PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC828

Project Name	Lebanon Fiscal Management Reform 2 (P133226)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Lebanon
Sector(s)	Central government administration (100%)
Theme(s)	Debt management and fiscal sustainability (25%), Macroeconomic management (25%), Public expenditure, financial management and procur ement (25%), Other public sector governance (25%)
Lending Instrument	Specific Investment Loan
Project ID	P133226
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
Date PID Prepared/ Updated	12-Feb-2013
Date PID Approved/ Disclosed	18-Mar-2013
Estimated Date of Appraisal Completion	00000000
Estimated Date of Board Approval	14-Nov-2013
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Lebanon is an upper middle income country of 4.2 million people with a large diaspora and an average GDP per capita of around US$9900 (in 2011). The country is highly urbanized with more than 85 percent of the population living in cities, and about half lives in the capital, Beirut. Lebanon has a services-oriented economy that account for 79 percent of GDP, followed by industry at 15.9 percent then agriculture at 5.1 percent. The country has long been known not only for its political instability but also for its talented human capital, vibrant private sector, and open economy. In contrast, the country's complex political economy has deeply affected the quality of its public institutions. With poor services delivery and policy making, the public sector has not been able to cope with the increasing requirements of the dynamic society and private sector; pushing them to opt for costly alternatives and therefore contributing to the deterioration in the competitiveness of the economy and the welfare of the population. Management of public finances is in no mean an

exception. Budget laws have not been approved since 2006; public accounts have not been properly closed since 1993; and despite MoF's considerable efforts to close gaps, notable weaknesses and lack of transparency remain present in the budgetary processes and practices.

Lebanon's large public debt (134 percent of GDP) is a key binding economic constraint to future growth and social progress. It needs to be contained and reversed by deep-seated fiscal adjustment. Lebanon has consistently run large budget deficits that averaged 8.5 percent of GDP in the last 5 years. This has had its toll on the macro stability of the country and its growth performance. The lack of fiscal space and the inefficient use of public resources have been an impediment to enhancing productive public investment, especially in infrastructure, leading to the deterioration of public services delivery and weakened social outcomes. Structural fiscal reforms are therefore critical. These reforms, advocated by the Bank on several occasions , include public expenditure consolidation measure such as changing the management and control over large loss-making public autonomous agencies and enterprises, reforming the civil services system and pension schemes, improving public resource management, and expanding social protection. Taxation is also an area of critical reforms. The current tax system has significant equity and efficiency gaps that need to be addressed. The tax base can be widened with sectors such as real estate and capital gains still untouched.

Sectoral and Institutional Context

Faced with a constraining fiscal position and deteriorating fiscal institutions, Lebanese policymakers opted to engage on public financial management reforms since 2007. As part of the Paris 3 donor conference for the reconstruction of Lebanon at the aftermath of the 2006 Israeli war, the Lebanese government presented a comprehensive 4-year reform program (2008-2011) where it committed to reduce fiscal imbalances and stimulate growth. One of the five pillars of the program focused specifically on adopting phased fiscaladjustment to increase primary surplus and reduce debt through the streamlining of expenditures and raising measures. This was the initial trigger to formulate EFMIS in 2009, a broad-based World Bank PFM support and capacity building project aimed at improving the control, allocation and use of public financial resources. EFMIS engaged on inter-linked measures in budgeting (planning and execution), debt and aid management.

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The deadlock over the budget since 2006 threatens to stall the reform momentum. The political deadlock brought the executive and legislative branches in several instances to a standstill, forcing the Parliament not to adopt the successive draft budgets since 2006. This was detrimental to the budget cycle. One of the binding constraints is the recurrence to treasury and budgetary advances. These practices are used to overcome financing constraints in the context of the absence of budget and the prevalence of the 1/12 rule of spending. The continuous use of these practices weakens both fiscal discipline and the transparency of public resource usage.

However, the commitment for PFM reforms was renewed in 2011. In its economic program presented during the Parliamentary vote of confidence, the government referred to fiscal reforms as a priority area. This was visible through the accelerated pace observed in the activities and deliverables of EFMIS starting 2011. During this period, the ministry of finance embarked on many notable structural reforms such as the review and closing of the public sector accounts since 1993, amendments to the outdated 1963 public accounting law, the approval of the new GFS 2001 classification system, and measure to secure the existing IT systems. Also, MoF started preparing strategies and action plans to implement further reform activities. These include the comprehensive PFM Reform Strategy (2013-2017), the budget execution reforms implementation plan, and the

FMIS implementation strategy. These plans, once completed and adopted , will form the basis for the improvement of core PFM functions within the upcoming 5 years.

