



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Sep-2019 | Report No: PIDA26929

**BASIC INFORMATION****A. Basic Project Data**

Country Iraq	Project ID P170704	Project Name Strengthening Public Financial Management Oversight and Accountability Institutions in Iraq	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 15-Oct-2019	Estimated Board Date 30-Oct-2019	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Central Statistical Office, KRI Shura Council, Office of the Prime Minister, Federal Ministry of Finance, Federal Ministry of Planning, Federal State Council, Federal Board of Supreme Audit, KRI Commission of Integrity, KRG Ministry of Planning, KRI Parliament, KRI Board of Supreme Audit, Iraqi Council of Representatives, Federal Commission of Integrity, KRI Ministry of Trade, General Secretariat of the Council of Minister	

**Proposed Development Objective(s)**

The project development objective is to strengthen institutions and mechanisms of fiscal accountability and oversight at federal and regional levels.

**Components**

Component 1: Enhancing Fiscal Accountability  
Component 2: Transparency, Integrity and Legal Certainty  
Component 3: Project Management and Implementation Support



The processing of this project is applying the policy requirements exceptions for situations of urgent need of assistance or capacity constraints that are outlined in OP 10.00, paragraph 12.

Yes

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

Total Project Cost	17.63
Total Financing	17.63
of which IBRD/IDA	0.00
Financing Gap	0.00

### DETAILS

#### Non-World Bank Group Financing

Trust Funds	17.63
Strengthening PFM Oversight and Accountability Institutions	17.63

#### Environmental and Social Risk Classification

Moderate

#### Decision

The review did authorize the team to appraise and negotiate

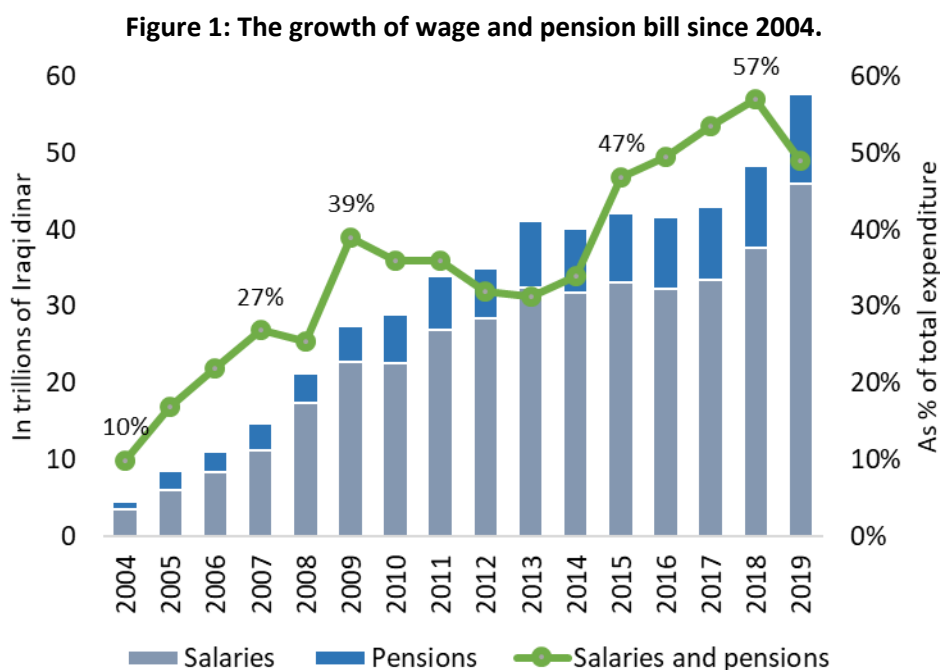
## B. Introduction and Context

1. **Higher oil prices entering 2019, improved security conditions, better rainfall and fiscal loosening have contributed to a noticeable pick-up in economic activity.** However, in the absence of structural reforms and accelerated reconstruction, growth recovery in Iraq may be short-lived especially with an unfavorable outlook for oil prices or geopolitical tensions in the region. The poverty rate was 22.5 percent in 2014 and is likely to have declined since then. Almost 5 percent of Iraqis remain displaced.
2. **Iraq's economy is gradually rebounding, after the contraction in the last two years due including to an expansionary fiscal policy.** GDP grew at 4.8 percent year on year in the first half of 2019, reversing the contraction of 2017-18. Growth can be mainly attributed to a rise in crude oil production (up 6.3 percent) and a rebound in non-oil economic activity (up 5.6 percent in the first half of 2019). The non-oil sector improvement is underpinned by better rainfall, an improvement in electricity production, and an expansionary fiscal policy linked to higher oil prices in 2018 which persisted into the early part of this year. Repeating past patterns of "windfall" spending, higher



