Document of

The World Bank

Report No: ICR00004375

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-85770)

ON A LOAN

IN THE AMOUNT OF US$1,200 MILLION

TO

THE REPUBLIC OF IRAQ

FOR AN EMERGENCY FISCAL STABILIZATION, ENERGY SUSTAINABILITY, AND STATE-OWNED ENTERPRISE TRANSPARENCY DEVELOPMENT POLICY FINANCING

June 26, 2018

Macroeconomics, Trade and Investment – Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of June 18, 2018)

Currency Unit = Iraqi Dinar (ID)
US$1 = ID 1182
ID1 = US$ 0.000846

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activity
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BGC	Basra Gas Company
CoM	Council of Ministers
COMSEC	CoM Secretariat
CPS	Country Partnership Strategy
DMS	Debt Management Strategy
DPF	Development Policy Financing
ERU	Economic Reform Unit
ESW	Economic and Sector Work
FATF	Financial Activity Task Force
FCV	Fragility, conflict and violence
GDP	Gross Domestic Product
HRM	Human Resource Management
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results
ID	Iraqi Dinar
IDMS	Iraqi Development Management System
IOC	International Oil Company
INES	Integrated National Energy Strategy
ISIS	Islamic State of Iraq and Syria
JICA	Japan International Cooperation Agency
MENA	Middle East North Africa
MTDS	Medium Term Debt Strategy
MMscf/d	Millions of standard cubic feet per day
NBP	National Board of Pensions
PA	Prior Action
PD	Program Document
PDO	Program Development Objective
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Public Investment Management
PMAC	Prime Minister's Advisory Council
PMO	Prime Minister's Office
PLR	Performance and Learning Review
PPP	Public Private Partnership
RAS	Reimbursable Advisory Services
RFI	Rapid Financing Instrument
SBA	Stand-by Arrangement
SCD	Systematic Country Diagnostic
SMP	Staff Monitored Program
SOE	State-Owned Enterprise
TA	Technical Assistance
US	United States
USAID	US Agency for International Development

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Iraq

IRAQ EMERGENCY FISCAL STABILIZATION, ENERGY SUSTAINABILITY, & SOES TRANSPARENCY DPF

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A. BASIC INFORMATION

Country:	Iraq	Program Name:	IRAQ EMERGENCY FISCAL STABILIZATION, ENERGY SUSTAINABILITY,&SOEs DPF
Program ID:	P155962	L/C/TF Number(s):	IBRD-85770
ICR Date:	05/10/2018	ICR Type:	Core ICR
Financing Instrument:	DPL	Borrower:	REPUBLIC OF IRAQ
Original Total Commitment:	USD 1,200.00M	Disbursed Amount:	USD 1,200.00M
Revised Amount:	USD 1,200.00M		

Implementing Agencies:
Ministry of Finance

Cofinanciers and Other External Partners:

B. KEY DATES

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	07/15/2015	Effectiveness:		12/19/2015
Appraisal:	11/27/2015	Restructuring(s):		
Approval:	12/17/2015	Mid-term Review:		
		Closing:	12/31/2016	12/31/2016

C. RATINGS SUMMARY

C.1 Performance Rating by ICR

Outcomes:	Satisfactory
Risk to Development Outcome:	High
Bank Performance:	Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. SECTOR AND THEME CODES

	Original	Actual
Sector Code (as % of total Bank financing)		
Public Administration		
Other Public Administration	10	10
Central Government (Central Agencies)	40	40
Financial Sector		
Other Non-bank Financial Institutions	20	20
Energy and Extractives		
Other Energy and Extractives	30	30
Theme Code (as % of total Bank financing)		
Environment and Natural Resource Management	30	30
Climate change	30	30
Mitigation	30	30
Public Sector Management	100	100
Public Administration	80	80
State-owned Enterprise Reform and Privatization	20	20
Transparency, Accountability and Good Governance	60	60
Public Finance Management	20	20
Public Expenditure Management	20	20

E. BANK STAFF

Positions	At ICR	At Approval
Vice President:	Hafez M. H. Ghanem	Hafez M. H. Ghanem
Country Director:	Saroj Kumar Jha	Ferid Belhaj
Practice Manager/Manager:	Kevin Carey	Auguste Tano Kouame
Program Team Leader:	Luca Bandiera	Eric Le Borgne
ICR Team Leader:	Luca Bandiera	
ICR Primary Author:	Robert Keyfitz	

F. RESULTS FRAMEWORK ANALYSIS

Program Development Objectives (from Project Appraisal Document)

The operation is built around three pillars, which are also the operation's Program Development Objectives (PDOs): Improve (1) expenditure management; (2) the sustainability of energy supply; and (3) the transparency of state-owned enterprises.

Revised Program Development Objectives (if any, as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Reduction in the basic annual salary of top public sector employees as a ratio of annual GDP per capita (defined at grade 3 with 11 years of experience).			
Value quantitative or Qualitative)	September 2015: 1.9	Q1 2017: 1.7		1.6
Date achieved	09/01/2015	03/31/2017		12/31/2015
Comments (incl. % achievement)	The target was exceeded. The government's 2015 Salary Law reduced the budgeted basic annual salary of top grades (defined as grade 3 with 11 years of experience) as a ratio of GDP per capita to 1.6, which exceeds the 2015 DPF target of 1.7.			

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 2 :	Percentage of capital projects valued at over US$500 million for which a feasibility study with cost-benefit analysis is done			
Value quantitative or Qualitative)	2015: 3 percent of the total number of projects.	Q1 2017: 5 percent of the total number of projects.		13.7 percent
Date achieved	09/01/2015	03/31/2017		12/31/2016
Comments (incl. % achievement)	The target was exceeded. Iraqi Development Management System (IDMS) data showed 8 out of 58 projects (13.8 percent) over US$500 million in 2016 satisfied the condition.			
Indicator 3 :	Approval and publication on the ministry of finance website of a public debt management strategy in line with international best practice.			
Value quantitative or Qualitative)	2015: No debt management strategy	Q1 2017: Debt management strategy approved and published		Debt management strategy approved and published
Date achieved	09/01/2015	03/31/2017		12/29/2017
Comments (incl. % achievement)	The target was mostly achieved, but with delay. The first debt management strategy was published on the Ministry of Finance website in December 2017.			
Indicator 4 :	Improved financial sustainability of the State Pension Fund through better governance as measured by a reduction of the cash benefit spending of the National Board of Pension.			
Value quantitative or Qualitative)	2015: To be determined at end-2015	Q1 2017: a 5 percent nominal reduction compared to end-2015.		4.8 percent
Date achieved	09/01/2015	03/31/2017		12/31/2017
Comments (incl. % achievement)	The target was mostly achieved. Data provided by the National Board of Pension on savings obtained through the identification of more than 83,000 pension payments beneficiaries considered not legitimate, or 4.8 percent of the end-2015 beneficiaries.			
Indicator 5 :	Reduced gas flaring--measured by the amount of additional (associated) gas processed (measured as the average MMscf/day).			
Value quantitative or Qualitative)	2014: MMscf/day: 656	Q1 2017: MMscf/day: 1,070		Dec. 2017: 935 MMscf/d
Date achieved	12/01/2014	03/31/2017		12/31/2017

Comments (incl. % achievement)	The target was mostly achieved. At end-December 2017, the target was 87 percent met.			
Indicator 6 :	Establishment of an inter-ministerial committee and development of an action plan for gas-to-power.			
Value quantitative or Qualitative)	2014: No specific Committee in place and no Action Plan for Gas-to-Power developed.	Q1 2017: Specific interministerial committee in place and an Action Plan developed.		Committee never met.
Date achieved	09/01/2015	03/31/2017		12/31/2017
Comments (incl. % achievement)	The target was not achieved.			
Indicator 7 :	Fuel switching to generate power from petroleum products to gasâ"measured as total gas volume supplied to gas turbine power production (MMscf per day).			
Value quantitative or Qualitative)	2014 = 600 MMscf/day	Q1 2017 = 840 MMscf/day		2017 992 MMscf/day
Date achieved	09/01/2015	03/31/2017		12/31/2017
Comments (incl. % achievement)	The target was exceeded. Data reported by the main gas operator.			
Indicator 8 :	Increased tariffs for energy-intensive consumers-- measured by the retail price of electricity sold (in ID per kWh)			
Value quantitative or Qualitative)	2014: 30.74 ID/kWh	Q1 2017: 31.05 ID/KWh		2018: 86.7 ID/KWh
Date achieved	12/01/2014	03/31/2017		01/31/2018
Comments (incl. % achievement)	The target was exceeded. Electricity tariffs have increased about threefold since Dec. 2015.			
Indicator 9 :	Improved service delivery--measured by total electricity sold (in MWh)			
Value quantitative or Qualitative)	2014: 44 million MWh	Q1 2017: 47.6 million MWh		2017: 38.1 million MWh
Date achieved	12/01/2014	03/31/2017		12/31/2017
Comments (incl. % achievement)	The target was not achieved.			

Indicator 10 :	Publication of a consolidated annual report on financial and employment metrics of nonfinancial SOEs.			
Value quantitative or Qualitative)	2014: No report published	Q1 2017: Annual report published.		Q1 2017: Annual report published.
Date achieved	12/31/2014	03/31/2017		03/31/2017
Comments (incl. % achievement)	The target was achieved.			
Indicator 11 :	Ratio of state deposits in private banks to state deposits in all banks.			
Value quantitative or Qualitative)	January 2015: zero percent	Q1 2017: 5 percent		Target not met: Q1 2017: 0.4%
Date achieved	01/01/2015	03/31/2017		03/31/2017
Comments (incl. % achievement)	The target was not achieved.			
Indicator 12 :	Progress in implementing FATF Action Plan.			
Value quantitative or Qualitative)	June 2015: Zero of 8 actions in FATF action plan completed to the satisfaction of FATF	Q1 2017: At least 5 of 8 actions in FATF Action Plan completed to the satisfaction of FATF		5 out of 8 actions completed
Date achieved	06/01/2015	03/31/2017		12/29/2017
Comments (incl. % achievement)	The target was achieved.			

G. RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	GEO	IP	Actual Disbursements (USD millions)
01	11/04/2016	Satisfactory	Highly Satisfactory	1197.00

H. RESTRUCTURING (IF ANY)

Not Applicable

1. PROJECT CONTEXT, DEVELOPMENT OBJECTIVES AND DESIGN

This Implementation Completion and Results (ICR) Report assesses the results of the Emergency Fiscal Stabilization, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing (DPF) loan approved in December 2015 to the Republic of Iraq. The DPF aimed to improve (1) expenditure management; (2) the sustainability of energy supply; and (3) the transparency of state-owned enterprises. The US$1.2 billion DPF was approved by the World Bank's Board of Directors on December 20, 2015.

