Building Act, no. 73/1997.

The Institute shall participate in collaborative groups and assist in the analysis of the problems of rural areas where there has been serious disruption of working and settlement patterns.

Article 10

Research, Information, and Review of Proposed Measures

The Icelandic Regional Development Institute shall engage in data gathering and research and monitor economic and regional development trends and their principal contributory factors and the results of public support measures in the area of industrial and economic affairs and regional development, both in Iceland and in countries where conditions are comparable. The Institute may participate in international research projects and enter into agreements for research in this area with universities, research institutions, and other parties.

The Icelandic Regional Development Institute shall assess the effects of legislation and other government measures on regional development. The Institute shall submit comments and may produce reports and proposals for the parliament of Iceland, ministries, institutions, local authorities, and other parties in its area of operations.

Article 11

Collaboration and Communications

The Icelandic Regional Development Institute shall work towards the creation of co-operative networks and may participate in and organise domestic and foreign collaborative projects in the area of regional and economic affairs. The Institute shall assist economic development agencies and other collaborative partners in the implementation and procurement of projects of this kind.

Article 12

Strategic Regional Plan

The Minister of Industry shall submit to Parliament a draft parliamentary resolution for a strategic regional plan for a period of four years. The plan shall set out the government's aims and policies in regional affairs and its plans for action in the area of employment, public services, etc. It shall state the means by which individual measures shall be financed, their time-tabling, and who will be responsible for their implementation.

The regional plan shall set out the current situation and outlooks for development in the non-metropolitan regions of Iceland and the progress made on the current regional plan.

The Minister of Industry shall prepare the regional plan in collaboration with the Icelandic Regional Development Institute and seek the Institute's professional advice on research and studies in the preparatory drafting of the regional plan. In drawing up the regional plan, the Minister shall consult with other ministries, local authorities, and other parties as required.

The regional plan shall be reviewed at two yearly intervals.

The Icelandic Regional Development Institute shall monitor the implementation of such aspects of the strategic regional plan as the Minister charges it with.

SECTION IV

Project Financing and Granting of Loans and Guarantees

Article 13

Project Financing

The Icelandic Regional Development Institute shall provide financial support for projects in the areas of industrial development and innovation. The Institute's Executive Board shall select the projects and attempt to identify collaborative partners for them. In its consideration of individual projects the Executive Board may, together with its collaborative partners, establish project committees to act in an advisory capacity. The Institute may also assign to economic development agencies the task of allocating funds to particular projects.

Article 14

Granting of Loans and Guarantees

The Icelandic Regional Development Institute shall grant loans and guarantees. The Executive Board of the Institute may delegate decisions on individual loans to the Chief Executive Officer in accordance with rules and procedures that the Executive Board shall lay down. The terms and conditions of loans shall be decided by the Executive Board. The term of a loan shall not be greater than 25 years.

The objective of the lending activities is *inter alia* to ensure that companies and individuals engaged in business operations outside the Reykjavík metropolitan area have access to long-term loans on the most favourable terms available and to promote the growth of forward-looking companies, industrial innovation, and the economic development of the rural regions of Iceland.

The financial objective of the lending activities shall be to maintain the real value of the Institute's capital reserves.

Article 15

Loan Applications

In the assessing of applications, account shall be taken of the operations and operational prospects of the enterprise, the experience and expertise of those acting on its behalf, the security offered for loans, innovation value, competitive considerations, and the value for the creation of jobs and industry in the rural areas of Iceland. The Institute shall make special effort to involve other lending institutions and to foster conditions under which they will be ready to make loans to companies outside the Reykjavík metropolitan area. All loans shall be classified by risk category on processing on the basis *inter alia* of the company's operational prospects, its financial position, and the security provided for loans.

Loan applications shall typically be submitted on application forms which may be obtained from the Institute and economic development agencies.

Article 16

Remission of Loans

A loan once granted is irrevocable. Exceptions may however be made in special circumstances, e.g. when loans are not covered by readily realisable security and when this best suits the Institute's claims collection procedures. The opinion of the National Audit Office shall be sought before individual loans are revoked.

Article 17

Limitations

The Icelandic Regional Development Institute is authorised to finance projects and provide loans and guarantees in the non-metropolitan regions of Iceland, viz. outside the following local authority areas: Hafnarfjörður, Garðabær, the community of Bessastaðir, Kópavogur, Seltjarnarnes, the City of Reykjavík, and Mosfellsbær.

The financing and lending operations of the Icelandic Regional Development Institute are subject to the provisions of the EEA Agreement, cf. Act no. 2/1993.