In addition to the World Bank, The PFM reform agenda in Lebanon is being supported by several Donors notably the EU, UNDP, and IMF-METAC. The UNDP have a long standing capacity building program within MoF in the areas of macro fiscal analysis, debt management, and tax revenues. This program is gradually closing down and is due to phase out in 2013. MoF and UNDP have already agreed on a transfer schedule for all tasks performed by the latter. The EU on the other hand will be launching a comprehensive twinning program in June 2013 that will look at the organizational structure of the ministry and will touch on PFM reforms in many areas of the budget cycle. Finally, the IMF-METAC program consists of on-demand short-term topical TA services. Donor activities overlap with areas of World Bank assistance in both projects (EFMIS and LFMR 2). Therefore, extensive coordination and consultation in all World Bank missions occurs as to maximize the outcome of these reforms. Additionally, the overlap areas, especially with the EU, have been flagged to MoF senior management. These are currently being evaluated and discussed by the director general of the ministry who will coordinate between the different projects.

Relationship to CAS

Capacity building and implementation support for public finance management and fiscal consolidation is a key element under the Core Program of the Lebanon CPS FY11-FY14. Fiscal consolidation and debt reduction measures are critical to enhance macro-fiscalsustainability and enhance growth prospects in Lebanon. This falls within the government's economic reform program presented at the Parliament's vote of confidence. Sustainability of these efforts, in turn, hinges on steady improvement in fiscal management and governance, particularly through public expenditure policy and institutional reforms, and improved debt management. The CPS emphasizes these priorities in its Tier I Core Program under its first area of engagement – fiscal stability and public financial management, which calls for “achieving enough fiscal adjustment to generate sizable primary surplus that has beneficial impact on efficiency and growth”. The LFMR 2 project is therefore fully consistent with the CPS. It is also complementary to other instruments of assistance planned and underway especially in the energy and the social protection sectors where the objective is to reduce fiscal costs, decrease reliance on subsidies, and improve on governance and services.

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II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed development objective of this operation is to improve the allocation of public financial resources, enhance the efficiency and transparency of the government financial management systems, and tighten the control environment through:

(i) Institutionalizing policy functions at MoF and improving macroeconomic programming and policy analysis to guide fiscal choices and facilitate the integration of planning and budgeting functions.

(ii) Deepening ongoing reforms in the areas of debt analysis, debt recording and management, and debt operations.

(iii) Increasing the efficiency and transparency of public expenditure management practices, and enhancing risk management within MoF to reduce waste and corruption.

Key Results (From PCN)

The expected outcomes of this operation are:

(i) Better informed fiscal policy decisions through the development of the MoF’s macro fiscal

department and competence.

(ii) Improved debt management practices that lower cost, provide clear cost-risk-tradeoffs, and reduce contingent liabilities risks.

(iii) Increased fiscal transparency, notably through a more consolidated budget and a modernized budget classification.

(iv) Reduced opportunity costs through improved cash management, commitment controls, accounting practices and information systems.

(v) Strengthened internal control and risk management practices ; and introduced internal audit basic features.

III. Preliminary Description

Concept Description

LFMR 2 is a US$2 to 4 million investment lending operation to continue supporting the GoL's public financial management reform efforts. With support from the World Bank, MoF is currently developing several strategies and action plans to implement reforms activities identified during the first EFMIS project. These are: (i) A PFM Reform Strategy (2013-2017) prepared by MoF's PFM Reform Steering Committee, and expected to be approved by MoF in February 2013 ; (ii) A budget execution reforms strategy and implementation plan ; and (iii) A FMIS implementation strategy that is expected to be delivered and adopted in April 2013 after the approval of the PFM strategy. These strategy documents and action plans form the basis for the improvement of core PFM functions within the next five years. The current LFMR 2 Project is expected to support most of the key reform and change management activities.

The operation builds on the existing EFMIS project and adopts the same modalities of engagement. After the successful implementation of the EFMIS project, MoF senior management has asked to maintain similar engagement framework in the upcoming project. As a result, the LFRM 2, a client executed project, is expected to finance technical assistance and training activities provided by international and local experts. These experts are expected to engage with different working groups of MoF staff on relevant topical reforms. These activities and experts will be coordinated by a dedicated Project Management Unit (PMU) located within MoF premises and financed by the loan proceeds. The technical counterpart for the PMU will be the PFM Reform Steering Committee, while the Minister and Director General will play a strategic guidance role. Furthermore, the World Bank team will play a supervisory and consultative role. It will monitor the project's deliverables, provide no-objection on the various activities, and engage with MoF's senior management, technical staff, PMU and hired experts; to advise on the direction and priorities of the reforms.