1.1 Context at Appraisal

Country context:

1. **In 2015 Iraq was in deep crisis.** Already a fragility, conflict and violence (FCV) affected state, it faced existential threats from (i) a collapse in the international price of oil, the country's only export and almost only source of government revenue; and (ii) depredations of the Islamic State of Iraq and Syria (ISIS), an armed insurgency that had seized control of 30 percent of the land area. The ISIS insurgency exacerbated macro-fiscal stress by severely disrupting the non-oil economy and it triggered a humanitarian crisis which resulted in three million internally displaced persons (IDPs) and a sharp increase in poverty. Poverty has been estimated to increase from 18.9 percent in 2012 to 22.5 percent in 2014 as a result of the double shock and to 41.2 percent in areas occupied by ISIS.[1] While the DPF was in preparation dissatisfaction about abysmal public services, especially electricity, spilled into the streets with mass demonstrations about corruption and poor governance. The political system set up to be a dysfunctional balance of powerful self-interested factions was unable to cope with simultaneous security, economic, fiscal and humanitarian crises. It is hard to imagine a country in more dire circumstances.

2. **ISIS represented a broader threat to the region and the world as well.** Its actions in Iraq and Syria were destabilizing the middle east and attracting the attention of outside powers. Geopolitical and humanitarian considerations made defeating ISIS imperative. But while ISIS had rapidly established a large territorial presence by mid-2014, not until mid-2015 were Iraqi government forces supported by the US and regional allies able to start regaining control. Even then, ISIS continued to cause mayhem throughout the Middle-East and even Europe, the US and Australia. (see Annex 2). For regional and global allies, ensuring Iraq had a functioning government and providing adequate financial and military support were critical to maintaining order across the region.

Macroeconomic background:

3. **Iraq was struggling to cope with two economically and socially destabilizing shocks.** A precipitous drop in world oil prices in 2014-15 caused a terms-of-trade shock equivalent to 20 percent of GDP. Oil accounts for two-thirds of GDP and almost all exports and central government revenue, so the impact on fiscal and external balances was immediate. A decline in public saving buffered most of the impact on income and consumption but put the public finances on an unsustainable path. The combined oil price and ISIS shocks caused GDP growth to plummet from 7.8 percent in 2013 to -2.4 percent in 2014 and 0.5 percent in 2015.[2] Fortunately, Iraq entered the crisis in a position of strength with

[1] Krishnan N., S. Olivieri, 2016.
[2] Figures are from the 2015 DPF program document and do not reflect any subsequent data revisions.

international reserves falling but expected to remain near 7 months of imports in 2015. External government debt, at US$64.5 billion or 37 percent of GDP was manageable.[3]

4. **The Government turned to the World Bank and the IMF for support.** Unable to compress planned 2015 spending or close the financing gap on a deficit of nearly twenty percent of GDP[4], the Government requested an IMF program at the same time as a DPF from the World Bank. The Fund strongly urged consolidation to ensure external and fiscal sustainability but recognized that some time might be needed for an orderly adjustment. The Bank and the Fund had similar views about near term adjustment and medium term structural reforms and the two institutions developed their programs in parallel with the Bank focusing on structural reforms. Cooperation was exceptionally close and effective. The Fund was unable to initiate a financing program before mid-2016 but expedited preparation of its Staff Monitored Program (SMP) to provide a macro assessment for the DPF. As the environment deteriorated through 2015, the DPF which had been proposed initially as a 3-year series was changed to a 1-year standalone operation, recognizing the need for emergency financing but avoiding a multi-year commitment before an IMF financing program was in place.

5. **By appraisal, the macroeconomic policy framework was considered adequate for a DPF operation and the security situation was improving, but risks remained high.** The Bank and Fund concurred that Iraq's response to the twin shocks was broadly appropriate and that fiscal projections were consistent with medium-term sustainability. International reserves were considered adequate to finance the external position through the transition. The initial macro framework was far from ideal as it relied on arrears and central bank borrowing, but the authorities recognized these problems and were making a good faith effort to deal with them. In fact, by year end the Government had contained the 2015 deficit to 14 percent of GDP, eliminated the 2016 financing gap and started reducing arrears to external and domestic creditors. In November 2015 the IMF approved a Staff Monitored Program (SMP), a precursor to upper tranche lending. Following a "broadly satisfactory" performance under the SMP, a Standby Arrangement (SBA) was approved in June 2016.

6. **Total budget support from the IMF and the World Bank over the crisis reached US$9.6 billion:** From the IMF, US$1.2 billion of emergency assistance (75 percent of quota) via a Rapid Financing Instrument (RFI) in July 2015 and US$5.4 billion through a Stand-By Arrangement (230 percent of quota) in June 2016. From the Bank, US$350 million for emergency reconstruction[5] and the 2015 and 2016 DPFs amounting to US$1.2 billion and US$1.4 billion respectively[6], all on IBRD terms.

Structural/sectoral background:

7. **Oil dominates the Iraqi economy.** Oil and gas reserves rank fourth in the world and the national economy is highly dependent on oil which accounts for two-thirds of GDP and almost all exports and central government revenue. But, the vast potential of this resource endowment is squandered through waste and inefficiency, including the flaring of associated gas.

8. **Oil revenue supports a wasteful public sector.** Oil revenue is channeled through a public sector widely regarded as corrupt and inefficient, with low standards of governance and little knowledge of modern public administration. Poor

[3] IMF 2015 Article IV Consultation Staff Report, Country Report No. 15/235 (August 2015). The Article IV consultations anticipated a deficit of 18.4 percent of GDP and outlined a 4-5 year adjustment to restore balance.

[4] IMF, "Iraq First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement" (Country Report 16/225, July 2016).

[5] World Bank, Emergency Operation for Development loan, approved July 2015.

[6] Including guarantees provided to the World Bank amounting to US$372 by the U.K. and US$72 million by Canada.

financial and budget management, political interference, and outright theft cause large losses. A major problem is bloated public employment which represents nearly all formal sector employment and whose payrolls were a major contributor to the fiscal boom of 2004-14 as the wage bill rose from 7 percent to 27 percent of government expenditure. A large, unaccountable state-owned enterprise (SOE) sector dominates and stifles private activity in virtually every part of the economy. In the financial sector, undercapitalized and poorly managed state-owned banks get preferential treatment including lax oversight and exclusive rights to government business.

9. **Poor service delivery has been a source of discontent.** In particular, inadequate and unreliable electric power has been an obstacle to private sector development and an exasperating problem for ordinary Iraqis. Discontent boiled over in August 2015 as temperatures soared to 50°C. Despite the low quality, electricity is expensive to produce and receives costly subsidies around five percent of GDP.

Rationale for Bank assistance:

10. **Above all, short term emergency financing was the imperative.** As the fiscal and security crisis deepened, the provision of emergency financing represented the international community's commitment to support for a functioning state in Iraq. The provision of emergency financing served the purpose of helping the government pace the needed adjustment, maintain macroeconomic stability, the exchange rate peg and with it stable prices. In addition, to any development impacts, the DPF helped pave the way to further lending from development partners. The program aligned with the Bank's Iraq and MENA regional strategies and importantly, it signaled support for reformers in the new Government, especially the Prime Minister who championed it.

1.2 Original Project Development Objectives (PDO) and Key Indicators

(as approved)

11. **The operation is structured under three pillars.** These are also the program's development objectives aimed at improving: (1) expenditure management; (2) sustainability of energy supply; and (3) transparency of state-owned enterprises. Key indicators are shown in Table 1.

Table 1. Key DPF Performance Indicators per Pillar

Indicator	Target
PDO 1. Improve expenditure management	
Reduction in the basic annual salary of top public sector employees as a ratio of annual GDP per capita.	Baseline (September 2015): 1.9; Target (Q1 2017): 1.7
Percentage of capital projects valued at over US$500 million for which a feasibility study with cost-benefit analysis is done.	Baseline (2015): 3 percent; Target (Q1 2017): 5 percent.
Approval and publication on the Ministry of Finance website of a public debt management strategy (DMS) in line with international best practice by Q1 2017	Baseline: none; Target: published.
Improved financial sustainability of the State Pension Fund through better governance as measured by a 5 percent nominal reduction of the cash benefit spending of the National Board of Pension by Q1 2017 (Target), as compared to end-2015 (Baseline).	Target: 5% below baseline
PDO 2. Improve the sustainability of energy supply	
Reduced gas flaring—measured by the amount of additional (associated) gas processed (average MMscf per day):	Baseline (2014): 656; Target (Q1 2017): 1,070.

Gas-to-Power Inter-Ministerial Committee in place and an Action Plan developed by Q1 2017 (Target).	Target Action Plan developed by Q1 2017
Fuel switching to generate power from petroleum products to gas—measured as total gas volume supplied to gas turbine power production (MMscf per day):	Baseline (2014): 600; Target (Q1 2017): 840.
Increased tariffs for energy-intensive consumers—measured by the retail price of electricity sold (in ID per kWh):	Baseline (2014): 30.74; Target (Q1 2017): 31.05
Improved service delivery—measured by total electricity sold (in Megawatt per hour):	Baseline (2014): 44 million; Target (Q1 2017): 47.6 million.
PDO 3. Improve the transparency of state-owned enterprises	
Publication of a consolidated annual report on financial and employment metrics of nonfinancial SOEs.	Target: by Q1 2017
Ratio of state deposits in private banks to state deposits in all banks	Baseline (January 2015): 0 percent; Target (Q1 2017): 5 percent.
Progress in implementing FATF action plan	Baseline (June 2015): Zero of 8 actions in FATF action plan completed to the satisfaction of FATF; Target (Q1 2017): At least 5 of 8 actions in FATF action plan completed to the satisfaction of FATF.

1.3 Revised PDO (*as approved by original approving authority*) and Key Indicators, and reasons/justification

N/A

1.4 Original Policy Areas Supported by the Program

12. **Pillar 1. Improve expenditure management.** There was a pressing, widespread need for reform and modernization across the public sector to curb pro-cyclicality, raise efficiency and expand space for public investment. Policy measures focused on four important areas:

- ***Public wage reform.*** In accord with Prior Action (PA) 1, the Council of Ministers (CoM) approved a new salary scale for state and public sector employees effective November 1, 2015, flattening the salary structure and reducing compensation at senior levels, which were viewed by the Government as out of line with the private sector.
- ***Public investment management (PIM) reform.*** Limited PIM capacity has been an impediment to long-term reconstruction. Poor project selection resulted in a low execution rate and many projects left incomplete.[7] PA2 adopted a new PIM framework covering project preparation, appraisal, implementation, operation, and ex-post assessment.
- ***Public debt management.*** Building capacity had become critical because of a sudden need for public debt financing, but no experience to draw on, because historically Iraq had never needed to borrow. PA3 established a middle office in the Public Debt Management section in the Finance Ministry.
- ***Social insurance and pension.*** The old age security system is inefficient, has large gaps in coverage, is financially unsustainable, and needs to be integrated with other social support programs which are themselves in need of

[7] The government estimated the execution rate at 57 percent. See World Bank, *Iraq: Public Expenditure Review,* 2014.

reform. While preparing to roll out these comprehensive reforms, PA4 completed a useful administrative task of cleaning up the registry by removing 30,000 ineligible pension beneficiaries from the rolls.

