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This action is funded by the European Union

ANNEX

of the Commission Implementing Decision on the Annual Action Programme 2017 in favour of Iraq to be financed from the general budget of the Union

Action Document for

Strengthening Public Finance Management Oversight and Accountability Institutions in Iraq

1. Title/basic act/ CRIS number	"Strengthening Public Finance Management oversight and accountability institutions in Iraq", financed under Development Cooperation Instrument			
	CRIS number: MIDEAST/2017/040-246			
2. Zone benefiting from the action/location	Iraq The action shall be carried out at the following location: Country-wide			
3. Programming document	EU-Iraq Multiannual Indicative Programme 2014-2017			
4. Sector of concentration/ thematic area	Public Finance Management	DEV. Aid: YES ¹		
5. Amounts concerned	Total estimated cost: EUR 15 600 000 Total amount of EU budget contribution EUR 15 600 000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with the World Bank Direct management (procurement of services)			
7 a) DAC code(s)	15111			
b) Main Delivery Channel	44001- World Bank			
8. Markers (from	General policy objective	Not	Significant	Main

¹ Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

CRIS DAC form)		targeted	objective	objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input checked="" type="checkbox"/>		<input type="checkbox"/>
	Trade Development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagship	N/A			
10. SDGs	SDG 17			

SUMMARY

The three-year action intends to support the Government of Iraq in enhancing good governance by focusing on Public Financial Management oversight and accountability, through a program of technical assistance services, associated knowledge and learning, change management and capacity development activities to be implemented by the World Bank.

The rationale is to strengthen institutions and systems to fulfill their Public Finance Management oversight and accountability roles and responsibilities in the Federal Government of Iraq and the Iraqi Kurdistan Regional Government. The program, is complementary to a larger World Bank (WB) two years concessional loan jointly launched by WB and EU in Iraq and in the Kurdistan region of Iraq, modernizing the entire Public Finance Management system, a necessary condition for effectively implementing Governmental macro fiscal and socioeconomic policies and to address the overall development of the country. Results of the action will focus around three key pillars: (i) supporting the coordination and communication of the ongoing Public Finance Management reform; (ii) strengthening the management of public resources, through more efficient payroll management, public procurement and improved supervision of the Non-Financial State owned enterprises; and (iii) enhancing the legal and regulatory framework, fiscal transparency, budget oversight, the external audit functions and the anticorruption institutions. The proposed support reaffirms the EU commitment to a Global Strategy on Foreign and Security Policy for the EU and the Communication on the EU consensus for development, in the areas of Prosperity and Peace, where the EU and its Member States commit to support neighboring and developing countries efforts for strengthening internal stability through better management of public resources.

LIST OF ACRONYMS

COI - Commissions of Integrity
DPF – Development Policy Financing
DFID – UK Department for International Development
ERU - Economic Reform Unit
FBSA - Federal Board of Supreme Audit
FFER - Funding Facility for Economic Reform
IBP - International Budget Partnership
IDPs - Internally Displaced Persons
IFMIS - Integrated Financial Management Information System
IMF - International Monetary Fund
JACC - Joint Anti-Corruption Council
KOICA - Korean International Cooperation Agency
KRI - Kurdistan Region of Iraq
MoF - Ministry of Finance
OIGs – Office of Inspector General
PMO - Prime Minister's Office
PEFA - Public Expenditure and Financial Accountability
PIM - Public Investment Management
PFM - Public Finance Management
SOEs - State-owned banks and enterprises
UN - United Nations
USAID – United States of America Agency of International Development
WB – World Bank

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Efforts to resolve Iraq's many development challenges are severely hampered by insecurity, conflict and poor governance coinciding with the oil price crisis and the advance of the terrorist group Dae'sh. Poor governance has further transformed Iraq's strengths – oil wealth and diversity – into the twin liabilities of oil dependence and ethnic and sectarian fragmentation. The government is prioritizing the rapid expansion of oil production in order to finance a bloated public sector and current spending needs – mainly wages – that are detached from any long-term diversification strategy. Fiscal institutions are weak and unequipped to deal with the complexities of an oil-dominated budget, which makes the Iraqi economy extremely vulnerable. Although oil prices have recovered and military progress are being made against Dae'sh, worsening economic conditions, a stalemate on promised reforms, increased spending in security and chronic problems with the delivery of basic services, corruption and lack of transparency has reversed progresses made in poverty reductions between 2012 and 2014, feeding a legitimacy crisis in state institutions.

The public sector and its wage bill, dominates the economy as the largest formal employer in the country. Despite high public expenditure on health, education and security, services are far below standards. State-owned banks and enterprises (SOEs), for three quarters not profitable, enjoy significant privileges, thus crowding out private firms and impeding factor reallocation. With few exceptions, the weak and stagnant private sector is not yet in a position to play a major role in the non-oil economy and is incapable of generating significant employment. The Iraqi non-oil infrastructure has been neglected and is characterised by poor quality services and low levels of public investment.

