Report Number : ICRR0021304

1. Project Data

Operation ID	Operation Name
P155962	Iraq Emrgncy Fiscal Stabilization, Enrg,
Country	**Practice Area(Lead)**
Iraq	Macroeconomics, Trade and Investment

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-85770	31-Dec-2016	1,200,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
17-Dec-2015	31-Dec-2016	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	1,200,000,000.00	0.00
Revised Commitment	1,200,000,000.00	0.00
Actual	1,200,000,000.00	0.00

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2. Project Objectives and Policy Areas

a. Objectives

According to the Program Document (PD, page 3), the program development objective of the Iraq Emergency Fiscal Stabilization, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing (DPF) was to "improve expenditure management, the sustainability of energy supply, and the transparency of state-owned enterprises" in the Republic of Iraq.

b. Were the program objectives/key associated outcome targets revised during implementation of the series?

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c. Pillars/Policy Areas

The DPF had three policy areas, corresponding to the three objectives of the operation, and several sub-areas under each:

Improving Expenditure Management aimed to reform public wages, improve public investment, strengthen public debt management, and update the public pension system. (1) The DPF supported public wage reform, focused on lower top earnings and a flatter salary schedule. Iraq's public wage bill was inordinately high (17 percent of GDP in 2015), skewed toward the highest salary grades, and grossly misaligned with private sector pay particularly for skilled labor. (2) Iraq's public investment decision process was structurally flawed, hampered by faulty planning, low levels of fund utilization, and poor implementation. The deficiencies jeopardized plans to remedy the country's massive reconstruction needs, and required, in response, a public investment management (PIM) system focused on better investment planning and execution. (3) The DPF supported the creation of a debt management section at the Ministry of Finance and the drafting of a debt strategy to upgrade the government's debt management capacity. Iraq's large financing needs and rapid debt accumulation (the gross public debt-to-GDP ratio was 62 percent in 2015) posed a challenge to the government, which failed to complete a planned US$2.0 billion Eurobond issue in 2015. (4) Iraq's social insurance and pension system was fragmented (the private scheme covered less than 3 percent of private employees), lacked fairness (average pensions were 100 percent of average earnings), and was costly (pension spending was 4 percent of GDP). Cleaning the retiree registry of ineligible beneficiaries was necessary, after which more structural measures would be needed.

Improving the Sustainability of Energy Supply focused on reducing gas flaring, expanding gas-to-power generation, and reducing electricity subsidies. (1) Lacking infrastructure, Iraq flared 60 percent of the gas associated with its oil production, a volume sufficient to support incremental generation capacity of 6.5 gigawatts. Reducing gas flaring and increasing gas processing capacity instead could add 414 million standard cubic feet per day (MMSCFD) of usable natural gas and generate US$1.2 billion of fiscal savings in addition to reducing carbon release and air pollution. (2) Shifting to gas-fired generation would enable Iraq to reduce domestic oil demand by 1.2 million barrels per day by 2035 and raise oil exports by a cumulative US$520 billion (by redirecting domestic consumption toward exports). (3) Rationalizing the electricity tariff structure and reforming electricity subsidies, initially by applying full-cost recovery tariffs to intensive users, would help address the chronic and pervasive shortage of electricity in energy-rich Iraq (the deficit was estimated at 6 to 7 gigawatts of electricity), where the shortfall was exacerbated by physical and commercial losses, wasteful consumption, and poor revenue collection and management.

Improving the Transparency of State-Owned Enterprises (SOEs) to promote transparency of the finances and operations of non-financial and financial SOEs. (1) A huge number of non-financial SOEs (176, employing half a million people), many of which had limited rationale beyond providing public employment, stifled private sector growth in a wide range of sectors in the Iraqi economy. They were non-transparent, weakly accountable, and undertook sizable quasi-fiscal activities that generated large fiscal liabilities. Restructuring the SOEs required the collection and publication of information on their finances and operations, and the creation of a body to monitor and manage their fiscal risks. (2) Meanwhile, seven privileged state-owned banks dominated a banking system that was small (asset-to-GDP ratio of 73 percent versus an average of 130 percent for MENA countries), poorly performing (credit expansion of 7 percent of GDP versus 55 percent on average for MENA countries), and not in compliance with international transparency standards. Removing constraints on the ability of SOEs to transact with private banks would promote competition in banking, while completing the action plan for Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), as prescribed by the Financial Action Task Force (FATF). This would support Iraq's access to the international financial system.

d. Comments on Program Cost, Financing, and Dates

Program Cost: The program was estimated to cost US$1.2 billion at appraisal.