oil revenues have resulted in a rising wage bill and public consumption. Overall real GDP growth is estimated to be 4.8 percent at end-2019, with the non-oil economy likely to accelerate over five percent.

3. **The fiscal policy stance is expansionary but the increase of the wage bill and subsidies to lessen social pressures amidst weak private sector job creation crowds out public investment.** Since 2004, the wage and pension bill has increased from 10 to 57 percent of budget expenditure and from 12 to 18 percent of GDP at federal level (See figure below). The recent decision to absorb militias into the security forces and employ large numbers of graduates into ministries and SOEs contributes to increase the wage bill further: as a result, recurrent spending has increased by 28.8 percent in the first half of 2019 (y/y), only partially offset by a 1.1 percent decline in capital spending over the same period. Such a decline reflects serious public investment management constraints. Despite large allocations made to public investments (12.5 percent of GDP in the 2019 budget law), the execution rate of capital expenditure remains below five percent in the first half of 2019. This puts a drag on growth and increases social tensions as reconstruction, notably in Mosul, is further delayed. Furthermore, domestic revenue mobilization remains weak with non-oil revenues representing only 8 percent of total government receipts. Customs exemptions and weak growth in 2018 have led to a 33.5 percent decline in tax receipts, partially offsetting the 6.3 percent rise in oil budgetary revenues. As a result, the fiscal surplus in 2018 is expected to turn into 4.1 percent deficit by end-2019 pushing debt-to-GDP to 51.4 percent.



(Source: IMF)

4. **While updated official poverty data is not yet available, the monetary poverty rate is expected to have declined from 2014 (22.5 percent) due to the recent economic growth and improved security situation.** Several non-income dimensions of welfare have improved, including increases in school enrollment, and expansion of drinking water provision. At the same time, employment conditions have worsened since 2012. The unemployment rate, which was falling before the ISIS crisis, has increased beyond the 2012 level to 9.9 percent in 2017/18. Underemployment is particularly high among internally displaced persons (IDPs), with almost 24 percent of IDPs



unemployed or underemployed (compared to 17 percent for the national average). Also, more than a fifth of the economically active youth do not have a job, and more than a fifth is neither in employment nor in education or training. In conflict afflicted areas, the standard of living is likely below the 2014 level because of disruptions in the labor market and general economic activity.

5. **In the absence of structural reforms and accelerated reconstruction, growth recovery may be short-lived.** Growth is projected at 5.1 percent in 2020 and down to 2.7 percent in 2021. This is mostly due to the oil markets outlook where exports are expected to weaken given lower global demand and the uncertainty of the OPEC+ agreement renewal. Non-oil growth is expected to remain positive on the back of improved security conditions and higher investment to rebuild the country's damaged infrastructure – which is nonetheless likely to remain far short of needs. Higher spending together with lower oil prices will result in a fiscal deficit projected at 3.5 percent of GDP in 2020 and remain in a similar range in 2021. Lower oil prices and increased imports will cause the current account balance to remain into deficit, and international reserves to decline during the forecast period. Volatility in oil prices remains the main risk exposure, reflecting the lack of diversification and budget rigidities linked with irreversible spending measures on the wage bill. These factors reduce Iraq's financial buffers and increase its vulnerability to external shocks. They also threaten to further delay reconstruction and the addressing of legacy development deficits. Creating the adequate fiscal space for growth-enhancing programs in human and physical capital will be key for diversification and job creation.