The Government of the Kurdistan Region of Iraq is also experiencing adverse economic performance due to volatility of expenditure and revenues, largely reflecting fluctuations in oil prices, interruptions in production and transportation of oil driven by conflict, and most importantly the dispute with the federal government about sharing of oil revenues. Postponement in investment projects, arrears in payments, including wages and salaries of government employees which are also dominating Kurdistan's current expenditure, domestic and external borrowing have contribute to reduced private sector productivity and uncertain business environment while the Kurdistan Regional Government is put under significant pressures by the increased security spending and the influx of refugees and internally displaced persons (IDPs).

1.1.1 Public Policy Assessment and EU Policy Framework

The Iraqi Council of Ministers is pursuing a reform plan to build a more transparent state that delivers better services to the public, as articulated in the General Framework of Government Programme 2014–18. The current fiscal crisis has led the government to press ahead with Public Financial Management reforms to help strengthen fiscal stability. Apart from the World Bank's last expenditure review published in 2014, the last comprehensive assessment of the Iraqi PFM system using the Public Expenditure and Financial Accountability (PEFA) methodology took place in 2007. It showed a large number of performance indicators awarded the lowest possible score (D), indicating substantial scope for improvement.² An updated PEFA Performance Assessment has been drafted in 2016 and is now under GoI approval process. Preliminary findings show that, in the very difficult circumstances in which the country finds itself, most elements in the overall PFM system are not functioning well. While there is a mixed picture on the allocation of budgetary resources with progress on the medium-terms expenditure budgeting and budget preparation process, revenue collection indicators remain poor. Oversight arrangements and service delivery continue to be less than effective coupled with weak internal control mechanisms to reduce possible leakages in the system. The political and security situation has precluded improvement and, in many cases, contributed to worsen, some of the PEFA's indicators when compared with the previous exercise. This exercise, utilising the new PEFA 2016 methodology, has provided the Iraqi government with more comprehensive information on the performance of PFM systems and will be used to set certain targets to assess the future impact of PFM reforms.

In terms of budget transparency, Iraq has struggled to meet international good practices in budget transparency as shown by its results on the Open Budget Index of the International Budget Partnership's (IBP). In 2012 and 2015, it ranked the country amongst the worst performers in the Middle East and North Africa region. The findings from the quick

² World Bank (2008). Iraq - Public Expenditure and Institutional Assessment.

assessment suggest significant weaknesses in publishing reports on the execution and oversight of the government's budget. This is mostly due to weaknesses in the PFM system, lack of automatization of budget procedures, and laws and practices that do not require publication of documents. Additionally, the security situation and government instability risk causing more delays in making available these documents. It should be noted for example that Iraq was unable to approve the 2014 federal budget.

In proposing the support to public finance management reform, the EU remains committed to the Multiannual Indicative Program for Iraq (2014-2017) and to the key areas of the Joint Communication on an "*EU comprehensive regional strategy for Syria and Iraq as well as the Da'esh threat*"³ adopted by the Commission on 6/2/2015 and endorsed by the Council on 16/03/2015 and the areas of the Joint EEAS/European Commission services "Non-paper setting out options for further EU engagement in Iraq". In this respect, enhancing public finance management is among the means of the EU engagement under the EU-Iraq Partnership and Cooperation Agreement (PCA)⁴ to support basic services, economic development and fight corruption in Iraq and complement the existing dialogue on trade issues.

In addition, the proposed support reaffirms the EU commitment to the EU Global Strategy and the Communication on the EU consensus for development, in the areas of Prosperity and Peace, where the EU and its Member States commit to support neighboring and developing countries efforts for strengthening internal stability through better management of public resources.

1.1.2 Stakeholder analysis

The coordination of the PFM reform sits in the Prime Minister's Office and is implemented by the Economic Reform Unit (ERU). The ERU is currently being established and it is expected that it will have adequate capacity to coordinate and lead dialogue on PFM reforms. At present it receives support from USAID through external experts.

The Federal and the Kurdistan Regional Government Ministries of Finance, in particular the respective Committees on Payroll Management Reform, are responsible for the transition to electronic payment of salaries, set by end-2017. Government has further committed, as a condition to the World Bank budget support loan⁵, to build a central governmental personnel and payroll database, based on pending audits of pay and pension rolls which are important structural benchmarks of the IMF programme. Eliminating "ghost workers" and "ghost pensioners" could reduce the wage bill significantly. The Ministry of Finance is also looking to strengthening and consolidate its efforts on fiscal transparency and improving citizen access to data and information on the federal budget, a fiscal data portal is being designed, with support from the World Bank.

The Ministries of Planning at both Federal and Kurdistan Regional Government level are in charge of modernizing the procurement system by transitioning to a more accountable e-Government Procurement.

³ <http://www.consilium.europa.eu/media/21843/st07267en15.pdf>

⁴ [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22012A0731\(01\)&qid=1459426532262&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22012A0731(01)&qid=1459426532262&from=EN)

⁵ Development Policy Financing (DPF).

State Owned enterprises (SOEs) poses fiscal risk to the government, the Prime Minister's Office, Ministry of Finance, and Ministry of Industry and Minerals and the Kurdistan Regional Government Ministry of Planning and Ministry of Trade and Industry are involved in the SOE aspect of the PFM reform. A centralized database to monitor non-financial SOEs is being monitored by the SOEs Restructuring Committee Government, a similar initiative is being considered for the Kurdistan Regional Government.