13. **Pillar 2: Improve sustainability of energy supply:** Poor incentives, degraded infrastructure, waste and inefficiency undermine the vast potential of Iraq's energy resources. A prime example is the flaring of associated gas with potential economic value for export or generating electricity. The pillar was dedicated to reducing gas flaring and increasing gas supply to electricity generation, coupled with initial tariff reform to capture some of the benefits for the Government:

- ***Reduce gas flaring.*** PA5 supported approval by the Energy Committee of the Council of Ministers (CoM) of a plan to reduce and by 2030 eliminate flaring, which is both an environmental hazard and an economic waste. At the time, around 60 percent of gas associated with oil production was flared.
- ***Strengthening gas-to-power strategy.*** Using flared gas to generate electricity has been a well-established part of the plan for oil and gas development since at least the Integrated National Energy Strategy (2012). PA6 supported the establishment of an inter-ministerial committee tasked with developing an action plan to supply gas to meet the high and growing demand for electricity.
- ***Reduce electricity subsidies.*** According to the Government, increased willingness-to-pay for better and more reliable service needs to support higher tariffs to cover more of the supply cost and reduce subsidies, estimated at around five percent of GDP. PA7 implemented a new, unsubsidized tariff for large, continuous power users, though anticipated only a small 1 percent tariff increase by 2017Q1.

14. **Pillar 3: Improve transparency of state-owned enterprises.** 176 SOEs, both financial and non-financial, dominate the economy. For the most part, they are non-transparent, unaccountable and incur sizeable quasi-fiscal liabilities. Pillar 3 implemented reform measures covering both the financial and non-financial sectors.

- ***Non-financial sector.*** Oversight of non-financial SOEs is ineffective and ad hoc, distributed across a plurality of ministries with little coordination. Better information is an essential first step in bringing the sector to heel. PA8 established a ministerial committee to set up and operate a database to monitor fiscal risks and increase transparency
- ***Financial sector.*** The financial system is small and dominated by weak state-owned banks that do not comply with international transparency standards and enjoy unfair advantages vis-à-vis private sector competitors. PA9 comprised a decision by the CoM to put private banks on the same footing as state owned banks to compete for government business. PA10 required passage of and regulation for anti-money laundering (AML) and combating the financing of terrorism (CFT), where non-compliance threatened to cut the country's access to international financial markets at a moment of large financing needs.

1.5 Revised Policy Areas (*if applicable*)

N/A

1.6 Other significant changes

N/A

2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES

2.1 Program Performance

15. **All prior actions of the stand-alone DPF loan were completed at effectiveness**. The full list of prior actions is reported in Table 2.

Table 2. Status of Prior Actions

Prior action
1. The Council of Ministers approved a new salary scale for state and public sector employees, effective November 1, 2015, in which the salaries of public sector employees in higher grades are reduced (Council of Ministers Decision No. 366 of 2015, dated October 15, 2015).
2. The Borrower's Prime Minister adopted the Public Investment Management Framework which covers project feasibility, implementation, operation, and ex-post evaluation phases (Decree No. 445, dated October 18, 2015).
3. The Borrower's Minister of Finance established a debt management section within the Ministry of Finance (Ministerial Order No. 4340, dated October 19, 2015).
4. The National Board of Pensions implemented a campaign to clean its retiree data registry resulting in the removal of at least 30,000 non-eligible retirees.
5. The Energy Committee of the Council of Ministers approved the implementation plan proposed by the Ministry of Oil setting forth targets for the reduction of gas flaring for the period 2015-2018, in support of the objective of achieving zero gas flaring by 2030 (Energy Committee Decision No. 17, dated November 9, 2015).
6. The Council of Ministers approved the establishment of an inter-ministerial committee, including the Ministers of Oil, Electricity, and Finance, which shall be tasked with developing an action plan to utilize gas in electric power generation (Council of Ministers Decision No. 370 of 2015, dated October 19, 2015).
7. The Energy Committee of the Council of Ministers approved the implementation of a new unsubsidized commercial tariff for large commercial consumers (except hospitals) that choose to avail themselves of continuous (twenty four (24) hours, seven (7) days a week) electricity supply under bilateral contracts with the Ministry of Electricity (Energy Committee Decision No. 6, dated May 25, 2015).
8. The Prime Minister established a committee to set up, operate, and supervise a database to monitor the fiscal risks of non-financial SOEs, and update and publish the financial and employment data of said non-financial SOEs (Decree No. 446, dated October 18, 2015).
9. The Council of Ministers issued a decision aimed at leveling the playing field between public and private banking institutions by expanding the range of financial services that private banks are allowed to provide to government ministries and SOEs (Council of Ministers Decision No. 370 of 2015, dated October 19, 2015).
10. The Borrower passed the Combatting of Money Laundering and the Financing of Terrorism Law No. 39 of 2015, aimed at reducing money laundering activities and the financing of terrorism.

2.2 Major Factors Affecting Implementation

Adequacy of Government's commitment

16. **The Government's commitment under difficult circumstances cannot be faulted.** With an urgent need to fill a large financing gap, there was no doubt about the Government's commitment to the terms of the Loan Agreement. Under the leadership of the Prime Minister who championed the DPF the Government agreed to undertake meaningful prior actions, some with potentially far reaching consequences and important progress has been achieved in some areas. However, given competing priorities, capacity limits and general dysfunction, there are limits to what commitment can achieve. Also, risks are high. In 2010 a different Iraqi Government under similar conditions made a similar commitment,

but its resolve wavered as the price of oil recovered. To date, however, the Government's commitment has been more than adequate.

Soundness of the background analysis

17. **The diagnostic knowledge base was strong.** The program drew on an extensive base of analytical and advisory work, economic analysis, strategic planning exercises, sector strategies and more, prepared by the World Bank, the IMF and other development partners. The World Bank had a longstanding engagement in most of the DPF's policy areas and it assembled a highly knowledgeable team. However, more attention to political economy, capacity building and risk mitigation could have anticipated potential problems and facilitated implementation.

Assessment of the operation's design

18. **The design was well cued to the medium-term objectives.** The DPF operation was originally conceived as the first of a programmatic series of three operations. Because of the lack of an IMF financing program and the pressing need to provide emergency financing to support the government, the DPF was then modified as a stand-alone operation and targets were defined consistent with a one-year result framework. For the most part the policy actions of the stand-alone operation, comprised the first year of the programmatic series and laid the groundwork for sequential reforms credibly aimed at delivering measurable results in program areas. Thus, while the shorter time frame suited the critical need for emergency financing, the design sought to preserve the programmatic nature of the reforms by selecting policy interventions from the first year of the programmatic series. The adaptation of the results framework was somewhat problematic (see section 2.3) and a few adjustments in the areas of civil service salaries and pension reform also impaired the strategic value of the stand-alone version compared to the first year of the programmatic series (see section 3.1).

Risk identification and mitigation

19. **Risk was correctly rated as high.** Major risks that could prevent the operation from achieving its development objectives include: political and governance risks, macroeconomic risks, fragility, conflict and violence risks, fiduciary risks, and political and stakeholder risks. The operation was appraised in the context of a large fiscal adjustment and high level of insecurity, and it was recognized that risks of inaction were also high. In mitigation the operation focused on tangible reforms, which would remain largely in the purview of the executive, limited in scale but difficult to reverse once approved. At least during the operation's preparation, the program enjoyed solid backing from senior leadership.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

Design

20. **The M&E framework was extensive.** It comprised 12 outcome indicators (Table 1)– more than one per prior action – nine of which were quantitative and three were categorical (e.g. debt management strategy published). With few exceptions, indicators were pertinent to the outcomes they intended to illustrate though some improvisation was required because of data limitations, for instance interpreting the supply of electricity as a proxy for reliability.

21. **Some indicators misconstrued the development impact.** Some quantitative indicators, initially selected to capture cumulative impacts of a three-year program, were less well suited to measuring progress at the one-year mark. For instance, cumulative impact targets for PIM, electricity subsidies and banking sector liberalization were adjusted so far down as if little impact was expected from the interventions. While this may be true, it understates the expected

gains. Intermediate indicators measuring progress towards the eventual outcome would have better reflected the potential of structural reforms. In the case of the gas indicators, the short time frame makes attribution suspect. The mere establishment of an inter-ministerial committee tasked to developing an action plan could hardly unlock a forty percent increase in the use of gas for power generation in a year, even if the committee set to work promptly and efficiently (which it didn't). In fact, the outcome here showed the action plan was not the binding constraint for gas-to-power after all, or alternatively that gas-to-power imperfectly measured its longer-term development impact.

22. **The wage indicator was confusing.** The new wage schedule (PA1) was aimed at increasing perceived fairness and cohesion among public sector workers and reducing the wage differential between public and private sectors estimated at 40 percent for people with a secondary diploma or higher. However, the indicator – top grade salaries as a multiple of GDP per capita with a target value of 1.7 – is not directly relevant to either objective, nor indeed to the data cited by the Program Document (PD) which omit benefits and control only for education not for other key variables.[8]Targeting a twenty percent cut in nominal wages would have been equivalent and far simpler and more transparent. Also, per capita income or consumption would have been a more appropriate benchmark than GDP per capita, since government dissaving largely shielded the household sector from the fall in GDP during the crisis. Finally, the indicator measured only part of the impact of the prior action which also raised lowest grade salaries.

Implementation

23. **Progress towards objectives was monitored on four occasions.** Data was updated by reaching out to the Government and team members during a supervision mission in mid-2016 and preparation of the ICR in early 2018. However, the results framework also contributed to preparation of the follow-on DPF series in late 2016 and 2017 so that Bank staff actively working in various program areas kept fairly current with the available data and the general status of implementation of the DPF.