**Table 1: Macro-fiscal outlook.**

	2016	2017	2018	2019 f	2020 f	2021 f
<b>Real GDP growth, at constant market prices</b>	15.2	-2.5	-0.6	4.8	5.1	2.7
Private Consumption	14.6	-1.2	0.3	1.6	5.2	3.6
Government Consumption	3.7	4.4	15.2	5.5	3.2	1.4
Gross Fixed Capital Investment	-13.2	-13.0	-9.1	23.6	-7.7	-3.0
Exports, Goods and Services	13.2	-0.1	1.4	4.7	5.9	1.7
Imports, Goods and Services	-5.7	-1.7	13.1	18.3	1.4	0.5
<b>Real GDP growth, at constant factor prices</b>	15.3	-2.5	-0.6	4.6	5.3	2.6
Agriculture	-30.9	-16.0	-26.1	5.0	6.6	5.6
Industry	23.5	-3.5	-2.3	4.5	5.6	2.0
Services	1.7	0.9	4.7	4.8	4.6	3.8
<b>Inflation (Consumer Price Index)</b>	0.5	0.1	0.4	0.8	2.0	2.0
<b>Current Account Balance (% of GDP)</b>	-8.3	1.8	6.9	-5.2	-4.2	-4.3
<b>Fiscal Balance (% of GDP)</b>	-13.9	-1.6	7.9	-4.1	-3.5	-3.3
<b>Debt (% of GDP)</b>	64.2	58.9	49.3	51.4	50.5	50.6
<b>Primary Balance (% of GDP)</b>	-13.2	-0.6	9.3	-2.9	-1.8	-1.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.  
Notes: e = estimate, f = forecast.

6. **Iraq remains among the most fragile states fifteen years after regime change in 2003 and has yet to recover from the latest surge of violence.** Iraq has been in a nearly uninterrupted state of war for the past thirty years. Human capital has been steadily eroded as a result of decades of conflict. The sanctions in response to Iraq's invasion of Kuwait in 1991 halted the country's development, obliterating gains in welfare made in the 1970s. Security is only improving slowly since the last wave of violence, the ISIS insurgency, which lasted until 2017, led 5 million people to flee their homes and resulted in damages amounting to 72 percent of Iraq's 2013 GDP and 142 percent of non oil GDP with reconstruction needs in the short term estimated at USD 88 Bn in addition to over USD 65 Bn in the medium term<sup>1</sup>. The social trauma of violence and conflict is considerable: most development indicators have dropped significantly since the 1980s; close to 2 million Iraqis are still internally displaced (in addition to some

<sup>1</sup> World Bank, 2018, Damage and Needs Assessment of Affected Governorates.



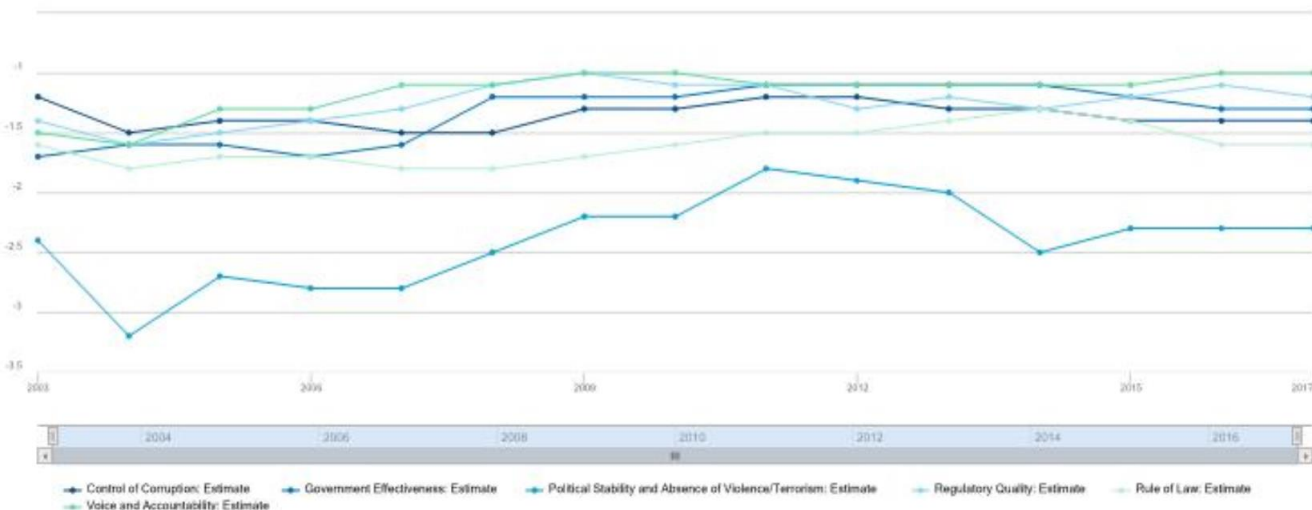
300,000 Syrian refugees), most of them from the provinces of Anbar and Ninawa; close to 7 million are in need of humanitarian assistance.