Financing: The program was financed with an IBRD loan in the amount of US$1.2 billion. The full amount was disbursed in a single tranche.

Dates: The program was approved on December 17, 2015 and became effective on December 19, 2015. The program closed as scheduled on December 31, 2016.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The DPF was relevant to economic conditions in Iraq at the time of appraisal. Oil prices had collapsed in mid-2014, harming Iraq's undiversified oil-dependent economy (oil and gas accounted for over 65 percent of GDP, 90 percent of fiscal revenues, and 98 percent of merchandise exports). At the same time, the Islamic State of Iraq and Syria (ISIS) had made rapid inroads into Iraq in mid-2014, controlling a third of the country's territory including major cities and key international trade routes, seizing some oil infrastructure including the largest refinery, and displacing over 3 million Iraqis in a humanitarian crisis worsened by the arrival of a quarter million Syrian refugees.

The twin shocks exacted heavy economic and social costs: the fiscal deficit worsened to 5.4 percent of GDP in 2014 and 12.3 percent in 2015; the current account surplus turned into a deficit of 6.5 percent of GDP in

2015; and non-oil GDP contracted by 7 percent in 2014 and 6.7 percent in 2015. Poverty rose from 18.9 percent in 2012 to 22.5 percent in 2015, and to 41.2 percent in areas occupied by ISIS. In response, the coalition government, formed in September 2014, moved to protect the delivery of basic services, retake areas controlled by ISIS, and shore up the economy. International lenders assembled a support package, with the International Monetary Fund (IMF) providing a US$1.24 billion from the Rapid Financing Facility (RFF) in July 2015 and put in place a staff monitored program (SMP) in November 2015, which subsequently led to a US$5.4 billion stand-by arrangement (SBA) in July 2016, a US$300 million emergency operation from the Bank, for development project in July 2015 and the US$1.2 billion DPF in December 2015.

The objectives of the DPF, as defined in three reform areas --- expenditure management, energy supply sustainability, and SOE transparency --- were relevant to the government's "National Development Plan, 2013-17" and "Strategic Priorities in Ministries: 2014-18 Action Plan": structural reforms to promote an efficient and more transparent public sector and a faster growing and more dynamic private sector.

The program objectives to improve expenditure management, the sustainability of energy supply, and the transparency of SOEs were selected from the above strategic priorities as part of an international support package including budget support from the IMF and Government of Japan, and technical assistance from these and other donors (PAD, p. 4, 18). They were supportive of the goals of the development plan to "achieve a stable economic structure", to "practice sustainable exploitation of natural resources", and to "lay the foundations of economic partnership between the public and private sectors", respectively. They were also directly supportive of four of the six priorities of the action plan, in particular "upgrading service to citizens"; "encouraging a shift towards the private sector"; "increasing oil and gas production to improve fiscal sustainability"; and, "implementing administrative and financial reform of government institutions".

The objectives of the DPF were similarly aligned with the goals of the Bank's "Country Partnership Strategy for the Republic of Iraq for the Period FY13-FY16", supporting Iraq's efforts to build a more diversified economy and stronger institutions that can create jobs and deliver services to the population. To achieve this, the Bank engagement is structured around three pillars: improving governance; supporting economic diversification for broadly-shared prosperity; and, improving social inclusion and reducing poverty. The Performance and Learning Review (PLR) introduced two objectives: (1) restoring and improving basic service delivery, especially in those areas affected by ISIS, to help reinforce the legitimacy of the State; and (2) managing the country's critical fiscal situation and increasing opportunities for the private sector. The three DPL objectives are aligned with second objective of the PLR (PAD, p. 36).

Rating

High

b. Relevance of Design

The program design was strong in the following aspects.