24. **Getting data is a problem.** The Economic Reform Unit (ERU) in the Prime Minister's Office together with the MoF, line ministries and agencies engaged in DPF-supported reforms had responsibility for collecting the necessary data in accord with agreed plans and timelines, and to work closely with the World Bank and the MoF to address any difficulties. However, in practice both data specified in the results framework and other data pertinent to assessing performance have been difficult to obtain.[9] For instance, civil service salary and benefits are not reported by grade across Ministries, making it difficult to detail the impact of the new salary schedule or incorporate large allowances (which may be multiples of the base salary) into the structure of compensation. There have been lengthy delays in availability of oil and gas production data, which have not been officially updated since June 2016. As a result, estimates for the ICR have been based on provisional data from field operators.

Utilization

25. **M&E was integrated with dialogue and preparation of the follow-on DPF series.** As debt management capacity did not improve enough to publish a debt management strategy by Q1 2017, the Government agreed to publish one as

[8] The PD (fn. 21, p. 20) doubts it is possible to estimate the true wage differential because public and private sector jobs have very different characteristics. The education data support the intervention only to the extent education and grade are correlated. As reported in the PD, it is difficult to compute wage premiums controlling for sectors, occupation, or type of activity because of the limited overlap in occupations and sector of activity between the private and public sector in Iraq—in part reflecting the limited size of the non-oil private sector.

[9] A problem also noted by the IMF. See "Statistical Annex" in Iraq: Third review of the three-year stand-by arrangement, requests for waivers of nonobservance and applicability of performance criteria, and modification of performance criteria —informational annex (January 2018).

prior action for a subsequent DPF. Delays in increasing gas processing capacity provided the rationale for including a prior action demanding a specific budget allocation in the 2016 DPF to ensure regular payments for gas deliveries in 2017. Failure to produce an action plan for gas-to-power also led to a prior action in a subsequent operation. SOE data collected for the fiscal risk report allowed a deeper analysis of the riskiest SOEs in the 2016 DPF.

2.4 Expected Next Phase/Follow-up Operation

26. **The expected programmatic follow-up DPF series of two operations was approved December 2016.** Program areas have remained the same and, as discussed further below, have remained fully relevant.

3. ASSESSMENT OF OUTCOMES

3.1 Relevance of Objectives, Design and Implementation

Objectives

Rating: Substantial

27. **The objectives were relevant to a shared vision.** The PDO drew on the vision of structural reforms to promote a more transparent and efficient public sector and a faster growing, more dynamic private sector. Specifically, it supported the Government's strategic priorities in the areas of administrative and institutional reform, service delivery, private sector promotion, banking sector reform, and oil and gas development.[10] It was also aligned with the Bank's recently updated Performance Learning Review (May 2015), which focused Bank's assistance to support Iraq's efforts toward stabilization in the current fragile context, rebuild state institutions, and put the economy on a sustainable path of shared prosperity. After a year of "field testing" in the present operation, the PDO was retained in the follow up 2016 DPF. The DPF objectives remains also relevant to addressing the findings of more recent analytical work such as the Systematic Country Diagnostic (2017) and remains consistent with the new Country Partnership Framework, 2018-23 (forthcoming, 2018).[11]

28. **But could have focused more sharply.** Narrower and more specific objectives – for instance concentrating on institutional foundations or efficiency or governance – could have conveyed a clearer sense of purpose and imposed more structure on the design. Some of the objectives of the DPF were discontinued in the following series. Subsequent reforms related to wages focused on the control of the payroll. Reforms to create a level playing field in the banking sector were not further developed. Also, with no objective related to social safety nets the DPF did not leverage on the IMF indicative target to protect social expenditure.

Design

[10] The Prime Minister's inauguration speech to Parliament in September 2014, and the Strategic Priorities in Ministries: 2014-18 Action Plan lay out six priorities for the new Government: (1) promoting a secure and stable Iraq, (2) upgrading service to and the standard of living of citizens, (3) encouraging a shift towards the private sector, (4) increasing oil and gas production to improve financial sustainability, (5) implementing administrative and financial reform of government institutions; and (6) improving federal-local relations. The operation supported directly priorities (2) to (5) and, indirectly, priority (1).

[11] This is partly due to the PDO's encompassing nature – improvement is a broad term and the DPF's pillars demarcate three broad reform areas – so that it describes a wide range of interventions.

Rating: Modest

29. **Policy actions were largely credible and relevant to the objectives.** For the most part, policy actions were supported by findings in an extensive base of AAA, ESW and other analytical work by the World Bank, the IMF and other development partners and were instrumental in achieving the PDOs. Despite the operation's standalone format, most were planned as part of a medium-term reform sequence and depended on follow up to realize their potential. Implicitly the design premised a follow up DPF which occurred as expected in December 2016, allowing implementation support to continue.

30. **Some aspects of the design could have been strengthened.** (i) The program was extensive for a standalone operation – 10 prior actions, 12 results indicators, and 7-8 distinct policy areas; a smaller, lighter design could have alleviated the demands on the Government's limited capacity. (ii) More attention to institutional and capacity needs, implementation planning, communication, and stakeholder consultation might have identified critical gaps in capacity sooner, and mitigated risks of political resistance and turf battles. For instance, although a committee to prepare a gas-to-power action plan was announced (PA6), no plan could be prepared because of procedural disputes. Two years after the adoption of a PIM framework in the DPF, a capacity needs assessment is being undertaken with a plan to build up the PIM to full operational readiness over the next three years.

31. **Support for the new wage schedule was hasty**. The new wage schedule was meant to reinforce a key political message from the Prime Minister in his fight against corruption and poor governance, that the burden of the adjustment would be shared equitably and those at the top would have to bear their share. However, the issue of distributional equity and the wage structure had not been raised in the Public Expenditure Review (PER) or elsewhere in the diagnostic literature. The program document offered only anecdotal evidence, but no systematic analysis or modeling of the household sector to support such a policy intervention.[12] Both the performance indicator and income benchmark were questionable (see section 2.3). Finally, more strategic and possibly even easier alternatives were available. For instance, eliminating ghost workers (similar to cleaning the books of the National Pension Fund) would have helped to curb the wage bill at the same time and sent an even stronger signal about integrity and fairness. Alternatively, a structural measure such as monetizing benefits or implementing a management information system could have prepared the way for further HR reforms in a subsequent DPF series.

32. **The results framework raised issues of interpretation and attribution.** Relatively small output effects at the one-year mark for PIM, electricity subsidies and state's deposits were inaccurate measures of development impact and tended to undervalue the operation's achievements, while the short time frame made attribution difficult with respect the use of gas for power generation and the increase of electricity sold as a result of a small increase in tariffs. A more process oriented M&E framework incorporating intermediate outcomes based on prior actions for subsequent reforms would have dissected the program more cleanly and measured progress toward the objectives better, with issues of commitment and capacity bottlenecks taking center stage in the dialogue.

Implementation:

Rating: High

33. **The Bank provided extensive implementation support.** Two dedicated surveillance missions took place, one in June 2016 to assess progress and a second for the ICR in March 2018. Further support was provided through preparation of the DPF programmatic series approved in December 2016 as well as under the Bank project on public financial

[12] The Concept Note had proposed a three-year hiring freeze – perhaps unworkable, but certainly more strategically relevant.

management, TA supporting pension and social service reforms, electricity subsidies, PIM and debt management, RAS-financed reforms in the gas sector, and also TA provided by the Japan International Cooperation Agency (JICA) on debt management. Publication of a debt management strategy was even added as a prior action to a subsequent DPF when its preparation under the present operation stalled.

3.2 Achievement of Program Development Objectives

34. **Substantial progress was achieved.** Six indicators met or exceeded their targets, three met the targets with a minor delay, and three were not met, with little progress to show. Among the results met, the increase in the use of gas for power generation cannot be clearly attributed to the prior action. With respect to development outcomes, six interventions can be considered initial steps of reforms which remain on-track for high achievement (PIM, debt management, pensions, gas processing and use for power generation, FATF) one for moderate achievement (SOE risk monitoring,), three would require renewed policy commitment (pension reforms, electricity subsidies, banking sector liberalization), and one remains indeterminate (wage reforms). But even where achievement is low or moderate or attribution unclear, this DPF operation has helped focus the government attention on structural reforms important to address inefficiency and subsidies.

Specific Objective 1: improve expenditure management:

Rating: High

35. ***Public wage reform.*** **Some redistribution achieved.** With the new wage schedule, the Government proposed to adjust civil service salaries which it viewed as inefficient and inequitable. Those at the top earned substantially more than their private sector counterparts while those at the bottom were barely able to survive.[13] The new wage structure flattened the distribution and lowered earnings at the top of the scale.[14]

- **The reduction in senior salaries beat the target.** The results indicator targeted a reduction in average senior level wages from 1.9 to 1.7 times per capita GDP. This was more than achieved as the ratio fell to 1.6, equivalent to a 22 percent reduction from an average salary of US$9,251 in 2015 to US$7,253 in 2016.[15] At the same time, salaries at the lowest grades were raised by 3 percent in real terms.
- **Welfare and efficiency impacts are uncertain.** Without better data and modeling, it is hard to evaluate the implications for expenditure management, social welfare and labor market efficiency. Data on benefits (which can be a multiple of base salaries) are not available and differences in human capital, specialization, experience, international marketability and so on have not been factored in. Experiences of other upper middle-income comparators would also be informative.

[13] The PD cites anecdotal evidence (pp. 19-21), while acknowledging a need for further research to incorporate differences in human capital, benefits, etc. when measuring wage differentials with the private sector (see PD, fn. 21).

[14] According to the 2012 Household Survey, individuals with a secondary degree or higher earn more than 40 percent in the public sector than in the private sector, over twice the wage differential of low education workers.

[15] Per capita GDP declined from US$4,869 in 2015 to US$4,533 in 2016 or 7 percent Data from IMF, 2017 Article IV Consultation.

36. ***PIM reform.*** **Signs of progress.** As part of the Government's PFM strategy, the Ministry of Planning with assistance from the World Bank finalized a new PIM framework in early 2015.[16] Adopting it under the Prime Minister's signature (PA2) sent an important and timely signal from the top. Extensive follow-up was planned.[17]

- **The target was comfortably met.** The outcome greatly exceeded expectations of what could be achieved in a short period of time. The target was 5 percent of large projects getting a feasibility study and cost benefit analysis, while Iraqi Development Management System (IDMS) data showed 8 out of 58 projects (13.8 percent) over US$500 million in 2016 satisfied the requirement.
- **The path to better expenditure management is clearer.** There is some distance to go to translate this technical achievement into effective expenditure management. For example, the eight projects receiving a feasibility study and cost benefit analysis had a collective price tag of US$85 billion, three times Iraq's annual investment budget.[18] The impact on expenditure management will be achieved by prioritizing, budgeting and executing them. Belatedly, attention has turned to capacity building with a PIM capacity needs assessment currently under way[19] and a plan to implement its recommendations over a 3-year period. The Bank continues to support the development of project methodologies, training and IDMS upgrades and staff anticipate a meaningful impact on expenditure management from 2019.