Aid that comes under Article 61, paragraph 3, point c of the EEA Agreement concerning investments shall not be for a higher sum than the equivalent of 17%, net of income tax, of the original start-up costs on business premises or alterations thereto. In addition, it is permitted to grant aid to small and medium-sized enterprises equivalent to up to 10% of the same cost factors as per definition 10.2 in the state-aid guidelines of the EFTA Surveillance Authority as published in the EEA Supplement to the Official Journal of the European Union. The

percentage figures set out above are maximum guidelines for all public financial assistance to the same project.

In calculating and assessing aid granted, account shall be taken of the returns that would have been obtained under normal market conditions at the relevant time.

SECTION V

Participation in Commercial Operations

Article 18

Establishment of Enterprises

The Icelandic Regional Development Institute may, in conformity with its purpose and function, support the establishment of new enterprises if the Executive Board so decides. Such decisions shall be made with regard to the regional plan.

In its support for the establishment of new enterprises the Icelandic Regional Development Institute may provide assistance and consultancy in the preparatory stages and grant guarantees and investment capital. As a general rule, financial facilities provided shall be on the assumption that the Institute will not itself have any direct part in the running of the enterprise. However, the Institute is authorised to take an ownership share in a company to a maximum equity participation of 30% if in the view of the Institute's Executive Board there are strong reasons for so doing. The Icelandic Regional Development Institute is, however, in all circumstances authorised to participate in a company as an owner through providing share capital or other initial capital contributions where the company in question is a holding company, an investment company, or a development company, including economic development agencies.

Notwithstanding the provisions laid down in paragraph 2, the Icelandic Regional Development Institute may at all times protect its claims by converting them into share capital. The Institute is also authorised to convert appropriated assets into share capital when this is deemed to be financially the most effective means of protecting the interests of the Institute's claims collection procedures.

Article 19

Sale of Shares (Shareholdings)

Shares owned by the Icelandic Regional Development Institute shall be offered for sale on the open market and it shall be a general principle that shares are advertised for sale at least once a year. Shares may also be put up for sale on a registered stock market.

The provisions of this Article do not apply to shareholdings held by the Institute in holding companies, investment companies, and development companies, including economic development agencies. The Institute is however authorised to sell its shares in such companies if the Executive Board so decides.

Article 20

Holding Companies, Investment Companies, and Development Companies

In accordance with the purpose and functions of the Icelandic Regional Development Institute, the Institute's Executive Board may decide that the Institute shall participate in holding companies, investment companies, and development companies to a maximum ownership interest of 40%. A condition for the holding of an interest of this kind is that at least 10% of the shares in such companies shall be owned by institutional investors, privately owned companies, and private individuals. In such cases the Institute shall work in partnership with investment funds and lending institutions, according as applies, on facilities to be provided for projects that fall within the remit of the Institute's designated purpose.

SECTION VI

Miscellaneous Provisions

Article 21

Reporting on Operations

The Minister of Industry shall present to Parliament an annual report on the operations of the Icelandic Regional Development Institute and the current position of the regional plan.

Article 22

Revenue

The revenue of the Icelandic Regional Development Institute consists of a funding allocation from the National Exchequer and income on deposits and investments.

Article 23

Borrowing

To finance its activities, the Icelandic Regional Development Institute is authorised, within the limits established by the national budget, to take on loans in Iceland or abroad, either in its own name or through the agency of other parties.

Article 24

Confidentiality

Members of the Executive Board and all members of staff of the Icelandic Regional Development Institute are bound by a duty of confidentiality on matters that come to their notice in the course of their work and that must remain undisclosed by law, in accordance with the instructions of a senior officer, or in the nature of the case. The obligation of confidentiality remains in force even after the party has ceased to work for the Institute.

Article 25

Probity of Members of the Executive Board

A member of the Executive Board shall not take any part in the treatment of a case that concerns a company of which he is a board member or employee. He shall also abstain from participation if he is financially exposed to a company to any substantial extent as a result of ownership interest, business relations, or other reason. The same applies to the participation of a member of the Executive Board in the treatment of a case that concerns parties with whom he has such close personal ties that there is a danger that his impartiality might be compromised. At the start of his period of office, a member of the Executive Board shall submit a statement of those companies in the treatment of whose affairs he does not consider himself to be properly placed to participate. He shall also make disclosure of any changes that occur in his financial position or interests in this regard.

Article 26

Statutory Authority

This Regulation is enacted under the authority laid down in Act no. 106/1999 on the Icelandic Regional Development Institute and with reference to Article 61 of the EEA Agreement, cf. Article 2, paragraph 1 of Act no. 2/1993 on the legal status of this Agreement in Iceland.

This Regulation comes into effect up publication.

The Ministry of Industry, 16 May 2000

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