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Report No: PAD1885

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$41.5 MILLION

TO THE

REPUBLIC OF IRAQ

FOR A

MODERNIZATION OF PUBLIC FINANCIAL MANAGEMENT SYSTEMS PROJECT

November 29, 2016

Governance Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective as of October 31, 2016)

Currency Unit = Iraqi Dinar (ID)
US\$1 = ID 1,179.00
ID 1 = US\$0.000845686

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BC	Budget Classification
BPD	Barrel per day
CBI	Central Bank of Iraq
CD	Capacity Development
CL4D	Collaborative Leadership for Development
CM	Change Management
CNA	Capacity Needs Assessment
CoA	Chart of Accounts
CoM	Council of Ministers
COTS	Commercial Off-The-Shelf
DA	Designated Account
DFID	UK Department for International Development
DMFAS	Debt Management and Financial Analysis System
DPF	Development Policy Financing
DRC	Data Recovery Center
EU	European Union
FA	Framework Agreement
FAD	Fiscal Affairs Department
FBSA	Federal Board of Supreme Audit
FFER	Funding Facility for Economic Reform
FM	Financial Management
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GoI	Government of Iraq
GGELI	World Bank GGEVP (Vice-Presidency), EFI Practice Group (Equitable Growth, Finance and Institutions) Learning and Innovation
GRS	Grievance Redress Service
HQ	Headquarters
IA	Internal Audit
IBP	Integrated Bank of Projects
ICF	Implementation Consulting Firm

IDMS	Iraqi Development Management System
IFMIS	Integrated Financial Management Information System
IUFR	Interim Unaudited Financial Report
IMF	International Monetary Fund
I-PIMS	Iraqi Public Investment Management System
IT	Information Technology
JICA	Japan International Cooperation Agency
KDMS	Kurdistan Development Management System
KRG	Kurdistan Regional Government
LAN	Local Area Network
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments, and Agencies
MoC	Ministry of Communications
MoCHGM	Ministry of Construction, Housing, and General Municipalities
MoI	Ministry of Interior
MoF	Ministry of Finance
MoP	Ministry of Planning
MTEF	Medium-Term Expenditure Framework
NSA	Non-State Actor
PBB	Performance-based Budgeting
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIM	Public Investment Management
PIMS	Public Investment Management System
PMT	Project Management Team
POM	Project Operational Manual
PPP	Public Private Partnership
RFP	Request for Proposal
SBA	Stand-by Arrangement
SBD	Standard Bidding Document
SMP	Staff-monitored Program
SOA	Service-oriented Architecture
SOE	State-owned Enterprise
SRS	System Requirement Study
TOR	Terms of Reference
TSA	Treasury Single Account
UAT	User Acceptance Test
USAID	U.S. Agency for International Development
WA	Withdrawal Application
WAN	Wide Area Network

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REPUBLIC OF IRAQ

Modernization of Public Financial Management Systems Project

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PAD DATA SHEET

Republic of Iraq

Modernization of Public Financial Management Systems Project (P151357)

PROJECT APPRAISAL DOCUMENT

MIDDLE EAST AND NORTH AFRICA

Governance Global Practice

Report No.: PAD1885

Basic Information			
Project ID P151357	EA Category C - Not Required	Team Leader Emmanuel F. Cu villier	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X]		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 20-Dec-2016	Project Implementation End Date 31-July-2021		
Expected Effectiveness Date 20-Jan-2017	Expected Closing Date 30-Nov-2021		
Joint IFC No			
Practice Manager/Manager Renaud Seligmann	Senior Global Practice Director Deborah L. Wetzel	Country Director Ferid Belhaj	Regional Vice President Hafez M. H. Ghanem
Borrower: Republic of Iraq			
Responsible Agency: Federal Ministry of Finance			
Contact: Telephone No.:	Salahuddin Al-Hadeethi 9647901919082	Title: Email:	Director General Public Debt Department saladin592000@yahoo.com
Responsible Agency: Federal Ministry of Planning			
Contact: Telephone No.:	Maher Hamadi Juhan 9647813084606	Title: Email:	Deputy Minister, Technical Affairs maherjohan@yahoo.com
Responsible Agency: KRG Ministry of Planning			
Contact: Telephone No.:	Zagros Fatah 9647504923604	Title: Email:	Director General, Capital Investment Budget Department zagros25@hotmail.com

Project Financing Data (in US\$, millions)											
<input checked="" type="checkbox"/>	Loan	<input type="checkbox"/>	IDA Grant	<input type="checkbox"/>	Guarantee						
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Grant	<input type="checkbox"/>	Other						
Total Project Cost:		41.50				Total Bank Financing:		41.50			
Financing Gap:		0.00									
Financing Source						Amount					
Borrower						0.00					
International Bank for Reconstruction and Development						41.50					
Total						41.50					
Expected Disbursements (in US\$, millions)											
Fiscal Year	2017	2018	2019	2020	2021	2022	0000	0000	0000	0000	
Annual	1.85	10.38	10.59	9.49	9.19	0.00	0.00	0.00	0.00	0.00	
Cumulative	1.85	12.23	22.82	32.31	41.50	41.50	0.00	0.00	0.00	0.00	
Institutional Data											
Practice Area (Lead)											
Governance											
Contributing Practice Areas											
Cross Cutting Topics											
<input type="checkbox"/> Climate Change											
<input checked="" type="checkbox"/> Fragile, Conflict & Violence											
<input type="checkbox"/> Gender											
<input type="checkbox"/> Jobs											
<input type="checkbox"/> Public Private Partnership											
Sectors / Climate Change											
Sector (Maximum 5 and total % must equal 100)											
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %		
Public Administration, Law, and Justice				General public administration sector		100					
Total						100					

<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.		
Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Public sector governance	Public expenditure, financial management and procurement	50
Public sector governance	Other public sector governance	50
Total		100
Proposed Development Objective		
The project development objective (PDO) is to improve financial information management and transparency, cash management, public investment management, and public procurement modernization at selected federal and governorate agencies.		
Components		
Component Names	Cost (US\$, millions)¹	
Public Financial Management	32.30	
Public Investment Management and Public Procurement at the Federal Level	4.50	
Public Investment Management and Public Procurement at the KRG Level	4.70	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	High	
2. Macroeconomic	High	
3. Sector Strategies and Policies	Substantial	
4. Technical Design of Project or Program	Substantial	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	High	
7. Environment and Social	Low	
8. Stakeholders	Substantial	
9. Other		

¹ The component amounts in this PAD datasheet include unallocated amounts.

OVERALL		High	
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]
Does the project require any waivers of Bank policies?		Yes []	No [X]
Have these been approved by Bank management?		Yes []	No []
Is approval for any policy waiver sought from the Board?		Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01			X
Natural Habitats OP/BP 4.04			X
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11			X
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12			X
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Project Steering Committee	X		
Description of Covenant			
The Borrower shall maintain, throughout the period of implementation of the Project, a Project Steering Committee, with composition, terms of reference and resources satisfactory to the Bank, to be responsible for providing strategic guidance and ensuring effective coordination for the Project.			
Name	Recurrent	Due Date	Frequency
Project Management Teams	X		
Description of Covenant			
The Borrower shall maintain, and shall cause KRG to maintain, throughout the period of implementation of the Project, Project Management Teams within each of the MoF, MoP and			

KRG MoP respectively, to be responsible for, *inter alia*: implementation, management and planning, procurement and financial management, and reporting.

Name	Recurrent	Due Date	Frequency
Project Operational Manual (POM)	X		

Description of Covenant

The Borrower shall carry out, and shall cause KRG MoP to carry out, the Project in accordance with the POM.

Conditions

Source Of Fund	Name	Type
IBRD	Effectiveness conditions	Effectiveness

Description of Additional Conditions for Effectiveness:

- (a) The Project Steering Committee has been established by the Borrower.
- (b) The Project management teams have been established by the Borrower and KRG respectively.
- (c) The Project Operational Manual has been prepared by the Borrower.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Emmanuel F. Cuvillier	Team Leader (ADM Responsible)	Senior Public Sector Specialist		GGO17
Nazaneen Ismail Ali	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist		GGO05
Jad Raji Mazahreh	Financial Management Specialist	Senior Financial Management Specialist		GGO23
Jocelyne Jabbour	Team Member	Program Assistant	Procurement	MNCLB
Ali Ali Hassan Salamah	Team Member	Program Assistant		GGODR
Iman Sachet Yousif	Team Member	Resource Management Assistant		BPSEM
Leena Mohammed Khider Al Abbasy	Team Member	Consultant	Procurement	GGODR
Manuel Antonio Vargas Madrigal	Team Member	Lead Financial Management Specialist		GGO23
Moad M. Alrubaidi	Team Member	Senior Financial Management Specialist		GGO23

Salam Falah Almaroof	Team Member	Operations Analyst		GGO17
Ibrahim El Ghandour	Team Member	Public Sector Analyst	Open Budget	GGO17
Sepehr Fotovat Ahmadi	Team Member	Senior Procurement Specialist	Procurement	GGO05
Shaymaa A. Hassan	Team Member	IT Analyst, Client Services	IT Specialist	ITSCR
Walid Hamoud Ali Al-Najar	Team Member	Financial Management Specialist		GGO23
Ajay Tejasvi Narasimhan	Team Member	Team Leader	CL4D	GGELI
Benamina Randrianarivelo	Team Member	Senior Operations Officer	CL4D	GGELI
Shingira Masanzu	Team Member	Counsel		LEGSG
Saba Nabeel Gheshan	Team Member	Counsel		LEGAM
Eric Ranjeva	Team Member	Finance Officer		WFALA

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Iraq		Republic of Iraq			

I. STRATEGIC CONTEXT

A. Country Context

1. Iraq is facing the dual shock of the war waged by the Islamic State of Iraq and Syria (ISIS) and the sharp fall of the price of oil. The war has created a humanitarian crisis, put pressure on fiscal spending, and plunged the economy into a deep recession. Compounding the country's fragility is the sharp drop in oil prices, which had a severe impact on Iraq's non-diversified and oil-dependent economy. The economic, political, and security challenges Iraq has been facing over the past years led to a decline in human development and drops in indicators for public services, health standards, life expectancy, and literacy as well as an increase in poverty indicators.

2. Security threats and a fall in oil prices, the main revenue source for the Government of Iraq (GoI), have compounded economic decline and worsened the fiscal situation. The economy grew at 0.1 percent in 2014 and 2.9 percent in 2015, from a 7.6 percent growth in 2013. While oil production was increased over time despite low oil prices, non-oil gross domestic product (GDP) has contracted by 5.1 percent in 2014 and 13.9 percent in 2015. With the oil price having fallen by two-thirds since 2014, revenues have fallen sharply, although a notable increase in oil production (from 3.1 million barrel per day [bpd] in 2014 to 3.7 million bpd in 2015 and 4.5 million bpd expected in 2016) has offset some of decline in revenues because of the oil price fall. Consequently, lower oil revenues, which nevertheless constitute 90 percent of the total revenue and limited availability of domestic and external financing forced a large fiscal adjustment in 2015 through a 56 percent reduction in real terms of non-oil related investment and a reduction of subsidies and transfers.

Box 1. Fiscal Constraints

Iraq has the fifth largest proven crude oil reserves in the world, and it is the second largest crude oil producer in the Organization of Petroleum Exporting Countries (3.7 million bpd in 2015). With the oil price having fallen by 63 percent since 2014, revenues have fallen by 41 percent. Consequently, current revenues are not sufficient to cover the public sector payroll, transfers, and payments to oil companies, let alone investment and reconstruction. In practice, the Government is running a cash-rationed budget with payments to workers and contractors spread out while security spending takes priority. Indirect financing from the central bank (with associated depletion of reserves) and issuance of short-term treasury bills have covered most of the financing gap for critical services and some payments to oil companies. Nevertheless, under the pressure of high conflict-related spending and weak oil revenues, the budget deficit has risen from 5.8 percent of GDP in 2014 to 13.4 percent of GDP in 2015 with projections for 2016–18 at 8.2 percent in 2016, 6.8 percent in 2017, and 5.1 percent in 2018. Implementation of structural measures is expected to reduce the budget deficit to 1.1 percent of GDP by 2021.

3. The GoI, in place since September 2014, has detailed a reform plan to build a more transparent state that delivers better services to the public, as articulated in the prime minister's acceptance speech to the parliament. The main challenge for Iraq is the incremental and long-term rebuilding of state institutions that were systematically weakened over the last 30 years. Despite the complex political situation, the authorities are committed to implementing the government program for 2014–18. The first strategic priority of the program is to reach security and stability by liberating cities and provinces controlled by ISIS and restoring the rule of law. The second priority is to deliver public services and upgrade standards of living. This includes delivering electricity services; improving water, health, and education sector performance; and reforming the social protection system.

4. The Government has already identified the main challenges with regard to the preparation, implementation, and monitoring of the budget. Although it has made some progress in enhancing the efficiency of its Public Financial Management (PFM) system, financial and development risks remain high. Therefore, it is important to accelerate the process of modernization over the medium term.

5. The current fiscal crisis in Iraq also exerts pressure to move ahead with PFM reform to help strengthen fiscal sustainability. In the immediate term, the Government is seeking external financing to close the financing gap and has committed to a number of structural reforms to address inefficiencies and adjust the budget to a situation of lower oil revenues. The government PFM program is designed to meet the needs of the above-mentioned objectives within the following basic elements of the country's fiscal policy:

- **Reducing the deficit.** The budget strategy establishes lower ceilings for overall expenditures based on a medium-range vision aimed at gradually reducing the deficit to about 5.1 percent of GDP by the year 2018, compared to 13.4 percent in 2015. It also establishes a ceiling for the expenditures of spending units based on the overall framework and the Government's priorities, based on the principle of top-down budgeting, leaving to spending units the task of preparing their expenditure estimates with the funds redistributed among the entities under their supervision based on priorities and their commitments, requirements, and projections, within established ceilings.
- **Focusing on investment expenditures.** The budget strategy stresses the importance of focusing on investment and stimulating the private sector to help create jobs. The strategy is aimed at reducing the relative size of current expenditures in favor of investment by rationalizing current expenditures and dedicating any increase in non-oil revenues to investment. This requires limiting government hiring and requiring ministries to meet their staff needs by transferring employees from self-financed public enterprises.
- **Adopting the principle of fiscal decentralization.** The budget strategy is aimed at enhancing the efficiency of the development program for regions and governorates by providing the financial and human resources needed by the government program. It recommends redistributing power among the governorates and centralized ministries in such a way that the governorates have greater responsibility for implementing investment projects. It also recommends enhancing the capacities of governorate councils with respect to developing and implementing investment programs.
- **Implementing the current PFM reform program and the Government's longer-term vision will require flexibility and adaptability.**

6. Although it will be a challenge to ensure that the urgent security and fiscal stresses will not divert the Government from engaging in the necessary reforms toward better-governed institutions and better services, the Government recognizes the long-term vital importance of institution rebuilding. Accordingly, it has expressed strong interest in the World Bank's support, both financial and advisory. Support to PFM development has been requested by the prime minister's

office, the Federal Ministry of Finance (MoF), the Federal Ministry of Planning (MoP), and some key line ministries. The Council of Ministers has officially endorsed the proposed Modernization of PFM Systems Project. Its implementation will also prepare the ground for the policy and institutional reforms that may be supported by future World Bank-financed operations.

B. Sectoral and Institutional Context

7. Iraq needs to contain expenditure growth, improve revenue generation, and therefore, undertake a credible, paced, and sustainable fiscal consolidation. The Federal Government also needs to undertake systematic reforms to develop a higher degree of efficiency in public spending through rigorous cash management, rationalization of capital investment, and postponement or cessation of some investment projects. Careful prioritization and appraisal of sizeable investment projects would be essential to ensure a medium-term growth dividend.

8. Linking a realistic set of sector strategies guided by a national vision to actual budget allocations still remains a key challenge in Iraq. Sector inefficiencies often drive the allocation of resources across capital and recurrent expenditures. According to the World Bank's 2012 Public Expenditure Review 'Toward More Efficient Spending for Better Service Delivery', it is critical to focus on three dimensions: (a) connecting strategies to resource allocation; (b) establishing sufficiently binding commitment devices to make sure that medium-term strategies 'stick'; and (c) ensuring that resources saved for investment are indeed invested in valuable physical and financial assets and yield the intended benefits for the population both in the short and medium term. The proposed project will help address these dimensions through enhancements in: (a) the public investment management system (PIMS); (b) timeliness, integrity, and relevance of public finance data; and (c) controls over budget execution and public procurement.

9. Another important issue the Government is facing is the difficulty in reporting and analyzing budget data. Despite prior technical support provided by development partners, the PFM reform is still at an embryonic stage. Some of the main issues include the following:

- The budget and accounting classification systems are different, making it difficult to undertake meaningful assessments of budget execution performance. In addition, the MoF and the MoP do not use a consistent framework for accounting and budgeting.
- Fiscal management is compromised by a lack of: (a) timely end-of-year expenditure and commitment reports; (b) a functioning contingency reserve; and (c) a true capital budget, with a significant proportion of capital expenditures composed of recurrent expenditures.
- There is a breakdown in linkages between establishment, payroll, and personnel records controls.
- Procurement procedures are not in place to identify and fully address potential conflicts of interest in awarding contracts and carrying out procurement.
- Service delivery is compromised by a lack of detailed information and actual resources received in cash and kind from front-line service delivery units.

- While the external audit system governed by the Federal Board of Supreme Audit (FBSA) is now functioning better (though urgent attention is required for timely scrutiny of audit statements and management reports), the internal audit (IA) function is not operational.
- The Council of Representatives in Baghdad and the Kurdistan Regional Government (KRG) parliament in Erbil do not sufficiently scrutinize final accounts. The review of audits appears to have stalled.
- With the ongoing transfer of powers and responsibilities to governorates in eight selected ministries based on the provisions of Law 21 and its subsequent amendments, the weak PFM systems and capacities at the governorate level pose a critical risk to the Government's policy for decentralizing service delivery responsibilities.

10. The Federal Government continues to place priority on PFM reforms and places PFM at the heart of the General Framework of Government Program 2014–18, which aims to achieve economic and financial reforms. For this reason, the Government has pushed the adoption of new PFM reforms and delegated the process of implementing the reform and strengthening the budget process to the existing high-level committee for the PFM reform already established by the Cabinet Decree No. 88 of 2012. The committee has developed a work plan and roadmap for carrying out its duties in coordination and cooperation with relevant local experts and international organizations and is making efforts to obtain the support of judicial and legal authorities, the executive branch, civil society organizations, media, academics, and the private sector.

11. The PFM reform program contributes to meeting fiscal policy objectives as the budget is an effective tool for achieving it. The proposed project will build upon recent progress in reforming PFM, including the following:

- **Drafting, in consultation with the International Monetary Fund (IMF) and the World Bank, a new General Financial Management Law:** The final draft document is under review at the Shura Council (Iraqi Council of State) and will be presented to the Council of Representatives of Iraq (parliament) for adoption in 2016.
- **Improving the budget preparation process** with more policy focus during budget strategy discussions, development of a general medium-term expenditure framework (MTEF), and budget formulation and execution based on administrative and economic classification using Government Financial Statistics (GFS) standards: the 2016–18 budget strategy provides a clear and detailed description of the fiscal policy adopted by the Federal Government to be implemented through an MTEF.
- **Developing a new budget classification (BC) and chart of accounts (CoA)** with separate segments for administrative, economic, type, functional, and geographical classifications: The updated 2014 BC and CoA will be finalized and made GFS-consistent during Integrated Financial Management Information System (IFMIS) development and pilot implementation, starting in February 2017.

- **Endorsing the public investment management (PIM) decision process framework** covering investment selection, implementation, and ex post evaluation through the issuance of a prime minister’s decree: The decree was issued in October 2015 to establish a PIM decision process—or PIM framework—with a project life cycle organized in eight steps covering everything from project ideas to pre-feasibility and feasibility studies, capital investment prioritization (based on cost-benefit analysis and expenditure efficiency), financing modalities, continuous monitoring of the fiscal affordability of all projects, project execution, operation, and ex post evaluation.
- **Publishing general information on the 2015 federal budget on the MoF website:** The MoF website is now being used to publish general information on the federal budget, including cost estimates of various planned and executed reform initiatives, budget preparation processes, and deadlines for debate and approval in parliament; citizen and private-sector opinion surveys; citizen and business scorecards and reports; and so on. The aim is to improve transparency, strengthen civil engagement and social audit, and enhance the accountability of public institutions to their constituencies.
- **Preparing the IFMIS System Requirement Study (SRS) and request for proposals (RFPs):** The SRS, completed in 2015, and the ongoing IFMIS roadmap and procurement-related work will include all the IFMIS technical and functional requirements and describe the existing and planned infrastructure environment and other ongoing and planned regulatory, public sector accounting, and budgetary reform initiatives. The requirements include the IFMIS objective, scope, interfaces, functions, key data to be processed, expected number of users, training requirements, key performance measures for final system acceptance by the MoF, technical support requirements, and so on. The SRS document will be attached to the IFMIS RFP to provide the detailed background information to bidders, while the further refined requirements and roadmap will be an integral part of the final IFMIS procurement and contractual requirements. These include the procurement approach, the required goods and services to be provided by bidders, pilot sites for the IFMIS implementation under the planned project scope, project schedule, project organization, and the responsibility of the GoI and the bidder, testing strategy for final IFMIS acceptance, bid evaluation methodology and criteria, and all necessary information to prepare sound, responsive, and complete technical and financial offers by prospective bidders.