37. ***Public debt management.*** **Progress with a minor delay.** In accord with PA3, the Ministry of Finance established a Debt Management Division in the Public Debt Directorate to oversee and manage public debt and debt guarantees. The Division is now staffed and operational. The results target was the preparation of a debt management strategy by Q1 2017.

- **The results target was partially achieved.** The Directorate prepared a Medium-Term Debt Management Strategy (MTDS) which was published on the MoF web site in December 2017,[20] only a little behind schedule, but also with assistance from DPF3 which added it as a prior action when it became clear that preparation under the 2015 DPF had stalled.
- **The MTDS represents a good first step.** The initial version reports standard cost and risk indicators for the existing debt portfolio. As capacity permits, future reports will be enhanced with scenario analyses and stress tests. In addition to the MTDS, a detailed Public Debt Bulletin has been posted on the MoF web site, though not on a regular publication schedule. Nevertheless, under the DPF a nascent capacity has been established to be nurtured and utilized.

38. ***Pension reform***: **Good housekeeping.** The prior action, carried out by the National Board of Pensions (NBP), comprised a well-defined, administrative task of cleaning the retiree data registry of ineligible pension beneficiaries. The commitment was to remove 30,000 beneficiaries, around 10 percent of the total whereas the actual number was far higher, 37,590.

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[16] Government of Iraq, Ministry of Planning, PIM framework for Iraq (December 2015).

[17] World Bank, "Iraqi PIM Assessment and Action Plan" (January 2015); and "Action Plan to develop an efficient Iraqi public investment management system (I–PIMS) over the period 2016–2018" (December 2015).

[18] All 58 sum to over US$1 trillion.

[19] Government of Iraq, Ministry of Planning, "Capacity needs assessment for Federal Ministry of Planning" (discussion draft), under World Bank, "Modernization of public financial management systems project" (p151357)

[20] Iraq, Ministry of Finance, "Medium Term Debt Management Strategy" (2017) http://www.mof.gov.iq/obs/en/Documents/Medium%20Term%20Debt%20Management%20Strategy.pdf

- **The results target was likely achieved.** The results framework targeted a 5 percent cash saving by Q1 2017 compared to end-2015. According to NBP data, the ineligible beneficiaries in 2015 accounted for ID82 billion or 4.8 percent of total payments of ID1.7 trillion. Estimating the saving by Q1 2017 would require extending forward a counterfactual to 2017. It is not obvious how to do that since both the number of beneficiaries and the average pension changed, but it seems reasonable to conclude the target was achieved or if not then only narrowly missed. Meanwhile, a further 45,700 ineligible beneficiaries of survivor's benefits were identified in a new 2016-17 audit, indicating an encouraging commitment to good financial management.
- **Fundamental reforms are yet to come.** The outstanding challenges for the pension system are structural – restructuring the public and private schemes and merging them with the broader social protection system. Clearly, the intervention here was of lower strategic importance, but it kept the Bank engaged at an auspicious moment, and the larger agenda, which the Bank has helped to design, was incorporated into the DPF series approved in 2016. [21]

Specific objective 2: Improve sustainability of energy supply:

Rating: Modest

39. ***Reduce gas flaring.*** **Satisfactory progress, some delays.** In accord with the prior action, the Energy Committee of the CoM approved an implementation plan to reduce gas flaring in 2015-18 and eliminate it by 2030. The economic and environmental benefits were premised on investment in capture, processing and transmission infrastructure around the Basra petroleum hub in the south, to be undertaken by the Basra Gas Company (BGC), a Joint Venture with Mitsubishi and Shell.[22]

- **The target was achieved, somewhat behind schedule.** Payment arrears to international oil companies (IOCs) including to BGC delayed the start of the project and subsequently slowed its progress. Nevertheless, gas processing trended higher through 2016-17 as the work progressed and is expected to surpass the target in 2018.[23] But beyond the implementation plan itself, the DPF helped to establish a consensus among key stakeholders on a program that had stalled for years.

40. ***Strengthening gas-to-power.*** **Action plan still pending.** In accord with PA6, an Inter-Ministerial Committee representing the Ministries of Oil, Electricity, and Finance was formed in October 2015 to develop an action plan for utilizing flared gas in electricity generation. However, the committee never met and the action plan expected by Q1 2017 has yet to be produced.[24]

- **Gas-to-power increased and the target was achieved with some delay.** The results framework set a quantitative target for gas supplied to electricity generation which was achieved belatedly in end-2017. Evidently the

[21] This longer term structural agenda is the culmination of a multi-year TA project covering every aspect of institutional development, capacity building, knowledge transfer and more. See World Bank, Pension Reform Implementation Support Technical Assistance (P114647) (2009-14)

[22] See discussion in DPF2 Program Document.

[23] The target was processing 1,070 MMscfd in Q1 2017, up from 671 MMscfd in 2015. The average for 2017 was 958 MMscfd and is projected to reach 1,118 MMscfd in 2018. Note: preliminary data from BGC; latest official data released from Ministry of Oil were June 2016. Thus, figures may not reflect contributions from other private operators.

[24] With financing provided by USAID and under the leadership of the World Bank, a detailed background study has been completed in March 2018 to help the Inter-Ministerial Committee to finalize the plan.

committee played little part in this, though the DPF deserves some credit for helping to move the gas-to-power agenda forward.

41. ***Reduce electricity subsidies.*** **Progress, but no impact.** A new tariff schedule introduced January 2016 was intended to increase revenue and reduce subsidies.

- **The target of higher tariffs was more than achieved.** The new tariffs were progressive and increased rates more than four-fold on average from US$0.017/KWh to US$0.08/KWh (ID94.6/KWh). Subsequently in 2017 the tariff applied to commercial activities was reduced from ID120/KWh to an average of ID86.7/KWh. However, this remains far above the results target which anticipated only a cautious one percent increase in the rate for large, continuous power users from ID30.74/KWh to ID31.05/KWh.
- **The target for electricity sold was not achieved.** According to data provided by the Ministry of Electricity, total electricity sold decreased from 44.0 million MWh in 2015 to 38.1 million MWh in 2017, below the expected target of 47.6 million MWh by Q1 2017.
- **The impact on subsidies was small.** Revenue equals tariffs times quantities billed and paid, but technical losses are high and collection rates are low. Indeed, collection rates fell further in response to the new tariffs. According to IMF estimates the new higher tariffs will still cover only eleven percent of production cost and subsidies have not changed, reaching 5.5 percent of GDP in 2017.[25]

Specific objective 3: Improve transparency of state-owned enterprises:

Rating: Substantial

42. ***Non-financial SOE reform.*** **Preliminary risk analysis conducted.** Any planning exercise starts with data. The Prime Minister's Advisory Committee (PMAC) had prepared a detailed compendium of non-financial SOE data.[26] The DPF sought to push further in the direction of institutionalizing the data collection and developing an application to risk monitoring.

- **The target was achieved.** The specific objective was publication of consolidated annual reports on financial and employment metrics of non-financial SOEs. The results framework set a target date of Q1 2017 for the first in the series and the report was duly published on the Ministry of Planning web site. Data quality has been flagged as an issue, with the report having to rely on both audited and unaudited accounts. Further, the analysis could be refined with more analytical capacity. But this first report represented an important milestone in measurement of fiscal risks.
- **Efficacy has so far been limited.** Publication of the SOE report on the COM Secretariat (COMSEC) website has generated little interest and without the Bank's support it is very likely unsustainable. Data collection has continued, but no new report was published or even drafted by end-2017.

43. ***Financial SOE reform.*** **Limited progress.** Financial sector reforms focused on (i) liberalizing banking sector competition and (ii) assuring compliance with international Anti Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards.

[25] IMF, Article IV Consultation, 2017.
[26] PMAC, Restructuring of public companies: Reality… vision toward reform (February 2015).

- **No progress on banking sector liberalization.** PA9 intended to level a part of the playing field by putting the small private banking sector on the same footing as state-owned banks to compete for Government business. However, according to Central Bank of Iraq (CBI) officials, use of private bank accounts, though allowed, still required preauthorization from the Ministry of Finance which was hard to obtain.[27] Low confidence in the private banking sector may be partly to blame. As a result, most state entities continued to use state-owned banks. In 2018, the CoM decided to suspend the use of private banks by entities of the Ministry of Electricity, because of suspected collusion by private banks in the foreign exchange market. The matter is currently under investigation by the CBI with assistance from the IMF. However, this decision of the CoM is not fully consistent with the commitment under the prior action.
- **The results target was not met.** The results framework set what would seem like a manageable target of shifting 5 percent of Government deposits to private banks. While the actual amount increased, it never exceeded 1 percent.

44. **AML/CFT oversight is being brought into compliance.** PA10 called for passage of AML/CFT legislation, with a results target of completing 5 of 8 elements in the action plan to the satisfaction of FATF.

- **The target was achieved with a minor delay.** All actions were completed by end-2017 and in February 2018, the FATF found that Iraq had "substantially addressed its action plan at a technical level, including by: (1) adequately criminalizing money laundering and terrorist financing; (2) establishing an adequate legal framework for identifying, tracing, and freezing terrorist assets; (3) establishing effective customer due diligence measures; (4) establishing a fully operational and effectively functioning Financial Intelligence Unit; (5) establishing adequate suspicious transaction reporting requirements; and (6) establishing an adequate AML/CFT supervisory and oversight program for the financial sector." [28]
- **Completing the action plan was an important step forward.** FATF and the IMF will continue to monitor and verify implementation, while the Government remains committed to further measures to comply with relevant United Nations Security Council resolutions; develop supervisory capacity; ensure a fully operational Financial Intelligence Unit; and monitor cross border cash movements.[29] The World Bank remains a participant in ongoing dialogue and monitoring, but there was no formal follow up in subsequent DPFs.

3.3 Justification of Overall Outcome Rating

Outcome Rating: Satisfactory

45. **The relevance of objectives, design and implementation is substantial.** Both objectives and design were pertinent to the country's development challenges and interventions were plausibly linked to outcomes in policy space,

[27] The 2016 Public Financial Management Law states that "Spending units shall be permitted to open a single current account with a non-government bank in Iraq upon the recommendation of the Minister of Finance and the approval of the Accounting Department, in accordance with the instructions issued by the Ministry of Finance." (Art. 32.2)

[28] FATF, Improving Global AML/CFT Compliance: On-going Process - 23 February 2018; downloaded 4/8/2018 from http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-february-2018.html#iraq

[29] See Government of Iraq, "Memorandum on Economic and Financial Policies" in IMF, "Iraq, First and second reviews of the staff-monitored program and request for a three-year stand-by arrangement" (July 2016)

but a sharper focus could have increased overall effectiveness. Interventions would have also benefited from more attention to institutional and capacity needs, implementation planning, communication, and stakeholder consultation, which could have identified critical gaps in capacity sooner, and mitigated risks of political resistance and turf battles. Dialogue and implementation support were extensive, through both direct supervision and preparation of the DPF programmatic series approved in December 2016.