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The project will be structured into two broad complementary components. A Macro-fiscal Analysis and Public Debt Management component that focuses on building the policy functions at MoF. This component is divided into a macro-fiscal analysis sub-component and a debt management one. A Public Expenditure Management Component that focuses on reforms of various practices and processes within the budget cycle. This component is divided into three sub-components, expenditure programing and budget preparation reforms, budget execution, and internal control and internal audit.

Activities under the various components of LFMR 2 build on the reforms originated by the EFMIS project, due to close down in June 2013. LFMR 2 will follow-up and build on the activities initiated by EFMIS. A number of future activities are therefore proposed to be part of the LFMR 2 project to

guide the reform process and translate the output achieved to date into concrete outcomes. These activities along with their objectives and rationale are described below for each component.

Component 1: Macro-Fiscal Analysis and Public Debt Management

Sub-component 1.1: Macro-Fiscal Analysis

The Macro-Fiscal Department (MFD) has gone a long way since it was formally established in March 2012. The team is in-place, being trained, producing reports and conducting basic macro-fiscal forecasting – a first to be carried out by ministry staff. This positive impetus has to be maintained to ensure sustainability. In fact, the development of a fully operational and effective MFD is a major endeavor that requires a long-term commitment from MoF.

Despite t he positive developments in such short period of time, the MFD remains a fragile experience. The progress recorded might be dissipated and the young team orphaned once the EFMIS project draws to a close in June 2013. The MFD team members have limited rele vant experience and until a year ago were not exposed to macro-fiscal issues and empirical modeling. As such, on-the-job coaching by international experts complemented by a variety of training courses will make a large difference in the development and producti vity of the team. The work that was initiated under EFMIS will require further and in-depth support to become sustainable. This is to be carried by the new proposed project.

The MFD has produced basic reports in 2012 but the workload will increase in volume and complexity moving forward, particularly when the team assumes the policy role of the UNDP unit . The MFD are thus expected to raise the bar and quickly develop the required capacities to develop in-depth reports and studies while coordinating with the UNDP team and other departments (e.g., debt office) to ensure a smooth handover.

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Significant work remains to nurture the MFD and turn it into the policy analysis brain of the ministry. The envisioned activities under a future World Bank project aim to produce a well-trained team that is composed of dedicated individuals who are able to conduct empirical and policy-related analysis. The tools and instruments – such as the forecasting model - should also become more robust and detailed with the aim of supporting the senior leadership at the Ministry in their design of different PFM policies and measures.

The proposed activities under the LFMR 2 project are divided into four main areas and they include:

a. Empirical modeling: Upgrade the forecasting model and move towards the development of a more detailed macro-economic model. The database needs to be widened and the MoUs with external stakeholders followed through to ensure the timely and regular flow of data to the MFD. The model would also need to integrate and account for general government entities such as municipalities, Electricite du Liban, National Social Security Fund, and the like. As a potential next step, the team may work on developing a basic (partial equilibrium) macro-economic model. To complement this, the required modeling software need to be purchased and the associated training provided.

b. MTEF revision and policy report development: Develop a wide range of analytical reports and policy notes and refine the MTEF. The MFD should assume its role as a policy unit, assessing empirically the impact of various internal and external policies, providing policy advice to senior

MoF management, while coordinating closely with the middle office on matters related to the debt strategy. The MFD should also work on producing a more refined MTEF – that is aligned with the upgraded forecasting model - in order to set expenditure ceilings at the sectoral and ministerial level and integrate more sophisticated policy options

c. MFD institutional framework revision: Revisit the MFD institutional set-up in light of the increase in scope and operations. A closer and detailed analysis of the MFD organization structure, manpower, and reporting line is warranted in order to empower the MFD and ensure sustainability. The reporting line of the MFD and interaction model (with MoF and external stakeholders) should also be reconsidered to allow the team greater and direct access to the MoF leadership and also to data and policy generating entities such as ministries, universities, and research centers.

d. Training policy development and roll-over: Develop and institutionalize a training policy and provide continuous capacity building activities. MFD will require further support and in-depth capacity building initiatives. As such, a comprehensive training plan and training policy are required to institutionalize and embed the activities into the annual work-plans of the MFD. Other initiatives, that will require careful planning and design, include study tours, secondment of foreign expertise, and twinning arrangements.