12. These prerequisites represent the starting point for activities to be supported under the project that are also expected to open up governance for non-state actors (NSAs).² Such activities will be a means to provide support to the NSAs on issues relating to building capacity for information sharing and learning of the PFM reform activities. Activities will include the preparation and dissemination of PFM information materials at the national and subnational governmental levels (governorate councils), involving the simplification of the government documents on PFM (for example, budgets, findings from the public expenditure review, and the

² Civil society, economic and social partners, the private sector.

public expenditure and financial accountability [PEFA] assessment, quarterly financial statements, audit reports, procurement regulations and plans, and so on).

C. Higher Level Objectives to which the Project Contributes

13. The World Bank Group’s Country Partnership Strategy for Iraq FY13–FY17 (Report No. 73265-IQ) and the Country Partnership Strategy Performance and Learning Review (Report No. 94767-IQ) are centered on: (a) delivering basic public services, especially in areas where the security threat has diminished, reducing poverty, and enhancing citizens’ trust in Government institutions; and (b) addressing and helping to manage the country’s critical fiscal situation and helping increase opportunities for private investors. The PFM reform contributes to the second pillar, given the need for strong PFM systems for fiscal risk management. In addition, PFM systems also contribute to the first pillar, by contributing to greater efficiency, accountability, and transparency in public resource use for service delivery at federal, regional, and governorate levels.

14. The activities of the proposed project are fully aligned with the World Bank Group’s strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner, through better budget and Treasury management to support public service delivery. As strong PFM foundations are necessary to support the incremental and long-term rebuilding of the state institutions that were systematically weakened over the last 30 years, the project is also aligned with *renewing the social contract* pillar of the World Bank Group’s Middle East and North Africa Regional Strategy.

15. Moreover, the proposed project will support current and future budget support operations financed by the World Bank and other development partners, including the planned World Bank Second Expenditure Rationalization, Energy Efficiency, and State-Owned Enterprise (SOE) Governance Development Policy Financing (DPF), which supports Iraq’s reform drive toward structural fiscal consolidation, strengthening the macroeconomic framework, and laying the foundation for sustainable and inclusive growth. The project will be implemented in coordination with the IMF three-year Stand-by Arrangement (SBA), approved by the IMF Executive Board in July 2016, which called for an overhaul of the public financial management (PFM) practices to improve the quality of spending and the authorities’ control over budget execution.

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

16. The project development objective (PDO) is to improve financial information management and transparency, cash management, public investment management, and public procurement modernization at selected federal and governorate agencies.

B. Project Beneficiaries

17. The participating government agencies and main beneficiaries of the project will include the Federal MoF (primarily Budget, Accounting, Treasury, Information Technology [IT], and IA departments); the Federal MoP (mainly PIM and Public Procurement departments); two pilot line

ministries—the Ministry of Interior (MoI) and the Ministry of Construction, Housing, and General Municipalities (MoCHGM); the KRG MoP; and two pilot governorates (Baghdad and Babil).

18. In addition, through increased public finance transparency, the project will help facilitate the participation of NSAs in public finance accountability.

C. PDO Level Results Indicators

19. The key performance indicators to track progress toward achieving the PDO (see Results Framework in annex 1) are:

- **Financial information management, transparency, and cash management:** Share of the Federal Government bank account balances consolidated under the new Treasury Single Account (TSA);
- **Financial information management, transparency, and cash management:** IFMIS end users proficient in IFMIS operations in pilot federal ministries and governorates (disaggregated by gender);
- **Financial information management, transparency and cash management:** Citizen budgets posted on the website of the Federal MoF;
- **PIM:** Share of public investment projects in pilot line ministries at the federal level that are subject to new appraisal and selection mechanisms and registered in the Iraqi Development Management System (IDMS);
- **Public procurement modernization:** Share of tenders and awards publicly available through the federal procurement single e-portal.

III. PROJECT DESCRIPTION

A. Project Components

20. The project components are summarized in table 1 with more details provided in the following paragraphs and in annex 2.

Table 1. Project Components

Components	Responsibility
Component 1: Public Financial Management	
1.1 IFMIS design and initial implementation	Federal MoF
1.2 PFM capacity development	Federal MoF
1.3 Internal audit modernization at the Federal MoF	Federal MoF
1.4 PFM systems at the subnational level	Federal MoF (coordinating with pilot governorates)
1.5 Project management and reform coordination	Federal MoF
Component 2: Public Investment Management and Public Procurement at the Federal Level	
2.1 PIMS strengthening	Federal MoP
2.2 Public procurement modernization	Federal MoP
2.3 Project management and reform coordination	Federal MoP

Component 3: Public Investment Management and Public Procurement at the KRG Level	
3.1 PIMS strengthening	KRG MoP
3.2 Public procurement modernization	KRG MoP
3.3 Project management and reform coordination	KRG MoP

21. Regarding the sector issues identified in section I.B, the PFM and PIM system development and capacity strengthening components will enable the Government to better connect fiscal and sector strategies to resource allocation, in the context of a stronger MTEF. The PIM and procurement components will help ensure that resources saved for investment are indeed allocated to well-appraised and efficiently executed investment projects, with attention to the integrity of the contract awarding process. The IFMIS and subnational PFM components will permit the use of an integrated budget and accounting classification for budget formulation and execution, the establishment of a sound budget commitment control system, enhancement of payroll controls, more predictable and integral flow-of-funds to service delivery units (including at the governorate level), and increased timeliness and quality of in-year and annual budget and public finance reports. The foundational implementation of an IA function, starting at the MoF, will fill a gap in the assurance model over use of public funds.

22. The project components and activities have been chosen to ensure gradual and interlinked development of systems and capacity to enable better budget and fiscal management. For instance, by including both the IFMIS and PIMS reforms, a more integrated approach to capital and recurrent budgeting practices will be fostered, resulting in more useful MTEFs and credible annual budgets. The interfaces between the IFMIS, the Integrated Bank of Projects (IBP), and the e-procurement single portal will also result in more accurate and efficient generation of data for budget management, as well as for transparency to citizens. Capacity in budget planning and execution must be strongly linked with project preparation and contract management skills. In turn, the investment in creating an IA function will establish the foundations for future risk-based assurance over the Government's implementation of budget, public investment, and procurement processes.

Component 1: Public Financial Management (US\$29.70 million³)

23. Carrying out of a comprehensive program of technical assistance and related support required for:

- (a) (i) The development and implementation of an IFMIS, including planning, project management, installation (including minor indoor renovations of MoF's existing data center and data recovery center, and establishing last-mile connections between end-user office buildings and the Borrower's central network backbone), configuration, technical support, and roll out in selected ministries and the targeted governorates; and (ii) provision of training to end-users and change management support to facilitate the transition to the IFMIS.
- (b) Capacity building for PFM to strengthen budget and financial management practices (including budget formulation and execution and financial accounting and reporting),

³ US\$32.30 million, including unallocated amounts.

through *inter alia*: (i) the development and implementation of a capacity development strategy; and (ii) the provision of training and change management support.

- (c) Strengthening the internal audit function within MoF, including through the carrying out of an audit risk assessment, the development of strategic audit plans, and the execution of audit engagements.
- (d) Strengthening of PFM systems in the targeted governorates, including through reinforcing accountability mechanisms; strengthening planning, budgeting, accounting, controls, reporting and procurement systems; and developing budget execution and monitoring systems.
- (e) The provision of support to MoF for project implementation and management, including procurement, financial management, and coordination.

Subcomponent 1.1: IFMIS design and initial implementation

24. The IFMIS design and implementation is the backbone of the proposed project and is considered a top priority initiative by the Federal Government. The continuation of PFM reform in Iraq can no longer be envisaged without an IFMIS in place to automate core budget execution functions (management of appropriations, commitments, payments, receipts, cash management, accounting, and fiscal reporting). This subcomponent will introduce the IFMIS through a comprehensive turnkey procurement which includes all necessary IFMIS-related work, including the planning, designing, configuring, testing, commissioning, training, and implementing the IT solution and all related services and goods in the MoF, MoP, two line ministries, and two governorates (Baghdad and Babil).

Milestones

- IFMIS development and effective use in two central ministries (the Federal MoF and MoP), two line ministries (the MoI and the MoCHGM), and two pilot governorates (Baghdad and Babil) by November 2021
- TSA to be in operational use by 2020
- Renovated and expanded data center at the MoF and a new remote Disaster Recovery Center (DRC) to ensure the IFMIS' continuous operation in case of a failure
- Federal Government readiness to roll out the IFMIS nationwide by June 2020
- A private cloud-based server with three web portals, providing controlled access to the public, MoF end-users, and other IFMIS stakeholders and partner institutions; data warehouse with all necessary tools supporting financial and budgetary planning analysis, decision support, and reporting
- Iraq's score on the Open Budget Index to be increased significantly from 2019.

Subcomponent 1.2: PFM capacity development

25. In addition to technical expertise in the IFMIS, successful implementation of the PFM reform to strengthen budget and FM practices in Iraq, including budget formulation and execution, and financial accounting and reporting, will require various individuals, groups, and organizations to work together toward achieving a complex set of reform objectives. Moreover, the successful management of the transition to a digital/data-driven culture is the key factor in the acceptance of new policies, procedures, and organizational structures, and maximizes the benefits of an integrated PFM system. Overall project success requires the changes to be used and sustainable - this is the focus of change management (CM). This subcomponent will finance modern PFM training practice, communication, and other CM activities envisioned in the capacity needs assessment (CNA) follow-up plan. Among others, particular attention will be paid to strengthening the forecasting methodologies underpinning the medium-term fiscal and budget frameworks, the budget allocation and appropriation process, the budget commitment control system, and cash management. These activities and others in the subcomponents will combine to update Iraq's PFM institutional arrangements, including structure, policies, procedures, and processes, and IFMIS sustainability.

Milestones

- PFM CNA to be conducted at the federal level to prepare a four-year training plan in line with the identified priorities of the current PFM reform
- Staff in selected federal ministries and governorate departments to be trained in PFM international good practices in line with the scope of the current PFM reform and a focus on IFMIS operational implementation
- Updated PFM institutional arrangements

Subcomponent 1.3: Internal audit modernization at the Federal Ministry of Finance

26. The MoF intends to build IA capacity to strengthen PFM reform. The fragmentation of the budget preparation and execution process, the absence of a coherent accounting framework, the time needed to issue annual financial statements, poor investment budget execution rates, lack of a TSA, and weak commitment controls increase the risk of cash and appropriations not being well managed. An IA function, complementing the financial controls to be supported by the IFMIS, will play an important role in mitigating these risks. This subcomponent will finance the absorption of modern IA practices at the MoF, whose new IA unit will serve as the model for a future rollout to other government agencies.

Milestones

- New IA methodology used with a focus on risks to the objectives of the MoF
- MoF IA unit becomes operational, with audit plans and implementation of audit engagements

Subcomponent 1.4: PFM systems at the subnational level

27. The PFM systems and capacities at the governorate level are weak and need to be strengthened to enable governorates to shoulder the service delivery responsibilities being devolved to them by the Federal Government. Strengthening local accountability, transparency, and subnational PFM systems is key to strengthening the service delivery performance of the governorates as it renews the social contract between the citizens and the state. This subcomponent will finance consultancy services and capacity-building activities to strengthen planning, budgeting, accounting, internal controls, management, reporting, citizen engagement, and procurement practices in two pilot governorates (Baghdad and Babil), in preparation for the IFMIS installation and publication of relevant budget documents.

Milestones

- More predictable and realistic budgets prepared, executed, and reported in the two pilot governorates of Baghdad and Babil

Subcomponent 1.5: Project management and reform coordination

28. The project will provide the Federal MoF with resources for technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

Component 2: Public Investment Management and Public Procurement at the Federal Level (US\$4 million⁴)

29. Carrying out of a comprehensive program of technical assistance and related support required for:

- (a) The modernization and strengthening of the PIM system at the federal level, including through: (i) the carrying out of a capacity needs assessment for MoP; (ii) PIM capacity building for MoP staff and relevant government stakeholders; (iii) updating and improving project appraisal methodologies and guidelines, including instructions, guidelines and templates; (iv) development of a framework for ex-post project evaluation; (v) strengthening the specialized PIM unit within MoP; (vi) development of an integrated bank of investment projects, to support investment planning and decision making, to track and monitor investments, and to serve as an investment project registry; (vii) updating and strengthening the Borrower's legal and regulatory framework for PIM; and (viii) developing a PIM/IDMS interface within the IFMIS developed under Component 1 of the Project.
- (b) The modernization and strengthening of public procurement at the federal level, including through: (i) the development of and roll out of standard bidding documents and framework agreements; (ii) the establishment of an electronic procurement portal;

⁴ US\$4.50 including unallocated amounts.

and (iii) capacity building and professionalization of the public sector procurement workforce.

- (c) The provision of support to MoP for project implementation and management, including procurement, financial management, and coordination.

Subcomponent 2.1: PIMS strengthening

30. The Federal Government faces the problem of allocating scarce resources to satisfy needs with the goal of obtaining the maximum social and economic benefits. Effective project appraisal can support appropriate choices of output and design and reduce the risk of excessive construction and operation costs. This subcomponent will finance the technical assistance and capacity-building activities needed to implement new project design, appraisal, and selection methodologies, as well as developing an IBP, all in line with the new Iraq PIMS framework.

Milestones

- PIM CNA conducted at the federal level (MoP) and in the two pilot governorates of Baghdad and Babil (Planning Departments) to prepare a four-year Staff Development Plan in line with the identified priorities of the current PFM/PIM reform
- Methodologies, guidelines, templates (analytical tools), and processes for project appraisal, monitoring and evaluation (M&E)
- PIMS unified framework in Iraq (Decree No 445 - October 2015) managed efficiently in line with the new PIM organizational structure at both the federal and governorate levels
- Registration process of all public investment projects improved by developing an IBP as a module of the existing IDMS database and as an IFMIS interface
- Enhancement of the existing PIM legal and regulatory framework

Subcomponent 2.2: Public procurement modernization

31. There is a broad consensus among stakeholders that the federal and regional governments continue to struggle to spend their procurement budgets. Nationally, an average of less than 64 percent of capital expenditures were executed over 2010–13. Problems with procurement and contracting capacity appear to be preventing a large proportion of spending from taking place in an efficient and transparent manner. Under prior World Bank engagements, general standard bidding documents (SBDs) and sector SBDs were developed, piloted, and issued. This subcomponent will provide implementation support to the use of the SBDs by implementing agencies, create a sustainable capacity-building program through introducing online courses, aid in the establishment of a web-based single portal for procurement information, and strengthen management and monitoring of procurement in the MoP and participating pilot agencies.

Milestones

- Compliance with the use of the SBDs in target agencies, thus achieving efficiency gains through speeding up bidding processes with minimum risk of discretion or omission
- Increase in transparency and public access to information through publication of procurement and contract award notices for the majority of tenders on the e-portal
- Sustained capacity development and professionalization of public sector procurement workforce by creating online courses

Subcomponent 2.3: Project management and reform coordination

32. The project will provide the Federal MoP with resources for technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

Component 3: Public Investment Management and Public Procurement at the KRG Level (US\$4.2 million⁵)

33. Carrying out of a comprehensive program of technical assistance and related support required for:

- (a) The modernization and strengthening of KRG's PIM system, including through: (i) the carrying out of an efficiency and functional review of the General Directorate of Capital Investment Budget within MoP; (ii) updating and improving project appraisal methodologies and guidelines, including instructions, guidelines and templates; (iii) strengthening and further development of the Kurdistan Development Management System (KDMS) including through the establishment of an integrated bank of investment projects, to support investment planning and decision making, to track and monitor investments, and to serve as an investment project registry; and (iv) PIM capacity building for KRG MoP staff.
- (b) The modernization and strengthening of public procurement in KRG, including through: (i) supporting the implementation of KRG's procurement regulations, including strengthening the capacity of KRG MoP's policy unit functions, the development of a complaints mechanism system, and provision of training to relevant agencies; (ii) development and rollout of standard bidding documents and framework agreements; (iii) the establishment of an electronic procurement portal; and (iv) capacity building and professionalization of the public sector procurement workforce, and capacity building for private sector stakeholders with respect to procurement under KRG's procurement regulatory framework.

⁵ US\$4.70 including unallocated amounts.

- (c) The provision of support to KRG MoP for project implementation and management, including procurement, financial management, and coordination.

Subcomponent 3.1: PIMS strengthening

34. This subcomponent pursues similar objectives and activities to subcomponent 2.1, but is customized to the KRG context (for example, refinement of existing PIM methodologies, which were advanced under a prior World Bank technical assistance). The support is aligned with the KRG MoP's decision to enhance capital investment tools, capacity, and decision-making processes to help achieve the objectives of the regional development plan ('Kurdistan Region of Iraq 2020: A Vision for the Future').

Milestones

- Functional review of the KRG MoP's General Directorate of Capital Investment Budget with proposal of a new PIMS organizational structure in KRG
- IBP effectively developed as a module of the existing Kurdistan Development Management System (KDMS) database to register, monitor, and control all capital projects during their lifecycle
- PIM framework for the KRG officially adopted by 2017
- Methodologies, guidelines, templates (analytical tools), and processes for project identification and appraisal

Subcomponent 3.2: Public procurement modernization

35. There have been some positive developments in the Kurdistan Region in line with the KRG 2020 vision of 'effective, transparent, trusted, and honest Government.' In March 2013, the MoP launched a self-assessment of public procurement, followed by extensive stakeholder consultations. To address the identified weaknesses, the KRG MoP adopted a multifaceted reform program. This subcomponent will help implement the newly enacted procurement regulations and establishment of the e-procurement portal for the KRG.

Milestones

- Proper implementation of the newly enacted public procurement regulations by strengthening the capacity the Public Contracting Directorate at the MoP and development of complaint review mechanisms
- Increased transparency and public access to information through publication of procurement and contract award notices for the majority of tenders for piloted agencies on the e-portal
- Sustained capacity development and professionalization of public sector procurement workforce by creating online courses

Subcomponent 3.3: Project management and reform coordination

36. The project will provide the KRG MoP with resources for the technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

B. Project Financing

Lending Instrument

37. The proposed investment project will be financed through an IBRD loan of US\$41.50 million as described in table 2. Eligible project costs include technical advisory services, training, communications, IT equipment, and operating costs.

Table 2. Project Cost and Financing (US\$ million)

Project Components	Project Cost⁶	IBRD Financing	% Financing
Component 1 – Public Financial Management	29.70	29.70	100
1.1 IFMIS design and initial implementation	22.00	22.00	
1.2 PFM capacity development	3.75	3.75	
1.3 Internal audit modernization at the Federal MoF	0.70	0.70	
1.4 PFM systems at the subnational level (Baghdad and Babil governorates)	2.00	2.00	
1.5 Project management and reform coordination	1.25	1.25	
Component 2 – Public Investment Management and Public Procurement at the Federal Level	4.00	4.00	100
2.1 PIMS strengthening	2.00	2.00	
2.2 Public procurement modernization	1.70	1.70	
2.3 Project management and reform coordination	0.30	0.30	
Component 3 – Public Investment Management and Public Procurement at the KRG Level	4.20	4.20	100
3.1 PIMS strengthening	2.00	2.00	
3.2 Public procurement modernization	1.80	1.80	
3.3 Project management and reform coordination	0.40	0.40	
Total Costs	37.90	37.90	100
Unallocated*	3.496	3.496	
Total Project Costs	41.396	41.396	
Front-End Fees (0.25%)	0.104	0.104	
Total Financing Required	41.50	41.50	100

Note: * Unallocated amounts - total project: US\$3.49 million of which Federal MoF = US\$2.73 million; Federal MoP = US\$0.37 million; and the KRG MoP = US\$0.39 million.

C. Lessons Learned and Reflected in the Project Design

38. A previous Iraq Emergency PFM Reform project funded by the Iraq Multi-Donor Trust Fund closed in August 2013 without fully meeting its objectives. The lessons learned from that experience have been addressed in this project design (see box 2), with a focus on: (a) assessing political will and ownership; (b) building local technical capacity (for example, a CNA is already underway, which will inform the capacity development [CD] activities supported by the project);

⁶ Unallocated amounts not included in the cost of the three components.

(c) promoting an enabling environment (for example, the World Bank and the IMF have been working with the Iraqi authorities in strengthening the PFM legal framework); (d) strengthening implementation arrangements (for example, dedicated project management teams (PMTs) to increase each PMT focus on a manageable scope of activities); and (e) exploiting synergies (for example, the PFM strengthening measures are considered essential, from policy, institutional, and fiduciary angles to current and future budget support operations by the World Bank and other development partners, as well as the IMF's SBA).