The results chain was logical. Adjusting public wages, revamping public investment practices, strengthening public debt management and reforming pension systems would improve expenditure management in a public sector that was generally considered wasteful and inefficient. Reducing wasteful and polluting gas flaring, shifting to gas-fired power generation, and rationalizing costly electricity subsidies would improve the sustainability of energy supply in oil-rich Iraq, which ironically has endured chronic electricity shortages. Monitoring the fiscal risks of non-financial SOEs would begin to improve the transparency of the SOE sector which had remained largely unaccountable while dominating economic activity and stifling private enterprise. And, leveling the playing field between private and state-owned banks would revitalize the banking system dominated by under-capitalized and poorly-managed state-owned banks.

Iraq faced a deficit estimated at 14-18 percent of GDP for 2015, and the government had sought emergency financing that would help to leverage other financing from development partners (ICR, p. 3).

The development policy loan (DPL) was a suitable instrument for the operation. Fulfillment by the government of the prior actions would initiate the reform program. At the same time, the proceeds of the US$1.2 billion loan, disbursed in a single installment, would flow to the general budget account.

The macroeconomic policy framework was adequate at the time of program appraisal. The "Memorandum of Economic and Financial Policies" signed by the government with the IMF in mid-December 2015 (as part of the IMF SMP) pointed to a large fiscal consolidation that the government had implemented in 2015 and indicated the government's intention to continue the effort into 2016. The document also described foreign exchange policy, public financial management and banking supervision reforms that the Government committed to implement in 2016. The IMF considered the baseline medium-term economic outlook to be positive, driven by fiscal adjustment, an expansion in oil revenue, and improved security conditions. The Bank and Fund agreed that macroeconomic policy and fiscal projections were appropriate, along with the government's effort to deal with arrears and central bank borrowing (ICR, p. 2).

The program design was deficient in several aspects:

- The program was extensive for a one-year stand-alone operation, with 3 policy areas, 9 sub-policy fields, 10 prior actions, and 12 results indicators. A lighter design would have better suited the government's limited institutional capacity, and the fragile, conflict and violence (FCV) affected environment in Iraq.

- The focus, in wage reform (under the first objective to improve expenditure management), on flattening the public wage schedule appears to be only of secondary importance compared to the primary issue of an inflated bureaucracy. The wage bill had exploded from 7 percent of total public expenditure in 2004 to 27 percent in 2014. Eliminating "ghost" workers would have been a more strategic intervention.

- The requirement to adopt a PIM framework (a prior action under the first objective to improve expenditure management) to help improve public investment came well ahead of a necessary first step to upgrade institutional capacity so that it can undertake efficient public investment, and hence make the new framework operational. A capacity needs assessment has only been recently initiated, two years after the adoption of the PIM framework.

- Organizing a committee to prepare a gas-to-power action plan (a prior action under the second objective to improve the sustainability of gas supply) proved insufficient to get the action plan drafted. The drafting has been mired in procedural disputes. As with the PIM framework, institutional capacity needs should have been assessed and addressed during program design.

- Overall, the short time frame of the stand-alone operation constrained the implementation of institutional capacity building initiatives which were necessary, considering the low capacity of the government and the FCV affected environment in the country, to advance the structural reform program supported by the DPF.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective

To improve expenditure management.

Rationale

Public wage reform: Reducing spending on compensation for public employees would benefit expenditure management by increasing fiscal space for other priority spending. The target to reduce average annual senior-level wages in government from 1.9 times GDP per capita in 2015 to 1.7 times by Q1-2017 was met, as the ratio fell to 1.6 times GDP per capita, representing a 22 percent reduction from an average salary of US$9,251 in 2015 to US$7,253 in 2016. At the same time, salaries at the lowest grades were raised by 3 percent in real terms. As a prior action, the Council approved the new salary scale for state employees beginning November 2015, lowering earnings at the top and flattening the pay distribution overall. Notwithstanding, the ICR (page 11) points out that the impact of the wage changes on expenditure management is difficult to evaluate, lacking data on benefits, which are in multiples of salaries, and on the differences in human capital, specialization, and experience among state employees.

