

INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

Report No.: ISDSC14093

Date ISDS Prepared/Updated: 14-Jul-2015

Date ISDS Approved/Disclosed: 13-Apr-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Iraq	Project ID:	P151357
Project Name:	PFM Institutional Development and Capacity Building (P151357)		
Task Team Leader(s):	Emmanuel F. Cuvillier		
Estimated Appraisal Date:	09-May-2016	Estimated Board Date:	18-Jul-2016
Managing Unit:	GGO23	Lending Instrument:	Investment Project Financing
Sector(s):	General public administration sector (100%)		
Theme(s):	Public expenditure, financial management and procurement (50%), Other public sector governance (50%)		
Financing (In USD Million)			
Total Project Cost:	41.40	Total Bank Financing:	41.40
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
International Bank for Reconstruction and Development			41.40
Total			41.40
Environmental Category:	C - Not Required		
Is this a Repeater project?	No		

B. Project Objectives

The proposed project development objective (PDO) is to improve the GoI budget management practices at the federal level and in the KRG. It will pursue this objective by supporting capacity development and foundational systems (IFMIS, PIMS, Public Procurement, and Financial Controls). The project outputs are expected to contribute to better information for fiscal management and strategic allocation of resources, more efficient service delivery, and public finance transparency.

C. Project Description

The Iraqi PFM development framework covers the legal and institutional framework for budgeting and public finance, 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 (MoF and MoP) and line ministries implementing the budget.

Some preparatory PFM work was advanced in 2014 with support by the Iraqi Technical Assistance and Capacity Building Fund (TACBF): i) A system requirement study (SRS) for IFMIS; ii) Open budget training; iii) A framework for public sector internal control and audit; and iv) The PIMS Assessment and its 2016–2018 Action Plan. FY16 Bank KAS activities that will strengthen project readiness include an update of the PFM performance measurement assessment, a MoF capacity assessment, increased alignment of web-based budget publication with open budget principles, technical comments on the PFM legal framework, and improvements to the supreme audit institution (Federal Bureau of Supreme Audit) reporting.

The Federal Government of Iraq and the KRG asked for continuing World Bank support in specific PFM areas in order to lay down strong foundations for a viable PFM modernization project, overseen by their respective ministries of Finance and Planning. During project identification, the government counterparts expressed their desire for a focused project with limited activities and implementing entities, as shown below:

- 1.1 IFMIS design and initial implementation (MoF): US\$19.00 million
- 1.2 PFM/IFMIS capacity development (MoF): US\$ 3.75 million
- 1.3 Internal Control and Audit (MoF): US\$1.00 million
- 1.4 Project management and reform coordination (MoF): US\$1.25 million

- 2.1 PIMS modernization (MoP): US\$2.75 million
- 2.2 Public Procurement modernization (MoP): US\$2.00 million
- 2.3 Project management and reform coordination (MoP): US\$0.25 million

Description of Components

IFMIS Design and Implementation: IFMIS design and implementation is the backbone of this new PFM project and is considered as a top priority initiative by the new federal government. The continuation of PFM reform in Iraq cannot not anymore be envisaged without an IFMIS in place. This system will be the conduit for modernizing budget management business processes that will allow to streamline budget 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.

It is envisaged that Phase 1 of IFMIS introduction would have a duration of 4 years supported by this operation, for procurement, designing, configuring, testing, commissioning, training and implementing in MoF, MoP, three line ministries, and two governorates. In KRG, the IFMIS would be piloted in the MoF and MoP.

PFM/IFMIS Capacity Development: Critical success factors in carrying out such a major change management effort include training, capacity building, and the ensuring of sustainability. It must be understood that the federal government and the KRG will also have to invest political capital to

embark on PFM reform to overcome resistance from vested interests.

Internal Control and Audit: Internal control and audit have to be strengthened for PFM reform to be successful. The fragmentation of the budget preparation and execution process, the absence of a coherent accounting framework, the time needed in issuing annual financial statements, poor investment budget execution rates, lack of a Treasury Single Account (TSA), and weak commitment controls increase the risk that cash and appropriations are not well managed. This leads to pressures including unnecessary formal and informal sequestrations, virements over funding of investment projects, and disbursement delays. Technical interventions in these areas will require complementary efforts to build a reliable internal control and audit system applicable to both public procurement and recurrent expenditure management.

PIMS modernization: Both the federal government and the KRG face the problem of allocating scarce resources towards the satisfaction of infinite needs and with the goal of obtaining the maximum social and economic benefits. Effective project appraisal can support appropriate choices of outputs and designs and reduce the risk of excessive costs of construction and operation. 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.

Public Procurement modernization: There is a broad consensus among stakeholders that federal and regional governments continue to struggle to spend their procurement budgets. Nationally, an average of less than 64 percent of capital expenditures was executed for the years 2010-2013. Problems with procurement and contracting capacity appear to be preventing a large proportion of spending from taking place in an efficient and transparent manner.

Project management and reform coordination: The project will provide both MoF and MoP entities with resources for technical leadership and management of the overall reform program, and to ensure the specific project objectives are met on time, on quality, and on budget.

Areas not covered: In accordance with the focused scope of the project, it will not include support to accountability institutions such as the Bureau of Supreme Audit (BSA) or the legislature's fiscal oversight bodies. The Bank is working with other development partners, such as the EU and UK DFID, to identify opportunities for parallel capacity development support to these institutions.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project Location

Federal level: Baghdad

Regional level: Erbil (Kurdistan Region of Iraq)

E. Borrowers Institutional Capacity for Safeguard Policies

F. Environmental and Social Safeguards Specialists on the Team

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/ BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/ BP 7.60	No	

III. SAFEGUARD PREPARATION PLAN

A. Tentative target date for preparing the PAD Stage ISDS: 31-Aug-2015

**B. Time frame for launching and completing the safeguard-related studies that may be needed.
The specific studies and their timing¹ should be specified in the PAD-stage ISDS:**

No safeguard-related study needed.

IV. APPROVALS

Task Team Leader(s):	Name: Emmanuel F. Cuvillier	
Approved By:		
Safeguards Advisor:	Name: Nina Chee (SA)	Date: 12-Apr-2016
Practice Manager/ Manager:	Name: Hisham Ahmed Waly (PMGR)	Date: 13-Apr-2016

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.