Box 2. Addressing Lessons Learned from Prior PFM Reform Support

Assessing political will and ownership during project preparation. Unless significant political capital is invested in overcoming bureaucratic resistance, the PFM reforms are unlikely to move forward.

- *What has been agreed with the GoI:* Considering the recent sharp decrease in oil prices and the critical challenges posed by the weak economic reforms, the Federal Government is now giving full priority to the implementation of the PFM reforms supported by the proposed project, which will also allow the MoF to manage efficiently all budget support operations. Moreover, the CM methodologies will be introduced for the first time through the use of the GGELI⁷ Collaborative Leadership for Development (CL4D) aimed at addressing the adaptive challenges to change. The network of stakeholders and dedicated teams will be prepared accordingly and mechanisms will be put in place to solve issues that arise.

Strengthening the project's focus on results. The results framework needs to present a convincing causal chain between activities, outputs, and outcomes with respect to the objective of the project.

- *What has been agreed with the GoI:* The project is to be implemented at both the federal and regional (KRG) levels with a limited scope of intervention, for example, the scope of the IFMIS development and pilot implementation is limited to four ministries (the MoF, MoP, MoI, and MoCHGM) and two governorates (Baghdad and Babil) only. Outcomes for this operation will be foundational and commensurate to the paced project interventions (see sequencing strategy in annex 2). These interventions have been discussed with other international development partners who will contribute directly or indirectly to the implementation of project activities (the IMF-Fiscal Affairs Department [FAD], U.K. Department for International Development [DFID], U.S. Treasury, U.S. Agency for International Development [USAID], Japan International Cooperation Agency [JICA], and the European Union [EU]).

Building local technical capacity. The allocated resources and implementation schedule are determined in taking into account local capacity-building needs and managing expectations for downstream performance.

- *What has been agreed with the GoI:* Instead of US\$100 million, as was initially planned, the World Bank support to PFM will follow a phased approach, starting with the proposed loan in amount of US\$41.5 million. A significant part of this loan will be dedicated to institutional development and capacity-building activities. Based on effective results, additional funding can be proposed in a future operation for continuing the activities in line with the Government reform agenda and its absorptive capacity.

Sequencing project activities to manage complexity of technical interventions and to limit reliance on international consultants.

- *What has been agreed with the GoI:* Technical interventions will be paced in accordance with absorptive capacity in each of the implementing agencies. For instance, instead of a full-blown IFMIS solution, this project will support its gradual introduction with foundational modules in only a handful of agencies. It is intended that the services of local consultants be used with the targeted assistance of few international consultants.

Addressing security concerns impacting willingness of international consulting firms to continue working in Iraq.

- *What has been agreed with the GoI:* To reduce the cost and associated risk for working in Iraq, it was agreed with the GoI to carry out the IFMIS IT development offshore, with appropriate channels of communication

⁷ World Bank GGEVP (Vice-Presidency), EFI Practice Group (Equitable Growth, Finance and Institutions) Learning and Innovation.

and coordination with the team assigned by the MoF. As such, the vendor's team will not need to work significantly in Iraq before 2018, when the development of the IFMIS solution is completed, jointly with the MoF assigned team. In addition, the IFMIS contract will include security-related provisions. The hiring of a limited number of international consultants will be done on a very selective basis to obtain the necessary commitment for their interventions in Iraq.

Hiring a full-time IFMIS manager with specific terms of reference (TOR).

- *What has been agreed with the GoI:* An IFMIS manager will be required and specific TOR have been prepared accordingly.

Strengthening implementation arrangements through dedicated PMTs. The PMTs will be staffed with a view to address earlier encountered problems, including (a) inability of the PMT members to spend sufficient time on the project; (b) insufficient capacity to engage in international bidding and procurement processes; (c) substantial turnover and several changes at the top management level, including the appointment of a new PMT director and deputy director.

- *What has been agreed with the GoI:* To make project implementation much more efficient, two focused PMTs will be set up at the federal level, in the Federal MoF and MoP respectively, and one PMT will be set up in the KRG MoP to manage related activities. Each PMT will be managed by a director who, along with other PMT members, will be assigned to the project on a full-time basis. Necessary training will be provided on a continuous basis for the activities to be implemented on time and efficiently. Overall coordination will be handled through a Steering Committee supported by a secretary.

Developing an M&E framework at an early stage of project implementation.

- *What has been agreed with the GoI:* The Project Operational Manual (POM) will integrate an M&E framework plan. Each of the three PMTs will prepare quarterly monitoring reports to follow up adequately on the project implementation. A consolidated quarterly project monitoring report will be prepared by the secretary of the Steering Committee and widely disseminated.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

39. Responsibility for project implementation will be with the three PMTs to be established by loan effectiveness within the MoF and the MoP at the federal level and within the KRG MoP at the regional level. This arrangement will permit each PMT to handle, with focus and dedication, a manageable set of activities that fall under its mandate and expertise. The MoF/PMT will be responsible for the implementation of the IFMIS, PFM/IFMIS CD, IA modernization, and PFM systems at the subnational level components (in coordination with the two pilot governorates), while the MoP/PMT will be responsible for the implementation of components related to the PIM and procurement reforms. For the KRG components, a PMT will be established at the MoP that will be responsible for the implementation of all the proposed activities in the KRG region.

40. The PMT is responsible for the day-to-day management of project implementation and reports directly to the minister, or to his deputy as designated by the minister. The PMT works closely with all stakeholders, including sectors and departments within the ministry and outside it, both state actors and NSAs, and the World Bank. The PMT is also responsible for ensuring that the project is implemented in compliance with the provisions of the Loan Agreement and the POM to be prepared by loan effectiveness. Specifically, the PMT is responsible for the following activities:

- Day-to-day coordinating and managing the implementation of the project and liaising with all stakeholders

- Maintaining regular liaisons with relevant departments and the consultants/suppliers to ensure smooth project implementation
- Monitoring project activities and reporting on its status to all concerned stakeholders
- Arranging for the review and approval of all reports, plans, specifications, and other material related to the project by the appropriate authorities
- Updating the Procurement Plan and carrying out all procurement activities in accordance with the World Bank’s Procurement Guidelines
- Awarding contracts and managing implementation of contracts either directly or through responsible parties
- Managing the payments of the loan proceeds and managing financial and accounting systems
- Maintaining adequate records of all procurement contracts and FM reports
- Submitting the quarterly interim unaudited financial reports (IUFs) to the World Bank within 45 days from the end of each quarter
- Submitting the annual project audit reports within six months from the end of the fiscal year
- Facilitating World Bank missions and following up on agreed-upon action plans with the related departments

41. Each PMT will be staffed with a PMT director available on a full-time basis, technical staff and focal points for each subcomponent, a procurement officer, a financial officer, and/or an accountant, an internal controller, an M&E officer, and in the case of the PMT under MoF an IFMIS manager, as described in annex 3.

42. The Federal MoF PMT will coordinate closely with the MoF Directorates of Budget, Accounting, IT, IA, and Debt Management, as well as the relevant units, including the Treasury, in the two pilot governorates of Baghdad and Babil. Each department was engaged in the earlier Emergency PFM Reform project (2009–13). Principal departments for the Federal MoP will be the Government Investment Program Directorate and the Public Contracting Directorate. Similar structures apply in the KRG for the MoP.

43. The three PMTs will operate under the oversight of the Steering Committee that will provide strategic guidance and ensure effective coordination. The Steering Committee will be established by loan effectiveness with TOR satisfactory to the World Bank and will include representatives of ministries and departments participating in the project (for example, senior directors of the involved ministries) to monitor the progress of the project and resolve issues that can cause delay. The role of the committee and the institutional setup will be highly critical for the success of the project.

44. **Implementation readiness.** A number of project-related activities are already underway, such as the IFMIS RFP preparation, the CNA, and the draft TORs for the IFMIS manager and procurement and FM officers, all of which will help the project kickoff activities. A POM is under preparation and will be a condition of effectiveness. By effectiveness, the Government will also formalize the PMT and Steering Committee's structure and mandate.

45. **Coordination with development partners.** Consultations have taken place during project preparation with development partners active in PFM-related support (see box 3). This level of dialogue and coordination will continue during project implementation, including through follow-up meetings to be organized by the Steering Committee.

Box 3. Development Partners Supporting PFM Reform

Ongoing TA includes the following:

- **The World Bank, with DFID funding,** is providing TA on specific PFM reform activities at the MoF that are fully aligned with the project (the new PEFA assessment; the MoF PFM CNA; the IFMIS RFP preparation; and the MoF online information and transparency). In addition, the World Bank is providing technical support for strengthening the audit reporting capacity of the FBSA.
- **USAID/Iraq** provided two PFM advisors to the MoF in Baghdad until May 2016 and is currently providing PFM advisors to the KRG deputy prime minister's office, who are working on payroll registration, tax registration, and improving the charter of accounts. The advisors are provided by USAID's Asia and Middle East Economic Growth Project. USAID will continue to provide PFM support advice to the MoF in Baghdad as well as to the KRG deputy prime minister's office through its upcoming Iraq Governance and Performance Accountability project, which is scheduled to be awarded in early 2017. Additionally, USAID/Iraq also has contributed to two new United Nations Development Program-managed mechanisms: (a) the Funding Facility for Economic Reform (FFER) - federal; and (b) the FFER - KRG. The FFER-federal is designed to support the prime minister's office to oversee critical PFM reforms and other economic reforms. Similarly, the FFER-KRG will be managed in coordination with the KRG MoP and will fund technical assistance to help implement some of the priority reforms identified by the World Bank and other donors. These reforms also will include PFM reforms as well as other economic reforms.

Planned TA includes the following:

- **The EU** is currently preparing a Democratic Governance Program that is expected to provide, from 2017, some technical support to Iraqi institutions, which may include: (a) the FBSA; (b) the Commission of Integrity; and (c) the Finance and Economic Committees of the National Council of Representatives. These are important accountability institutions that are not covered by the proposed World Bank operations. Thus, EU support will help to close the PFM accountability cycle.

Other operations

- **World Bank.** The planned Second Expenditure Rationalization, Energy Efficiency, and SOE Governance DPF will support Iraq's reform drive toward structural fiscal consolidation, strengthening the macroeconomic framework, and laying the foundation for sustainable and inclusive growth. The operation is built around three pillars, which are also the PDOs to improve: (a) expenditure rationalization; (b) energy efficiency; and (c) the transparency and governance of SOEs.
- **JICA** is providing budget support to Iraq through parallel financing with the World Bank DPF. The focus of JICA's budget support is on PIM reform and public debt management.
- **IMF.** In 2015, the IMF disbursed US\$1.2 billion under the Rapid Financing Instrument, which assisted Iraq in its efforts to tackle the economic impact of the ongoing conflict and the decline in global oil prices. The IMF Staff Monitoring Program called for an overhaul of PFM practices "in order to improve the quality of spending and the authorities' control over budget execution" (see IMF Country Report no. 16/11). As such, the SMP tackles PFM reform areas through structural benchmarks on (a) approval of a revised draft PFM law in line with IMF/World Bank comments, (b) a detailed auditing of domestic arrears on investment spending, and (c) compilation of a list of all bank accounts controlled by the MoF and spending and sub-spending units. In addition, to further strengthen fiscal discipline, the SMP envisaged the need to (a) move toward a TSA, (b)

design and implement a commitment control system for budget execution, (c) design and implement an IFMIS with the assistance of the World Bank, (d) implement PIM reform with the assistance of the World Bank, and (e) improve governance and anticorruption efforts. The three-year IMF SBA approved in July 2016 will further enhance PFM reforms in Iraq.

B. Results Monitoring and Evaluation

46. The Steering Committee, with the support of a secretary, will be responsible for coordinating interventions among the three relevant institutions and the PMTs implementing the activities (the MoF, MoP, and KRG MoP). The PMTs will collect the necessary data to measure the identified results indicators. The Steering Committee will continuously monitor implementation of the components against agreed plans and timelines and will work closely with the World Bank to address any slippages. Formal quarterly monitoring reports, based upon the Results Framework (annex 1) will be prepared by the Steering Committee's secretary and widely disseminated.

47. Implementation progress discussions will be used to promptly identify and address issues and bottlenecks that may arise and impede achievement of targeted outcomes. The issues raised will be discussed by the Steering Committee, PMTs, and the World Bank, and resulting recommendations will become action points for implementation follow-up and subsequent implementation support.

C. Sustainability

48. The GoI remains committed to developing and implementing the IFMIS and modernizing the PIMS and public procurement to build a more transparent and efficient government system that delivers better services to the public. As explained in the preceding sections of this document, a number of actions have been designed to address lessons of previous PFM project-based support, with a strong emphasis on CM approaches and building institutional capacity. Systematic training of staff responsible for implementing the core PFM functions within the Government, while ensuring the introduction of more robust and modern systems and tools, is also expected to provide a sound basis for ensuring that adequate capacity is retained after the project closure. These efforts will establish strong PFM foundations and transparency mechanisms that will help prevent future rollbacks.

49. The World Bank development policy operations and the IMF SBA will also be leveraged as enablers to introduce policy and institutional actions to help sustain the political and executive environment necessary for the implementation of project actions. For instance, this project will establish the systems that will be critical for effective implementation of the new PFM law under preparation, which is part of the IMF-supported program.

50. While the project envisages the recruitment of a number of peripatetic and resident technical advisors, their role will include direct capacity development of counterparts on the job to ensure that there is competency in managing PFM activities. With regard to the recurrent cost for implementation of the reforms, post project closure, the MoF will budget for these expenditures with local resources after the implementation of the project.

V. KEY RISKS AND MITIGATION MEASURES

A. Overall Risk Rating Explanation

51. The overall risk rating of this project is High. Major risks that could prevent the project from achieving its development objectives include political and governance, macroeconomic, and fiduciary risks, which are rated High, as well as sector strategies and policies, technical design, institutional capacity, and stakeholder risks, which are rated Substantial.

- (a) **Political and governance risks are High.** The PFM reform drive could be undermined by a number of factors, including the further weakening of the security situation, social unrest because of the low quality and availability of basic public services (such as electricity), disagreements between the Central Government and the KRG which could escalate into a political crisis and governmental deadlock, or capture by vested interests. Over time, the PFM reforms supported by this project will contribute to institutional strengthening and reduced governance risks. The World Bank will closely monitor the political situation to assess any impact on project implementation.
- (b) **Macroeconomic risks are High.** There is a risk that the adjustment and financing needs may be greater than anticipated, especially in case of a further decline in global oil prices and escalation of the Islamic State of Iraq and Syria war. Both of these shocks would put further strain on the budget and on the state's capacity to finance the additional deficit, which would undermine the adequacy of the macroeconomic policy framework. These risks are partially mitigated by the recently approved IMF SBA, as well as the World Bank DPFs and budget support provided by other development partners. Similarly, the PFM reform contributions to fiscal management will contribute to reduced macroeconomic risks in the long run, but the immediate risks cannot be mitigated by this operation. The World Bank will closely monitor the macroeconomic situation to assess any impact on project implementation.
- (c) **Sector strategies and policies.** There is a Substantial risk of adverse impact on the PDO stemming from sector policies and strategies. However, policies and strategies of the four pilot ministries are generally adequate for the purposes of this project and consistent with the country's development strategy and objectives.
- (d) **Technical design, institutional capacity, and stakeholder risks are Substantial.** The main risk factors and agreements with the GoI to mitigate them are discussed in section III.C (Lessons Learned). A major CM effort will be carried out with the active support of senior leaders and operational managers of the implementing agencies. A careful sequencing of project activities and deliverables and the CM approach is discussed in annex 2. The M&E mechanisms will be actively used to respond quickly to implementation bottlenecks. The World Bank's experience in similar projects successfully implemented in other jurisdictions will be an important factor of implementation support.

- (e) **Fiduciary risks are High**, given the perception of widespread corruption and low-capacity environment. Regarding the use of project funds, a number of fiduciary arrangements described in annex 3 will be in place to mitigate the risk. Regarding PFM in general, this project is expected to contribute in the medium term to better information for fiscal management and strategic allocation of resources, more efficient service delivery, and public finance transparency. It will pursue this objective by supporting the CD and foundational systems (the IFMIS, IA modernization, PIMS, public procurement, and IA).

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

52. **Development impact.** Iraq, although a country with vast resources and potential, remains a fragile country. The IFMIS development and pilot implementation will comprise the critical modernization of budget management business processes, not just their automation. Hence, aspects related to budget and final accounts reporting, cash management and financial controls, and payroll management form part of the modernization of the IFMIS business process (not only the IT solution). Making the PIMS efficient, modernizing public procurement further, strengthening PFM systems and capacities at the subnational level to enable governorates to shoulder the service delivery responsibilities being devolved to them by the Federal Government, and helping build the IA function, will be critical. All of these will contribute significantly to better public service delivery performance.

53. **Expected stream of project benefits and costs.** The proposed project is expected to generate benefits from improved budget and cash management, better quality financial information for decision making, stronger controls and oversight over use of funds, public investment project decisions based on cost-benefit analysis, and savings through more efficient and transparent procurement. The economy remains extremely vulnerable to the country's ongoing security problems, which impede investment and inhibit private economic activity. Further, high dependence on the oil sector makes the economy more vulnerable to declining oil prices and consequently, the overall economy suffers from structural weaknesses. This project would benefit the overall health and performance of Government through indirect, widespread, and diverse effects on the efficiency of service delivery, rather than necessarily translating into direct changes in the price, cost, quantity, or quality of the services delivered. However, this poses a major challenge to the conduct of cost-benefit analysis, which typically involves some well-defined set of services delivered to the public that have some measurable benefit. Therefore, the economic and financial justification of the proposed project is found in its contribution to a better functioning of economic governance and public service delivery, through the expected benefits listed above.

54. **Public sector provision is the appropriate vehicle.** The Iraqi economy has suffered the consequences of three major wars, inappropriate policies, poor management, and inadequate resource allocation. A key challenge for the Federal Government over the next five years is to dramatically improve budget credibility. Lack of budget discipline and consequent lack of transparency and credibility mean that the budget is not a good guide to the real intentions of fiscal policy. Failure in this area spills over into nearly all aspects of fiscal management. The Iraqi public sector is very large even by regional standards where the Government and the SOEs employ

approximately half of the labor force, but the quality of public services has been weak. The implementation of PFM reforms, concerning the IFMIS, TSA, PIMS, and the procurement systems and good practices, along with the associated policy and CD interventions as those envisioned under this project, will result in significant advantages to Iraq, such as: (a) rigorous application of budget appropriation and commitment controls thereby enabling fiscal discipline; (b) better cash management and reduction in idle balances and borrowing requirements; (c) availability of comprehensive financial information for fiscal and economic management; (d) increased efficiencies in bill tracking and payment processing; (e) identification and deterrence of irregular procurement and payments; (f) more predictable flow of funds and spending reports for better management of government programs and delivery of government services; (g) better selection and management of capital projects; (h) increased accountability and transparency to citizens; (i) efficiencies in auditing; and (j) earlier production of certified annual accounts and placement before legislature, enabling parliamentary fiscal oversight.

55. **The World Bank's value added.** Iraq urgently needs support to help sustain the economy and protect the delivery of basic services to the Iraqi population while the Government begins undertaking necessary reforms. However, the country continues to suffer from a dysfunctional governance system, including inappropriate allocation of resources, an inefficient revenue system and weak delivery of public services. Such poor governance leads to unwelcome outcomes in access to public services by the poor and other disadvantaged members of society such as women, children, and minorities. The World Bank's PFM engagement in Iraq focuses on strengthening institutions and re-enforcing accountability and fiscal management for better aggregate fiscal discipline and improved service delivery. The rationale for strengthening institutions and systems is that they are a necessary condition for effectively implementing the Government's macro fiscal and socioeconomic policies. In addition, the project provides the opportunity for the GoI to respond effectively to the needs of the country's overall development. The project will generate long-term positive impacts and benefit a broad range of direct and indirect beneficiaries. The World Bank, with experience in such interventions in Iraq and elsewhere in the Middle East, has a comparative advantage in conducting this work. Further, the World Bank has the convening power to bring potential interested parties together to support the project.

B. Technical

56. The technical design builds on the World Bank's experience with Iraq and on the good practices of similar projects in other countries and regions, including in fragility, conflict, and violence environments. Project preparation was carried out with the participation of a number of experts from the Federal Government, KRG, World Bank, IMF-FAD, and the DFID, all of whom contributed directly or indirectly to the design of the activities.

57. The human and technical resources needed to implement reforms toward achieving the project objectives have been factored in the design. The adaptive challenges have been recognized and will be addressed through a strong focus on CM. The project activities have been carefully sequenced. The proposed institutional and governance arrangements reaffirm the need to implement the project under a well-structured arrangement. Finally, a strong relationship with development partners has been, and will be, maintained to reinforce complementarities.

C. Financial Management

58. The assessments of the financial management (FM) systems within the MoF, MoP, and KRG MoP were conducted. The assessments of the Federal MoF and MoP were informed by experience with previous operations financed by the Iraq Trust Fund.⁸ The FM assessments concluded that, with the implementation of agreed-upon actions, the proposed FM arrangements will satisfy the minimum requirements under OP/BP 10.00. The FM assessment and arrangements are described in further detail in annex 3. The detailed FM capacity assessment and arrangements are available in the project files.