PIM reform: The target to raise the percentage of capital projects covered by a feasibility study and cost-benefit analysis from 3 percent of capital projects in 2015 to 5 percent in Q1-2017 was achieved. Data from the Iraqi Development Management System showed that 8 of 58 projects, or 13.8 percent, valued at over US$500 million satisfied the requirement in 2016. Earlier in 2015, the Ministry of Planning finalized a new PIM framework as part of the government's public financial management (PFM) strategy. In the ICR's assessment, the link from the early PIM reform to better expenditure management remains tenuous, considering, for instance, that the 8 projects covered by a feasibility study in 2016 were valued at US$85 billion, three times Iraq's annual investment budget. A positive impact on expenditure management would be achieved only if the government took the additional effort to prioritize, properly budget for, and efficiently execute the projects.

Public debt management: The target for the Ministry of Finance to approve and publish on its website a Medium-Term Public Debt Management Strategy (MTDS) that was consistent with international best practice was achieved December 2017, one year after the program closing date (ICR, page 12). Previously, as a prior action, the Ministry of Finance established, staffed, and made operational a Debt Management Division in the Public Debt Directorate to manage and oversee Iraq's public debt and debt guarantees. The MTDS, which represents a good first step to better management of public debt in Iraq, was published by the MOF in December 2017. The Ministry of Finance has also published a report: Medium Term Debt Management Strategy, that IEG finds to be of good quality. These actions helped to ensure that debts and guarantees are prudently planned, approved, and monitored.
http://www.mof.gov.iq/obs/en/Documents/Medium%20Term%20Debt%20Management%20Strategy.pdf

Pension reform: The target was to achieve a 5 percent reduction of cash benefit spending by the National Board of Pension (NBP) by Q1-2017. Although the ICR (p. 13) finds that it isn't possible to prove the target was achieved, based on the evidence it is reasonable to conclude that the target at least nearly achieved. Data show that ineligible beneficiaries in 2015 accounted for ID82.0 billion or 4.8 percent of total benefit payments of ID1.7 trillion by the NBP. Based on this information, it is reasonable to conclude that the target was met in Q1-2017, considering that the NBP identified another 45,700 ineligible beneficiaries in a 2016-17 audit. Earlier, as a prior action, the NBP cleaned up its retiree data registry of 37,000 ineligible beneficiaries, higher than the target of 30,000. The clean-up marks a good beginning for future fundamental reforms, including a restructuring of the public and private schemes and their merger with the broader social protection system.

Rating
Substantial

Objective 2
Objective

To improve the sustainability of gas supply.

Rationale
Sustainability was a national priority, and is defined in the PAD (p. 28) as a sharp expansion in natural gas processing capacity and a significant reduction in natural gas flaring in both absolute and relative terms, to ensure that the additional gas captured can be used for its power generation needs, and to reduce electricity

subsidies. The degree of achievement of the objective to improve the sustainability of the country's gas supply is rated as modest.

Gas flaring: The target to reduce gas flaring--measured by the amount of additional (associated) gas processed from an average 656 million MMscf/day in 2014 to 1,070 MMSCFD by Q1-2017 was 87 percent met as of December, 2017. Initially delayed amid payment arrears to international oil companies, gas processing trended higher in 2016-17 and according to the ICR (p. 15) was expected to surpass the target in 2018. As a prior action, the Energy Committee of the Council of Ministers approved a plan to reduce gas flaring in 2015-18 and eliminate it by 2030. The economic and environmental benefits from reducing and eliminating gas flaring were premised on the successful investment in gas capture, processing and transmission infrastructure in the Basra petroleum hub by the Basra Gas Company, an Iraqi public-private joint venture with Shell and Mitsubishi.

Gas-to-power: The Inter-Ministerial Committee, composed of the Ministers of Oil, Electricity and Finance, was established by the Council of Ministers in October 2015, as a prior action; but the committee never met, and the plan has yet to be produced. Nonetheless, the target to switch from petroleum products to gas in power generation, reflected in the increase in the total gas volume supplied to gas turbine power production from 600 MMSCFD in 2014 to 840 MMSCFD by Q1-2017, was exceeded, with 992 MMscf/day produced by December 2017. However, the achievement was caused by other factors than the prior action supported by the operation.

