

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC28515

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)	Federal Ministry of Finance
Implementing Agency	Federal Ministry of Finance, Federal Ministry of Planning, KRG Ministry of Planning
Environmental Category	C-Not Required
Date PID Prepared/ Updated	25-Apr-2016
Date PID Approved/ Disclosed	26-Apr-2016
Estimated Date of Appraisal Completion	13-May-2016
Estimated Date of Board Approval	18-Jul-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and 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.

Relationship to CAS

The Progress and Learning Review (PLR) updated the Bank Group's FY13-FY16 Country Partnership Strategy (CPS) for Iraq. The Strategy is now focused on delivering basic public services, especially in areas where the security threat has diminished, to reduce poverty and enhance citizens' trust in government institutions; and to address and help manage the country's critical fiscal situation and increase opportunities for private sector investment.

Public Financial Management (PFM) reform is considered under the updated strategy and replies to the second pillar of the PLR. Moreover, supporting the GoI in more effectively managing its financial resources will potentially contribute to greater accountability and transparency, lower corruption, more effective public service delivery and sustainable economic growth.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed project development objective (PDO) is to contribute to better fiscal management and improve GoI budget management practices at both federal and governorate levels, including in the KRG. This objective will be pursued through supporting capacity development and foundational systems (IFMIS design and initial implementation in four ministries and two pilot governorates, PIMS, public procurement, financial controls, and PFM at the subnational level), contributing to transaction efficiencies through strengthened systems and procedures, more public finance transparency, better information for strategic allocation of resources and improved service delivery, and targeted capacity building.

Key Results (From PCN)

As a response to lessons learned from past attempts to modernize budget management, the proposed project will focus on institutional development, capacity building, change management and the steadily paced introduction of new practices supported by information systems in order for the enabling environment for broader PFM modernization to be strengthened. In line with this approach, the expected results of this operation are foundational and discrete in nature:

- Integrated financial management information system (IFMIS) operating in the MoF, the

MoP, two pilot line ministries, and two pilot governorates.

- Staff from MoF, MoP, pilot line ministries and governorates, trained in PFM, IFMIS, Public Investment Management System (PIMS), public procurement, and financial controls.
- Internal audit modernization at the MoF with the adoption of an internal audit methodology and strategic development plan.
- Iraqi public investment management system (PIMS) operating in MoP at both federal and regional levels, with data used by MoF for budget planning.
- Increased transparency and access to procurement information.
- Governance and management structures for PFM and PIM/procurement modernization.

III. Preliminary Description

Concept Description

The team proposes a programmatic approach, with this operation focusing on the foundations that will enable the preparation of subsequent projects for further roll-out of PFM reforms.

Component 1. IFMIS Design and Implementation

The continuation of PFM reform in Iraq cannot be envisaged anymore without an Integrated Financial Management Information System (IFMIS) in place. This component is intended to provide support the design and initial implementation of an IFMIS in four pilot ministries (Federal Ministry of Finance, Federal Ministry of Planning, Ministry of Interior, and Ministry of Construction, Housing and General Municipalities) and two pilot governorates (Baghdad and Babil) that will build towards a Treasury Single Account (TSA) aimed at consolidating all inflows from all the ministries, departments, agencies (MDAs) and governorates in the country by way of deposit into commercial banks traceable into a single account at the Central Bank of Iraq (CBI).

Component 2. PFM/IFMIS Capacity Development

In addition to technical expertise in IFMIS, successful implementation of PFM reform in Iraq will require various individuals, groups and organizations to work together toward achieving a complex set of reform objectives. In most cases, successful management of the transition to a digital/data-driven culture is the key factor in acceptance of new policies, procedures and organizational structures, and maximizing the benefits of an integrated PFM system. This component is intended to provide training on PFM international best practices to selected ministries and governorates departments in line with the scope of the current PFM reform and a focus on IFMIS operational implementation. Change management will also be considered for all training activities.

Component 3. Internal Audit Modernization at the Federal Ministry of Finance (MoF)

Internal audit has to be strengthened for PFM reform to be successful. Technical interventions in this area will require complementary efforts to build a reliable internal audit system applicable to both public procurement and recurrent expenditure management. This component is intended to provide a new internal audit methodology to be used on the objectives of the MoF rather than on risks to objective at the process or department level. A MoF Strategic Development Plan related to internal audit will be prepared and implemented.

Component 4. PFM Systems at the Subnational Level

Appropriate linkages and interfaces need to be built at the governorate level with the PFM systems developed at the federal level (such as IFMIS, PIMS, Public procurement) to ensure that there is no duplication at the subnational level as well as to ensure scaling up and replication in the future. This

component is intended to provide support for reviewing and modernizing the legal and regulatory framework at governorate level, guiding the preparation of annual budget plans in a participative manner in the two pilot governorates of Baghdad and Babil, and assisting the preparation of comprehensive and realistic budgets.

Component 5. PIMS modernization

Iraq faces the problem of allocating scarce resources towards the satisfaction of infinite needs and with the goal of obtaining the maximum social and economic benefits. This component is intended to support Public Investment Management Information (PIMS) modernization through the effective implementation of the newly adopted PIM framework through rigorous project identification and selection systems 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 stage.

Component 6. Public Procurement modernization:

This component is intended to support public procurement modernization through establishing a single e-Portal aimed at strengthening and promoting the principles of transparency, good management, accountability and controls, and preventing fraud and corruption, a measure that could enhance the Government of Iraq's efforts to achieve its plans and meet its citizens' expectations for improved service delivery.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		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	

V. Financing (in USD Million)

Total Project Cost:	42.50	Total Bank Financing:	42.50
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
International Bank for Reconstruction and Development		42.50	
Total		42.50	

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