59. This project draws on similar FM arrangements from previous projects implemented by the MoF and MoP, including (a) establishing the PMTs to follow through with project implementation; (b) seconding financial officers, accountants, and internal controllers from the entities' own staff to be dedicated to the project; (c) using the same financial reporting and external auditing arrangements; and (d) documenting all controls and procedures in the FM section of the POM. The overall FM risk is high. The risk mitigation measures were designed to suit the available capacity during implementation, including the following:

- (a) FM functions centralized within the PMTs, with the FM team consisting of a financial officer, accountant, and an internal controller seconded by the ministry's own staff.
- (b) Simplified accounting and reporting arrangements to give timely information on the project financial performance and status; Excel spreadsheets will be used to record project financial transactions and generate simplified IUFs.
- (c) Financing 100 percent of activities to avoid delays that arise from counterpart financing.
- (d) Opening a designated account (DA) for each PMT with sufficient advance payment.
- (e) Hiring an independent external auditor acceptable to the World Bank to provide an independent opinion of the project's financial statements.

D. Procurement

60. Procurement under the proposed project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' dated January 2011 and revised in 2014; 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers' dated January 2011 and revised in 2014; 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,' dated October 15, 2006, and updated January 2011; and the provisions stipulated in the Loan Agreement. For each contract to be financed by the loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame have been agreed between the

⁸ The MoF-implemented Emergency Public Financial Management Reform Project closed in August 2013, while the MoP-implemented Emergency Private Sector Development Project closed in March 2012.

Borrower and the World Bank in the Procurement Plan dated July 20, 2016. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

61. The three concerned ministries will serve through the PMTs as the project executive agencies and will have overall responsibility for the management of the project, including procurement management. Assessments and reviews were conducted on procurement in Iraq and that of the implementing agencies: (a) the Federal MoF, (b) the Federal MoP, and (c) the KRG MoP. The procurement implementation arrangements include establishing a PMT at each implementing agency under the direct supervision of each of the three ministries, but using seconded staff from the MoF, MoP, and KRG MoP.

62. As Iraq had been ranked poorly on Transparency International's Corruption Perception Index over the last eight years and the country suffers from conflict, procurement associated risks are high and supervision of project's implementation remains difficult. See further details and risk mitigating actions in annex 3.

63. The project will finance the procurement of the IFMIS and consultancy services under the different components that include the following:

- Design, supply, and installation of the IFMIS - single-stage, turnkey contract
- IA modernization - consultancy services
- PFM systems at the subnational level - consultancy firm
- PIMS modernization for both the Federal and KRG MoP - consultancy firm and individual consultant
- Development of e-procurement portal for both the federal and KRG MoP
- Supply and installation of videoconferencing at the KRG MoP
- Hiring individuals to support the PMTs including the IFMIS manager

E. Environmental and Social (including Safeguards)

64. The project involves institutional strengthening and capacity development related to FM and is not expected to include activities resulting in environment and social risks and impacts. As part of the IFMIS installation, minor indoor renovations of the MoF's existing data center and data recovery center, and last-mile connectivity between end-user office buildings and the Government's secure central network backbone, will be carried out. The project is classified category C.

F. World Bank Grievance Redress

65. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Republic of Iraq

Modernization of Public Financial Management Systems (P151357)

Results Framework

Project Development Objectives

PDO Statement

To improve financial information management and transparency, cash management, public investment management, and public procurement modernization at selected federal and governorate agencies.

These results are at

Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values				
		2017	2018	2019	2020	2021 End Target
Share of Federal Government bank account balances consolidated under the new TSA (Percentage)	0.00	0.00	0.00	10.00	20.00	25.00
IFMIS end users proficient in IFMIS operations in pilot federal ministries and governorates (Number to be disaggregated by % of female)	0	0	200	400	500	600
Citizen budgets posted on the website of the Federal MoF (Number)	0	0	0	0	1	2
Share of public investment projects in pilot line ministries at the federal level that are subject to new appraisal and selection mechanisms and registered in the IDMS (Percentage)	0.00	0.00	5.00	10.00	15.00	20.00
Share of tenders and awards publicly available through the federal procurement single e-portal (Percentage)	0.00	0.00	0.00	25.00	50.00	75.00

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values				
		2017	2018	2019	2020	2021 End Target
Adoption of IFMIS: three ministries (MoF, MoP, and MoI) with expenditure transactions being fully processed through IFMIS (Number)	0	0	0	0	3	3
Adoption of IFMIS: One ministry (MoCHGM) and two pilot governorates (Baghdad and Babil) with expenditure transactions being fully processed through IFMIS (Number)	0	0	0	0	0	3
Implementation of the three-year audit plan of the Federal MoF, based on risks and the subsequent conduct of audits (Number)	0	0	0	1 (plan)	2 (audits)	4 (audits)
Citizen budget feedback mechanism operational (Yes/No)	No	No	No	No	Yes	Yes
Share of federal public investment projects registered in the IBP of the IDMS (Percentage)	0.00	0.00	0.00	20.00	25.00	30.00
Share of KRG public investment projects registered in the IBP of the KDMS (Percentage)	0.00	0.00	0.00	20.00	25.00	30.00
Use of SBDs prepared with new procurement regulations at both the federal and KRG levels in pilot agencies (Percentage)	0.00	0.00	0.00	25.00	50.00	70.00
Share of tenders and awards publicly available at the federal procurement single e-portal (Percentage)	0.00	0.00	0.00	25.00	50.00	75.00
Share of tenders and awards publicly available at the KRG procurement single e-portal (Percentage)	0.00	0.00	0.00	25.00	50.00	75.00

Indicator Description

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
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Share of Federal Government bank account balances consolidated under the new TSA	TSA is a financial policy that will be implemented by the Federal GoI to consolidate all inflows from the country's ministries, departments, and agencies (MDAs) by way of deposit into public and commercial banks, traceable into a single account at the Central Bank of Iraq (CBI).	Weekly	Federal MoF and CBI	Federal MoF and CBI
IFMIS end users proficient in IFMIS operations in pilot federal ministries and governorates	Number of IFMIS end users having reached an advanced degree of competence through the required number of hours of training	Annual	Federal MoF	Federal MoF
Citizen budgets posted on the website of the Federal MoF	A citizen budget is a document that summarizes and explains basic budget information. It is a report to the people, presented in an accessible format using a simple and clear language they can understand. Being able to understand, individuals can then carry out their responsibility as citizens in a democracy of asking questions that ensure that the Government explains what it has done in their name.	Annual	Finance Department in each pilot governorate	Finance Department in each pilot governorate
Share of public investment projects in pilot line ministries at the federal level that are subject to new appraisal and selection mechanisms and registered in the IDMS.	Number of applicable (per threshold) public investment projects subject to new appraisal and selection mechanisms	Annual	Federal MoP	Federal MoP
Adoption of IFMIS: Ministries with expenditures fully processed through IFMIS	It includes the deployment of the final IFMIS solution, which was accepted by the GoI, after the prototypes and the user acceptance test (UAT) to the first three pilot sites.	Annual	Federal MoF, Federal MoP, MoI	Federal MoF, Federal MoP, MoI

Adoption of IFMIS: Ministry and governorates with expenditures fully processed through IFMIS	It includes the deployment of the final IFMIS solution, which was accepted by the GoI, after the prototypes and the user acceptance test (UAT) to the three remaining pilot sites.	Annual	MoCHGM, and finance departments in Baghdad and Babil governorates	MoCHGM, finance departments in Baghdad and Babil governorates
Implementation of the three-year audit plan of the Federal MoF based on risks and subsequent conduct of audits	The MoF three-year audit plan will be prepared based on the recommendations of the risk assessment that aims to optimize the direction of IA resources to areas of higher risks through a comprehensive understanding of the audit universe and the risks associated within the Federal MoF. The audits will be conducted in accordance with the plan and new methodologies introduced by the project.	Annual	Federal MoF	Federal MoF
Citizens budget feedback mechanism operational	Feedback mechanism operational through the website of the federal MoF	Annual	Federal MoF	Federal MoF
Share of public investment projects registered in the IBP of the IDMS at federal level.	The IBP is the tool that integrates the initial allocation of funds for investment (known as CAPEX) and the recurrent costs of operation and maintenance expenditures (known as OPEX) through a relational database that allows digital storing of project files and simultaneous Internet access by users. It will be developed as a module of the existing applications.	Annual	Federal MoP	Federal MoP
Share of public investment projects registered in the IBP of the KDMS at the KRG level	The IBP is the tool that integrates the initial allocation of funds for investment (known as CAPEX) and the recurrent costs of operation and maintenance expenditures (known as OPEX) through a relational database that allows digital storing of project files and simultaneous Internet access by users. It will be	Annual	KRG MoP	KRG MoP

	developed as a module of the existing applications.			
Use of SBDs prepared with new procurement regulations at both the federal and KRG levels in pilot agencies	Percentage of use of SBDs in pilot agencies	Annual	Federal MoP and KRG MoP	Federal MoP and KRG MoP
Share of tenders and awards publicly available at the federal procurement single e-portal	Percentage of applicable tenders and awards made available on procurement single e-portals	Annual	Federal MoP	Federal MoP
Share of tenders and awards publicly available at the KRG procurement single e-portal	Percentage of applicable tenders and awards made available on procurement single e-portals	Annual	KRG MoP	KRG MoP

Annex 2: Detailed Project Description

REPUBLIC OF IRAQ: Modernization of Public Financial Management Systems Project

1. **Sector context.** The Iraqi PFM development framework covers the legal and institutional framework for budgeting, public finance, and PIM, the various stages of the budget cycle, the development and operational implementation of the IFMIS, which includes improving the transparency and accountability of the budget process, and the available skills and capacity of budget regulatory institutions (the MoF and the MoP), and the line ministries implementing the budget. The mandate of the MoF is divided between the Treasury function and the budget formulation function. The recurrent budget is prepared by the Budget Directorate. The mandate of the MoP is quite extended and includes the preparation of the National Development Plan and the capital budget. There are some important missing pieces related to the pre-investment stage of the PIMS (for example, appraisal methodologies, calculation of national parameters, shadow prices, and so on).

2. Some preparatory PFM work was advanced since 2014 with support from the World Bank and other agencies:

- **Final draft of the new General Financial Management Law of 2016** is under review at the State Council (Shura Council).
- **IFMIS.** There was: (a) improved budget preparation with policy focus during budget strategy discussions, including an MTEF; (b) budget formulation and execution based on economic and economic classification using GFS standards; (c) development of a new Accounting Manual describing the accounting framework; (d) development of a new BC; (e) development of a new CoA with separate fragments for administrative, economic, type, functional, and geographical; (f) general information on the federal budget of 2015 was published on the MoF website; (g) preparation of a roadmap for the IFMIS development and pilot implementation in four ministries and two governorates (2016–20) through conducting an SRS and the current preparation of an RFP; (h) the MoF PFM assessment (PEFA methodology) currently conducted and to be completed in 2016; and (i) support currently provided to the FBSA to improve the quality and readability of the audit report that it shares with the parliament.
- **PIMS at the federal level.** (a) PIM Decree No 445 of October 18, 2015 relating to the adoption of the PIM Framework for Iraq; (b) Iraqi PIMS Assessment conducted in 2014 and finalized in 2015; (c) Action Plan to develop an efficient Iraqi Public Investment Management System (I-PIMS) over the period 2016–18; (d) role of key performance indicators in PIM prepared in 2015; (e) PIM Framework for Iraq prepared and adopted in 2015; (f) simplified methodology for economic appraisal of public investment projects in Iraq and its corresponding spreadsheet prepared in 2015; (g) simplified Manual for Public Investment Project Selection and Prioritization and its corresponding spreadsheet ('Project Financial and Economic Analysis Template') prepared in 2015; (h) Iraq - functions of the PIMS Central Unit prepared in 2016; and (i) Iraq - PIM Training Program at both federal and governorate levels prepared in 2016.

- **PIMS at the KRG level.** With regard to public investment, the KRG has already developed its KDMS, which provides a mechanism for submitting, reviewing, approving, and/or rejecting project requests submitted by different bodies such as the ministries and governorates online through the KDMS, with the aim of enabling the KRG MoP to facilitate processing of requests, as well as tracking and monitoring of development activities within the region.
- **Public procurement at federal level.** The first PFM project, funded by the Iraqi Trust Fund, supported the Federal MoP in: (a) preparing the seven types of SBDs that were piloted and disseminated but not mandated for use yet; (b) national implementation manual prepared and published on the ministry's website; and (c) training strategy preparation and collaboration with universities to build capacity of procurement professionals.
- **Public procurement at KRG level.** In December 2014, the World Bank signed a Reimbursable Advisory Services agreement with KRG to modernize the procurement system that included the four main components, namely: (a) support to modernize the legal framework; (b) development of standard documents and templates; (c) advisory services and capacity building; and (d) preparatory work on the development of single portal website and information system. To date, the following progress has been made: (a) consolidated and modernized public procurement regulations were enacted in February 2016 and became effective in July 2016; (b) an annex on procurement under public-private partnership was finalized and processed for enactment; (c) bidding documents for pre-qualification, works, goods, consulting services were finalized to align with the newly enacted regulations; (d) an e-procurement readiness assessment had been completed and a roadmap to implement the e-portal had been developed; and (f) training of trainers on the new regulations had been completed and training of staff of key implementing agencies is ongoing.

3. **Project components.** The project is structured along five major areas: (a) IFMIS design and initial implementation, with associated PFM CD; (b) IA modernization; (c) PFM systems at the subnational level; (d) PIMS modernization; and (e) public procurement modernization), and includes three components (see table 2.1 for sequencing of project activities and results chain).

Component 1: Public Financial Management

Subcomponent 1.1: IFMIS design and initial implementation

4. **Design and scope.** The IFMIS will be the conduit for modernizing budget and FM business processes that will allow streamlining budget planning and preparation, track financial events and record all transactions, summarize information, support reporting and policy decisions, and incorporate the element of information and communication technology (ICT), skilled personnel, procedures, controls, and data.

5. In line with the content of the SRS, there is a preference for developing a web-based turnkey IFMIS solution, based on a commercial off-the-shelf (COTS) standard market solution for the public sector, which will be seamlessly and gradually expanded in scope and functionality.

Standard COTS functionality has to be flexible enough to support all the requirements in functionality, methods, and business scenarios. Moreover, TSA is one of the financial policies that will be adopted by the Federal GoI to consolidate all inflows from all the MDAs and governorates in the country by way of deposit into commercial banks traceable into a single account at the Apex of Iraqi banking, the CBI. This policy will be implemented to reduce proliferation of bank accounts operated by the MDAs and governorates and also to promote financial accountability among all the organs of the federal government at both the central and governorate levels.

6. **Implementation.** It is envisaged that the first phase of IFMIS introduction, supported by this project, would have a duration of up to five years supported by this operation, for procurement, designing, configuring, testing, commissioning, training, and implementing in the MoF, the MoP, two line ministries (the MoI and the MoCHGM), and two governorates (Baghdad and Babil).

7. The aim will be to operate the entire IFMIS system and all its components effectively, including planning, project management, system installation, configuration, technical support, and rollout to new sites. A call center and a help desk will be set up, and a group of power users will be thoroughly trained so that they can subsequently be deployed as trainers or technical resource persons for other staff.

8. **Training.** During the IFMIS introduction phase, the main objective of the IFMIS vendor's functional and technology training will be to train the various end-user groups in IFMIS management, operations, and support. Each training program will be designed around the job needs of the MoF management team, the designated technical and functional personnel, and future IFMIS trainers and end users.

9. Each group will receive the general or specialized training relevant to their current and future defined roles under the IFMIS. For example, the MoF senior managers will be acquainted with IFMIS planning, development, project management, and implementation; IFMIS developers will receive extensive training in the selected COTS configuration, technology tuning, security, and networking; and IFMIS end users will receive training in the available IFMIS functionality and system interface to carry out their daily work using the IFMIS.

10. In summary, the training program will target all levels of users at the MoF, MoP, MoCHGM, MoI, and the pilot governorates of Bagdad and Babil. It will be carried out by the IFMIS vendor and will be coordinated closely with the IFMIS implementation plan. It will focus on the specific requirements of a given site and will be imparted just before site implementation. The great majority of staff need to know only specific features of the system, and training, at least in the initial tranche, can be limited to these features.

11. **Project governance and management.** The supervision of activities, implemented by the IFMIS vendor, will be carried out by a Government IFMIS manager, ideally selected from the senior MoF staff or locally contracted, assisted by an international implementation consulting firm, referred to in this document as ICF. As such, the IFMIS manager and the ICF will be able to mobilize the required MoF resources and bring in the needed international and local consultants (Arabic language for key staff is essential) to properly manage the IFMIS project on behalf of the GoI.

12. The IFMIS manager will be the main GoI contact person for the vendor, on all project administrative and contract issues. The IFMIS manager will be responsible for IFMIS planning, staffing, coordination, project scheduling, budgeting, accounting, change orders, and new IFMIS-related procurements.

13. The ICF will play more of an advisory role to the MoF and the IFMIS manager to ensure successful IFMIS development and implementation, including all necessary quality assurance and quality control functions for the success of the IFMIS project, including the recommendation on IFMIS final acceptance and the post-implementation review by the GoI.

14. **Coordination and procurement.** Both the IFMIS manager and the ICF will manage all aspects of the IFMIS component, from planning and procurement to development, implementation, and rollout. They will closely coordinate with all project stakeholders and the World Bank during the expected life span of the project—from the procurement launch in 2016 to the IFMIS rollout and post-implementation review, expected to conclude in early 2021. The MoF will contract the IC in line with the following schedule:

- The ICF to finalize IFMIS bidding documents in line with final IFMIS scope and requirements from November to December 2017
- The ICF to support the MoF during the IFMIS vendors' bidding period, bid evaluation, vendor selection, vendor COTS demonstration, and final contract signature from January to October 2017
- The ICF to support the MoF, from IFMIS project launch and development to the IFMIS solution deployment and roll out to pilot sites from November 2017 to April 2021

15. The role of the ICF will be to provide support and advisory services to the MoF PMT and to the IFMIS manager in the following areas:

- All aspects of project management and technical matters that cannot be initially handled by the MoF PMT with their own staff, from IFMIS procurement documents preparation and proceeding to IFMIS solution development, implementation, testing, rollout, post-implementation review, and planning and recommendations for the required IFMIS enhancements and the nationwide rollout
- Assisting the MoF to set up and maintain a quality assurance and control system for the IFMIS, including assistance and advice to the MoF on agreed final IFMIS functional and technical requirements, the review and acceptance of vendor deliverables, and the final IFMIS design blueprint and future process maps
- Preparing and validating proposals on business process improvements, IFMIS design and implementation alternatives, impact analysis, cost analysis, regulatory impact assessment, CM, business process alignment, staff training, and re-skilling plans
- Advising the MoF on the preparation of test plans, analysis of test results, advice on

the workaround and the resolution of system issues and errors, and in providing an opinion on final system acceptance

- Advising the MoF on the preparation of end-of-period and end-of-year closing and carryover procedures, reporting, and reconciliations
- Advising the MoF on vendor training programs and their end quality for management, technical and functional staff, and end users and on the more advanced training required for the development of the MoF trainers
- Advising and supporting the MoF in their planning of the IFMIS rollout and cutover processes and procedures, and so on
- Helping the MoF to coordinate the implementation of the IFMIS with different stakeholders and to resolve technical, IT, and engineering issues
- Supporting the MoF staff to carry out procurement and contract management, including the review of tender documents, the preparation of minutes and reports of all visits and vendor pre-bid and post-bid meetings, bid evaluation and report, contract award and negotiation, and bidder selection and report
- Ensuring that the IFMIS and other IFMIS-dependent procurement processes advance according to the Procurement Plan
- Advising the PMT on vendor, contract, and subcontractor management, and on how to deal with contractual and financial claims, project and contract management issues, change orders, contractual disputes, and so on
- Active follow-up on timely and fair disbursement to make sure that payments are made on time and in line with the established control mechanisms
- Advising the MoF on management and implementation of any other projects, including coordination activities among different stakeholders, monitoring, reporting, and so on

IFMIS change management

The development and pilot implementation of the IFMIS is more than just a ‘digital transformation process’. The current PFM reform will affect not only the MoF, but the whole public administration, as well as the way the Federal Government operates and presents itself to citizens, businesses, and international community. For example, the disclosure of meaningful public finance information through Federal Government websites will provide new opportunities to the civil society and MDAs at both the federal and governorate levels, once they learn how to interpret the vast amount of data that becomes available, and provides feedback on budget performance and policy decisions.

16. One of the principal effects of implementing the IFMIS is that the system will, subject to configuration, introduce and define standard documented budget management business processes across all the functional areas in which it is implemented. This, therefore, requires a major CM effort to ensure that the users will be able to transition from the current, often manual, processes and old practices to newly introduced and defined IFMIS standard processes based on modern best practices.