Sub-component 1.2: Public Debt Management

With support from EFMIS project, the Public Debt Directorate (PDD) has finally been operational and is expected to engage on further debt management functions going forward. In accordance with Law 17 (2008) a PDD was established. As of end 2012, the PDD consists of a middle and back office. The main responsibility of the middle office is the preparation of a medium term debt management strategy, and monitoring and management of risks to the government debt. The main responsibility of the back office is debt recording, and initiation of payment son the debt. A front office function, responsible for implementing the debt management strategy, is being established, and debt management functions currently undertaken by the UNDP team, such as planning and issuance of Euro-bonds, are planned to be transfer red to PDD in 2013.

While impressive progress has been made by PDD in a short period of time, it is still in its infancy when compared with a fully functioning debt management office. Therefore continued in-depth support is required. A debt management component of LFMR 2 would have as main objectives to (i) enable PDD to update the medium term debt management strategy annually, based on detailed analysis of cost and risk; (ii) strengthen debt management strategy implementation; (iii) increase transparency in debt management and establish an investor relations function; and (iv) expand the scope for debt management to include contingent assets and liabilities.

The activities of LFMR 2, outlined below, build on activities undertaken under EFMIS I. All contribute to a more comp lete debt management office:

a. Debt management strategy development and annual update: PDD has been applying the World Bank-IMF Medium Term Debt Management Strategy (MTDS) Toolkit in providing the analytical framework for the drafting of a debt management str ategy. The Toolkit, specifically the deterministic scenario analysis model has provided important input for the strategy decision. It is the plan – in line with best practice – that the medium term debt management strategy is updated on an annual basis. The implication is that detailed analysis of the cost and risk of alternative borrowing strategies will need to be undertaken at least annually. While the MTDS analytical tool can support this activity in the short term, it is recommended that analytical tools are built in-house to ensure

that the models take into account all Lebanon-specific issues. Such activities will require on-going capacity building and training of the analytical staff of PDD.

b. Debt management strategy implementation and strengthening of the primary market for government securities: Implementing the debt management strategy primarily takes place through issuance of new debt. For debt issued in the domestic market, a well working primary market is essential for ensuring continual access to borrowing at fair market prices. This includes a systematic and transparent approach to domestic borrowing activities related to improving the primary market, including issuance methodology, establishment of a primary dealer system etc., should be undertaken jointly with BdL. PDD may consider liability management operations, e.g. buy-backs of securities before original maturity, or swapping interest rate or exchange rate exposure. Liability management operations, that are common in mature markets, will require that solid processes and procedures are in place, including tools to measure and manage related risks.

c. The organization and functions of PDD: According to Law 17, PDD is to be organized along functional lines in a front-, middle-, and back-office, and the law stipulates the number of staff for each function. This activity would focus on finalizing the organization and staffing of the PDD. It would initially focus on establishing the front-office, but would also include the preparation of detailed job descriptions for each position of PDD, as well as detailed procedures manuals. Based on the detailed job descriptions, training programs for specific staff/functions will be developed.

d. Increased transparency in debt management: The publication of the medium term debt management strategy, borrowing plan, and other documents, will help increase transparency in debt management. However, the development of a detailed strategy for reporting internally as well as externally will substantially strengthen governance. Already, detailed reports on outstanding debt are being produced, but the analytical element of these reports is typically limited. Furthermore, taking into account the high level of activity in issuing bonds in the market, a dedicated investor relations function should be established in PDD. Such a unit would be responsible for all external publications and contacts to investors.

e. Monitoring and management of contingent liabilities and liabilities of State Owned Enter prises: The focus of reforms under EFMIS was the direct domestic and external debt. A natural next step is to expand the scope to include contingent liabilities, as well as assets and liabilities of state owned enterprises. Initially, the activity would be focu sed on identifying contingent assets and liabilities. At later stages the focus would shift to monitoring and managing the risks related to these assets and liabilities.

Component 2: Public Expenditure Management

Sub-component 2.1: Expenditure Programing an d Budget Preparation

With support from EFMIS, important milestones for strengthening the budget preparation process in Lebanon have been introduced. Key deliverables have been produced notably (i) a modern draft budget law that aims to replace the outdated 1 963 Public Accounting Law, and (ii) the introduction of the 2001 GFS classification system along with related line ministries application guidelines. As a result, the budget preparation process is expected to change considerably starting with the 2014 budgetcycle, and further World Bank support will therefore be merited. LFMR 2 activities are built around these new changes. They aim to assist MoF in the implementation phase of these reforms.