A number of institutions focusing on fiscal transparency and anti-corruption need to be supported, given their weak capacity or their remaining capacity gaps and needs in implementing the PFM reform. The Federal and Kurdistan Regional Government Shura Councils are facing challenges in performing their legislative and regulatory reviews and in redrafting laws that are not congruent with the reality of the country. The relevant Parliamentary Finance and Budget Committees at the Federal and Kurdistan Regional Government levels are strengthening their fiscal oversight capacities and arrangements including to better coordination with other bodies and stakeholders. The Federal Board of Supreme Audit has recently strengthened its capacity through training and peer-supported reviews and pilot audits but more is needed to concretize the progress made in enhancing its audit methods and ensuring coordination with other accountability bodies. The Kurdistan Regional Government Board of Supreme Audit also shows limited audit capacity. The Joint Anti-Corruption Council has drafted a White Paper and identified some of the remaining capacity gaps and needs of the Office of Inspectors General. The Iraqi Commissions of Integrity at the Federal and Kurdistan Regional Government levels play a crucial in strengthening the regulatory and legislative anti-corruption framework. Overall, there is a need to streamline efforts and developing inter-agency coordination mechanisms to increase the rate of enforcement and corruption case referrals.

1.1.3 Priority areas for support/problem analysis

The following areas are identified as a priority to improve government finances and fiscal elasticity:

Public procurement is largely inefficient, while accounting for a significant portion of the economic activities in Iraq (40 % of total government expenditures in 2013, 23 % of GDP).⁶ Technological enablement and proper conduct by public officials and private sector participants in the procurement processes are needed to overcome widespread corruption, enabling transparency and accountability, leading the path to a stronger business environment. The payroll system is extremely fragmented. Central mechanisms for collecting and verifying employment and pay data for the public sector are key elements in the fight against corruption and in enhancing accountability in the use of public funds. During 2004-2016 the combined Federal and Kurdistan Regional Government wage bill grew an estimated twenty-five fold in real terms, while the number of central government waged positions earmarked in the national budget more than tripled to over 3 million or over 40% of total Iraqi employment and 60% of all public sector jobs.⁷ State Owned Enterprises face similar challenges in both Federal Iraq and in the Kurdistan region, with a tenth of budgeted public sector workforce.

⁶ Estimate based on 2013 Iraq's annual budget prior to emergence of DA'ESH and drop of oil prices

⁷ The 2016 budget earmarks an estimated 30% of public sector jobs for subnational governments.

Non-Financial State-Owned Enterprises are poorly monitored and supervised and their performance is mostly economically unviable and supported by off-budget government transfers and loans from state banks. These are large and mostly unquantified amounts that could present significant contingent liabilities and fiscal risk to the central government. In addition, lack of expenditure control and debt guarantees of the authorities to electricity service providers (amounting to 21% of GDP April 2017) have generated huge arrears (5% of GDP) and public debt.

Additionally, the success and sustainability of public financial management reforms in restoring public accountability and citizen trust will also depend on the capacity and effectiveness of external accountability institutions to scrutinize government decisions and actions and hold the executive to account. A conducive environment to investment and growth is hampered by the quality and effectiveness of the regulatory framework which contributes to ambiguities, complexities, discrepancies, contradictions stemming from the accumulation of different layers of legislations dating back to the Ottoman state and British occupation. International good practices in budget transparency are not yet met, as shown by its results on the Open Budget Index of the International Budget Partnership's (IBP). The Government is seeking to raise citizen awareness and participation in the federal budget processes through the launch of the first fiscal transparency portal, supported by the World Bank. The findings of the 2008 PEFA report emphasise the weak role of the Iraqi Council of Representatives in budget oversight in part due to lack of comprehensive review procedures and technical capacity, sparse information and lack of efficient coordination mechanisms with the Federal Board of Supreme Audit. Stronger capacities, coordination and reduction of overlaps among accountability institutions including the Federal Board of Supreme Audit, the Inspector General offices, and the Commission of Integrity, are needed to tackle the serious fraud and corruption issues affecting the public sector and restore integrity and confidence in both Federal and Iraqi Kurdistan Governments.

2 RISKS AND ASSUMPTIONS

The proposed program encompasses the provision of advisory services, which themselves, do not carry significant risks. A designated lead institution will act as the World Bank's team counterpart in the government throughout implementation of the program. To mitigate technical implementation risks, the program activities and deliverables will be carefully sequenced to help address any issues of limited absorption capacity. The implementation team will keep close and active monitoring of outputs and outcome indicators to help respond quickly to implementation bottlenecks. The implementation of program, however, remains vulnerable to the country's fragile and conflict-afflicted environment.