17. The critical elements of success in carrying out such a major CM effort are the active support of senior leaders and operational managers, training, CD, and the ensuring of sustainability. The effectiveness of the support of senior leaders and operational managers is a predictor of project success. Training refers to the use of the actual application. CD refers to a much wider effort designed to ensure users are enabled to migrate from current financial and budget management practices to the use of more modern methods, systems, and business processes. Sustainability will entail that the body of knowledge and skills required by the IFMIS user community to operate the system and new business processes can be maintained within the IFMIS user community over the long term and beyond the end of the contractor's role.

18. The IFMIS CM related tasks will be carried out under Subcomponent 1.1, with and under Subcomponent 1.2, and will be closely coordinated to avoid any overlap or duplicate effort. On one hand, the IFMIS vendor will focus on the proper use of the IFMIS system by its end users and the final solution being in full alignment with the legal, regulatory, organizational, budgetary, financial, and administrative framework and specific requirements. On the other hand, the CD vendor will focus on finalizing the necessary legal, regulatory, organizational, budgetary, financial, and administrative framework and requirements and preparing the IFMIS user community and stakeholders to adopt them in their own institutions. The CL4D expertise is most suited to the stages of change mobilization, change readiness, and change stabilization and reinforcement where the impact of effective sponsor action, learning, CD, and problem solving can significantly increase the likelihood of successful change implementation.

IFMIS vendor CM responsibility - CM tasks

19. The tasks that fall under IFMIS vendor's responsibility are the COTS and final IFMIS solution training, process improvement, business/process alignment, communication, and public relations in close coordination with the PMT and the CD vendor. The vendor's IFMIS-related training will entail giving the required training to the MoF Functional and Technical Development Team, to future MoF trainers, to MoF's senior management officials, to IT technical staff, and to all IFMIS end users on the new system functionality, procedures, workflows, data and databases, all employed technologies and software systems, technical support, and system management and operations.

20. As the system rollout occurs, a combination of communication, change readiness, and mobilization plan aiming at generating enthusiasm for the implementation all along, result-oriented process coaching for accompanying the change process, monitoring, and feedback mechanisms to continuously identify emerging implementation challenges, handholding support from super users, and formal training (both technical and on change leadership, as well as team strengthening) will be available to the staff transitioning to the new system.

21. The IFMIS vendor's responsibility also includes defining the new roles and responsibilities of all IFMIS end users to properly align them with the new organization chart and with the newly introduced IFMIS processes, work procedures, and business practices.

22. Finally, the IFMIS vendor's responsibility also includes proper communication and public relations with the various user groups and stakeholders to ensure a successful and smooth transition to the new IFMIS system.

Subcomponent 1.2: PFM capacity development

23. **Capacity development.** The World Bank is supporting the preparation of an MoF CNA⁹ to document capacity constraints (resources, skills, mandate limitations, required supportive legislations, underdeveloped systems, and so on). This analysis will inform the strategy for CD, which based on the initial findings, will be divided into the following training categories and requirements, to be carried out under Subcomponent 1.2 (PFM capacity development):

- Immediate- and short-term needs to support management of Iraq's urgent fiscal situation
- Medium- and longer-term needs to expand and strengthen the GoI's PFM capacity and proficiency
- The IFMIS' specific needs in preparation for the effective implementation, including any additional IT technical training, not provided by the IFMIS vendor
- Professional development of public finance professionals

24. A CD vendor effort will then support this wider PFM reform and its longer-term sustainability in Iraq. The PFM modules will be imparted to staff at the MoF, MoP, and pilot entities to foster literacy in modern budget and FM practices and help create a more enabling environment for the effective introduction of the IFMIS and its subsequent sustainability.

25. The PFM CD will include modern budget and FM practices, standards, policies in budget formulation, budget execution, and financial accounting and reporting. The specific details will be confirmed in the planned CNA. By way of illustration, the details may include support to

- legislation in budgeting (for example, the MTEF, performance-based budgeting [PBB], and so on), accounting (for example, International Public Sector Accounting Standards and so on), and financial and budgetary reporting (for example, GFS 2014 and so on);
- TSA implementation;
- forecasting methodologies underpinning the MTEF;

⁹ The CNA is expected to be completed by December 2016.

- macroeconomic and fiscal policy development;
- budget allocation and appropriation process;
- budget commitment control system;
- cash management;
- operational efficiency;
- audit function;
- MoF reorganization;
- decentralization;
- public relations; and
- communication.

26. As part of the close coordination with the IFMIS design and implementation, some CD tasks have to precede IFMIS development and need to be put on hold before the IFMIS requirements and design blueprint become final (for example, the introduction of new accounting principles, cash forecasting, costing methods, multiyear budgeting requirement, additional MTFF, MTEF, PBB, and the necessary user training in the new methods and principles, and so on).

27. While some reform activities need to be put on hold during the IFMIS development, other CD initiatives could continue in parallel, such as the transition to accrual accounting methods, required PFM legislations and regulations, decentralization, organizational restructuring, public relations, communication, and related training.

28. To support the required IFMIS specific training, specialist IT technical training may be required for a select group of MoF technical staff in some IT tools, techniques, standards, policies, and in COTS project management. IFMIS end user training on PFM modern practices will be identified and delivered as part of their wider professional development and specific IFMIS training. This may include, for example, training of managers and key IFMIS users on business intelligence, data analysis, and data mining techniques and methods, and decision-support systems, which will become possible with the implementation of the IFMIS. Further details on the IFMIS are provided later in this annex.

29. The CD programs to be finalized in the CNA will mainly target MoF and MoP budget and accounting policy makers, senior management, and the key contributors to IFMIS development and configuration, including future IFMIS trainers. It will also include some training activities for selected government officials from the four ministries and the two pilot governorates (Baghdad and Babil).

30. **Change management.** The methodology for reform, the way political leaders and key managers lead the PFM reform process, the communication strategy, and the move to gain the

confidence and support of Government officials will be other important factors directly linked to the success of CM.

31. Critical success factors in carrying out such a major CM effort will include securing leadership and management support, training, capacity development, Government sponsorship and commitment, local participation, and the ensuring of sustainability. In the Iraqi context, it must be understood that the Federal Government and the KRG will also have to invest political capital to embark on the PFM reform to overcome resistance from vested interests. The following sequence will be considered: (1) establishing an authorizing environment; (2) identification and securing participation of relevant stakeholders to ensure alignment and buy-in; (3) strengthening Government implementation teams with a focus on results; and (4) building multi-stakeholder coalitions to sustain progress and maintain accountability.

32. Moreover, the implementation of new budget and FM practices and the IFMIS may be resisted by certain staff, who may consider them to be a threat to their jobs, or who are used to doing their regular work in a given way and are reluctant to change or for any other reasons. To overcome such opposition from vested interests, a structured CM approach including analysis of challenges and actors/stakeholders will help better guide the deployment efforts within the MoF at different levels of management, to get them engaged with and actively own and support the new system. The rationale, advantages, and inevitability of the change will be fully explained both at the ministry and the individual levels.

33. In parallel to the PFM CD technical training activities, several types of CM initiatives will be supported by the project at the federal and governorate levels in Iraq, starting with an analysis of critical behavioral challenges, specific entity degree of readiness as well as resistance (pockets of resistance, root causes of resistance), and strategies of actors involved in the process.

34. The World Bank's GGELI CL4D approach will be adapted to address the adaptive challenges to change in the Iraqi context. The CL4D approach is designed to be flexible to enable a response to the complex challenges that clients face. It promotes (a) working with key stakeholders to help sharpen understanding of the challenges and identify root causes; (b) aligning around a shared vision to build ownership and commitment; (c) engaging in the collective expertise of a broad group of stakeholders to develop potential solutions to the challenges; (d) creating an environment of disciplined experimentation and iterative learning to address complex challenges, with a focus on delivery and measurement of results; and (e) enhancing the change leadership capacity of project and client teams to enable scalability of the approach and sustainability of the solution.

35. The CL4D process will start in the CNA with identifying and bringing together key stakeholders to gain an insight into differing perspectives. From there, stakeholders will work toward building alignment and consensus on charting a mutually beneficial path forward. The focus will be on strengthening government implementing teams for IFMIS implementation. Next, coalitions will be mobilized to stimulate collective action and build capacity to sustain and scale up the agreed-upon change.

Subcomponent 1.3: Internal audit modernization at the Ministry of Finance

36. This subcomponent aims to increase the efficiency of the IA function at the MoF, which is in line with the priorities of the strategic Government program for the period 2014–18. This component will build on the work completed under the Emergency PFM Reform Project closed in August 2013, and Improving Governance through Strengthened Financial Management Program closed in November 2014, financed by the Iraq Trust Fund - Technical Assistance and Capacity Building Fund.

37. The objective of this component is to support the MoF in the risk assessment process that aims to optimize the direction of the audit resources to areas of higher risks through a comprehensive understanding of the audit universe and the risks associated with the ministry. Ultimately, the risk assessment will lead to the selection of audit assignments to be included in a three-year strategic audit plan. The risk assessment process will include the following key stages: (a) plan the risk assessment; (b) develop understanding of the MoF's business; (c) develop general understanding of the MoF's major processes; (d) identify and assess the MoF's significant risks; and (e) prepare the risk assessment report. Upon the completion of the above risk assessment process, an annual Audit Plan will be developed for the MoF.

38. The final stage is the actual execution of audit engagements at the MoF. This will involve (a) field testing of the developed IA methodological framework and guidance materials in actual audit conditions; (b) detailed examination/testing of the process, methodology, and outputs; and (c) audit report writing.

Subcomponent 1.4: PFM system at the subnational level

39. The GoI's PFM system has typically focused on Central Government finances. Given the priority accorded to ensuring macroeconomic fiscal stability and the magnitude of Central Government revenues and expenditures, this is quite understandable. However, as funds are increasingly channeled through subnational government structures and decentralized financial arrangements, there is a need to improve the PFM mechanisms that link central to subnational government structures. For example, the current CoA includes administrative, economic, functional, geographical, and local coding. To enable coordinated functioning of the PFM systems at the governorate level with those at the Central Government level, the government financial CoA and BC across the central and subnational government administrations would be reviewed and unified. Specifically, administration, location, and project segments may need to be revised. In addition, the economic budget and revenue classifications used by the central and subnational administrations must be aligned. Because a number of functions will be deconcentrated to the governorates, it will be essential to ensure that appropriate user information be made readily available.

40. The availability of information about the utilization of all public financial resources at the subnational level is not adequate. Although the collection and consolidation of subnational government statistics is common in many countries with advanced PFM systems, the manual based systems currently found in the GoI's administrative structures may prove to be an overwhelming obstacle to effective consolidation. Systematic collection of subnational administration finance data requires consistency in the governmental financial CoA and BCs across the central and

subnational government administrations. In addition, the economic BCs and the revenue classifications used by the central and subnational administrations must be aligned.

41. A recent stocktaking of the state of decentralization in the country conducted by the World Bank¹⁰ found that while legislative actions and more recent pressure have forced action on devolution of some service delivery functions, there has been limited attention to the institutional and fiscal decisions required to achieve successful devolution, as well as to the capacity of the governorates to absorb and manage staff, resources, and responsibilities many times greater than they currently possess. If successfully carried out, a significant degree of institutional reassignment of service delivery functions to the governorates will have been achieved.

42. Strengthening local accountability is key to strengthening the service delivery performance of the governorates. International experience has shown that strengthening accountability is critical to improving service delivery as it strengthens the social contract between the citizens and the state. Specifically, improving service delivery performance requires the strengthening of accountability relationships between the state and service providers, citizens and the state, as well as between citizens and service providers. Translating this model into the Iraqi context requires the building and strengthening of three key accountability relationships that are currently weak. These accountability relationships, that is, between the citizens and the provincial government (governorate), between the provincial government and the Federal Government, and between the Federal Government and the provincial governments and the citizens, have a critical impact on service delivery. Therefore, strengthening service delivery at the governorate level through the Government's decentralization program would require specific operational steps to redefine and strengthen these accountability relationships.

43. The governorates are responsible for the execution of their Provincial Development Plans. With the devolution of eight sector ministries to the governorates, the scope and breadth of the Provincial Development Plan is bound to increase. In addition, the increased flow of resources to the governorates through the sectoral investment budgets of the devolved sectors will also tax the already weak PFM capacities of the governorates.

44. This subcomponent is built upon the stocktaking assessment recently conducted for Iraq by the World Bank, which determined that PFM systems and capacities at the local levels are weak and need to be strengthened to enable the governorates to shoulder the service delivery responsibilities being devolved to them by the Federal Government.

45. Systems and procedures for planning, budgeting, accounting, controls, reporting, and procurement at the governorate level need to be strengthened. Budget execution and monitoring systems and capacities of governorates need to be developed to enable efficient and accountable utilization of resources. Human resource capacities of the recently formed Finance Department of the governorates as well as the devolved sector ministries for managing budgetary resources need to be strengthened.

46. Appropriate linkages and interfaces need to be built with the PFM systems developed at the federal level (such as the IFMIS, PIM, public procurement) to ensure that there is no

¹⁰ "Decentralization and Subnational Service Delivery in Iraq: Status and Way Forward" (March 2016).

duplication at the subnational level as well as to ensure scaling up and replication in the future. Subcomponent 1.4 will also address the TA/capacity elements that will prepare governorates for the introduction of the IFMIS, which is considered under Subcomponent 1.1.

Subcomponent 1.5: Project management and reform coordination

47. The project will provide the Federal MoF with resources for technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

Component 2: Public Investment Management and Public Procurement at the Federal level

Subcomponent 2.1: PIMS strengthening

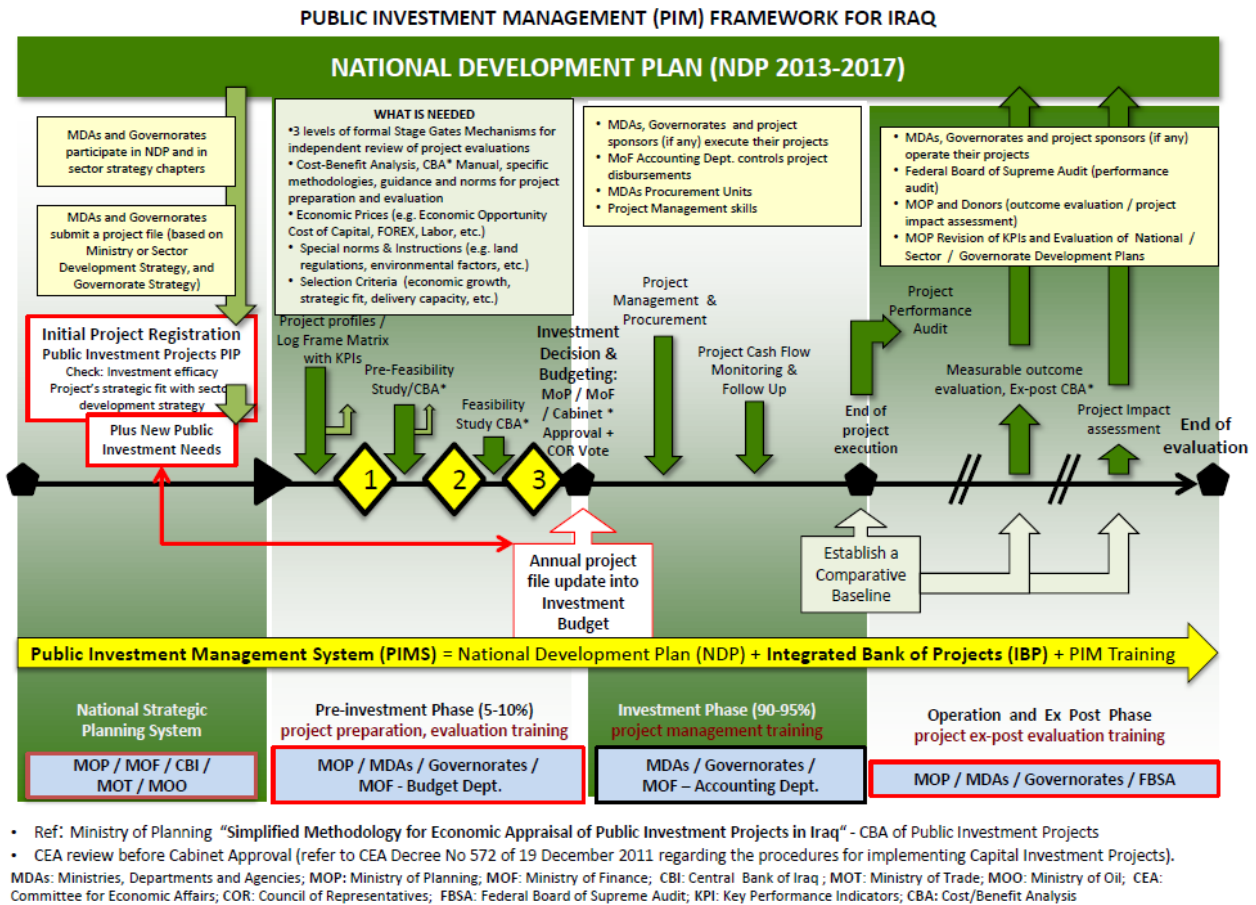
48. In 2014, the World Bank conducted an Iraq PIMS Assessment, concluding that rigorous project identification and selection systems act as screening mechanisms to prevent inappropriate and inefficient projects from getting into the project cycle and gaining political support and momentum that can make them difficult to be stopped at later stages. PIMS modernization will be linked to both modernization of budget management practices embedded in IFMIS development and to strengthening of public procurement needed for efficient implementation of investment projects.

49. Based on experiences in countries with a similar level of economic development to Iraq, there is broad consensus on the positive effects of infrastructure investments on economic growth, especially when they are directed toward higher productivity sectors (with superior economic and social profitability). However, an important condition to achieving this goal is to force all public investment to progress through a system that ensures certain quality controls, both with regard to its technical effectiveness and economic efficiency and fiscal sustainability.

50. A modernized PIMS will be developed in Iraq as a comprehensive set of concepts, techniques, standards, and methodological procedures, and as a uniform information and document depository and management system for the formulation, preparation, and evaluation of projects. Following the PIMS assessment for Iraq, the activities are being adopted by the MoP and the MoF to improve the current public investment procedures and to gradually install a complete PIMS in the country (see Figure 2.1)¹¹

¹¹ Refer to PIM Decree of October 18, 2015 related to the PIM framework.

Figure 2.1. Public Investment Management Framework for Iraq



51. Regulations and rules for project implementation will be developed in line with the Iraqi PIM Framework decree, and the MoP Central PIM Unit will be strengthened accordingly. The correlated activities are proposed in a calendar for short-term and medium-term PIMS implementation, to be supported by the project.

MoP capacity needs assessment

52. As Iraq strengthens its public administration, a key priority is improving proficiency in PIM and related areas that, in their current state, are seriously undermining the ability of the Federal Government to deliver key services. When it comes to understanding existing vulnerabilities in the functioning of the Federal MoP regarding PIM activities, it is essential to move away from the traditional focus on ‘capacity’ to a new analytical focus on ‘capabilities.’ Capacity and capability are clearly distinguishable: the former refers to the volume or scope of MoF inputs of an appropriate quality (determined, for example, by the IT or human resource base), while the latter is about converting that volume into performance.

53. In addressing this challenge, the Federal MoP faces the challenge of training staff to meet the current urgent needs of both itself and other GoI institutions for PIM and developing its capacity to serve as the key Government PIMS training and technical institution. To address both

the current urgent need and the long-term requirement for planning and development, the MoP needs a CNA.

PIM capacity building at basic, intermediate, and advanced levels

54. The implementation of a fully functioning PIMS will require skilled staff and training of existing civil servants. In such a context, the complete administration of a larger system involves greater and more sophisticated human resources and to do this, capacity development and training is a crucial part of the challenge. This process will start in the short term and be continued in the medium and long terms through different and more advanced levels of training. It is unlikely that these changes can happen simultaneously across all line ministries and governorates, and as such, the initial roll out will focus on a handful of entities at the federal and governorate levels.

PIM methodologies and guidelines

55. This action involves strengthening strategic planning across the Government and especially, in those sectors responsible for large infrastructure projects. To do this, a variety of project appraisal methodologies will be updated and improved, including instructions, guidelines, methodologies, and templates prioritizing those sectors and types of project that have the highest budgetary impact. In this context, the Federal Government will need to insist on the use and compliance of project appraisal guidelines by all parties, including Government agencies, consultants, and donor agencies.

56. Building a framework for ex post evaluation will also be needed. A PIMS is a big advantage for a country in planning and setting the priorities of public projects. This system also gives an option for senior-level officials to see how projects are performing, through a procedure of monitoring implementation and operation and ex post evaluation that can be done online. To do this with the support of the proposed project, the creation of a specialized unit within the MoP is proposed, which would establish technical and economic standards, procedures, and methodologies to apply in ex post evaluations of all projects that are financed through fiscal funds.

PIM database

57. Perfecting the IDMS, the IBP will contribute to improving and strengthening planning capacity, prioritizing and making informed investment decisions related to the Government's portfolio of projects. The IBP will strengthen the PIMS through a registry of project files for which funding is being applied (annually or multiannually). Also, it will become the only input window of projects into the system and allow the tracking of projects through the entire development life cycle (reflecting the actual updated status of each project). This action is aimed at improving the strategic allocation of resources, helping to solve the weakness in effective integration among budgets.