Electricity subsidies: The first target to raise tariffs for energy-intensive consumers (large continuous power users) by one percent from Iraqi Dinar (ID) 30.74 per kilowatt hour (KWh) in 2014 to ID 31.05 per KWh by Q1-2017 was met, with the authorities raising the tariffs to ID 94.6 per KWh. The decision by the authorities to raise tariffs by higher than the target appear to have been motivated by: the exceedingly low level of electricity tariffs (tariffs had stood below cost recovery levels since the 1990s) and the desire to boost incentives for consumers to use electricity efficiently (electricity consumption in Iraq is comparatively high by regional standards). Earlier, the government introduced a new tariff schedule aimed at reducing subsidies and increasing revenues in January 2016, meeting a prior action. However, the impact of the tariff increases on subsidies was small, pared by high technical losses and low collection rates. According to the IMF, the new higher tariffs will cover only 11 percent of production costs and subsidy levels have not changed, reaching 5.5 percent of GDP in 2017. The second target to improve service delivery and raise total electricity sold from 44 million megawatts per hour (MWh) in 2014 to 47.6 million MWh by Q1-2017 was not achieved. According to the Ministry of Electricity, electricity sold declined to 38.1 million MWh in 2017.

Rating

Modest

Objective 3

Objective
To improve the transparency of state-owned enterprises.

Rationale

The degree of achievement of the objective to improve the transparency of SOEs is rated as substantial.

Non-financial SOE reform: The target to publish a consolidated annual report on the financial and employment metrics of Iraq's non-financial SOEs was met, with the posting of the first report by the Ministry of Finance on its website in Q1-2017. Earlier, the Prime Minister had created an Advisory Committee to monitor the fiscal risks of non-financial SOEs and the Committee had prepared a detailed compendium of data on non-financial SOEs, fulfilling a prior action directed at institutionalizing SOE data collection and risk monitoring. While the report is considered a "milestone" in the measurement of fiscal risks, the ICR claims that the publication has generated little interest. Moreover, while data collection has continued, no new report has been published since, signaling that reporting will likely not be sustained into the future without further Bank support.

Financial SOE reform: The target to shift at least five percent of government deposits to private banks was not met. While the government raised deposits at private banks, the amount never exceeded one percent of its total deposits. Previously, as a prior action, the Council of Ministers had issued a decision to allow private banks to expand the range of services they could provide to government ministries and SOEs in a bid to level the playing field between public and private banks. The Central Bank of Iraq, however, required a pre-approval of the use of private bank accounts; and, as the pre-approvals were difficult to obtain, state entities continued to use SOE banks. Recently, the Council of Ministers barred the Ministry of Electricity from using private banks because of the suspected collusion by private banks in the foreign exchange market, stalling banking sector liberalization.

AML/CFT oversight: The target to complete five of eight actions of the FATF Action Plan was met, with the FATF determining by end-2017 and in February 2018 that Iraq had substantially addressed its action plan at a technical level, completing six actions. Earlier, as a prior action, Iraq passed the Combatting of Money Laundering and Financing of Terrorism Law No. 39 of 2015. The ICR reports that the FATF and the IMF will continue to monitor and verify implementation, develop supervisory capacity, ensure a fully operational Financial Intelligence Unit, and monitor cross-border cash payments.

Rating
Substantial

5. Outcome

The objectives were highly relevant to the country context, and well aligned to the Bank Group's Country Partnership Strategy. Relevance of design, however, was modest, in part because the conversion of the multi-year three-part programmatic reform series to a one-year stand-alone operation, while justified by the requirement for emergency financing, constrained institutional capacity building initiatives which were necessary to advance the reform plan (see Section 3.b). The efficacy of the first objective – improving expenditure management – is rated substantial. Some redistribution in public wages was achieved; there are signs of progress with PIM reform; public debt management was improved, with some minor delay; and, good housekeeping has been achieved with the public pension rolls, setting the stage for fundamental reforms. The efficacy of the second objective – improving energy supply sustainability – is rated modest. There was satisfactory progress with reducing gas flaring, albeit with some delay; but, the gas-to-power action plan remains pending; and, while there was progress with raising electricity tariffs, the impact on reducing subsidies was small. The efficacy of the third objective – improving SOE transparency – is rated substantial. Preliminary fiscal risk analysis was conducted for non-financial SOEs; AML/CFT was brought into compliance to the satisfaction of the FATF; but there was limited progress with financial SOE reform, in particular with banking sector liberalization. Overall, the shortcomings are considered minor, and the outcome is assessed as satisfactory.

a. Outcome Rating
Satisfactory

6. Rationale for Risk to Development Outcome Rating

The risk to the sustainability of the development outcome of the DPF is assessed as high.