7. **The political settlement resulting from the 2018 elections represents both an opportunity and a challenge for the successful implementation of the reform agenda of the newly appointed governments at federal and regional levels.** The power sharing agreement between the main competing multiparty coalitions at federal level and the main contending parties in the Kurdistan Region of Iraq (KRI) could ensure political stability and promote security. But it may hamper the implementation of the reform agenda of both the federal and regional governments if it does not allow for institution building and collegial political commitment, intergovernmental coordination and cooperation by the bureaucracy and fosters public trust in the government. Sectarian, ethnic and religious divides have been exacerbated by years of conflicts and violence and party politics. Patronage undermines professionalism in the civil service. Social unrest in the few past years in different parts of the country reflects the need to restore the social contract between the government and the civil society. Corruption is increasingly perceived as endemic and undermines the legitimacy of the political leadership. Despite recent progress in intergovernmental relation, contention about fiscal federalism (including resource control and allocation) continues to hamper economic the effectiveness of both tiers of government in promoting growth and development.

## B. Sectoral and Institutional Context

8. **Overall governance has hardly improved in the past 15 years.** Perceived governance in Iraq, along its six dimensions captured by the World Governance Indicators, remains very badly rated without significant improvement on any dimension. Previous perceived improvements until seven to five years ago on control of corruption, political stability and regulatory quality, have since then faded out. Under Transparency International Corruption Perceptions Index, Iraq is ranked among the worst performers (at the bottom 168 rank among 180 countries). On fiscal transparency, Iraq is also rated among the least fiscally transparent countries, including in the MENA region, with a score of three out of 100 under the Open Budget Index. Iraq is still ranked the 13<sup>th</sup> most fragile state under the Fragility index, which was its rank in 2014. Political sectarianism has remained unabated for the past ten years which reflects on the politicization of institutions.

Figure 2: Iraq rating on governance for the past fifteen years.





(Source: World Governance Indicators, 2019)