PIM legal and regulatory framework

58. The PIMS must be overwhelmingly rooted in the federal legal system of Iraq; therefore, amendments to the existing laws will be drafted with a view to adapt them to the challenge of implementing a full-fledged PIMS. Whether good project appraisal is conducted depends critically on avoiding the lobbying of key politicians and officials who might demand that a project be

executed even before it is evaluated, approved, and budgeted. Institutionally robust arrangements for project evaluation and approval, as part of a broader approach to budget formulation and management, are important to help prevent biased interference. The updated legal and regulatory framework will be developed in parallel with the other actions on the roadmap, in recognition that the evolution of the PIMS is organic.

Subcomponent 2.2: Public procurement modernization

59. Public procurement in Iraq is a major component of the national economy, cutting across nearly every sector and area of planning, program management, and budgeting. In 2013, Iraq's budget amounted to nearly US\$130 billion, out of which over 40 percent (or US\$51 billion) was spent through the Iraqi public procurement system.

60. Despite its sizable share in the economy, the capital investment budget is often underspent. Moreover, doing business with the Iraqi Government presents considerable challenges and high fiduciary risks. Issues with corruption and transparency in Iraq, as evidenced by the country's consistently low rankings in international surveys, exacerbate these challenges.

61. Public procurement in Iraq is governed by the Coalition Provisional Authority Order No. 87 of 2004 and the implementing regulations No. 1 for 2008 promulgated by the Council of Ministers (CoM) and prepared by the MoP until 2011. However, the CoM issued a resolution dated May 16, 2011 to abolish the existing procurement framework, namely Coalition Provisional Authority Order No. 87 of 2004. A draft law was developed by an inter-ministerial working force with the assistance of the World Bank and reviewed by the Shura Council (State Council) as an appropriate legal framework for the country. However, there were calls to discard the draft law and instead to prepare a new concise by-laws or regulations. Consequently, and in the absence of a new legal framework, the MoP has issued a set of regulations in 2014 to replace the 2008 regulations.

62. Previous experience with the procurement reform in Iraq has shown the importance of adapting gradual fixes as ways to tackle institutional building. While maintaining a long-term vision is key, demonstrating positive results early on in the institutional building process is also important. The Iraq experience illustrates that the initial pursuit of smaller reforms often has more impact than attempting to fix a whole system at once. Accordingly, the activities that are proposed be covered under the project are the following:

- (a) Implement mandatory use of SBDs in selected pilot agencies. In addition, development of other types of SBDs such as Framework Agreements (FAs) to enhance efficiency gains through speeding up bidding operations.
- (b) Establishment of e-procurement single portal (including establishment, operation, maintenance, capacity development, and so on) to strengthen and promote the principles of transparency, good management, accountability and controls, and prevent fraud and corruption—a measure that could enhance the GoI's efforts to achieve its plans and meet its citizens' expectations for improved services and economic growth. This will also help address the main gaps with respect to data collection and annual reporting by the Public Contracting Directorate at the MoP where the current monitoring function is very limited.

- (c) Sustainable capacity-building and professionalization of the public sector procurement workforce through introducing e-learning courses to be certified by the Public Contracting Directorate at the MoP. The e-learning modules will include courses such as basic procurement, bid opening, and evaluation procedures for different types of procurement.

Subcomponent 2.3: Project management and reform coordination

63. The project will provide the Federal MoP with resources for technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

Component 3: Public Investment Management and Public Procurement at the KRG Level

Subcomponent 3.1: PIMS strengthening

64. The government of KRG is in the process of strengthening its framework for managing public investments to improve the efficiency and the efficacy of capital expenditures and to effectively deliver its Regional Development Plan.¹² Efficiency in capital expenditure has become increasingly important in the face of foreseeable public funding constraints in the KRG. Many arguments for fiscal space are explicitly about the need to boost public investment in physical assets such as public infrastructure and/or in the social sector (that is, health, education, and so on) facilities that contribute to improvements in human capital.

65. The KRG MoP has already developed the KDMS, which provides a mechanism for submitting, reviewing, approving, and/or rejecting project requests submitted by different bodies such as the ministries and governorates online. Despite recent progress in improving the quality of public investment in the KRG, a number of core challenges remain. The ministry recognizes the prevalence of (a) inconsistent and informal planning with line ministries; (b) limited information for project selection and prioritization; and (c) low execution rate.

66. Through the development of an IBP, the KDMS will be strengthened with the aim of facilitating fast, harmonized, and transparent processing of requests, as well as effective coordination of efforts among different stakeholders and efficient tracking and monitoring of all development activities within the KRG and its three governorates. Also, a public investment/PPP decision process to cover project prioritization (based on cost-benefit analysis and expenditure efficiency), financing modalities (for example, on budget or through PPPs), and continuous monitoring of the fiscal affordability of all projects, will be established in the medium-term period.

67. A KRG-specific PIM 2017–21 Action Plan will be implemented in line with five general directions, namely:

- **Functional and efficiency review of the General Directorate of Capital Investment Budget of the KRG MoP.** A Functional and Efficiency Review of the KRG MoP General Directorate of Capital Investment Budget will comprehensively

¹² Regional Development Plan: “Kurdistan Region of Iraq 2020: A Vision for the Future” KRG MoP (September 2013).

assess the efficiency and effectiveness of all aspects of this department's operations, programs, and administration. This review will determine whether the functions and current resourcing level align with the regional government's objectives and ensure that functions are undertaken in the most appropriate way by the organization's best ability.

- **PIM methodologies and guidelines.** This action involves strengthening strategic planning across the regional government, especially in those sectors responsible for large infrastructure projects. To do this, a variety of project appraisal methodologies will be prepared or updated and improved, including instructions, guidelines, methodologies, and templates prioritizing those sectors and types of projects that have the highest budgetary impact. In this context, the regional government will need to insist on the use and compliance of project appraisal guidelines by all parties, including government agencies, consultants, and donor agencies.
- **PIM database.** Perfecting the KDMS, the IBP will contribute to improving and strengthening planning capacity, prioritizing and making informed investment decisions related to the Government's portfolio of projects. The IBP will also strengthen the PIMS through a registry of project files for which funding is being applied (annually or multiannually).
- **PIM CD.** The implementation of a fully functioning PIMS at the regional level will require skilled staff and training of existing civil servants. In such a context, the complete administration of a larger system involves greater and more sophisticated human resources. Capacity development and training are a crucial part of this challenge. This process will start in the short term and be continued in the medium and long terms through different and more advanced levels of training.

Subcomponent 3.2: Public procurement modernization

68. In line with the KRG 2020 Vision of "Effective, Transparent, Trusted and Honest Government," in March 2013, the MoP launched a self-assessment of public procurement, followed by extensive stakeholder consultations. The self-assessment, conducted by the Inter-Ministerial Committee with the support of the World Bank, confirmed existence of major weaknesses. To address those weaknesses, a clear need for modernizing the public procurement system was identified and the Government adopted a multifaceted reform program. This project will continue the progress made with World Bank support under a Reimbursable Advisory Services agreement through the following activities:

- (a) Proper implementation of the newly enacted procurement regulations that includes strengthening the policy unit functions and resources; preparation for the establishment of the complaint mechanism system; and continuous delivery training to all implementing agencies
- (b) Implementation and issuance of the SBDs and development of FAs to enhance efficiency gains through speeding up bidding operations in line with the newly enacted regulations

- (c) Establishment of the e-procurement single portal for the KRG (including establishment, operation, maintenance, capacity development, and so on) to strengthen and promote the principles of transparency, good management, accountability, and access to information and controls
- (d) Capacity development and professionalization of the procurement workforce through introducing e-learning courses to be certified by the KRG MoP. The e-learning modules will include courses such as basic procurement, bid opening, and evaluation procedures for different types of procurement. This will also include enhancing the capacity of the private sector to do business with the Government under the newly enacted regulations through workshops, seminars, and issuance of the guiding toolkit.

Subcomponent 3.3: Project management and reform coordination

69. The project will provide the KRG MoP with resources for the technical leadership and management of the overall reform program and will ensure that specific project objectives are met on time, on budget, and with high quality results.

Table 2.1. Matrix of Sequencing of Activities and Results Chain

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
Component 1: Public Financial Management				
1.1 - IFMIS design and initial implementation	<ul style="list-style-type: none"> • Final draft of the new General Financial Management Law of 2016 is under review at the State Council (Shura Council) • Improved budget preparation with detailed policy focus during budget strategy discussions, an MTEF developed and operational, and budget formulation and execution based on economic and economic classification using the GFS standards • New Accounting Manual describing the accounting framework • Development of a new BC 	2016		
		<ul style="list-style-type: none"> • Prepare IFMIS RFP 	International RFP documents conforming to World Bank International Competitive Bidding (ICB) guidelines	Improved GoI/MoF experience to undertake large/complex ICT international procurement in an effective and transparent manner in line with World Bank ICB guidelines
		2017		
		<ul style="list-style-type: none"> • Publish RFP and communicate with bidders • Evaluate vendor bid • Select highest ranked bidder • The MoF to award IFMIS contract • Procure and set up IFMIS offshore development facility • Train the MoF development team • Develop/configure 2 (initial and improved) IFMIS prototypes with MoF participation 	<ul style="list-style-type: none"> • Vendor bids evaluation • GoI selection of first bidder • IFMIS contract signing • IFMIS offshore development facility procurement and setup • 3 to 4 weeks training to the MoF IFMIS development/management teams • Two (initial and improved) IFMIS software solution prototypes 	<ul style="list-style-type: none"> • Improved vendors' confidence in GoI's international procurement practice • Extensive knowledge transfer to around 20 MoF assigned IFMIS development staff, including MoF future trainers
2018				

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
	<ul style="list-style-type: none"> • Development of a new CoA with separate fragments for administrative, economic, type, functional, and geographical • General information on the federal budget of 2015 is published on the MoF website • Preparation of a roadmap for IFMIS development and pilot implementation in 4 ministries and 2 governorates (2016–20) through conducting a SRS and preparing a RFP 	<ul style="list-style-type: none"> • Finalize and agree IFMIS software solution prototype • Prepare IFMIS test plan • Undertake final IFMIS UAT 	<ul style="list-style-type: none"> • Development of new BC and CoA • Development of new custom reports and functionality, as required • Final IFMIS solution prototype ready • IFMIS comprehensive test plan developed • Start of IFMIS final UAT 	<ul style="list-style-type: none"> • The MoF's adoption of International Public Sector Accounting Standards and GFS 2014 • The MoF's transition into improved BC and CoA • The MoF's adoption of IFMIS solution best practices in budgeting and reporting • Trained MoF IFMIS end users on IFMIS and best practices • The MoF trainers have acquired sufficient knowledge to assist the vendor's team in the IFMIS rollout to pilots
		<p>2019</p> <p>Complete IFMIS rollout to the MoF and MoP</p>	<p>Complete of IFMIS rollout to the MoF and MoP</p>	<ul style="list-style-type: none"> • Transition into IFMIS solution and best practices by the MoF and the MoP • Trained IFMIS end users at the MoF and the MoP on IFMIS solution and best practices employed in budgeting and reporting, based on each one's role and job needs
			<p>2020</p> <p>Complete IFMIS rollout to MoI and MoCHGM and to Baghdad and Babil governorates</p>	<p>Completion of IFMIS rollout to MoI and MoCHGM and to Baghdad and Babil Governorates</p>

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
				governorates on final IFMIS solution and best practices employed in budgeting and reporting <ul style="list-style-type: none"> • GoI demonstrated readiness to rollout IFMIS nationwide • Higher donors' confidence in GoI's management of public financials • Wider TSA use for revenues and payments • Multiyear budgeting, Medium-term Fiscal Framework and MTEF use • Higher commitment and expenditure control • The MoF trainers have sufficient knowledge and hands-on experience to continue IFMIS nationwide rollout on their own (with little or no help from vendor) • Iraq's score on the Open Budget Index increases significantly during the next rounds as from 2019
1.2 - PFM capacity development	<ul style="list-style-type: none"> • Iraq MoF: 5-year CD Plan (Coffey International Development - 2012) • CNA of the Federal MoF currently conducted and to be completed by December 2016 	2016	The MoF PFM Staff Development Plan for the period 2017–21 developed based on the recommendations of the CNA, including on CM	PFM CNA conducted at federal level to prepare a four-year training plan in line with the identified priorities of the current PFM reform
		The MoF CNA completed with appropriate training recommendations at both federal and governorate levels (pilot governorates of Baghdad and Babil)		

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes	
		Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Selected federal ministries and governorates departments trained on PFM international best practices in line with the scope of the current PFM reform and a focus on IFMIS operational implementation	
		2018			
		Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016
		2019			
		Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016
		2020			
Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016	Refer to the MoF PFM Staff Development Plan to be completed by December 2016		

1.3 - Internal audit modernization at the Federal Ministry of Finance	Technical Assistance and Capacity Building Fund Program on "Improving Governance through Strengthened Financial Management" completed in 2014	2017		
		Conducting a risk assessment that aims to optimize the direction of audit resources to areas of higher risks through a comprehensive understanding of the audit universe and the risks associated within the ministry	Implementation of the risk assessment process as follows: (a) planning of risk assessment; (b) understanding of the MoF's business; (c) general understanding of the MoF's major processes; and (d) identification and assessment of the MoF's significant risks	
2018				

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
		Conducting a risk assessment that aims to optimize the direction of audit resources to areas of higher risks through a comprehensive understanding of the audit universe and the risks associated within the ministry	<ul style="list-style-type: none"> • Preparation of the Risk Assessment Report • Preparation of a 3-year Audit Plan for the MoF based on risks • Pilot audit execution of two major processes at the MoF 	Internal auditors will focus more on risks to the objectives of the MoF rather than on risks to objective at the process or department level

1.4 - PFM systems at the subnational level	<ul style="list-style-type: none"> • Technical note on the "Review of International Practices and Best Principles in the Design of Capital Transfers" (June 2014) • 3rd Amendment (2015) of Law No. 21 of 2008 on "Governorates not incorporated into a Region" • CoM Decree Number 304 of August 4, 2015 requiring 8 ministries to form working committees to complete the transfer of authorities to Governorates by November 5, 2015 and to follow a phased approach of devolution • Study on "Decentralization and Subnational Service 	2016			
		Preparation of PFM action plans in the two pilot governorates of Baghdad and Babil			
		2017	<ul style="list-style-type: none"> • PFM CNA to be conducted in the Finance Department and the Planning Department in the two pilot governorates of Baghdad and Babil • PIM Framework to be prepared and made officially operational in the two pilot governorates of Baghdad and Babil 	<ul style="list-style-type: none"> • CNA reports available • PIM Frameworks made official in the two governorates of Baghdad and Babil • Enhanced budget accountability through improved consultation process 	PFM legal and regulatory framework reviewed and modernized at governorate level in 2017
		2018	Strengthening systems and procedures for planning, budgeting, accounting, controls, reporting, and procurement at the governorate level	<ul style="list-style-type: none"> • Review of systems and procedures completed • Strengthened internal controls and IA 	<ul style="list-style-type: none"> • Improved efficiencies in FM • Enhanced accountability and controls at the Baghdad and Babil governorates
		2019			

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
	Delivery in Iraq: Status and Way Forward” (March 2016)	Appropriate linkages and interfaces to be built with the PFM systems developed at the federal level (IFMIS, PIMS, public procurement, and so on)	<ul style="list-style-type: none"> Improved quality and timeliness of financial reporting Enhanced transparency in public disclosure of budget 	Annual budget plans prepared in a participative manner in the pilot governorates of Baghdad and Babil
		2020 Complete IFMIS rollout in the pilot governorates of Baghdad and Babil	<ul style="list-style-type: none"> Completion of IFMIS rollout in the two pilot governorates of Baghdad and Babil Fully trained IFMIS end users in Baghdad and Babil governorates on final IFMIS solution and best practices employed in budgeting and reporting 	<ul style="list-style-type: none"> Improved budget credibility through reduced budget variances in the pilot governorates of Baghdad and Babil Comprehensive and realistic budgets prepared, executed, and reported in the pilot governorates of Baghdad and Babil
Component 2: Public Investment Management and Public Procurement at the Federal Level				
2.1 - PIMS strengthening	<ul style="list-style-type: none"> PIM Decree No. 445 of October 18, 2015 relating to the adoption of the PIM Framework for Iraq I-PIMS Assessment conducted in 2014 and finalized in 2015 Action Plan to develop an efficient I-PIMS over the period 2016–18 	2016 and 2017 MoP CNA <ul style="list-style-type: none"> The MoP CNA on PIM to be conducted at the federal level and in the two pilot governorates of Baghdad and Babil (Planning Departments) with appropriate training recommendations Process mapping, analysis, simplification, and re-engineering 	<ul style="list-style-type: none"> The MoP PIM Training Plan for the period 2017–21 developed based on the recommendations of the PIM CNA, including on CM A proposal for a new PIMS organizational structure for Iraq 	<ul style="list-style-type: none"> PIM CNA conducted at the federal level and in two pilot governorates to prepare a four-year training plan in line with the identified priorities of the current PFM/PIM reform Adoption of the new PIMS organizational structure in Iraq

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
	<ul style="list-style-type: none"> • Role of key performance indicators in PIM prepared in 2015 • PIM Framework for Iraq prepared and adopted in 2015 • Simplified methodology for economic appraisal of public investment projects in Iraq and its corresponding spreadsheet prepared in 2015 • Simplified manual for public investment project selection and prioritization and its corresponding spreadsheet ("Project Financial and Economic Analysis Template") prepared in 2015 • Iraq - functions of the PIMS Central Unit prepared in 2016 • Iraq - PIM training program at both federal and governorate levels prepared in 2016 	2017 to 2019		
		PIM capacity development <ul style="list-style-type: none"> • Implement training programs at basic, intermediate, and advanced levels in capital investment project design, appraisal, selection, and prioritization • Specific sector project evaluation • Specific methodology training activities 	8 log frame courses; 4 basic-level project appraisal courses; 2 intermediate-level courses; 2 advanced level courses; 7 specific-sector methodologies' courses; and project management training courses	Sufficient knowledgeable staff in the MoP and selected pilot line ministries at federal level and at least in two pilot governorates (Baghdad and Babil) to operate a functioning PIMS in Iraq
		2017 to 2020		
		PIM methodologies and guidelines Develop appropriate methodologies, guidelines, and templates (analytic tools) for public investment projects (appraisal and so on) with the technical support on international and national experts	Methodologies, guidelines, and templates available in major economic and social sectors (at least 4 infrastructure sector and 2 social sector methodologies), national parameters and conversion factor software, and improvement of the relevant regulatory framework Guideline and methodology with templates for project execution, monitoring, and control	<ul style="list-style-type: none"> • The use of methodologies, guidelines, national parameters, and conversion factor software becomes mandatory and quality of investment projects is improved • Sufficient knowledgeable staff in the MoP and pilot line ministries, both at the federal and governorate levels to implement investment projects in Iraq
2018 and 2021				
PIM database (IDMS-IBP-IFMIS) Improve the registration process of all public investment projects by developing an IBP as a module of the existing IDMS database	Upgrade existing IDMS to a fully operational IBP with specific systems to be developed for budget preparation, budget implementation and monitoring, investment projects' evaluation, investment statistics, and IFMIS interface	<ul style="list-style-type: none"> • To have the IT backbone to register, monitor, and control all capital projects during their life cycle in Iraq 		

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
				<ul style="list-style-type: none"> • IBP effectively developed as a module of the existing IDMS database • IFMIS interface operational at the federal level
		2020 to 2021		
		PIM Legal Framework Enhancement of the existing PIM legal and regulatory framework, in collaboration with the World Bank and the IMF-FAD	A proposal for a new PIMS legal and regulatory framework for Iraq	<ul style="list-style-type: none"> • Effective PIMS unified framework implementation in Iraq (Decree No. 445 - October 2015) managed efficiently according to PEFA assessment 2020 • A modernized PIM legal and regulatory framework • A PIMS with stability and guarantee for its long term operation
2.2 – Public Procurement Modernization at Federal Level	<ul style="list-style-type: none"> • SBDs and national implementation manual prepared, piloted, and disseminated • Training strategy developed and Action Plan for working with 	2017 and 2018		
		<ul style="list-style-type: none"> • Mandate the use of SBDs by the implementing agencies • Development of a FA 	<ul style="list-style-type: none"> • 3 implementing agencies use the SBDs for majority of tenders • Issue the FA for pilot agencies 	Acquiring efficiency gains through speeding up bidding operations with minimum unwanted discretion or risk of omission or noncompliance
		2017 to 2019		

Components/ Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
	universities approved by the Government	Sustainable capacity building and professionalization of public sector	Development of e-learning courses on basic procurement and opening and evaluation of tenders	Establishing a sustainable public procurement capacity-building program
		2017 to 2019		
		Establishment of the e-single portal (including establishment, operation, maintenance, CB, and so on)	Publication of procurement and contract award notices for majority of tenders in 3 implementing agencies on the e-portal	Increase transparency and increase public access to information

Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
Component 3: Public Investment Management and Public Procurement at the KRG Level				
3.1 - PIMS strengthening	<ul style="list-style-type: none"> • KDMS database on investment projects fully operational • PIM Framework for the KRG prepared in 2015 • Simplified economic appraisal guidelines for public investment projects and its corresponding Excel spreadsheet prepared in 2015 • Simplified project selection and prioritization criteria guidelines for the public investment portfolio and its corresponding Excel spreadsheet prepared in 2015 • Simplified methodology for the preparation and evaluation of educational infrastructure projects prepared in 2016 • Simplified methodology for economic appraisal of road-transportation projects in the Kurdistan Region of Iraq prepared in 2016 • Simplified methodology for the preparation and evaluation of electricity transmission and distribution projects 	2016 and 2017		
		Functional and efficiency review MoP-General Directorate of Capital Investment Budget Functional review of the KRG MoP's General Directorate of Capital Investment Budget	Revised structure and functions of General Directorate of Capital Investment Budget in light of international best practices	<ul style="list-style-type: none"> • Appropriate General Directorate of Capital Investment Budget structure with responsibility matrix • PIM unified framework for KRG officially adopted by 2017
		2017 and 2018		
		PIM methodologies Develop methodologies, guidelines, templates (analytic tools), and processes for project identification and appraisal	<ul style="list-style-type: none"> • Investment strategy and guidelines for project preparation for 4 infrastructure sectors and 2 social sectors • Toolkits for project appraisal and budget allocations prepared in selected pilot sectors • Methodologies and guidelines for project evaluation in selected pilot sectors 	<ul style="list-style-type: none"> • Effective PIM strengthening in 4 infrastructure sectors and 2 social sectors • Project appraisal and budget processes made more effective in selected pilot sectors • Project evaluation system fully operational in selected pilot sectors
2018 to 2020				
PIM database Improve existing KDMS database in line with the recommendations of the functional review conducted for General Directorate of Capital Investment Budget	Development of an IBP as a module of the KDMS to register, monitor, and control all capital projects during their life cycle in KRG. The IBP will integrate project appraisal functions.	All capital investment projects are listed in the IBP during the four phases of the project life cycle (strategic planning, pre-investment, implementation, and operation and ex post evaluation).		