46. **Efficacy is satisfactory on balance.** Objectively, real achievements in the areas of expenditure management, are small at the time of the ICR. The results framework shows mixed results – 6 targets met or exceeded, 3 met with a minor delay, and three not met. The headline result is that most of the initial reforms in the areas of PIM, debt management, gas, electricity pricing and financial sector surveillance have satisfactorily progressed. Though risks remain high, the follow-on DPF series has substantially mitigated them by continuing support for the program much as initially intended.

3.4 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

47. **Poverty, gender and social development impacts were small but likely positive.** Better expenditure management may be assumed to free up fiscal space for pro-poor, pro-development spending, but so far realized impacts are small and no attempt has been made to quantify them. Lower income households were intended as the main beneficiaries of the real three percent increase in lower tier civil service wages, though the distributional impacts are not known. The impact of higher electricity tariffs on low income consumers depends on implementation details, but is likely small in line with the overall revenue impact. Gender aspects can be assumed minimal since none of the interventions were motivated by gender or focused on social spending where benefits would disproportionately benefit women and girls.[30]

(b) Institutional Change/Strengthening

48. **The DPF improved capacity in the areas of PIM, debt management, pension administration and financial sector supervision.** As the first operation in a planned series, the interventions were weighted toward strengthening institutional foundations to support future programmatic reforms. The new PIM framework is improving the monitoring and evaluation of public investment and should contribute to better budgeting. The creation of an embryonic Debt Department in the Ministry of Finance has improved domestic debt management and reporting capacity. Implementation of the FATF action plan strengthens the institutional framework to detect and combat money laundering and terrorism financing through the coordination of the CBI, the Financial Intelligence Unit and the Judiciary.

(c) Other Unintended Outcomes and Impacts (positive or negative, if any)

N/A

3.5 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

(optional for Core ICR, required for ILI, details in annexes)

N/A

[30] World Bank, The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq, 2007-2012 (2015).

4. ASSESSMENT OF RISK TO DEVELOPMENT OUTCOMES

Rating: High

49. **At appraisal, the absolute level of risk was recognized as high at appraisal in virtually every category.** Technically, the government's capacity to accommodate and implement major changes to HRM, PFM, PIM systems was weak. Institutions had been severely degraded by decades of war, sanctions and conflict, and poor governance threatened to undermine whatever was left of social capital and the state's legitimacy. Weak, if improving PFM introduced economic and financial risks.[31] Finally, the unstable political context threatened to overwhelm any ownership and commitment to support the reforms. To this standard list, may be added program risk, due to launching a three-year policy operation with no commitment on either side to follow up after the first year.

50. **But, relative risk was lower.** The risk of inaction was also high. The deep fiscal shock could have resulted in a much more severe fiscal adjustment absent the large DPF and emergency financing provided by the IMF and eventually other bilateral development partners. In turn, the big adjustment could have fueled a much more severe social crisis.

51. **Risks remain high and prevalent.** Vested interests, weak institutions, public pressure, poor governance, external shocks or a resumption of armed conflict could combine in many ways to stall or reverse any achievements.[32] It is difficult to see any alternative to patience and perhaps, like the DPF, diversifying the program to reduce the possibility of failure.

5. ASSESSMENT OF BANK AND BORROWER PERFORMANCE

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

52. **The operation had an unusual genesis.** Initially it was conceived as a three-year programmatic series but was later restructured as a one-year standalone operation with the expectation that a subsequent DPF series would deliver the outer years of the program. The stand-alone operation was the best possible outcome given the circumstances, because of the high level of uncertainty about security, the government's capacity to implement the reforms, and the adequacy of the macroeconomic framework, and the absence of an IMF financing program, which could have provided the necessary confidence for a programmatic approach. It is useful to distinguish the Bank's performance in these two phases.

53. **The objectives and design of the operation were appropriate to support both emergency financing and longer-term structural reforms.** The objectives were consistent with the Government's reform agenda and the Bank's country strategy and the operation was generally well prepared with a plausible diagnostic. Once the decision was taken to reformulate the operation, the DPF made an innovative attempt to merge emergency fiscal support with longer term structural reform. The result largely retained the programmatic framework, but some adjustments weakened the design, especially the wage intervention. Also, intermediate indicators could have helped better tracked performance compared to a results framework adapted from the output-oriented, programmatic version.

[31] As argued in the 2014 PEFA.
[32] This section draws extensively on World Bank, *Systematic Country Diagnostic*, 2017.

(b) Quality of Supervision

Rating: Satisfactory

54. **Logistics made supervision difficult.** Tight space constraints in Baghdad limit mission travel with the result that supervision is less intensive than might be warranted. The DPF team aligned supervision work with missions related to the preparation of following DPF operations and other IPFs and TA whenever possible. This allowed for frequent enough implementation missions, which resulted in the timely consideration and implementation of corrective actions (e.g. the formulation of prior actions in subsequent DPFs) to address shortcomings.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

55. **The DPF was based on solid preparation and adequate supervision.** Strong analytical work in key sectors allowed the preparatory work to relay on relevant prior actions and indicators. Supervision was adequately carried our despite logistic challenges.

5.2 Borrower Performance

(a) Government Performance

Rating: Moderately Satisfactory.

56. **The Government's main focus was the Loan Agreement.** Primarily concerned with its financing needs, the Government was keen to facilitate disbursement in any way possible. The MoF was a reliable and efficient counterpart in the negotiations, and an Economic Reform Unit (ERU) set up in the Prime Ministers' Office to provide technical support liaised effectively with the CoM on completing the prior actions.

57. **Follow up was mixed.** The MoF and PMO were less successful at securing compliance during the implementation phase. The Government is fragmented and the consensus for reform is far from robust.[33] Ministries with their own agendas saw little point in change unless they could benefit themselves. Capacity constraints, poor communication and competing priorities in the depths of a crisis compounded the problems as did instability in the MoF whose senior leadership was removed in December 2016 after allegations of corruption. Nevertheless, expectations were exceeded in a number of cases – in pension reform where the removal of ineligible beneficiaries has gone well beyond the requirements; in electricity pricing where significant tariff reform was introduced (even if to little effect); and in PIM which increased output more than expected and significantly improved data quality at the same time. Debt management capacity was critically improved. Other results targets were achieved, e.g. SOE risk reporting, a new wage structure, but the development impact remaining unclear. In some cases, prior actions were not followed up as required, or were even (partially) reversed, e.g. gas-to-power, electricity bills and banking sector liberalization.

(b) Implementing Agency or Agencies Performance

N/A

[33] E.g. see Jane Arraf, "Haider al-Abadi's authority tested by reaction to Iraq reforms," *Financial Times* (Nov. 23, 2015).

5.3 Justification of Rating for Overall Borrower Performance

Rating: Moderately Satisfactory.

58. **On balance a rating of Moderately Satisfactory appears appropriate.** Achievements met or exceeded expectations in a number of areas, but in others fell short, as arrears slowed the investment in gas collection, the Inter-Ministerial Committee failed to produce a gas-to-power action plan, and banking sector liberalization failed because of the Government's lack of confidence in the private banking sector.

6. LESSONS LEARNED

(both project-specific and of wide general application)

59. **Crisis lending can be consistent with longer term structural adjustment.** Iraq entered the crisis with high reserves and ample borrowing space. Its problem was liquidity rather than solvency. The IMF concurred with the need of a gradual adjustment. The 2015 DPF programmed the first year of a medium-term reform program, which was continued through a separate operation, which retained the medium-term nature of the reforms. Adequate and timely financing from the Bank and the Fund reinforced Iraq's creditworthiness, enabling further international borrowing and smoothing the adjustment. However, macroeconomic fundamentals, capacity constraints and institutional fragility could limit scope for replicating the approach for other countries.

60. **Planning and systematic TA are critical for embedding policies in institutions.** Where institutions are being reformed or created, for instance in the case of the Debt Management and PIM units, careful implementation planning and systematic TA are needed to ensure capacity development and knowledge transfer. In addition, the systematic use of TA ensures that policy changes have an impact on institutional reforms, which embed those changes in government processes difficult to reverse.

61. **A stand-alone operation limits the effectiveness of the policy dialogue.** If the optimal intervention is a medium-term reform program, a stand-alone operation is inconsistent with best practice and increases risk. The results framework can mitigate this problem by focusing on progress in implementing the reform program rather progress toward the outcome expected from it. The 2015 DPF also mitigated the reformulation by taking advantage of an explicit medium-term design and following with a subsequent operation that contained the rest of the program.

7. COMMENTS ON ISSUES RAISED BY BORROWER/IMPLEMENTING AGENCIES/PARTNERS

(a) Borrower/Implementing Agencies

62. **Borrower confirms strong support to the DPF-supported reforms and financing.** The ICR mission consulted with key Government counterparts for the preparation and negotiation of the DPF operation. Government's officials remarked that the Government in 2015 was facing an unprecedented fiscal and security threat. The Ministry of Finance was very supportive of measures that would help improve control of expenditure. The Government was in need of low-cost external financing to slow down the rapid decumulation of international reserves. Central Bank's officials remarked that AML/CFT reforms were effective and timely to avoid that Iraq would be black-listed and lose access to foreign financing during the time of highest need.