Table 3: Risk Assessment

Risks	Risk level	Mitigating Measures
Political and Strategy Risks		
Political and governance risks	High	The PFM reform drive could be undermined by a number of factors, including the further weakening of the security situation, social unrest due to low quality and availability of basic public services, disagreements between the central and Kurdistan Regional governments which could escalate into a political crisis and

		governmental deadlock, or capture by vested interests. The lack of a dedicated Minister of Finance with political backing is a risk to the reform drive. The PFM reform contributions to institutional strengthening will contribute to reduced governance risks in the long run, but the immediate risks cannot be mitigated. The Bank team in close coordination with Development Partners will monitor closely the political situation to assess any impact on program implementation, also taking into account possible impacts occurring before and after the elections.
Sector strategies and policies	Medium	The program's support to increasing transparency, accountability, and enhancing anti-corruption policies and mechanisms, is likely to face resistance from vested interest. A number of champions for reform in the counterpart agencies will be identified to help create the reform space for the technical support activities. Alliances for reform will be encouraged, supported by change management efforts.
Implementation Risks		
Technical, coordination and implementation risks	Medium	A careful sequencing of program activities and deliverables, supported by a change management approach, will help address issues of limited absorption capacity. Close and active monitoring of outputs and outcome indicators will help respond quickly to implementation bottlenecks.
<p>ASSUMPTIONS:</p> <p><u>Prime Minister's Office leadership of reforms:</u> To coordinate government and international efforts on economic reform, an Economic Reform Unit (ERU) has recently been established at the Prime Minister's Office and is headed by the Prime Minister's Deputy Chief of Staff. The ERU must be proactive and enable the Government of Iraq to exert its authority more effectively to implement reforms; (vii) Track the progress and implementation of reforms and provide regular reporting on progress (including formal quarterly reports) to the Government and all contributing donors.</p> <p><u>Continuous Support to Reforms</u> Over time, the PFM oversight reforms supported by this project will contribute to institutional strengthening and reduced governance risks. The World Bank team will closely monitor the political situation to assess any impact on project implementation before and after the elections.</p> <p><u>Security Situation</u> The capacity of the country to implement the PFM reforms' program and to improve service delivery critically depends on a continuous improvement of the security situation with the government able to regain territories under Da'esh-control and provide needed assistance to the population. The Government of Iraq capacity to undertake longer-term PFM reforms, including those included in this project may be lessened should the security situation become more overwhelming.</p> <p><u>Kurdistan Regional Government Situation</u> The overall PFM reforms drive could be undermined by a number of factors including disagreements between the Federal Government and the Kurdistan Regional Government which could escalate into a political crisis and government deadlock. However, this risk will be monitored.</p>		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Careful sequencing of program activities and deliverable along with a change management approach and institutional capacity building stems from previous World Bank actions in PFM and is at the base of this action. 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 program closure. These efforts will establish strong PFM oversight foundations and transparency mechanisms that will help prevent future rollbacks.

3.2 Complementarity, synergy and donor coordination

This action is part of a package of coordinated financial assistance from development partners to help Iraq in implementing its reform program.

The World Bank is the key stakeholder in the sector, currently supporting the Government of Iraq in the modernization of its PFM systems, a concessional loan for \$41.5 million, which became effective on December 2016 and has two years implementation. The objective is to improve financial information management and transparency, cash management, public investment management and public procurement modernization at selected federal and governorate agencies. The planned actions under the World Bank Modernization of the PFM Systems Project are linked to the World Bank general budget support program (\$1.2 billion) supporting broad reforms on sustainable and inclusive growth. For the Stand-By Agreement with the International Monetary Fund (IMF), which provides \$5.4 billion between 2016 and 2019, the Iraqi Prime Minister and Minister of Finance committed to a number of PFM-related targets and policy actions which the PFM reform support could help to achieve. The G7 members supported the SBA programme with additional \$3.6 billion, of which \$1.8 billion came from the European G7 members who mostly channelled their funds through the World Bank. This EU funded action is strongly complementary to the World Bank programme, as it focuses on important accountability institutions that are not covered by the proposed World Bank intervention, thus helping to close the PFM accountability cycle.

UNDP has recently set up two new mechanisms to support the coordination of reforms: (a) the Funding Facility for Economic Reform (FFER) - federal; and (b) the FFER – Kurdistan Regional Government. In addition to the initial funding of \$100,000 from UNDP, USAID is funding the FFER-Federal for USD 1.25 Million to partially staff the Economic Reform Unit at the Prime Minister's Office. While the Dutch Government is supporting with & 270,000 the FFER- Kurdistan Regional Government Coordination Unit established at the Kurdistan Regional Government Ministry of Planning.

USAID is further support, for USD175 million, the Iraqi Governance Performance and Accountability program, focusing on enhancing government service delivery capacity and fiscal transparency.

DFID has contributed between 2015 and 2017, with an amount of USD 900,0000 to the capacity building on PFM reforms, bridging the gap between the past and the ongoing World Bank led support in the sector and may continue to support the sector in future though its global agreement with the World Bank.

KOICA is starting its support to e-procurement in the Kurdistan Regional Government and discussions with the EU have started on a memorandum of understanding to cooperation in the framework of this action.

Consultations have taken place during the preparation of this program, in the framework of a coordinated EU-World Bank mission with Government stakeholders and with development partners active in PFM-related support. This level of dialogue and coordination will continue during program implementation, including through follow-up meetings to be organized by the Economic Reform Unit of the Prime Minister's Office. The first component of the program is designed to provide a platform to facilitate donor coordination and dialogue with the government on PFM reforms. A core activity of the component will be the establishment of a donor working group to ensure that there is a harmonized and coordinated technical support to the government on PFM reform, and accordingly enhance PFM policy dialogue with the Iraqi authorities. A key responsibility of the working group will be to monitor the government's implementation of PFM reforms and maintain effective communication channel with the Economic Reform Unit, which will be its key counterpart.