Security risk: The Iraqi Prime Minister declared a "final victory" against the ISIS in December 2017, but international reports of small-scale attacks in the territory stretching across the Diyala, Kirkuk and Salahuddin provinces though mid-2018 suggest that ISIS is creeping back into parts of central Iraq. The resumption of armed conflict in Iraq will stall or reverse the achievements of the DPF and its follow-on operations.

Political risk: Political risk is rising in Iraq in mid-2018, where negotiations for the formation of a new government are being delayed by a recount of the ballots in the fraud-tainted elections in May and the eruption of widespread anti-government protests in the mainly Shiite provinces in the south. Political risk threatens to overwhelm the ownership of, and the commitment to, structural reforms in Iraq.

Macroeconomic risk: Despite the ongoing fiscal consolidation, fiscal pressures remain high. According to the IMF Staff Report on the Iraq 2017 Article IV Consultation and Second Review under the Three-Year SBA (pages 28-29), the economic risks remain very high: a decline in oil revenue or a shortfall in projected financing would widen the financing gap in 2018-19 and could weaken growth, public finances, and the balance of payments.

Political economy risk: The senior ranks of the bureaucracy, ineligible beneficiaries of the public pension system, large subsidized commercial users of electricity, non-financial SOEs, and SOE banks have a vested interest in maintaining the pre-reform system of preferences and privileges in the Iraqi economy. They may resist the changes, exert pressure to reverse them, or stall further reform measures.

Institutional and governance risk: Institutions in Iraq are generally weak, having been degraded by decades of war, sanctions, and conflict. Poor governance undermines social capital and the state's legitimacy. Institutional and governance risks are serious threats to Iraq's ability to preserve the gains from the DPF and to advance the next rounds of structural reforms.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The quality at entry is assessed as moderately satisfactory.

The DPF was underpinned by extensive analytic work drawn from at least 32 reports prepared by the Bank, the IMF and other international agencies (Program Document, pages 35-36) and from at least 10 technical assistance projects funded by the Bank and other development partners over several years (Program Document, pages 18-19). The DPF also drew lessons from the Bank's US$250 million Fiscal Sustainability DPL in 2010, which together with the IMF's US$3.8 billion SBA, also in 2010, aimed to help Iraq reduce its fiscal vulnerability to sudden drops in oil revenue following the fiscal crisis of 2009.

The Bank collaborated and coordinated closely with the IMF to provide emergency financing to the country and to support a program of structural reforms. The DPF focused on reforms in expenditure management, energy supply, and SOE transparency while the SMP supported fiscal consolidation to reduce the non-oil primary deficit, apart from measures to strengthen public financial management, AML/CFT, and financial sector stability.

The Bank correctly recognized the program risk to be high overall and across a wide array of risk categories (Program Document, pages 43-46): political and governance risk (from political instability, social unrest because of inadequate public services, and corruption); macroeconomic risk (from any further decline in global oil prices); FCV risk (from any escalation of the ISIS insurgency); stakeholder risk (from capacity constraints, resistance from special interest groups, and changes in the directions of reform); and, fiduciary risk.

The Bank, however, concluded that the risk of inaction far outweighed the risks faced by the DPF. Iraq's financial position, already burdened by a large accumulation of arrears and difficulty in accessing foreign financial markets at a reasonable interest cost, would deteriorate without the DPF financing. And, the macroeconomic framework would be weaker without the implementation of structural reforms supported by the DPF.

The quality of entry would have been stronger, however, if the Bank paid greater attention to mitigation measures that addressed the risks resulting from the low institutional capacity of the government, its governance challenges, and the FCV affected environment.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The quality of supervision is assessed as satisfactory.