(b) Cofinanciers

N/A

(c) Other partners and Stakeholders

N/A

ANNEX 1: BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

(a) Task Team members

Name	Title	Unit	Responsibility/Specialty
Lending			
Eric Le Borgne	**Lead Economist**	Macroeconomics & Fiscal Management Department - Global Practice	**Team Leader**
Sibel Kulaksiz	**Senior Economist**	Macroeconomics & Fiscal Management Department - Global Practice	**Team Leader**
Faythe Agnes Calandra	**Program Assistant**	Macroeconomics & Fiscal Management Department - Global Practice	**Support to the Team**
Sepehr Fotovat Ahmadi	**Senior Procurement Specialist**	Governance Department - Global Practice	**Procurement**
Jad Raji Mazahreh	**Senior Financial Management Specialist**	Governance Department - Global Practice	**Financial Management**
Husam Beides	**Program Leader**	MNA Country Units, Iran, Iraq, Jordan, Lebanon, Syria	
Peter Mousley	**Program Leader**	MNA Country Units, Iran, Iraq, Jordan, Lebanon, Syria	
Haneen Sayed	**Program Leader**	MNA Country Units, Iran, Iraq, Jordan, Lebanon, Syria	
Ibrahim Al-Ghelaiqah	**Senior Economist**	Macroeconomics & Fiscal Management Department - Global Practice	
Muna Salim	**Senior Program Assistant**	**Macroeconomics & Fiscal Management Department - Global Practice**	**Support to the Team**
Mohammed Wafaa Al-Ani	**Operations Officer**	**Energy & Extractives Department - Global Practice**	
Lemya Ayub	**Private Sector Development Analyst**	**Trade & Competitiveness - Global Practice - IBRD**	
Lydia Habhab	**Research Analyst**	Governance Department - Global Practice	
Salam Almaroof	**Operations Analyst**	Governance Department - Global Practice	
Léa Hakim	**Economist**	Macroeconomics & Fiscal Management Department - Global Practice	
Ghassan Alkhoja	**Senior Social Protection Specialist**	Social Protection & Labor Department - Global Practice	
Carlos Alberto Lopez	**Senior Oil and Gas Specialist**	**Energy & Extractives Department - Global Practice**	
Sergio Olivieri	Economist	Poverty Department - Global Practice	
Aziz Atamanov	Economist	Poverty Department - Global Practice	

Nandini Krishnan	Senior Economist	Poverty Department - Global Practice	
Emmanuel Cuvillier	Senior Public Sector Specialist	Governance Department - Global Practice	
Brett Coleman	Senior Financial Sector Specialist	Finance & Markets - Global Practice - IBRD	
Mikul Bhatia	Senior Energy Specialist	Energy & Extractives Department - Global Practice	
Ferhat Esen	Senior Energy Specialist	Energy & Extractives Department - Global Practice	
Sheoli Pargal	Lead Energy Economist	Energy & Extractives Department - Global Practice	
Simon Stolp	Lead Energy Specialist	Energy & Extractives Department - Global Practice	
Asbjorn Wee	Senior Operations Officer	Fragility, Conflict & Violence-Cross Cutting Solution Area-IBRD	
Africa Olojoba	Lead Environmental Specialist	Environment & Natural Resources Department - Global Practice	Environment
Nada Abou-Rizk	Program Assistant	World Bank Office: Beirut	Support to the Team
Shingira Masanzu	Counsel	Legal - AFR and MENA Regions	Country Lawyer
Hisham Abdo Kahin	Lead Counsel	Legal - AFR and MENA Regions	Legal
Eric Ranjeva	Finance Officer	Loan Operations, AFR, ECA, MNA	Disbursements
Najat Yamouri	Senior Social Development Specialist	Urban, Rural & Social Development Department - Global Practice	
Michelle Rebosio	Social Development Specialist	Urban, Rural & Social Development Department - Global Practice	
Ramzi Afif Neman	Senior Social Protection Specialist	Social Protection & Labor Department - Global Practice	
Montserrat Pallares-Miralles	Social Protection Development Specialist	Social Protection & Labor Department - Global Practice	
Khadija Shaikh	Junior Professional Associate		

Supervision

Eric Le Borgne	**Lead Economist**	Macroeconomics & Fiscal Management Department - Global Practice	
Sibel Kulaksiz	**Senior Economist**	Macroeconomics & Fiscal Management Department - Global Practice	
Carlos Alberto Lopez	**Senior Oil and Gas Specialist**	**Energy & Extractives Department - Global Practice**	
Sergio Olivieri	**Economist**	**Poverty Department - Global Practice**	

Tara Vishwanath	**Lead Economist**	**Poverty Department - Global Practice**	
Mikul Bhatia	**Senior Energy Specialist**	Energy & Extractives Department - Global Practice	
Ferhat Esen	**Senior Energy Specialist**	Energy & Extractives Department - Global Practice	
Lemya Ayub	**Private Sector Development Analyst**	**Trade & Competitiveness - Global Practice - IBRD**	
Lydia Habhab	**Research Analyst**	Governance Department - Global Practice	
Andrea Germiniasi	**ETC**	**Poverty Department - Global Practice**	
Zeina Hasna	**Consultant**	Macroeconomics & Fiscal Management Department - Global Practice	
Luca Bandiera	**Senior Economist**	Macroeconomics & Fiscal Management Department - Global Practice	ICR Team Leader
Ashwaq Maseeh	**Consultant**	Macroeconomics & Fiscal Management Department - Global Practice	
Mohammed Qaradaghi	**Consultant**	**Energy & Extractives Department - Global Practice**	
Robert Keyfitz	**Consultant**	**Macroeconomics, Trade and Investment – Global Practice**	ICR Primary Author

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY2015	5.08	104,165.44
FY2016	69.38	402,653.47
Total	**74.46**	**506,818.91**
Supervision/ICR		
FY2016	7.40	77,882.79
FY2017	10.41	69,055.82
FY2018 (ICR)	5.45	68,822.49
Total	**23.26**	**215,761.10**

ANNEX 2: TIMELINE OF ISIS ATTACKS

Timeline	Events in Iraq and Syria	Other ISIS-inspired events
December 2013	**Iraq** - ISIS militants in Iraq take control of Fallujah and parts of Ramadi.	
January 2014	**Syria -** ISIS takes over Raqqa and declares it the capital of the ISIS emirate.	
June 2014	**Iraq -** ISIS Offensive on Mosul and Tikrit. Abu Bakr al Baghdadi announces the formation of a caliphate stretching between Syria and Iraq.	
August 2014	**Iraq -** ISIS conquers Kurdish towns of Sinjar and Zumar, forcing thousands of Yazidi civilians to flee their homes and takes control of the Mosul Dam.	
October 2014	Beginning of the US military campaign "Operation Inherent Resolve." To conduct airstrikes in Iraq and Syria.	**Libya -** ISIS claims control over the city of Derna.
December 2014		**Australia -** A gunman seizes 17 hostages in a cafe in Sydney.
January 2015		**France -** Attack at the offices of satirical newspaper Charlie Hebdo in Paris, killing 11 people. Synchronized attack on a kosher supermarket, taking hostages and killing four people.
March 2015		**Tunisia -** Attack on the Bardo museum in Tunis, which killed 22 people. **Yemen –** bombs in two mosques in Sanaa kill 137 people.
May 2015	**Iraq -** ISIS takes over Ramadi.	**Libya -** ISIS takes full control of Sirte
October 2015		**Egypt -** a Russian passenger plane is bombed over the Sinai Peninsula
November 2015	**Iraq -** Kurdish forces seize Sinjar from ISIS.	**France -** Series of coordinated attacks in Paris kill 130 people. **Lebanon -** Suicide attacks in Beirut kill 40 people.
December 2015	**Iraq -** Military forces seize Ramadi from ISIS.	**U.S.** - A married couple allegedly inspired by ISIS kills 14 people in San Bernardino, California.

ANNEX 3: SUMMARY OF BORROWER'S ICR AND/OR COMMENTS ON DRAFT ICR
(if any)

The Government of Iraq would like to express its gratitude to the World Bank for the excellent collaboration during the preparation and implementation of the 2015 Development Policy Financing (DPF) operation and the continued collaboration for the implementation of the DPF series approved in December 2016.

The Government of Iraq has not prepared its own assessment report for the 2015 DPF, but has provided requested inputs to the World Bank's Implementation Completion and Results (ICR) report. The Government agrees with the results framework analysis and the assessment of outcomes, risks and of the Bank and Borrower's performance as reported in the Bank's ICR.

The Government has provided comments on the ICR draft related to the monitoring and evaluation framework, the relevance of the objectives and the design of the operation, achievement of objectives and the performance of the World Bank and the Government of Iraq. The comments are as follows.

Monitoring and Evaluation: Design, Implementation, Utilization

At the time of the preparation of the 2015 DPF, the Government broadly agreed with the 12 indicators that were considered in the results framework, but a few of those indicators proved difficult to monitor.

For example, the implementation of the reform of the salary scale (supported by Prior Action 1) was monitored though an indicator consisting of a ratio of the salary paid to "top public sector employees" to GDP. However, the specific indicator of the DPF was not produced and monitored by the Ministry of Finance. Attempts to gather the necessary data (by grade and spending unit) proved unsuccessful. Data remains with line ministries and spending unit, but is not systematized and made available.

Additional Technical Assistance from the World Bank would have been necessary to adequately monitor this indicator.

Relevance of Objectives, Design and Implementation

The program development objectives of improving (1) expenditure management; (2) sustainability of energy supply; and (3) transparency of state-owned enterprises remain relevant today. However, some of the specific objectives would have benefited from further consideration of government priorities and policies and should have taken into account the challenging social situation in Iraq at a time of a deep fiscal and security crisis.

In reference to Prior Action 5 and result number 5 of the 2015 DPF, the implementation of the objective to reduce gas flaring, required the increase of gas processing capacity, which, in turn, could be achieved only through higher public investments in the sector, to increase the capture and processing of associated gas. Higher investments in the sectors could be financed only by reducing investments in other sectors, in order to respect the ceilings on the primary deficit, net domestic financing and public debt included as performance criteria in the IMF Stand-By Arrangement program.

Achievement of Objectives:

In reference to Prior Action 6 and result 6, which supported the establishment of an inter-ministerial committee tasked with the development of an action plan to utilize gas in electric power generation, the design of the reform should have

paid more attention to key decisions that the Government should have taken to ensure the capacity of said committee to operate. The Government did not designate a Chairman among the three ministries involved (Oil, Electricity and Finance) and a secretariat. Despite the shortcoming of the design, the objectives remain relevant and also thanks to the continued support of the World Bank to the Ministry of Oil and Electricity, gas capture and processing has considerably increased over a short period of time.

In reference to Prior Action 7 and results 8 and 9, which supported the increase of electricity tariffs and the amount of electricity billed, the objective did not take sufficiently into consideration the effects of higher tariffs and higher collection on the population. The Government proved unable to implement an increase in tariff collection at the time of deep economic crisis. In early 2018, attempts to increase the level of tariffs were met with violent demonstrations both in Basra and Baghdad.

In reference to Prior Action 9 and results number 11, the objective of increasing the ratio of state deposits into private banks was in principle pursuing the goal of creating a level playing field between state-owned and commercial banks, but the design of the supported reform was not sufficiently informed by the vulnerability of the private banks in Iraq. Private commercial banks in Iraq are small, heavily dependent on few activities (e.g. foreign exchange transactions) and face solvency problems. The transition of a significant number of government deposits from state-owned to private banks would have put public money at risk. For this reason, the Ministry of Finance has not provided a higher number of authorizations to state entities to open accounts into private banks. The Ministry of Finance also intended to avoid the proliferation of accounts in different banks, which would have increased monitoring costs. In addition, many state entities did not want to change a relation already established with state-owned bank, which was considered adequate to their needs.