The action is further fully aligned with the objective of the MIP 2014-2017, in specific to specific objective focusing on the improve budgeting, expenditure controls and reporting at central, provincial and district levels so to maximize government capacity to more efficient spending in the key concentration sectors of the MIP.

3.3 Cross-cutting issues

Sound Public Financial Management is an important dimension of good governance. A better linkage between economic planning, budget formulation and mobilisation of resources will, in particular, help the Iraqi Government, as well as the Government of the Kurdistan Region, in pursuing the necessary reforms across a broad spectrum of sectors. The action will specifically enhance transparency and anti-corruption measures; overall the combined impact of the public finance management reforms is expected to improve management and allocation of public resources, and help government address pressing concerns and priorities particularly for the most vulnerable population impacted by the security crisis.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal(s) 17: Partnership for the goals. This does not imply a commitment by the country benefiting from this programme.

The overall objective is to contribute to the promotion of good governance to help build trust of Iraqi citizen's in their government through enhanced transparency and accountability, and the expansion of social safety nets to reach the most vulnerable segments of the population. The specific objective is to strengthen mechanisms to ensure oversight and accountability in the use and management of public financial resources in the federal Government of Iraq and in the Iraqi Kurdistan Regional Government, to modernise public procurement management and improve budget transparency.

4.2 Main activities

The program will provide technical assistance, as well as associated knowledge and learning, change management, and capacity development activities, along the components defined in the table below. A communication and coordination activity is built into each of the components to reaffirm and strengthen links of the public accountability chain and between the roles and responsibilities of different bodies, particularly external stakeholders such as civil society, including those organisations focusing on gender and vulnerable groups, and journalists.

Description of Pillars and Components		
Pillars/Components	Key Counterparts	Activities
PILLAR 1: PFM COORDINATION AND COMMUNICATION		
<u>1.1 Coordinating PFM Reforms</u>	Economic Reform Unit (ERU) ⁸ - Prime Minister's Office and Kurdistan Regional Government Ministry of Planning	Activities supporting coordination and dialogue and supporting a platform for Development Partner coordination and dialogue with the government on Public Financial management (PFM) and, more broadly, ensure harmonized and coordinated support to PFM reforms.
PILLAR 2: MANAGEMENT OF PUBLIC RESOURCES		
<u>2.1 Improving Payroll Management</u>	Federal and Kurdistan Regional Government Ministries of Finance (Committee on Payroll Management Reform)	Capacity building and advisory services for high-level reform coordination units, for the modernization of payroll systems and the analytical work on pay and employment dynamics in SOEs.
<u>2.2 Enhancing Efficiency and Accountability of Public Procurement</u>	Federal and Kurdistan Regional Government Ministries of Planning	Activities to support and strengthen E-Government Procurement and the accountability and ethical standards in public procurement
<u>2.3 Improving the Supervision of Non-Financial SOEs</u>	Prime Minister's Office, Ministry of Finance, and Ministry of Industry and Minerals; Kurdistan Regional Government Ministry of Planning and Ministry of Trade and Industry	Activities will include: improving classification of SOEs and the supporting the database on non-financial SOEs at federal level monitoring fiscal risks of non-Financial SOEs and the in-depth analytical activities on non-financial SOEs (federal and Kurdistan Regional Government), the Review of Legal and Regulatory framework (federal and Kurdistan Regional Government)
PILLAR 3: LEGAL FRAMEWORK, FISCAL TRANSPARENCY, AND ANTI-CORRUPTION		
<u>3.1 Improving the Legal and Regulatory Framework</u>	Federal and Kurdistan Regional Government Shura Councils,	Support to organizational and development capacities, Legislative Drafting, Case management development, Conduct comprehensive legal reviews; Outreach and communication measures.
<u>3.2 Supporting Fiscal Transparency</u>	Federal Ministry of Finance Kurdistan Regional	Improve and enhance Iraq's fiscal data portal.) Support technical capacity of Ministry of

⁸ In 2016, the Iraqi Government has established the Economic Reform Unit under the leadership of the Prime Minister's office to steer and oversee the implementation of the reform agenda that was launched by the Prime Minister in late 2015.