Subcomponents	Recent Achievements	Main Project's Activities	Planned Project's Outputs	Expected Outcomes
	currently under preparation <ul style="list-style-type: none"> The MoP-KDMS database on investment projects partially completed 	2018 to 2020 PIM CD Organize required general training programs and study tours for staff on all aspects of PIM activities, including PBB, in KRG	Details of the PIM training program will be provided in line with the recommendations of the General Directorate of Capital Investment Budget functional review	Sufficient knowledgeable staff in the KRG MoP and selected line ministries at the KRG level to implement projects efficiently
3.2 – Public Procurement Modernization in KRG	<ul style="list-style-type: none"> The KRG has consolidated and modernized the public procurement legal framework by issuing regulations in February 2016 and to be effective by July 2016 SBDs prepared in-line with the new procurement regulations E-procurement readiness assessment completed and roadmap for implementation of e-portal developed 	2017 and 2018		
		Implementation of the newly enacted procurement regulations	<ul style="list-style-type: none"> Development of complaint review mechanism Issuance of explanatory notes 	Proper implementation of the new procurement regulations
		2017 and 2018		
		<ul style="list-style-type: none"> Issuance and mandatory use of SBDs by the implementing agencies Development of a FA 	<ul style="list-style-type: none"> 3 implementing agencies use the SBDs for a majority of tenders Issue the FA for pilot agencies 	Acquiring efficiency gains through speeding up bidding operations with minimum unwanted discretion or risk of omission or noncompliance
		2017 to 2019		
		Sustainable capacity building and professionalization of public sector	Development of e-learning courses on basic procurement and opening and evaluation of tenders	Establishing a sustainable public procurement capacity-building program
		2017 to 2019		
Establishment of the e-single portal (including establishment, operation, maintenance, CB, and so on)	Publication of procurement and contract award notices for majority of tenders in 3 implementing agencies on the e-portal	Increase transparency and public access to information		

IFMIS Datasheet and Timeline

Roadmap to IFMIS procurement, development, and rollout

Objective of IFMIS procurement

A turnkey fixed-price procurement for an IFMIS solution, derived from standard COTS software package solution for the public sector, including all required software, hardware, network connectivity, and related consultancy and training services.

Scope of IFMIS procurement

- A. A turnkey IFMIS solution supporting
 - present and future national requirements for Iraq’s public sector;
 - full life cycle of budget management, budget execution, and relevant budgetary and financial reporting.
- B. Set up an offshore IFMIS solution development platform, with all the required servers, software, LAN, Internet, training and meeting facilities, and up to 70 COTS licenses for the MoF and the vendor development teams, at a regional location agreed by the GoI
- C. Up to 500 additional IFMIS licenses and the required hardware, software, connectivity, and so on to be installed at the MoF data center and the DRC, and deployment and rollout of the final accepted IFMIS solution to four pilot ministries and two governorates
- D. Up to 570 laptops and/or desktops for IFMIS pilot site end users, including the MoF development and IT technical teams
- E. Last-mile connectivity, through Iraq’s Ministry of Communications to connect
 - all end user office buildings and the government secure central network backbone and
 - the MoF data center in Baghdad and the remote DRC.
- F. Redesign, refurbish, equip, and carry out all necessary civil work for data center and for the DRC, with the aim to bring them to at least tier 2 or higher
- G. Improve the MoF service desk and call center solutions
- H. Undertake in-building cabling from access switches to end user desks for all pilot sites
- I. Service-level agreement for up to three years for furnished goods, from the date of the successful completion of UAT

IFMIS project phases

Project duration, including procurement, around five years (to November 30, 2021)

IFMIS procurement: To be completed around end August 2017, followed by these phases:

- *Phase 1:* IFMIS solution development and testing extending for around six months, partially at an offshore development facility until late 2018 (Phase 2 from October 2017 to November 2019)
- *Phase 2:* IFMIS rollout to four ministries and two governorates for around 18 months, from MoF final IFMIS solution acceptance (from December 2019 to May 2021)
- *Phase 3:* (Not part of this IFMIS procurement) IFMIS rollout to additional line ministries and spending units, with or without additional vendor involvement, starting from mid-2021 onward

COTS to IFMIS transition

The IFMIS solution shall be derived from the standard COTS through

- an iterative configuration and prototyping process;
- the building of the required IFMIS external interfaces; and
- the development of minimum custom applications and reports, where needed, to meet the agreed final IFMIS solution requirements.

IFMIS objective and key features

IFMIS aims to modernize and streamline Iraq's PFM business processes, render them more efficient and transparent and introduce best practices to Iraq's budget preparation, budget execution cycles, and reporting.

IFMIS key features include the following:

- IFMIS turnkey solution for Iraq's public sector
- COTS solution
- Arabic/English language interface
- Public-sector best practices
- International accounting standards
- Operational and capital budget support
- GFS 2014 compatibility
- Multiyear expenditures support
- Multi-currency support

- Web-based/web-enablement

Scope

Budgeting

- Budget planning
- Budget preparation
- Interdepartmental budget transfers
- Budget revision/supplement

Budget execution

- Budget authority management
- General ledger accounting
- Expenditures and commitment control
- Payments management
- Debt interfacing management
- Revenues and receipts management
- Cash management
- Fixed assets

Financial reporting

- Standard reporting (financial and budgetary)
- Up to 30 custom reports

Additional software to be added to IFMIS procurement scope

- Enterprise architecture and enterprise service bus (for example, SOA)
- Identity and access management (for example, EMC¹³)
- Clustering and virtualization (for example, VmWare¹⁴)

¹³ Software company.

¹⁴ Software company.

- Business intelligence (for example, Qlik¹⁵)
- Workflow engine
- Rules engine
- Relational Database Management System (RDBMS)
- Reporting engine (for example, Qlik)
- Functional and performance (load/stress) testing
- Distance learning (based on open source)

Interfaces

- CBI
- Payroll of government agencies
- Human resources of government agencies
- Pension systems, including Ministry of Labor and Social Affairs payments and contribution registers for social security data and MoF Board of Pensions administration systems
- Banks (where public-sector institutions' accounts are held to reconcile payments and collections)
- Public registers of physical and legal taxpayers
- Revenue management systems for tax, customs, petrol revenue, other non-tax revenues, fees, and receipts
- Grant management system
- Trade subsidiary budget system for low-income assistance
- External debt management (DMFAS)
- Asset management systems
- Internal debt management (domestic debt and Global Scale Ratings s for bond auctions - government auction system in the CBI)
- PIMS/Iraq development management system (PIMS-IDMS)

¹⁵ Software company.

- GoI procurement portal and systems
- FBSA
- Cash receipts system - utilized by the MoF Cash Accounts Unit

Pilot sites

- MoF (MoF headquarters [HQ], General Commission of Taxes)
- MoP (MoP PIM Directorate, Sectors Planning Directorate)
- MoI: HQ and police HQ
- MoCHGM: HQ and Roads and Bridges Department, National Center for Engineering Consultancies (NCEC)
- Baghdad Governorate and Baghdad Treasury
- Babil Governorate and Babil Treasury

Development approach

- Initial MoF training in all COTS modules and business process workflows
- Initial MoF training in required technology
- Full participation of GoI with vendor staff
- Integrated project team approach (functional and technical)
- Iterative prototyping approach
- Advantage taken of existing MoF technology resources (data center, datacom, and so on)
- Initial hardware sizing for pilot sites
- Initial technology environment/procurement for offshore development and prototyping
- Offshore development site with dedicated MoF teams
- Three independent IFMIS infrastructure environments for development, testing, and production
- Hardware full-sizing not before completion and review of the first two rounds of prototyping
- On-the-job training of future trainers

- GoI dedicated team (Super users, dedicated mid-level functional team, technology team)
- Adoption of COTS standard workflows with least minimum or no customization
- Vendor responsibility for the MoF and pilot site deployment
- Nationwide rollout (beyond pilots) by the GoI trainers with vendor support
- Yearly payment of maintenance support
- One year's worth of budget historical data (current and one-year) at launch
- Order licenses/equipment as needed in line with progress of implementation
- Order hardware in line with prototype progress and sizing
- Technology delivery following development schedule
- Flexible COTS solution to accommodate possible changes
- Requirements freeze (six months after project launch - by August 2017)

Project organization

- Inter-ministerial Project Steering Committee (GoI oversight, budget, schedule, and complex decisions)
- MoF project sponsor (MoF participation and commitment, MoF complex decisions)
- GoI national project director (planning, daily monitoring, coordination, execution control, risk assessment and mitigation, reporting)
- Contractor's project director (project management)
- Vendor functional teams (team leaders and analysts): usually, by workflow or by module, for example, budget planning to approval; procure to pay; revenues to bank reconciliation; period end close to financial reports; cash management to monthly ceiling; accounting to reporting; bank statement to reconciliation; general ledger, cash management, and so on
- MoF functional counterparts: team leaders (super users) and two dedicated medium-level users by workflow or by module
- Contractor's test team (team leader and analysts)
- MoF test team (team leader and test teams by workflow and by IFMIS module)
- Vendor change manager

- MoF change manager
- MoF project documents librarian
- Vendor training manager
- Vendor technology team leader and team
- GoI technology team leader and team
- Contractor and MoF rollout teams

MoF need of additional key staff

- IFMIS IC - immediate
- Budget preparation and PBB short-term IC(s)
- Budget execution IC(s)
- Public sector accounting IC
- Legal consultant
- Local training coordinator
- Local project documentation coordinator
- Local RDBMS consultant (for example, Oracle)
- Local system administrator
- Local developers (two or three)
- Local LAN (Local Area Network)/WAN (Wide Area Network) network specialist
- Local/international security specialist
- Local/international CM consultant

Strategic reform considerations - requirements freeze

- TSA implementation
- Accounting reform initiatives
- PBB reform initiatives
- Legislative reform initiatives
- MoF organization

- CoA
- Fiscal decentralization initiatives

Change management and business process improvement

- Business process improvement
- COTS process alignment
- Re-organization
- Training and re-skilling
- Communications

Implementation and rollout

- Vendor’s responsibility for development, implementation, and rollout to Phase I—Pilot sites—on turnkey and fixed-price basis. Additional rollout phases to be contracted after UAT at pre-determined prices.
- GoI participation and commitment to development, implementation, and rollout.
- Winner to contract Ministry of Communications to provide last mile connectivity to the access switches for each end user office building—separate local contract for indoor cabling from access switches to end user desks.
- Separate contracts for data center and the DRC.

Technology procurement features

- Up to US\$120,000 initial procurement for the prototype development and testing environments—vendor to provide quick sizing and technical specifications.
- Vendor shall carry out full system sizing of the required hardware, software, LAN/WAN, Internet bandwidth, and so on to meet required performance and response time for pilot sites and for the entire nationwide IFMIS rollout.
- Vendor to provide all COTS licenses and associated database management systems (DBMS) and any related standard and custom software, hardware, LAN/WAN, Internet, connectivity to the government secure backbone, hardware/software/LAN accessories, and so on, as needed and required for the proper operation and expected performance and response time of IFMIS implementation in the pilot sites and for the rollout to nationwide sites throughout Iraq.
- Vendor shall commit to the same discount, price and fee ceilings for the nationwide system rollout as offered for the pilot sites.

- Three-year technical support to be paid in advance for the procured hardware, software, and LAN/WAN, and any required licenses.
- WAN last mile ICT equipment and related services including installation, training, and maintenance will be the responsibility of the selected vendor—to contract with the Ministry of Communications.

Action plan

- Complete IFMIS bidding documents in line with new IFMIS procurement scope (for example, data center, DRC, new software, laptops/desktops, in-building cabling, data center/DRC civil work)
- MoF to publish general procurement notice
- Update IFMIS procurement, development, and rollout schedules
- Prepare the additionally required MoF input
- Prepare new requirements and specifications and additional details
- Incorporate new input into the IFMIS bidding documents
- Final review of IFMIS bidding documents
- Obtain World Bank ‘No Objection’
- MoF or World Bank to hire IFMIS ICF
- Publish IFMIS procurement notice and IFMIS bidding documents

IFMIS project indicative work plans

A. IFMIS Procurement Indicative Work Plan

	Estimate Date
Draft new requirements for DC, DRC, DW, BI, indoor cabling, LAN, WAN connectivity, Non-COTS software specifications, security, and so on	12/02/2016
Finalize requirements and bidding documents with MoF and World Bank	12/09/2016
Contract with an IFMIS Implementation Capacity Consultant (to assist MoF during bidding, evaluation, Vendor demo and selection, and so on)	12/15/2016
Obtain World Bank ‘No Objection’	12/20/2016
IFMIS bidding documents published	01/04/2017
Pre-bid meeting	02/01/2017
IFMIS BD amendment	02/16/2017
Bid submission date	03/31/2017
Bid evaluation completion	07/07/2017
Demonstration of first bidder	08/04/2017
World Bank ‘No Objection’ of bidder selection	09/01/2017
Contract award and finalization	09/22/2017
Contract signature	10/13/2017

Note: BI = Business Intelligence; DC = Data Center; DW = Data Warehouse.

B. Phase 1 - IFMIS Solution Development from COTS Work Plan

	Estimated Date
Contract International IFMIS Implementation Consulting Firm. From 10/2017 to 5/2021 (to assist in IFMIS implementation/rollout)	09/16/2017
Project launch	10/31/2017
Install COTS solution. initial start of 3 to 4 week COTS training	11/21/2017
Project plan submission	11/18/2017
Procure/install prototyping equipment for 70 COTS licenses finish date	12/31/2017
Prepare requirements document. Configure COTS solution.	01/08/2018
1st prototype and adjustment	Up to 8 weeks
2nd prototype and adjustment	Up to 9 weeks
Requirements freeze (milestone after task 8)	
Customization and extensions	Up to 9 weeks
3rd prototype with data/system interfaces	Up to 9 weeks
Test plan, unit test, data conversion, final adjustment	Up to 11 weeks
Full sizing. order, install, and test rollout equipment	Up to 16 weeks
Final UAT	Up to 19 weeks
Pilot solution accepted and ready to roll out to MoF (milestone after task 12)	
Sub-total IFMIS development/testing, MoF acceptance: around 26 months	

C. Phase 2 - IFMIS Deployment/Rollout Indicative Work Plan

	Estimate Time
MoF (HQ + General Commission of Taxes) deployment/rollout	Up to 18 weeks
MoP (HQ+ PIM Director+ Sectors Planning Director) parallel deploy/rollout	Up to 14 weeks
MoI (HQ + Police HQ) rollout (in parallel)	Up to 14 weeks
MoCHGM (HQ + Roads and Bridges Department, National Center for Engineering Consultancies)	Up to 18 weeks
Bagdad and Babel Governorates + Treasuries rollout (in parallel)	Up to 10 weeks
Bagdad and Babel Governorates + Treasuries rollout (in parallel)	Up to 10 weeks
IFMIS roll out to pilot sites completion	
Sub-total IFMIS rollout: around 16 months	

D. Brief IFMIS Indicative Timeline Estimates

Bidding documents for new requirements and final scope	08/15/2016 - 12/09/2016
Bidding, evaluation, selection, demo, contract signature	01/04/2017 - 10/13/2017
IFMIS solution development and readiness	10/31/2017 - 11/31/2019
IFMIS deployment/rollout at MoF and pilot sites	12/01/2019 - 05/31/2021
Total IFMIS contract term estimate = 44 months (excluding procurement)	

E. Required Technical Assistance

IFMIS bidding and bid evaluation consultant (individual/firm)	12/15/2016 - 10/31/2017
IFMIS implementation/rollout consultant (individual/firm)	11/01/2017 - 05/31/2021

Annex 3: Implementation Arrangements

REPUBLIC OF IRAQ: Modernization of Public Financial Management Systems Project

1. **Project timeline.** The implementation period of the Modernization of PFM Systems Project is about five years between December 2016 and November 2021.

Project Institutional and Implementation Arrangements

2. Institutional and implementation arrangements are designed to ensure maximum ownership of the project by the GoI and KRG, while maintaining an appropriate balance between rapid delivery and effective execution of the project. The Federal MoF, Federal Ministry of Planning, and KRG Ministry of Planning will serve as implementing agencies and will liaise with concerned sectoral ministries, pilot governorates, and other relevant implementation partners. Three PMTs will serve as units for implementation and coordination and operate under the oversight of the Steering Committee that will provide high-level direction and signal political commitment. Four ministries and two pilot governorates will support project implementation as follows:

- (a) Steering Committee - for strategic guidance to government and ensure effective coordination across federal and KRG governments
- (b) PMT within Federal MoF - for overall coordination and implementation of the following components of the project:
 - (i) IFMIS design and initial implementation (HQ and General Commission of Taxes)
 - (ii) PFM/IFMIS CD
 - (iii) IA Modernization at the MoF
 - (iv) PFM systems at the subnational level
- (c) PMT within Federal MoP - for overall coordination and implementation of the following components of the project:
 - (i) PIMS modernization at the federal level
 - (ii) Public procurement modernization at the federal level
- (d) (d) PMT within KRG MoP - for overall coordination and implementation of the following components of the project:
 - (i) PIMS modernization at KRG level
 - (ii) Public procurement modernization at KRG level
- (e) MoI - for effective IFMIS pilot implementation (HQ and Police HQ)

- (f) MoCHGM - for effective IFMIS pilot implementation (HQ, Roads and Bridges Department, and National Center for Engineering Consultancies)
- (g) Governorate of Baghdad - for effective IFMIS pilot implementation (MoF Department) and PFM systems at the subnational level
- (h) Governorate of Babil - for effective IFMIS pilot implementation (MoF Department) and PFM systems at the subnational level.

3. To ensure that the proposed project continues to receive priority Government attention and has requisite support and oversight, the Steering Committee will be established by loan effectiveness, chaired by the Deputy Minister of Finance and composed of representatives from the various ministries and governorates being supported under the project. It will be responsible to ensure that the PDOs are achieved and will take key decisions to ensure smooth implementation of the project. The committee will be supported by a secretary and by the PMTs on relevant operational and technical matters. The committee will report implementation progress to the chair and will meet at least four times a year (at the end of every quarter) to guide and maintain the progress of the project and make high-level decisions that facilitate project performance.

4. The PMTs are to be staffed with qualified and experienced specialists to oversee the implementation of their relevant activities in accordance with World Bank guidelines and procedures, including FM and procurement specialists, as well as to perform the required technical functions and to serve as the focal points for communication with the World Bank, contractors, and consultants. The PMTs will be responsible for preparing TOR and contracting specialized consulting supervision and technical assistance consulting firms financed under the IBRD loan, to provide them with support, guidance, and training during project implementation, as well as to supervise contractors' and suppliers' compliance with all their contractual obligations, including safeguard requirements.