9. **Lack of trust in public institutions undermines government legitimacy and sustainable and developmental peace building.** Corruption has become one of citizens' main concerns far before security and about as much as unemployment<sup>2</sup>. An increasing majority of citizens believe that corruption is worsening in Iraq (83 percent in 2019 compared to 88 percent on the eve of ISIS insurgency<sup>3</sup>). Only a small minority believes that the government is effectively fighting corruption and lack of trust in law enforcement agencies dissuade public servants and citizens to report cases of corruption<sup>4</sup>. In the western region and in Kurdistan (i.e. the areas which have been the most affected by the ISIS insurgency), an increasing majority of citizens (over 60 percent) believe that reconstruction programs are failing<sup>5</sup>. Trust in justice, the legislative branch of the government and lower tiers of government is deteriorating. Political alienation fuels social protests and violence.
10. **Significant anti-corruption mechanisms have been established but need be further operationalized and efforts need to be deepened and broadened beyond the prosecution of corrupt individuals.** Iraq has ratified the UN Convention on Anti-Corruption in 2008 and its compliance with its provisions is being assessed under the review mechanism. The latest review recognized the robustness of the anti-corruption legal framework but recommended to strengthen witness/whistleblower protection and to waive the criminal immunity of public officials prosecuted for corruption<sup>6</sup>. An independent Commission of Integrity, tasked with preventing and investigating corruption, has been established in 2004 at federal level and in 2011 in KRI. Both Commissions of Integrity are tasked to enforce asset and financial interest disclosure by public officials, a legal requirement since 2014 both at federal level and KRI: but so far none of the Commissions of Integrity have reached the stage where they can effectively sanction illicit enrichment or conflict of interest; at federal level, about two thirds of senior public officials mandated to declare their assets are complying with this legal obligation. At federal level, since 2008, a higher council on anti-corruption, in which CSO representatives participate, coordinates and oversees accountability institutions (Commission of Integrity, Federal Board of Supreme Audit, Judicial commission, Public prosecutor, Inspectorates). In 2015, the GOI strengthened the anti-money laundering legal and institutional framework and in 2018 it has been removed from the watchlist of "jurisdictions with strategic deficiencies" in their anti-money laundering and counter-financing of terrorism (AML/CFT) regimes by the inter-governmental Financial Action Task Force (FATF). To date, limited attention has been paid to preventing corruption through identifying high risk areas, strengthening internal controls, more effective use of monitoring and oversight, and greater transparency. International evidence suggests that working across the entire range of entry points is essential for sustained success in reducing corruption.
11. **Legal uncertainty including in the enforcement of laws and regulations undermine government accountability to citizens and investors.** Inconsistencies in Iraq's legal and regulatory frameworks create opportunities for public officials in charge of their application to solicit bribes from interested parties to obtain an interpretation in their favor. The absence of a complete inventory of laws and regulations also facilitates abuse of authority. At the same time, this lack of legal certainty and availability of information makes it difficult for citizens and investors to hold public

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<sup>2</sup> According to the Institute for Administration and Civil Society Studies, in 2019, 47 percent of respondents mentioned corruption as their main concerns, 32 percent unemployment and 21 percent security. See Iraqi Public Opinion 16 Years After the Invasion. According to the National Democratic Institute survey, in 2018, 38 percent of respondents mentioned corruption as their main concern, 43 percent unemployment and 21 percent security.

<sup>3</sup> National Democratic Institute, 2019, Improved Social Cohesion, but Iraqis Remain Dissatisfied with Government. National Survey Findings.

<sup>4</sup> UNODC, 2012, Corruption and integrity challenges in the public sector of Iraq. An evidence-based study.

<sup>5</sup> National Democratic Institute, 2018, Iraqis Call on the New Government for Jobs, Services, and Reconstruction. August – October 2018 Survey Findings.

<sup>6</sup> UNCAC Implementation Review Group, 2012, Review of implementation of the United Nations Convention against Corruption in Iraq.



officials accountable, since the underlying rules are not fully known or inconsistent and therefore need skillful interpretation. Establishing complete and official inventories of all laws and regulations helps address this challenge. Cleaning up key parts of the existing stock of laws and regulations as well as ensuring legal consistency of newly adopted laws and regulations will also contribute to legal certainty. The adjudication and management of legal cases by administrative tribunals (which in Iraq adjudicate legal cases involving the state) is also a critical accountability mechanism to correct bureaucratic inequities and arbitrariness. For that purpose, the apex administrative courts, the federal State Council and the KRI Shura Council, need to enhance the efficiency and quality of their business processes. Legal illiteracy also needs to be addressed to enable citizens to challenge illegal, inequitable or arbitrary government decisions.