Assessment of Risks

The Government agrees with the assessment of the risks reported in the ICR. The ICR could also notice that the activities supported by the DPF, investment projects implemented by the World Bank and technical assistance provided by the World Bank and other development partners are helping the Government manage and reduce a number of identified risks, namely the institutional, economic and financial risks. The Government of Iraq is implementing a program of reform of public financial management and further strengthening the public investment management. Ongoing technical assistance in the areas of debt management, wage payments, payroll management, attendance systems and State-owned enterprises is strengthening institutional capacity in Ministries and other Government's entities.

Assessment of Bank Performance

The Government believes that the performance of the World Bank in the preparation of the DPF operation was excellent. The Government notes the support provided by the World Bank's team, including the Legal Counsel, to facilitate the conclusion of the negotiations and transmittal of the necessary forms, which ensured that the DPF operation could be disbursed few days after the approval by the World Bank's Board. The actions of the World Bank's team helped secure financing for the Government at a moment of high needs.

Assessment of Borrower Performance

The Government agrees with the assessment included in the ICR report. It would like to clarify that the noted coordination challenges between the Ministry of Finance and other line ministries are due to the limited number of staff in the Public Debt Directorate. The function of the Directorate exceeds those of a debt management office, including also the follow

up of the budget support programs of the IMF, the World Bank and JICA. In 2016 and in the first six months of 2017, the Public Debt Directorate could not fully follow up on the very large number of commitments agreed under those programs. Coordination activities were improved also thanks to the help of the Economic Reform Unit of the Prime Minister's Office, which facilitated communications with line ministries.

Implementation and monitoring activities remained challenging because of the fragmentation of the Government's data collection activity in different line ministries and spending units. Monitoring and implementation improved the most in those institutions which benefited from a program of technical assistance adequately funded, as in the case of the system that the Central Bank of Iraq has implemented to introduce the electronic payments of salaries.

These comments to the ICR were prepared by Dr. Salah Hadeethi, Director General of the Public Debt Directorate of the Ministry of Finance.

ANNEX 4: COMMENTS OF COFINANCIERS AND OTHER PARTNERS/STAKEHOLDERS

Not applicable

ANNEX 5: LIST OF SUPPORTING DOCUMENTS

Prime Minister's Advisors Commission, "Restructuring of public companies" (Feb. 2015, processed)

"Haider al-Abadi's authority tested by reaction to Iraq reforms," Financial Times Nov. 23, 2015, https://www.ft.com/content/ef97dd52-89f5-11e5-90de-f44762bf9896

Omar al Jawoshi and Tim Arango, "Premier Haider al-Abadi, Facing Protests, Proposes Iraqi Government Overhaul" *New York Times* Aug. 9, 2015 https://www.nytimes.com/2015/08/10/world/middleeast/iraqs-premier-facing-protests-proposes-government-overhaul.html

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- Ministry of Finance, "Medium Term Debt Management Strategy" http://www.mof.gov.iq/obs/en/Documents/Medium%20Term%20Debt%20Management%20Strategy.pdf (2017)
- "Memorandum on Economic and Financial Policies" in IMF, "Iraq, First and second reviews of the staff-monitored program and request for a three-year stand-by arrangement" (July 2016)
- Ministry of Planning, "PIM framework for Iraq" (December 2015).
- Ministry of Planning, "Capacity needs assessment for Federal Ministry of Planning" (discussion draft), under World Bank, "Modernization of public financial management systems project" (P151357)
- Prime Minister's Advisory Council (PMAC), "Restructuring of public companies: Reality… vision toward reform" (February 2015).
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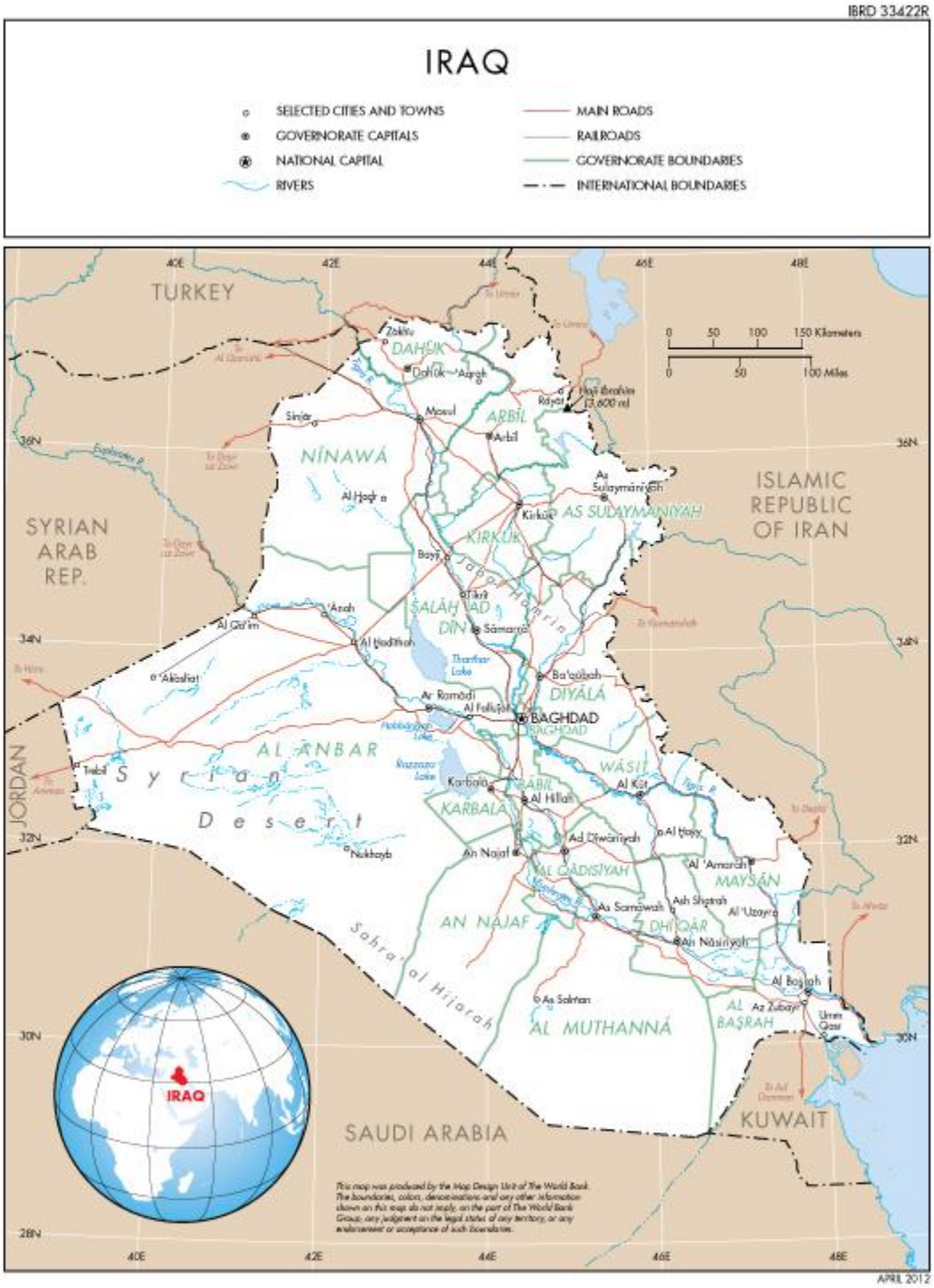
International Monetary Fund

- Article IV Consultation Staff Report, Country Report No. 15/235 (August 2015).
- Article IV Consultation Staff Report, Country Report No. 17/251 (August 2017).
- Iraq First and Second Reviews of the Staff-Monitored Program and Request for a Three-Year Stand-By Arrangement (Country Report 16/225, July 2016).
- Iraq, Staff-Monitored Program (December 2015)
- F*inancial Organization and Operations of the IMF* (Pamphlet #45, 2001).
- "Statistical Annex" in Iraq: Third review of the three-year stand-by arrangement, requests for waivers of nonobservance and applicability of performance criteria, and modification of performance criteria — informational annex (January 2018).

World Bank

- Action plan to develop a Public Investment Management System (IPIMS) 2016-18 action plan" (December 2015).
- *Conflict, Security, and Development* (World Development Report, 2011)
- Emergency Operation for Development loan (P155732), approved July 2015.
- First fiscal stabilization and inclusive growth programmatic development policy loan (Concept Note, July 2015).
- Iraqi PIM Assessment and Action Plan (January 2015)
- Pension Reform Implementation Support Technical Assistance 2009-14 (P114647)

- "Iraq Poverty and Inclusion Assessment: The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq, 2007-2012" (2015).
- "Iraq's vision 2030 draft governance strategy note" (2018); Capacity needs assessment for Federal Ministry of Planning (draft, 2018).
- "Program document for a proposed loan in the amount of US$1,200 million to the Republic of Iraq for an emergency fiscal stabilization, energy sustainability, and state-owned enterprise transparency development policy financing" (December 17, 2015).
- *Public Expenditure Review,* 2014.
- Public Investment Management System (IPIMS) 2016-18 action plan" (December 2015).
- Second expenditure rationalization, energy efficiency and state-owned enterprise governance programmatic development policy financing (December 2016).
- Iraq Systematic Country Diagnostic, 2017.
- Krishnan N., S. Olivieri, 2016, "Losing the Gains of the Past", Policy Research Working Paper 7567, The World Bank.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GOVERNORATE CAPITALS
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MAIN ROADS
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INTERNATIONAL BOUNDARIES
TURKEY
SYRIAN ARAB REP.
ISLAMIC REPUBLIC OF IRAN
JORDAN
SAUDI ARABIA
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DAHUK
ARBIL
NINAWA
AS SULAYMANIYAH
KIRKUK
SALAH AD DIN
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BABIL
AL QADISIYAH
MAYSAN
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DHI QAR
AL MUTHANNA
AL BASRAH
Syrian Desert
Sahra al Hijarah
Mosul
Arbil
Kirkuk
Baghdad
Samarra
Ar Ramadi
Al Fallujah
Karbala
Al Hillah
An Najaf
Al Kut
Al Amarah
Al Basrah
Az Zubayr
Umm Qasr
Nukhayb
Al Qa'im
Akashat
Tikrit
Ba'quba
Ad Diwaniyah
Al Hayy
As Samawah
Ash Shatrah
Al 'Uzayr
An Nasiriyah
As Salman
Sinjar
Zakho
Dahuk
Arbil
Rawandiz
Hajj Ibrahim (3,600 m)
Al Hadithah
'Anah
Al Hindiyah
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Habbaniyah Lake
Razzaza Lake
Euphrates R.
Tigris R.
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0 50 100 Miles
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IRAQ
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