The Bank provided adequate supervision of the program, despite problems with logistics (office space constraints in Baghdad, primarily). The Bank staff combined supervision with work for the succeeding DPF operation and for other Bank technical assistance activities in Iraq. The arrangement allowed enough supervision missions to attend to implementation issues with the DPF.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Facing a fiscal deficit of 14-18 percent of GDP in 2015, the government considered the DPF to be vital to its financing plan and took active steps to facilitate the disbursement of the loan.

The government successfully completed the ten prior actions between May and November 2015, paving the way for the approval and effectiveness of the loan in December 2015. The Ministry of Finance served as an efficient counterpart in negotiations with the Bank. The Prime Minister's Office created an Economic Reform Unit to liaise with the Council of Ministers, composed of the Prime Minister and the Cabinet, to complete the prior actions.

Implementation was mixed, however. Six of the 12 results targets were met or exceeded and another three were met, with some delay. However, three of the targets were not met at all. The slippages were minor overall.

Government Performance Rating
Moderately Satisfactory

b. Implementing Agency Performance

The Council of Ministers (which was responsible for five of the ten prior actions), the Prime Minister's Office (for two), the Ministry of Finance (for one), and the National Board of Pensions (for one) performed creditably in initiating the reform program supported by the DPF and taking the DPF to effectiveness.

Other bodies that were tasked to implement parts of the reform program did not perform as well as anticipated. The inter-ministerial committee composed of the Ministers of Oil, Electricity, and Finance was unable to develop an action plan to utilize gas for electric power generation. The Ministry of Electricity failed to raise the volume of electricity sold as targeted. And, the Central Bank of Iraq required that plans by government entities to use private banks be submitted to its approval, a process that took long and discouraged the agencies from dealing with private banks.

Implementing Agency Performance Rating
Moderately Satisfactory

Overall Borrower Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E framework was extensive --- 12 results indicators covering three policy areas --- and pertinent, overall, to the outcomes of the operation.

Nonetheless, there were moderate shortcomings with some of the results indicators. The indicator for public wage reform --- "the reduction in the basic annual salary of top public-sector employees, as a ratio of annual GDP per capita", with a target of 1.7 --- was confusing, and could have been simplified, to "a twenty percent cut in nominal wages of top public-sector employees", for example. Moreover, the indicator also failed to reflect a second target of public wage reform --- to raise salaries at the lowest grade. The results indicators for PIM reform, electricity subsidy reduction, and banking sector reforms were originally designed to capture the cumulative impact of a three-part program. To measure progress at the one-year mark, the indicator targets were adjusted, but adjusted too far down "as if little impact was expected from the interventions" (ICR, page 7). Finally, the results indicator for improving electricity services --- an increase in the volume of electricity sold --- appeared to have been an imperfect proxy for the principal demand by consumers --- service reliability. More appropriate indicators for reliability for which data should have been available include: the number of customer service interruptions in a month, or the number of transmission network faults in a month.

b. M&E Implementation

The Ministry of Finance, the implementing agency of the program, and the Prime Minister's Office, which coordinated prior actions with the Council of Ministers, collaborated to oversee M&E implementation. Progress toward the program objectives was formally monitored on four occasions, including during the supervision mission of mid-2016 and the preparation of the second operation in late 2016.

In practice, collecting data from the line agencies responsible for implementation of the reform agenda proved difficult, according to the ICR (page 8). Civil service salaries were not reported by grade and by ministry in Iraq, which made it difficult to trace the impact of the salary restructuring. Oil and gas production data had not been updated since June 2016, which forced the ICR to use provisional numbers.

c. M&E Utilization

M&E for the DPF was highly useful for the preparation of a follow-on operation (the US$1.485 billion Second Expenditure Rationalization, Energy Efficiency, and SOE Governance DPF was approved by the Bank in December 2016). Publication of the debt management strategy previously prepared for the DPF was made a prior action to the second operation. Production of the gas-to-power action plan, an original but unmet target for the DPF, was also made a prior action to the second operation. And, data collected for the SOE fiscal risk report under the DPF helped design governance reforms under the second operation.