Financial Management, Disbursements, and Procurement

Financial Management

5. The project will be implemented by the three PMTs (MoF, MoP, and KRG MoP). Each PMT will be responsible for planning and coordinating specific activities, including FM (payment authorization, disbursement, accounting, and reporting), procurement of construction companies, and consulting services (and related contract management), and M&E. qualified financial officers, Accountants, and internal controllers will be provided from the ministries' own staff and will be dedicated fully to the project. The MoF and MoP have experience with World Bank-financed operations, but the KRG MoP does not. The same FM staff who were involved in the implementation of the Emergency PFM Reform Project will be working on this project. The FM team has built good knowledge on the World Bank FM and disbursement procedures during the implementation of the closed project. Due to the lack of experience of FM staff at the KRG MoP with World Bank FM policies and guidelines, the World Bank will provide close support to the FM project team through its staff inside and outside Iraq.

6. **Project FM risk.** Based on the results of the assessment, the overall FM risk is 'High'. The FM risk is assessed as 'High' mainly due to:

- (a) limited capacity at the ministries to meet the project's FM requirements;
- (b) security conditions not allowing regular visits by the World Bank staff;
- (c) overall weaknesses and shortcomings in the control environment;
- (d) limited accounting and reporting systems for providing timely and comprehensive information;
- (e) delays in making payments due to the shortfalls in the Iraqi banking sector.

7. The following measures are identified to mitigate FM-related risks:

- (a) FM function centralized within the PMTs, with FM team consisting of a financial officer, accountant, and an internal controller seconded from the ministry's own staff
- (b) Simplified accounting and reporting arrangements to give timely information on the project financial performance and status; Excel spread sheets will be used to record project financial transactions and generate simplified IUFs
- (c) Financing 100 percent of activities to avoid delays that arise from counterpart financing
- (d) Opening a DA for each PMT with sufficient advance payment
- (e) Hiring an independent external auditor acceptable to the World Bank to provide an independent opinion of the project's financial statements

8. **Budgeting and flow of funds.** The PMTs will maintain a detailed disbursement plan for every quarter. This plan will be developed based on the initial procurement plan or based on the schedule of outputs as defined in the implementation schedule and estimated payments cycles, and revised upon need. It will be used as a monitoring tool to analyze budget variances and manage cash and will feed into the quarterly IUFs. The loan amount is included in the Iraqi Budget Law of 2016. To ensure that funds are readily available for project implementation, three U.S. dollar DAs will be opened for the MoF, MoP, and KRG MoP. The names of authorized signatories and corresponding specimens of their signatures will be submitted to the World Bank before the receipt of the first withdrawal application (WA). Each PMT will be responsible for submitting monthly replenishment applications with appropriate supporting documentation.

9. **Accounting and financial reporting.** The project will follow the cash basis of accounting, and key accounting policies and procedures will be documented in the FM chapter of the POM that is due by loan effectiveness. The ministries use very basic accounting software to capture their daily financial transactions. This locally developed software is not capable of generating the project's quarterly IFRs in accordance with World Bank FM guidance and record commitments. Therefore, manual accounting and Excel spreadsheets will be used to record project financial transactions and generate the quarterly IFRs.

10. Each PMT will be responsible for preparing the following:
- (a) **Quarterly IFRs** and submitting them to the World Bank within 45 days from when the quarter ended. The format of the reports was agreed upon during negotiations. These reports will consist of (i) statement of cash receipts and payments by each category, (ii) ‘the list of all signed contracts per category’ showing contract amounts committed, paid, and unpaid under each contract, and physical progress against financial progress of each contract, (iii) reconciliation statement for the balance of the DAs, and (iv) list of assets (goods and equipment).
 - (b) **Annual Project Financial Statements** that will be audited by an independent external auditor. The audit report will be submitted to the World Bank not later than six months after the end of each fiscal year. The Project Financial Statements include (i) statement of cash receipts and payments by category and accounting policies and explanatory notes, including a footnote disclosure on schedules; (ii) ‘the list of all signed contracts per category’ showing contract amounts committed, paid, and unpaid under each contract, (iii) reconciliation statement for the balance of the DAs, and (iv) list of assets (goods and equipment).
11. **Internal controls.** The project will be implemented through centralized management and disbursement functions within each PMT authority with specific controls and procedures documented in the FM chapter of the POM. Each PMT will follow the instructions related to FM in the FM chapter of the POM that is due by loan effectiveness. The FM chapter of the POM will document the project’s implementation of internal control functions and processes and describe the responsibilities of each PMT staff, which are summarized in terms of authorization and execution processes. The expenditure cycle will specify the following steps: (a) technical approvals for civil work and deliverables by consultants, (b) administrative approval by each PMT director, (c) issuance of payments will be made upon receipt of supportive documentation and written requests signed by authorized officials, and (d) verification by the financial officer of the accuracy and compliance of the payment requests with the Loan Agreement.
12. The bulk of the project’s expenditures will finance the purchase of IFMIS with some consultancy service contracts and incremental operating costs. A list of contracts with detailed information will be maintained by the PMTs and regularly updated. On a monthly basis, each PMT financial officer will reconcile the project account bank statement with the account book balance. Reconciliations will be prepared by each PMT financial officer and verified by the PMT director. All reconciling items (if any) will be listed, explained, and followed up on. Copies of the reconciliation together with the account bank statement will be kept in the project files and attached to the IFRs.
13. **Financial audit.** The project’s financial statements will be audited annually by an independent auditor acceptable to the World Bank, in accordance with internationally accepted auditing standards and TOR cleared by the World Bank. The Federal MoF and KRG MoP will each be responsible for preparing the TORs for the auditors and will submit them to the World Bank for clearance. The Federal MoF audit scope will cover the activities of the Federal MoF and MoP in Baghdad, while the KRG MoP audit will cover its own activities. The audit report will be sent to the World Bank no later than six months following the end of the project’s fiscal year. The

report shall include an opinion on the project’s financial statement. The auditor will also be requested to provide an opinion on the project’s effectiveness of internal control system. Finally, a management letter identifying any deficiencies in the control system the auditor finds pertinent shall accompany the audit report including recommendations for their improvement.

Disbursements

14. **DAs.** To ensure that funds are readily available for project implementation, DAs will be opened for the MoF, MoP, and KRG MoP in U.S. dollars. Authorized signatories, names, and corresponding specimens of signatures for each PMT will be submitted to the World Bank before the receipt of the first WA.

15. The proceeds of the loan will be disbursed in accordance with the World Bank's disbursements guidelines that will be outlined in the Disbursement Letter and in accordance with the World Bank Disbursement Guidelines for Projects. Transaction-based disbursement will be used under this project. Accordingly, requests for payments from the loan will be initiated through the use of WAs for direct payments, reimbursements, and replenishments to the DAs. All WAs will include appropriate supporting documentation including detailed statement of expenditures for reimbursements and replenishments to the DAs. The category of eligible expenditures that may be financed out of the proceeds of the loan and the percentage of expenditures to be financed for eligible expenditures will be spelled out in the Loan Agreement. The bulk of expenditures will finance IFMIS design and initial implementation contract. Therefore, all respective expenditures will be financed through direct payments, irrespective of the payment amount.

16. **E-disbursement.** The World Bank has introduced e-disbursement for all projects in Iraq. Under e-disbursement, all transactions will be conducted and associated supporting documents scanned and transmitted online through the World Bank’s Client Connection system. The use of the e-disbursement functionality will streamline online payment processing to (a) avoid common mistakes in filling out WAs, (b) reduce the time and the cost of sending WAs to the World Bank, and (c) expedite the World Bank processing of disbursement requests.

17. **Statements of Expenditures.** All reimbursement and DA replenishment applications for withdrawal of proceeds from the loan account will be fully documented, while (a) expenditures under contracts with an estimated of US\$500,000 or less for goods; (b) under contracts with an estimated value of US\$200,000 or less for and consulting firms; and (c) under contracts with an estimated value or less of US\$100,000 for individual consultants, incremental operating costs, training, and workshops will be claimed on the basis of Statements of Expenditures. The documentation supporting expenditures will be retained at the PMTs and will be readily accessible for review by external auditors and the World Bank implementation support missions.

Table 3.1. Categories of Eligible Expenditures and Percentage of Expenditures to Be Financed by Loan

Category	Amount of the Loan Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
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(1) Goods, works, non-consulting services, operating costs, training and workshops, and consultants' services under Component 1 of the project	29,700,000	100
(2) Goods, non-consulting services, operating costs, training and workshops, and consultants' services under Component 2 of the project	4,000,000	100
(3) Goods, non-consulting services, operating costs, training and workshops, and consultants' services under Component 3 of the project	4,200,000	100
(4) Unallocated	3,496,250	
(5) Interest rate cap or interest rate collar premium	0	Amount due pursuant to Section 2.08(c) of the Loan Agreement
(6) Front-end fee	103,750	
Total Amount	41,500,000	

18. **Operating costs.** These will include reasonable costs incurred by the PMTs on account of project implementation, including costs for communication; translation and interpretation; printing; advertising; office supplies; banking charges; project-related travel (including per diems, accommodation, and transportation); vehicle rental and fuel; postal fees; and other miscellaneous costs directly associated with project implementation subject to approval by the World Bank, but excluding salaries and allowances of the borrower's civil servants or other regular government staff.

19. **Retroactive financing.** Provision has been made in the Loan Agreement for retroactive financing for eligible expenditures made on or after July 1, 2016 (up to US\$1.0 million)

Procurement

20. Procurement for goods and non-consultancy services related to this project will be carried out in accordance with the World Bank's 'Guidelines: Procurement of Goods, Works and Non-consulting services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised in July 2014. Selection of consultants will be carried out in accordance with the 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised in July 2014, and the provisions stipulated in the Loan Agreement. For each contract to be financed by the loan, the procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the borrower and the World Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. In addition, procurement procedures for National Bidding Documents and sample bidding documents will be available in the Project Operational Manual.

21. Procurement activities to be carried out during the first 18 months from loan effectiveness and the prior review threshold are summarized below.

Goods, works, and non-consulting services

- (a) Procurement method and prior review threshold. Procurement decisions subject to prior review by the World Bank as stated in appendix 1 to the Guidelines for Procurement.

Table 3.2. Procurement Method Thresholds

Procurement Method	Procurement Method Threshold (US\$)
ICB and LIB (Goods)	> 500,000
NCB (Goods)	≤ 500,000
Shopping (Goods)	≤ 100,000
Shopping (Works)	≤ 200,000

Note: LIB = Limited International Bidding; NCB = National Competitive Bidding.

- (b) Prequalification. It was also agreed to plan for post qualification for the design, supply, and installation of the IFMIS.
- (c) Any other special procurement arrangements. Procurement for the first ICB design, supply, and installation packages will be carried out under retroactive financing and advance procurement.
- (d) Summary of the procurement packages planned during the first 18 months after project effectiveness (including those that are subject to retroactive financing and advanced procurement).

Table 3.3. Goods and IFMIS Simplified Procurement Plan

Ref. No.	Description	Estimated Cost (US\$, millions)	Procurement Methods	Review by World Bank (Prior/post)	Invitation to Bid Dates
Federal MoF					
MOF.ICB.01	Design, supply and installation of IFMIS	20	ICB	Prior	January 2017
MOF.SH.01	Office supply	0.1	Shopping several packages	Post	April 2017
Federal MoP					
MOP.SH.01	Office supply	0.1	Shopping several packages	Post	April 2017
KRG MoP					
KRG. MOP.SH.01	Supply of videoconference and services	0.02	Shopping	Post	June 2017
KRG. MOP.SH.021	Office supply	0.1	Shopping several packages	Post	April 2017

Selection of consultants

22. *Prior review threshold.* Selection decisions subject to prior review by the World Bank as stated in appendix 1 to the Guidelines for Selection and Employment of Consultants.

Table 3.4. Prior Review Thresholds

Number	Selection Methods	Prior Review Thresholds
1.	Competitive methods (Firms)	≥ 0.5 million
2.	Single source (Firms)	≥ 0.1 million
3	Individual consultant	≥ 0.1 million

- (a) Short list comprising entirely of national consultants. Short list of consultants for services, estimated to cost less than US\$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
- (b) Any other special selection arrangements. Selection of IFMIS consultant will be carried out under retroactive financing and advance procurement.

Table 3.5. Consultancy Procurement Plan

Ref. No.	Description of Assignment	Estimated Cost (US\$, millions)	Selection Methods	Review by World Bank (Prior/post)	Issue RFP Date
Federal MoF					
MOF. IC. 01	IFMIS officer	0.2	3 CVs	Post	May 2017
MOF.QCBS.01	IFMIS supervision	1.8	QCBS	Prior	July 2017
MOF.QCBS.02	PFM capacity development	3.75	QCBS	Prior	July 2017
MOF. QCBS.03	Modernization of IA	0.7	QCBS	Prior	June 2017
MOF Decentralization. QCBS.04	Strengthening governorates' financial management system and capacity	1.0	QCBS	Prior	October 2017
MOF LCS External auditor	External auditor	0.2	LCS	Prior	September 2017
MOF.IC. procurement	Procurement officer (support)	0.1	IC	Post	January 2017
Federal MoP					
MOP.PIM.QCBS.01	Development of guidelines and methodologies	0.5	QCBS	Prior	June 2017
MOP.PIM.IC.01	Interface between IDMS and IFMIS	0.09	Individual Consultant	Post	April 2018
MOP.PIM.CQS.01	CNAs	0.3	CQS	Post	June 2017
MOP.PIM.QCBS.02	Capacity development for PIM in design, selection, and evaluation of projects	0.5	QCBS	Post	December 2017

MOP.PIM.IC.02	Development of legal frameworks	0.09	Individual	Post	April 2017
MOP.PP.CQS.01	Development of SBDs and conditions of contracts	0.3	CQS	Post	April 2017
MOP.PP.IC.01	Development of e-portal requirements for Federal MoP	0.07	Individual	Post	October 2017
MOP.PP.QCBS.01	Development of e-portal for Federal MoP	0.80	QCBS	Prior	December 2017
MOP.PP.CQS.02	Development of e-learning courses for procurement workforce	0.25	CQS	Prior	November 2017
KRG MoP					
KRG.MOP.PIM.IND.01	Preparation of TORs and supervision	0.05	3CVs	Post	February 2017
KRG.MOP.PIM.QCBS.01	Organization, structuring, and capacity building	0.9	QCBS	Prior	June 2017
KRG.MOP.PIM.QCBS.02	Updating KDMS	0.3	QCBS	Prior	June 2017
KRG.MOP.PIM.QCBS.03	Methodologies and tools	0.4	QCBS	Prior	October 2017
KRG.MOP.PP.IC.01	Support to enforcement of implementation of KRG Public Procurement Regulation No. 2 of 2016	0.3	3CVs several individuals	Post	March 2017
KRG.MOP.PP.IC.02	Development of SBDs and Standard Framework Agreement	0.25	CQS	Prior	June 2017
KRG.MOP.EP.QCBS.01	Establishment of e-portal System for KRG MoP	0.7	QCBS	Prior	September 2017
KRG.MOP.CB.CQS.01	Development of e-learning courses	0.25	CQS	Prior	December 2017
KRG.MOP. External audit	External audit	0.1	LCS	Prior	September 2017

Note: CQS = Selection based on Consultant's Qualifications; CV = Curriculum Vitae; LCS = Least-cost Selection; QCBS = Quality- and Cost-based Selection.

23. Procurement risks:

- (a) capacity constraints of provisional staff to carry out procurement and management of contracts;
- (b) high risk and weak control environment, Iraq's ability to manage public resources is undermined by poor security and capacity constraints. Moreover, Iraq has a poor ranking in Transparency International's Corruption Perception Index;
- (c) weak capacity of local supplying/contracting companies and lack of interest of international contracting companies to participate due to security restrictions;
- (d) lack of experience in procurement planning and expected delays in implementation because of capacity constraints and security conditions in Baghdad;

- (e) KRG MoP lacking experience of working with World Bank-financed operations; and
- (f) lack of proper monitoring mechanisms to track the implementation of programs and projects.

24. Based on the overall assessment of the three implementing agencies and the information available on the procurement environment in Iraq, the overall procurement risk is judged to be 'High'. This rating therefore requires the assignment of dedicated and qualified IFMIS and procurement managers to handle the project at the Federal MoF and procurement functions to be covered under the established PMTs at the Federal MoP and KRG MoP, as well as the provision of formal and on-the-job training to the project team on procurement and project management both before and during project implementation. This on-the-job training was already initiated during project preparation.

25. **Risk mitigating measures.** The following measures, corresponding to the risks identified above, are expected to be implemented: (a) follow World Bank's procurement guidelines and the POM; (b) assign dedicated and qualified IFMIS manager, financial officer, and procurement officer to handle the Federal MoF project component; (c) hire an international implementation consultant (or consulting firm) to support the PMTs in the pre-award stage and supervision of the implementation of IFMIS; (d) assign a dedicated financial officer and a procurement officer to handle the Federal MoP project component; (e) assign a dedicated financial officer and procurement officer to handle the KRG MoP project component; (f) carefully package procurement to encourage qualified consulting firms, including international firms, to participate; (g) introduce flexibility in the bidding documents to encourage international companies to enter into joint ventures with local entities, as well as allow taking extra insurance and factoring in the costs of security; (h) close implementation support by the World Bank; (i) conduct frequent training and on-the-job training of the PMTs on procurement and project management both before and during implementation; (j) establish monitoring and record keeping tools for contracts and activities under implementation and establish adequate record keeping (archiving); and (k) include in the POM a well-described procurement process and also, as part of the annual independent evaluation, an annual procurement audit by an external auditor

Environmental and Social (including safeguards)

26. The project involves institutional strengthening and capacity development related to financial management and is not expected to include activities resulting in environment and social risks and impacts. The project is classified category C.

Monitoring and Evaluation

27. The project's Steering Committee will coordinate interventions among the three relevant institutions implementing the activities (Federal MoF, Federal MoP and KRG MoP). Assisting these three ministries in managing project activities, pilot line ministries, agencies, and governorates directly or indirectly involved in the activities of the proposed project will collect the necessary data for the identified results indicators. Given the importance of PFM reform, the project's Steering Committee will continuously monitor implementation of the components

against agreed plans and timelines and will work closely with the World Bank to address any slippages.

Role of Partners

28. In order to foster greater donor coordination, the main development partners involved in PFM reform (IMF-FAD, DFID, U.S. Treasury, USAID, JICA, EU, and the UNDP) will be informed regularly about the implementation of the project by the Steering Committee.

Annex 4: Implementation Support Plan

REPUBLIC OF IRAQ: Modernization of Public Financial Management Systems Project

1. The Implementation Support Plan focuses on mitigating the risks identified in the Systematic Operations Risk-rating Tool, and aims at making implementation support to the client more flexible and efficient. It also seeks to provide the technical advice necessary to facilitate achievement of the PDO (linked to results/outcomes identified in the result framework), as well as satisfy the World Bank's fiduciary requirements.

2. While the GoI has adequate experience in implementing World Bank-financed projects, the relative complexity of implementing an IFMIS solution, a modernized PIMS, and an efficient public procurement system will require intensive implementation support, especially during the first two years of project implementation. The World Bank staff will be available to provide timely, efficient, and effective implementation support to the clients. Formal implementation support field visits will be carried out at least four times a year. These will be complemented with regular videoconferences to discuss project progress. Detailed inputs by the World Bank are outlined below:

- (a) **Technical, policy, and legal/regulatory inputs** will be required to review bidding documents to ensure fair competition, sound technical specifications, and assessments, and confirm that activities are in line with the Government's development strategies.
- (b) **Fiduciary requirements and inputs.** Training will be provided by the World Bank's financial management and procurement specialists as needed. The World Bank will also help identify capacity-building needs to strengthen FM capacity and improve procurement management efficiency. Financial management and procurement specialists will be based in the region to provide timely support. Procurement implementation support will be extended to: (i) the Federal MoF to hire a procurement officer and leverage the procurement functions at the two other PMTs; (b) provide additional staff and training as needed to the PMTs; (c) review procurement documents and provide timely feedback to the PMTs; (e) provide detailed guidance on the World Bank's Procurement Guidelines to the PMTs; (f) monitor procurement progress against the detailed Procurement Plan. The World Bank's FM specialists will also provide timely and effective support. It will comprise the review of audit reports, financial reports, and advice to on all FM issues. To the extent possible, on-site implementation support missions will be undertaken together with procurement, M&E, and disbursement experts. These experts will also help identify capacity-building needs to strengthen FM capacity. Based on the current risk assessment, which is rated 'High', formal supervision of financial management will be carried out four times a year and may be adjusted as need arises, while procurement supervision will be carried out on a timely basis as required by the client.
- (c) **Operational inputs.** The World Bank will provide day-to-day implementation support on all operational aspects, as well as coordination with the clients. Relevant specialists will be identified as needed.

3. The main focus of support during the implementation of the project:

Table 4.1. Implementation Support

Time	Focus	Skills Needed	Resource Estimate
First 12 months	Finalization of technical specifications/ToRs, procurement arrangements	Procurement, FM, and technical specialists	Lead specialist (1 staff week) FM specialist (1 staff week) Procurement specialist (2 staff weeks)
12–48 months	Procurement, deployment	Procurement, FM, and technical specialists	Lead specialist (3 staff weeks) FM specialist (3 staff weeks) Procurement specialist (6 staff weeks)
Other	—	—	—

Table 4.2. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
FM specialist	4	2	Country office based
Procurement specialist	8	2	Country office based