Additionally, gaps within the institutional framework of the budget preparation process need to be addressed. This framework, namely of the budget directorate, lack the human resources and the structure is not optimal to meet the requirements of the new budget law. The coordination model

with line ministries is still defined by the previous framework. The budget preparation process, albeit more comprehensive than before, continues to face irregular practices such as treasury advances to ministries. Finally, the new law, yet to be tested, may warrant possible revisions to the implementation decrees as well as new preparation guidelines that are mapped to the new legislative framework.

As such, additional reform measures are required to build on the previous successes with the aim of developing an optimal MoF organizational and governance model, with clear functions and processes, which is equipped with the required and trained human resources to prepare budgets along the new law and the GFS classification. The objective of the new measures is also to engage and support line ministries and government agencies to adopt the new system and work towards minimizing practice irregularities and widening the comprehensiveness of the budget.

The proposed activities under this sub-component are divided into four main areas targeting the MoF and external stakeholders involved in the budget preparation:

a. Institutional building of the MoF budget directorate: Conduct a strategic restructuring of the institutional framework of the budget directorate, to ensure alignment with the new legal framework (i.e., new budget law, GFS 2001 classification) and hence the proper implementation of the adopted legislations and budget preparation procedures. Preliminary ideas include the revisiting of the organization structure, the manpower plans, the functions delivered, the required job descriptions, as well as the governance and operating models.

b. Engagement and coordination with government agencies: Develop and carry out a focused engagement plan with line ministries to ensure the budget preparation reforms are properly implemented. This will include the development and roll-out of a communication plan highlighting the changes and the associated actions required. In the same vein, a new budget guideline for ministries that is mapped to the new law must be prepared and communicated to the relevant stakeholders.

c. Training policy development and roll-over: Develop and institutionalize a training policy and provide continuous capacity building activities (basic and in-depth) to MoF staff and middle managers to effectively implement the new budget law. The target audience at MoF includes the teams in charge of budget preparation (and in association the macro-fiscal department) as well as new recruits or staff realigned to the new budget directorate organization structure. Selected other line ministries may also be included in the initial phase of the training.

d. Post-implementation legislative assessment: Assess the robustness and adaptability of the new legislative framework at the end of the 2014 budget preparation and execution cycle; and identify – if any – possible legislative revisions required to the law and the implementation decrees as well as develop, where needed, new legal texts such as decisions and circulars that are necessary to upgrade and complete the legislative framework.

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Sub-component 2.2: Budget Execution

Important progress has been made in budget execution reforms during the first EFMIS project, notably on the review of legal and regulatory framework, improving cash planning and manage ment functions, commitment control and monitoring, review and strengthening of accounting and reporting, capacity building, as well as the functional review of the IT systems.

Major outputs of the EFMIS project include: (i) pilot implementation of the action plan in selected

ministries for strengthening treasury management and cash management functions; (ii) the approval of new Public Ac counting Law and preparation of guidelines; (iii) the revision of the budget classification in line with GFS 2001; (iv) strengthening the institutional capacity in cash management, commitment control, and accounting; (v) the IT audit of the MoF's information systems and practices; and (vi) the development of the PFM reform strategy and FMIS implementation strategy.

Despite all these developments, a number of challenges in the implementation of public expenditure reforms remain, including: (i) inefficient (or sometimes lack of) processes and procedures; (ii) inadequate capacity to implement budget execution reforms in line ministries; (iii) lack of information systems to support new functions; (iv) overstretched IT unit; and (v) insufficient integration between the various information system modules.

The public expenditure management component of LFMR 2 project would therefore tackle the above issues through the following activities:

a. Technical assistance for the implementation of PFM reform strategy: This activity would provide advisory support to MoF for monitoring the implementation of PFM Reform Strategy focusing on public expenditure functions, including treasury and cash management, commitment control, transition to centralized Treasury Single Account (TSA) operations, improved accounting practices and reporting based on new budget classification and unified chart of accounts, and internal audit.

b. Strengthening the capacity of line ministries to improve budget execution practices: Under this activity, technical assistance and training will be provided to both MoF and line ministries to improve their capacity and understanding of new budget execution procedures, and enhance the control environment. Specific training programs will be developed and workshops will be organized to disseminate new practices with relevant officials.

c. Design of an integrated Government Financial Management Information System: The MoF management adopted the Bank's policy note on the introduction of FMIS in Lebanon, which calls for a gradual implementation approach that is preceded by significant reforms in processes and procedures . While the current information systems can no longer provide efficient and reliable output, introducing an integrated GFMIS is a lengthy process that needs to be designed carefully. Benefiting from the findings and recommendations of the MoF IT audit, new requirements to secure and strengthen the existing information systems will be identified, and the LFMR 2 project will focus on the design of GFMIS solution within the next two years.