	GovernmentParliament	Finance Open budget team, Build capacity of non-government stakeholders on budget monitoring and analysis; Outreach and communication campaign on budget and fiscal literacy.
<u>3.3 Strengthening Legislative Budget Oversight</u>	Finance Committee of the Iraqi Council of representatives Finance and Economic Affairs Committee of the Kurdistan Regional Government Parliament	Support organizational and business procedures, technical capacities of finance committees on budget oversight and scrutiny, and communication and coordination with other bodies and stakeholders.
<u>3.4 Strengthening the External Audit Function</u>	Federal Board of Supreme Audit (FBSA) Finance and Economic Affairs Committee of the Kurdistan Regional GovernmentParliament	Support strategic planning, Strengthening staff capacities and implementation of audits, and Support communications and coordination with other bodies and stakeholders.
<u>3.5 Strengthening Anti-Corruption Institutions</u>	Office of Inspectors General, Iraqi Commission of Integrity, Joint Anti-Corruption Council (JACC), Federal and Kurdistan Regional GovernmentBoard of Supreme Audit, Parliamentary Committees Kurdistan Regional Government Commission of Integrity	Support to Legal and Regulatory Review and the Institutional Strengthening of the <i>Office of Inspector Generals (OIGs)</i> ; Anti-corruption Research and Diagnostics Agenda, Legal and Regulatory Review and Institutional Strengthening of the <i>Commissions of Integrity at Federal and Kurdistan Regional Governmentlevels (CoIs)</i> ; Improve inter-agency coordination at the federal level of the functions of the <i>Joint Anti-Corruption Council (JACC)</i> with the CoI, OIGs, and FBSA, and the Ministry of Interior and Higher Judicial Council.

4.3 Intervention logic

The action is aligned with the MIP 2014-2017, in particular with the specific objective 1: "support to the democratic development of Iraq by improving the function of its democratic institutions". The action has an impact to all the focal sectors of the MIP, as it focuses on improving budgeting, expenditure controls and reporting at central, provincial and district levels so to maximize government capacity to more efficient sectoral spending. Enhancing the performance of the PFM system will be critical for Iraq to ensure efficiency and accountability in the management of its public resources, particularly in the face of constrained fiscal space.

The action is designed to address capacity gaps in the oversight and accountability dimensions. It seeks to strengthen the capacity of relevant government institutions to mitigate structural weaknesses in those key areas of the public sector (Procurement, Payroll Management, and State-Owned Enterprises) constraining the proper functioning of the public finance management system. Supporting Government in "managing public resources" on key building blocks such reforms for the modernization of the payroll, the largest item in the Iraqi budget, and the consequent elimination of "ghost-workers" in the public sector, the accountability and transparency of public procurement and of the non-financial SOEs, will increase transparency and accountability, reduce the fiscal deficit and make public finances

more sustainable. The action further seeks to strengthen the "Legal Framework, Fiscal Transparency, and Anti-Corruption" aspect with the aim to enhance the effectiveness of a number of anticorruption and oversight institutions and ultimately reduce corruption. Some support will also be provided to the Economic Reform Unit to help coordinate the PFM reform with the aim to strengthen donor coordination and harmonize technical and advisory support to the government.

By reinforcing the support to the oversight and transparency angles of the PFM reform, the action is complementary and interlinked to the recently started World Bank supported Modernization of PFM Systems Project, which is focusing on the broader reform through the approval of the Financial Management Law, the improvement of Government Finance Statistics reporting; the move to a Treasury Single Account; the design and implement a commitment control system for budget execution and of the Integrated Financial Management Information System (IFMIS) and the implementation of the Public Investment Management (PIM) reform. The PFM reform is further part of the Government of Iraq commitments for the disbursement of the World Bank (USD 1.2. billion in 2017) and the SBA programme with the IMF (USD 5.4 billion until 2019);, the reforms promoted through this action will contribute to the triggering of the World Bank loans and to meeting the PFM-related programme targets in the SBA. By helping Iraq to meet its PFM commitments of these programmes, the EU action helps securing the funds which are crucial for the Government of Iraq for fulfilling its financial obligations.

5. Implementation

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 36 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting Iraq⁹.

⁹ https://eeas.europa.eu/sites/eeas/files/restrictive_measures-2017-04-26-clean.pdf

5.3.1 Indirect management with an international organisation.

This action may be implemented in indirect management with the World Bank in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the provision of technical assistance to support the Government of Iraq reform in the public finance management sector. This implementation is justified because of the World Bank technical expertise as the main provider supporting the above mentioned reforms, it runs a larger scale intervention in the sector, to which this action is complementary.

The entrusted entity would carry out the following budget-implementation tasks: launching of procurement of services and goods; Definition of eligibility, selection and award criteria; Evaluation of tenders; Award of contracts; Acting as contracting authority concluding, monitoring and managing contracts; Carrying out payments, and recovering moneys due.

For the procurement tasks not yet assessed, the World Bank is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management.

The Commission authorises that the costs incurred by the entrusted entity may be recognised as eligible as of the date of 01 July 2017. This will ensure the implementation of those activities which are strongly complementary to the actions already ongoing through the World Bank funded concessional loan on the 'Modernisation of Public Finance Management, which is in place since November 2016.

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3.1 Indirect management with World Bank	15 500 000	0
5.8 Evaluation and 5.9 Audit	100 000	0
5.10 Communication and Visibility	0 (covered by the contract)	0
Totals	15 600 000	0

5.6 Organisational set-up and responsibilities

The action will be implemented by the World Bank, through a Trust Fund, for the benefit of the Government of Iraq, with the Ministries of Finance and Planning as key line ministries. The main counterpart for the coordination and monitoring of technical assistance activities will be the newly-established Economic Recovery Unit (ERU) at the Prime Minister's Office, which will lead the dialogue on PFM reforms. In parallel a PFM working group joining all donors active in PFM reforms will strengthen donor coordination and harmonize technical and advisory support to the government. A Steering Committee for the overall coordination and implementation of this program will be established co-chaired by World Bank, the EU and key government stakeholders and open to key development partners in the sector.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner will establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logical framework matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through the award of a service contract to independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the nature of the action, a mid-term and final evaluation(s) will be carried out for this action or its components via independent consultants to be contracted by the Commission.