12. **Established fiscal oversight and accountability institutions and mechanisms are ineffective.** The 2017 PEFA report concludes that “most aspects of the PFM system are functioning at a barely satisfactory level – one that will make it difficult for GOI to attain its fiscal and budgetary objectives”. The report further highlights the following weaknesses in fiscal transparency and accountability including: 1) the lack of financial monitoring of SOEs and of reporting of off budget revenue and expenditure; 2) the lack of centralized payroll management function in the absence of an integrated personnel and payroll information system: “there is no centralized payroll operations or supervisory activity from MOF or any other central authority”; 3) poor financial data integrity and absence of public access to key fiscal information; and 4) weak external audit function<sup>7</sup>. Despite its independence, capacity and broad jurisdiction, the FBSA has not been able to disclose its audit report on budget execution since 2014. In KRI, no budget has been appropriated for the past five years and the office of the auditor general has been too recently established to meet even the most basic INTOSAI principles and standards. Iraq joined the EITI in 2008, which was a significant step for fiscal accountability since oil revenue amount to 96 percent of government revenue, but it has been suspended from EITI since 2017 for “inadequate progress” when assessed against the EITI standards.
13. **Governance reforms and accountability rank high on the agenda of both the GOI and the KRG but its implementation proves challenging.** The GOI is committed to adopting “a modern financial management system to rebuild state legitimacy and to ensure accountability and efficiency in the management of ample public resources” as well as to rationalize and professionalize the public service<sup>8</sup>. The recent enactment of a new Financial Management Law reflects this commitment. The newly appointed KRG recently also released a cabinet agenda mostly focused on governance reforms: fighting “against all forms of financial and administrative corruption, preventing the mismanagement of public wealth [and] government officials from exploiting their official influence or positions for their own gain”; to “establish transparency in all economic fields of the Kurdistan region, especially around management and accounting of oil and internal revenues”; “strictly enforcing the law of the Kurdistan region while supporting its official institutions, primarily through the Supreme Audit Institution and the Commission of Integrity and Public Prosecution”; and “to eliminate unnecessary bureaucracy and improve the services provided to citizens by public institutions” including through e-government<sup>9</sup>. But reforms face significant inertia and resistance from various stakeholders within the government, including due to lack of collegial commitment, interagency and intergovernmental coordination and cooperation within the government machinery.

<sup>7</sup> PFM systems are rated D on most fiscal accountability dimensions such as payroll control, external auditing, financial reporting, including on off budget fiscal operations and fiscal risks as well as revenue operations; performance information for service delivery; monitoring of public corporations.

<sup>8</sup> GOI, 2018, Iraq Vision 2030.

<sup>9</sup> See KRG, [Outlines of New Cabinet Agenda](#).





### C. Proposed Development Objective(s)

14. The project development objective is to strengthen institutions and mechanisms of fiscal accountability and oversight at federal and regional levels.

**Progress toward the PDO will be measured by key result indicators that reflect the overall results areas of the project as follows:**

**Result area one on Fiscal oversight:**

- Enrollment of central government employees in payroll management information systems (percentage of wage bill)
- Public disclosure of comprehensive financial report on non-financial SOEs (annual report)

**Result area two on fiscal accountability:**

- Improved budget transparency (rating by Open Budget Survey)
- Rolling out of E-procurement (percentage in value of tenders and contracts disclosed online)

**Result area three on corruption risk mitigation:**

- Compliance with asset disclosure legal requirements (percentage of submitted asset declaration)

**Two intermediate result indicators (IRI), one on gender-based budgeting and one on public participation to budget process, complement the PDO level indicator on budget transparency.**

### D. Project Description

15. **The project supports the World Bank Group engagement and policy dialogue in Iraq on fiscal and economic governance reforms.** In that regard, it complements the ongoing World Bank project on the Modernization of Public Financial Management Systems. It strengthens fiscal oversight and accountability by federal and regional institutions, it supports integrity in government through asset disclosure by public officials, and in oil and gas revenue collection as well as the use of public funds for reconstruction. By strengthening financial oversight on SOEs and by supporting their reform and restructuring, it will also help improve fiscal risk management.

16. **The project has three components and six sub-components.** The first two components support specific Government reform commitments and benefit lead government institutions/departments acting as the official WBG-EU counterpart for project implementation. Component 3 provides project management and implementation support.

**Component 1: Enhancing Fiscal Accountability.** This component supports specific Government reform commitments to enhance;1) payroll reporting and oversight;2) public procurement;3) fiscal oversight over the budget and non-financial SOEs.

- **Subcomponent 1.1: Strengthening Payroll Reporting and Oversight (Recipient-executed activities).** This subcomponent aims to assist the GoI in creating a prototype Central Payroll Management Information System (CPMIS) in 2017 to institutionalize a robust payroll reporting mechanism for government spending units, providing a centralized source of information for central authorities to track payees and wage expenditures.



