

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA65081

Project Name	PFM Institutional Development and Capacity Building (P151357)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Iraq
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (50%), Other public sector governance (50%)
Lending Instrument	Investment Project Financing
Project ID	P151357
Borrower(s)	Republic of Iraq
Implementing Agency	Federal Ministry of Finance, Federal Ministry of Planning, KRG Ministry of Planning
Environmental Category	C-Not Required
Date PID Prepared/Updated	15-Jun-2016
Date PID Approved/Disclosed	16-Jun-2016
Estimated Date of Appraisal Completion	30-Jun-2016
Estimated Date of Board Approval	19-Sep-2016
Appraisal Review Decision (from Decision Note)	The meeting confirmed overall High risk rating of the project. The project was confirmed as Environmental Category C. The team was asked to refine the PAD and was authorized to proceed with project appraisal and negotiations with the client. The Board presentation of the project is scheduled for September, 2016

I. Project Context
Country Context

The Iraqi economy is facing severe and pressing challenges. The decline in oil prices and the financing needs associated with the ISIS insurgency have contributed to a sharp deterioration of economic activity, public finances and the balance of payments. Macroeconomic risks remain elevated due to Iraq's continued exposure to a volatile oil market. The government is facing the challenge of maintaining macroeconomic stability, undertaking structural reforms to improve the delivery of public services, and reconstructing of core physical infrastructure within the areas liberated areas from the ISIS. The sharp decline in global oil prices has resulted in a decline in oil export revenues by US\$40 billion. Lower oil revenues, in addition to higher humanitarian and security-related expenditures, led to a fiscal deficit of 14.5 percent of GDP in 2015.

The new Iraqi government, 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 Parliament. The main challenge for Iraq is the incremental and long-term rebuilding of state institutions that were systematically weakened over the last thirty years. Accordingly, the Government of Iraq (GoI) requested the World Bank to finance and provide advisory support towards the development of a public financial management (PFM) Institutional Development and Capacity Building Project.

Sectoral and institutional Context

The twin oil price and ISIS shocks have had a significant impact on Iraq's economy and its ability to deliver public services. Improving Governance and Accountability underpins the agenda of the GoI towards building a prosperous, peaceful and inclusive Iraq. Strengthening PFM is a key element towards strengthening governance, optimizing outputs from public resources and for ensuring inclusive and broad-based development. The Integrated Financial Management Information System (IFMIS), which will be the main output of the project, will assist in improving the transparency and accountability of the budget process, and enhance the available skills and capacity of the budget regulatory institutions (MoF and MoP) as well as line ministries implementing the budget.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Public Financial Management

Comments (optional)

Subcomponent 1.1: IFMIS design and initial development

Subcomponent 1.2: PFM/IFMIS capacity development

Subcomponent 1.3: Internal Audit modernization at Federal MoF

Subcomponent 1.4: PFM Systems at subnational level

Subcomponent 1.5: Project management and reform coordination

Component Name

Public Investment Management and Public Procurement at Federal Level

Comments (optional)

Subcomponent 2.1: PIMS strengthening

Subcomponent 2.2: Public Procurement modernization

Subcomponent 2.3: Project management and reform coordination

Component Name

Public Investment Management and Public Procurement at KRG Level

Comments (optional)

Subcomponent 3.1: PIMS strengthening

Subcomponent 3.2: Public Procurement modernization

Subcomponent 3.3: Project management and reform coordination

IV. Financing (in USD Million)

Total Project Cost:	41.50	Total Bank Financing:	41.50
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			41.50
Total			41.50

V. Implementation

Responsibility for project implementation will be with three PMTs to be established within the MoF and 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 IFMIS, PFM/IFMIS capacity development, internal audit modernization and PFM systems at sub-national level components (in coordination with the two pilot governorates of Baghdad and Babil), while the MoP/PMT will be responsible for the implementation of components related to PIM and Procurement reforms. For KRG components, a PMT will be established at the MoP that will be responsible for the implementation of all the proposed activities in the Kurdistan Region of Iraq.

Each PMT will be responsible for day-to-day management of project implementation and report directly to the minister, or to his deputy as designated by the minister. The PMT will work closely with all stakeholders in a component, including sectors and departments within the ministry and outside it, both governmental and private, and the World Bank Task Team. The PMT will also be responsible for ensuring that the activities of the component is implemented in compliance with the provisions of the loan agreement and the project operational manual (POM). The three PMTs will operate under the oversight of the Steering Committee that will provide high-level direction and signal political commitment. The role of the Committee and the institutional set-up will be highly critical for the success of the project.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point**World Bank**

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