A mid-term evaluation will be carried out for learning purposes, in particular with respect to assessing the effectiveness and level of ownership of the program and to start strategizing on future follow up.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this is the first EU funded action focusing on energy policy.

The Commission shall inform the implementing partner at least 3 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded at the end of the first year and one in the last semester of the project.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for evaluation services shall be concluded in the last trimester of the project.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or

entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The action also entails communication on the PFM reform and budget transparency which will provide further opportunities for visibility of the EU funds to the greater public.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) ¹⁰:

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results Chain	Indicators	Baselines*	Targets*	Sources and means of verification	Assumptions
IMPACT						
Overall Objective	OO: Improve good governance to help build trust of Iraqi citizen's in their government through enhanced transparency and accountability, and expansion of social safety nets to reach the most vulnerable segments of the population	1. Good Governance Indicators**: a. Voice and Accountability, b. government effectiveness, c. regulatory quality, d. control of corruption 2. Corruption Perception Index ranking 3. Improved social safety net as measured by: a. Coverage ratio of the poor; b. Inclusion error 2015: 11% and 43% and 2018 >50% and <20%	1. 2015 data: a) -1.27 (rank 175); b)-1.23 (rank 176); c) -1.19 (rank 164); d) -1.37 (rank 184) 2. 2016 Data: CPI rank 166 out of 176 3. 2015 Data: a)11%; b) 43% 4. TBD	Improvement of the indicators (precise targets to be at inception stage) 3. a) > 50% b)<20% Exact % TBD	1. World Bank Good Governance indicators 2. Transparency International CPI index 3. World Bank report	N/A
OUTCOMES						

¹⁰ Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

Specific Objective 1	SO1: Coordinated development partners' support to PFM reforms and enhanced dialogue with government at federal/governorate level	1.1 Regularity of policy dialogue at the federal and Kurdistan Regional Government levels involving key Development Partners and government	1.1 Zero	1.1 Bi-annual meetings	Government and donor reports	Leadership and support for reforms is maintained;
Specific Objective 2	SO2: Improved management of public resources at federal and Kurdistan Regional Government levels	2.1 Score of: a) payroll control PEFA indicators (PI 23 - 3); b) procurement PEFA indicators (PI 24.1 - 4); c) fiscal risk reporting PEFA indicator (PI 10.1) 2.2 Percentage of Federal and Kurdistan Regional governments employees whose daily attendance is tracked and salaries are paid electronically 2.3 Percentage of public contracts at central and Kurdistan Regional Government levels through eProcurement system 2.4 Percentage of 'at-risk' SOEs monitored 2.5 Status of Iraq being a signatory member of UN convention for arbitration	2.1 PI23 and PI10 very weak; PI24 weak 2.2 Zero 2.3 Zero 2.4 Zero 2.5 Not a signatory	2.1 Improvement of the indicators (precise targets to be defined) 2.2 20% by 2020 2.3 70% by 2020 2.4 TBD 2.5 Signatory	2.1 PEFA assessment beyond 2017 2.2 – 2.4 Reports from the government	Security Situation does not worsen; Relation between Federal government and Kurdistan Regional Government does not escalate in political deadlock.

Specific Objective 3	SO3: Enhanced legal framework, fiscal transparency and anti-corruption	3.1 Score of transparency and accountability related PEFA indicators (e.g. PI 9 on access to fiscal information, PI 27 on financial data integrity, PI 28 and 29 on financial reports); legislative scrutiny of budget (PI 18); external audit (PI30)).	3.1 PI8 weak, rest very weak 3.2 Data of 2015: a) 3 out of 100, b) 4/100; c) 27/100; d) 50/100 3.3 - 3.5 TBD	3.1 Improvement of the indicators (precise targets to be defined) 3.3 - 3.5 TBD	3.1 PEFA assessment beyond 2017 3.2 International Budget Partnership 3.3 Government reports	
		3.2 Open Budget index (a. transparency, b. public participation, c. legislature budget oversight and d. SAI budget oversight)				
		3.3 Performance rates of inspections conducted by anti-corruption institutions: a. detection, b. prevention, c. enforcement.				
		3.4 Number of public consultations in preparing and reviewing new legislation				
		3.5 Number of observations captured in the audit management system database				
OUTPUTS for SO1: Enhanced coordination of donor support to PFM reforms and dialogue with the government						
Output 1.1	1.1 Effective donor coordination and of PFM reforms at federal and governorate level	1.1.1 Frequency of working group meetings 1.1.2 Number of reports produced by working group and ERU (e.g. on implementation of reforms)	1.1.1 Zero 1.1.2 Zero	1.1.1 Quarterly 1.1.2 At least one per year	Report of activities and meetings minutes provided by Economic Reform Unit and PFM Reforms Working Group	Leadership and support for reforms is maintained
OUTPUTS FOR SO2: MANAGEMENT OF PUBLIC RESOURCES						