- **Sub-component 1.2: Enhancing Efficiency and Accountability in Public Procurement (Recipient-executed activities).** This subcomponent will support the Federal Ministry of Planning in modernizing the public procurement system through technological enablement, as well as by promoting business conduct by public officials and private sector participants in the procurement process. It will support the establishment and pilot of an e-GP operation and coordinate ongoing e-procurement activities of the KRG with those of the Federal MoP.
- **Sub-component 1.3.: Enhancing Fiscal Oversight over the Budget and Non-financial SOEs and the reform and restructuring (Bank-executed activities on behalf of the Recipient).** This subcomponent aims at strengthening mechanisms to ensure oversight and accountability in the use and management of public financial resources in the Federal Government of Iraq and in the regions by strengthening external auditing, legislative oversight and financial oversight of non-financial SOEs. This includes providing support to strengthen the capacity of the supreme audit institutions at the federal level and in the regions.

**Component II: Transparency, Integrity and Legal Certainty.** This component supports specific Government reform commitments to 1) enhance fiscal transparency; 2) mitigate the risk of corruption and 3) improve legal certainty. It consists for three subcomponents.

- **Sub-component II.1: Fiscal Transparency (Recipient-executed activities).** This subcomponent will seek to enhance fiscal reporting and transparency, as well as improve public participation and awareness of the budget process in Iraq.
- **Sub-component II.2.: Mitigating the Risk of Corruption (Bank-executed activities on behalf of the Recipient).** This subcomponent proposes two main objectives 1) to strengthen the existing system of financial interest and asset Declaration by public officials; and 2) to mitigate the risk of corruption in capital investment, including in reconstruction programs funded by the Reconstruction Fund for Areas Affected by Terrorist Operations (REFAATO).
- **Sub-component II.3. Improving Legal Certainty (Bank-executed activities on behalf of the Recipient).** This subcomponent aims to improve legal certainty in Iraq and to strengthen the effectiveness of the Federal State Council and the Kurdish Regional Shura Council both for legal review and advice and as apex administrative courts at regional and federal level.

**Component 3: Project Management and Implementation Support** (Recipient-Executed activities). This component supports project management and its coordination with other PFM reforms. Project coordination and overall management will be vested with the Prime Minister's Office at federal level which will convene implementing and beneficiary agencies in a steering committee. In KRG, it will be vested with MOP under the supervision of the International Reform Coordination Task Force (IRCTF). Both the project coordination unit at federal and KRG levels will also contribute to the coordination of the project with other PFM reform programs. This component will also build their capacity for that broader purpose.

#### Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No



## Summary of Assessment of Environmental and Social Risks and Impacts

17. **The project involves institutional strengthening and capacity development related to economic governance.** It is not expected to include activities resulting in environmental and social risks and impacts. However, the proposed project may involve risks in the following areas: i) the economic reform drive could be undermined by several factors, including the social unrest caused by the low quality and availability of basic public services (such as electricity), and capture by vested interests. Over time, the reforms supported by this project will contribute to institutional strengthening and reduced governance risks. ii) There is a risk that the adjustment and financing needs may be greater than anticipated, especially in case of continuous volatility in global oil prices. Such a situation 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 further exacerbated by the lack of an approved IMF Stand-by Arrangement (SBA), as well as budget support provided by other development partners for the reconstruction of Iraq.