M&E Quality Rating
Substantial

10. Other Issues

a. Environmental and Social Effects

Environmental Effects: Following the requirements of Bank Environmental Policy OP 8.60 (paragraph 9: Poverty and Social Impacts, and paragraph 10: Environmental, Forests and Other Natural Resource Aspects) which govern DPLs, the Program Document (pages 39-40) made the following determination of the environmental effects of the program: (a) the policies supported by the DPF were not likely to have negative impacts on the country's natural resources; (b) any negative effect would likely be mitigated by the Ministry of the Environment which had the capacity to implement environmental and social management plans; (c) the target to reduce gas flaring would decrease environmental degradation by reducing the volume of methane released into the atmosphere; (d) the natural gas processing targets would reduce the emission of greenhouse gases; (e) the increased use of natural gas in power generation would displace the use of fuel oil and diesel, which were more polluting sources of power. Overall, the reduction in gas flaring and the use of cleaner gas would reduce greenhouse gas emissions from power generation by 6.9 million tons from 2014 to 2016.

Social Effects: The Program Document (pages 37-39) determined that the macroeconomic reforms supported by the DPF were unlikely to adversely impact welfare. Specifically: (a) the plan to cut the wages of senior public employees would not affect the welfare of the poor or the bottom 40 percent of the population; (b) improving the efficiency of spending would free up public resources that could be used for welfare-improving expenditures; (c) the substitution away from expensive fuel sources would lead to cost savings for households; and, (d) the expansion of electricity supply would benefit all households, where only a few received more than 12 hours, and a third received less than 8 hours, of electricity per day.

b. Fiduciary Compliance

Citing related Bank reports, the Program Document (pages 44-45) determined fiduciary risk to be high for this operation. The document, however, cited efforts, including by the Bank and the United Kingdom's Department for International Development, to help Iraq strengthen its public financial management system in the long-term.

The Program Document (page 42) stated that the DPF would follow standard Bank disbursement procedures for DPLs. Moreover, an independent external auditor, acceptable to the Bank, would be hired by the Ministry of

Finance to verify the accuracy of the loan transactions, including the exchange rate conversions, and to confirm that the dedicated deposit account was used only for the purposes of the operation.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

Three lessons are drawn from the ICR (page 19), with some adaptation.

Crisis lending can be consistent with longer-term structural reform. The DPF combined emergency financing, in response to the oil price and ISIS insurgency shocks of mid-2014, with a program to improve expenditure management, energy supply sustainability, and SOE transparency over the period 2015-17. The loan proceeds helped Iraq meet its financing needs as oil prices plunged and security expenditures soared, while the reform program enabled the government to take measures that would begin to meet the popular demand for reliable basic public services in an FCV affected environment.

A stand-alone operation strains the effectiveness of a medium-term policy and institutional reform dialogue, when the programmatic approach is the optimal intervention. The Bank strove to maintain the medium-term character of the reform program by picking interventions from the first year of the original three-part plan, by designing the results framework to focus on intermediate outputs, and by rapidly preparing a follow-on operation on the same three policy areas even as the government continued to implement the first operation. However, the stand-alone operation also constrained the implementation of institutional capacity building initiatives which were better suited to the longer timeframe of a programmatic series.

Planning and systematic technical assistance are critical for embedding policies in institutions. The DPF has had to confront weak institutions and poor governance in a country damaged by decades of armed conflict, political instability, and economic sanctions. Careful planning of the structural reform program and the conveyance of systematic long-term technical assistance by multiple development partners aimed to ingrain the reform agenda in government operations in a manner that would be, hopefully, difficult to reverse.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The assessment of the program's results is evidence-based. The ICR provides a useful summary and narrative of the operations' performance, set within the results framework for the reform program (pages 11-15).

The analysis of the program outputs and outcomes is candid. The ICR cites how the program only partly met the second objective to improve energy supply sustainability (pages 13-32) and almost fully met the third objective to improve SOE transparency (pages 14-15). It also cites significant deficiencies with the relevance of design (page 10), moderate deficiencies with the Government's performance (page 18), and high risks across a wide array of categories (page 17).

The document provides a comprehensive record of the program. The ICR adequately documents the political and economic context of the project (pages 1-3), the program design (pages 4-5), the status of prior action (pages 3-4), and the results framework (pages 7-8).

The ICR team did not respond to requests for an ICR task team leader (TTL) interview.

a. Quality of ICR Rating

Substantial