This activity will provide advisory support for the definition of FMIS concept document and the development of functional and technical requirements . Following an assessment of the current status of FMIS pre-requisites , GFMIS concept document will be prepared to clarify the PFM functions to be supported and integrated, after a gap analysis and identification of reform priorities. The preparation of GFMIS functional and technical requirements, change management plan, and detailed cost and time estimates will be prepared according to the concept document. Finally, GFMIS bidding documents will be prepared for the procurement of necessary ICT solutions. It should be noted though that the project is not envisaged to finance any hardware.

Sub-component 2.3: Internal Control and Internal Audit

The last PEFA PFM Performance Measurement Report (2011) continued to rate the internal audit dimension at the lowest possible score, as "there is neither an internal audit function operating in

line Ministries or within the Ministry of Finance, nor is there a specific legislation for the internal audit on the basis of internationally accepted standards and best practices". In addition, the report states that there is still some confusion between the concepts of "internal control" and "internal audit". This has been highlighted as a weakness in the overall PFM system in Lebanon.

LFMR 2 will address accountability and oversight issues at the Government level, but starting with the internal accountability within MOF. The objective of this sub-component is to raise awareness of control and audits in the public sector; streamline and strengthen the internal control environment and procedures at MOF; and establish an internal audit function in compliance with international standards. The expected outcome is increased accountability and transparency of MOF operations, enhanced risk management, and availability of an independent and objective assurance of the efficiency and effectiveness of its int ernal controls, all of which will contribute to proper use of public funds and reducing waste and corruption.

A phased approach will be followed for the implementation of this sub-component that ensures needed sequence and capacity of MOF to contribute to the activities and absorb the change brought. Reforms will be guided by experts on control and audit and benefit from consultation with the international, regional and local professional and academic society, in addition to relevant line ministries and governmental accountability and oversight institutions. This will not be limited to Lebanon only, but good and relevant practices will be identified throughout the world to bring a pragmatic lens to this important reform aspect.

Activities within this sub-component will center on:

a. Strengthening internal controls in MOF: The internal control framework should be cross-cutting through the whole institution and not related to a specific department or unit. This activity will be implemented by having MOF establish a work force from different departments of MOF who, with exposure to international models and through the support of international experts, will be responsible for defining the aspects of internal control and risk management within MOF with reference to internationally accepted standards and assessing their existence and effectiveness, in addition to agreeing on measures to establish and strengthen them.

b. Establishing an internal audit function at MOF: A smaller group from the control and audit workforce will constitute the planned internal audit unit at MOF. This group will also be supported through pertinent international experience. It will contribute to the internal audit charter, manual, staffing and management job descriptions, training program, budgeting, etc.

c. Raising awareness, Knowledge, and training: General awareness of meaning and importance of internal control, internal audit, and external audit will be raised within MOF and other line ministries throughout this activity. MOF will conduct roundtables, seminars, workshops, boot camps and other means to implement this. Focused training will be provided to the control and audit workforce and the internal audit unit based on a comprehensive capacity building program. The lessons learned from the implementation of an internal control and internal audit function in the MoF will serve as basis for a route map of actions to expand the function gradually to other public sector institutions in the future .

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IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	

Natural Habitats OP/BP 4.04		×	
Forests OP/BP 4.36		×	
Pest Management OP 4.09		×	
Physical Cultural Resources OP/BP 4.11		×	
Indigenous Peoples OP/BP 4.10		×	
Involuntary Resettlement OP/BP 4.12		×	
Safety of Dams OP/BP 4.37		×	
Projects on International Waterways OP/BP 7.50		×	
Projects in Disputed Areas OP/BP 7.60		×	

V. Financing (in USD Million)

Total Project Cost:	4.00	Total Bank Financing:	4.00
Total Cofinancing:		Financing Gap:	0.00

Financing Source	Amount
Borrower	0.00
International Bank for Reconstruction and Develo	4.00
Total	4.00

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