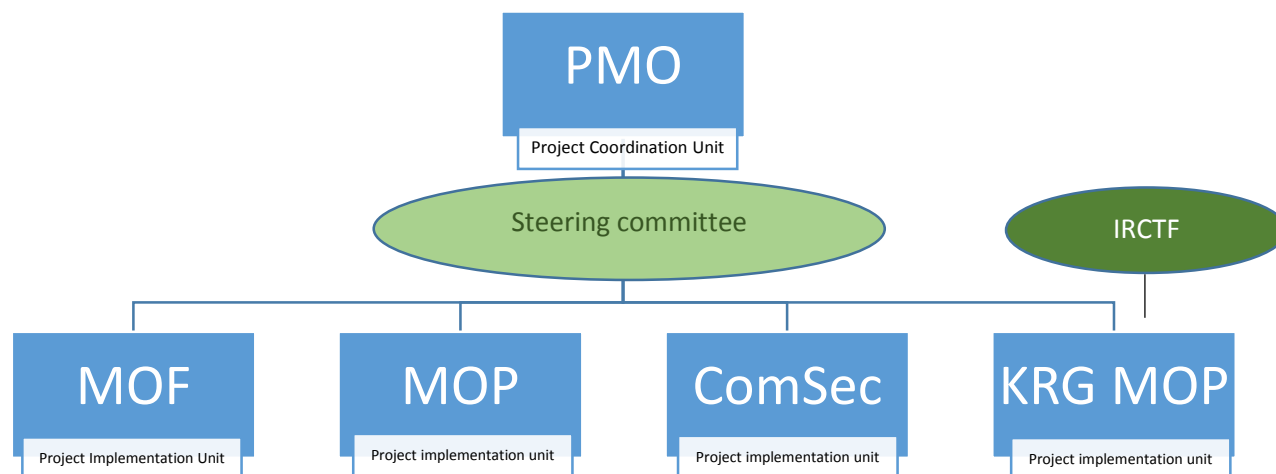
### E. Implementation

#### Institutional and Implementation Arrangements

18. **On request from the client, three sub-components of the project will be bank-executed both at federal level and in the KRI:** sub-component I.3. on fiscal oversight; sub-component II.2. on corruption risk mitigation; and sub-component II.3. on legal certainty and protection. Accordingly, the World Bank will execute activities conducted on behalf of the following beneficiaries: the FBSA and KRI auditor, the Federal and KRI parliaments and commissions of integrity; the State and Shura councils, REFAATO, the EITI secretariat and, part of activities benefitting the federal and KRI ministries of Finance and Planning. Only sub-component I.1 & 2, II.1 & 3 and component 3 which benefit the PMO, ComSec, the federal and KRI MoP and MoF will be recipient executed.
19. **In order to ensure both project coordination and adequate implementation, the PMO is vested with project coordination whereas the implementation of recipient executed activities is devolved to beneficiary agencies.** Accordingly, the project institutional framework consists of a Project Coordination Unit (PCU) anchored within the PMO, and four Project Implementation Units (PIU), including the MoP of the KRG. The PCU will convene a steering committee consisting of the heads (or deputy heads) of implementing and beneficiary agencies, including the KRG MoP which will represent all beneficiary agencies in the KRG. The PCU will report to the private secretary of the Prime Minister or its adviser on delegation. In the KRG, project coordination will be vested with a steering committee (called the IRCTF) consisting of the representatives of the Presidency, the PMO, the office of the Deputy Prime Minister and the Director General for development cooperation and coordination at the ministry of Planning. Whereas the four project implementing units will handle fiduciary transactions (i.e. financial management and procurement), comply with social and environmental safeguards and report on the implementation of the project recipient-executed sub-components and activities, the MoP at KRG level and the PMO at federal level will monitor the implementation of the project as a whole (including bank-executed activities).



**Figure 1: Organogram of the implementation arrangement.**



20. **In order to expedite project implementation and avoid the multiplication of ad hoc structures, the project implementation arrangement mobilizes and strengthens existing capacity.** All project implementing units, to the exception of the one anchored at the Secretariat of the council of ministers (ComSec) at federal level, are the ones already established for the implementation of the Modernization of PFM systems project. The Secretariat of the council of ministers (ComSec) was not among the project implementing agencies and will be equipped with a new PIU to handle sub-component I.1. on payroll management. Existing implementing agencies mobilized for the implementation of the project will be strengthened and capacitated to handle additional activities. The Project Coordination Unit to be established in the PMO at federal level will also be capacitated as required in consultation with the PM chief of staff and head of the PMO administrative unit.
21. **Beyond project coordination, the PCU will help coordinate the project with other PFM and other governance reforms.** A number of donors support related PFM and governance reforms (See section on donor coordination) and their activities need to be coordinated by the GoI. The project is also closely related and complementary to the World Bank modernization of PFM systems project and in some instances building on the achievement of its objectives (including on e-procurement and fiscal transparency).

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