Output 2.1	2.1 Strengthened Payroll Expenditure control through:	2.1.1.1 Status of Central Payroll Information system implementation and use in pilot federal ministries and governorates			2.1.1 – 2.1.4 and 2.2.1. MOF reports	Commitment of MoF and other relevant authorities to utilize new systems and TA delivered;
	2.1.1 Modernization of payroll management and increased transparency	2.1.1.2. Percentage of payroll management staff trained in and implementing central information systems (m/f)	2.1.1.1 Zero	2.1.1. TBD		
		2.1.1.3. Percentage of Federal and Kurdistan Regional governments employees whose payroll record is linked to a unique biometric ID	2.1.1.2 Zero	2.1.2. TBD		
		2.1.1.4. Percentage of Federal government and Kurdistan Regional Government CG units whose payroll records are fully synchronized with centralized Payroll Data Warehouses	2.1.1.3 Zero	2.1.3. 70%		
		2.1.2. Number of analytical reports on wage bill trends in central government and SOEs	2.1.1.4 Zero	2.1.4. TBD		
	2.1.2.Improved government's ability to monitor pay and employment trends for the central government and SOE sector		2.1.2. Zero	2.1.2. Monthly		Sufficient absorption capacity of TA by agencies and relevant officials;
						No excessive turnover of staff

Output 2.2	2.2. Higher efficiency and accountability throughout procurement process.	<p>2.2.1 State of development at federal level of e-procurement road map and System Requirement Study (SRS) on e-Government portal (E-GP).</p> <p>2.2.2 (a) % of staff at Kurdistan Regional Government level trained on the use of the E-GP (m/f). 2.2.2 (b) State of development of e-registration system for private sector trademarks and patents at the Kurdistan Regional Government level.</p> <p>2.2.3 Share of tenders and awards publicly available through the federal procurement single e-portal.</p> <p>2.2.4 Status of inclusion of comprehensive provisions in the conditions of contracts to deal with anti-fraud, collusion and corruption in public procurement.</p> <p>2.2.5 Number of submitted procurement related protests/appeals at Kurdistan Regional Government level once an independent administrative mechanism to review procurement complaints is established.</p> <p>2.2.6 Number of capacity building activities to support Iraq's compliance with the UN convention of arbitration.</p>	2.2.1 - 2.2.6 Non-existent or Zero	<p>2.2.1 MOP to present strategy and road map report for eProcurement to COM for approval</p> <p>2.2.2 (a) TBD</p> <p>2.2.2 (b) e-registration system developed</p> <p>2.2.3 50%</p> <p>2.2.4 Updated contract conditions</p> <p>2.2.5 TBD</p> <p>2.2.5 TBD</p> <p>2.2.6 TBD</p>	Government reports	
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Output 2.3	2.3 Improved Supervision of Non-Financial SOEs Through enhanced fiscal transparency, reporting, and accountability of SOEs	2.3.1 % of MOF listed SOEs re-classified 2.3.2 % increase of non-financial SOEs in database 2.3.3 Number of staff trained on fiscal risk analysis and monitoring (m/f) 2.3.4 Number of published external audits based on international standards on selected SOEs	2.3.1 - 2.3.4 Zero	2.3.1 – 2.3.3 TBD 2.3.4 >15% (2018)	Government reports	
OUTPUTS FOR SO3: LEGAL FRAMEWORK, FISCAL TRANSPARENCY, AND ANTI-CORRUPTION						
Output 3.1	3.1 Improved efficiency of Legal and Regulatory process through enhanced management model	3.1.1 Status of organizational review report 3.1.2 % of officers trained on legislative drafting (m/f) 3.1.3 Number of training sessions provided in modalities for reviewing rules 3.1.4 Number of rules reviewed 3.1.5 Number of rules reformed 3.1.6 Number of public consultation undertaken regarding reform of rules.	3.1.1 No report 3.1.2 – 3.1.6 Zero	3.1.1 Organizational review report is produced 3.1.2 – 3.1.6 TBD	Government and WBG reports	Commitment of relevant authorities to utilize new systems and TA delivered; Sufficient absorption capacity of TA by agencies and relevant officials;
Output 3.2	3.2 Enhanced Fiscal Transparency and increased awareness of national budget issues	3.2.1 Fiscal data portal development status 3.2.2 % of population reached through budget information/literacy campaigns 3.2.3 % of trained MoF Open Budget team (m/f)	3.2.1 TBD 3.2.2 and 3.2.3 Zero	3.2.1 One 3.2.2 and 3.2.3 To be defined at the inception phase of the project	Government reports	No excessive turnover of staff

Output 3.3	3.3 Strengthened Legislative Budget Oversight through improved functioning of Finance Committees at federal and Kurdistan Regional Government levels	3.3.1 Number of capacity building initiatives in support of review of organization and procedures 3.3.2 % trained members of parliamentary finance and budget committees at federal and Kurdistan Regional Government levels on budget oversight, scrutiny and legislative drafting and analysis(m/f)	3.3.1 TBD 3.3.2 Zero	TBD	Government reports	
Output 3.4	3.4 Strengthened External Audit Function through enhanced effectiveness of audits performed by the FBSA and Kurdistan Regional Government BSA	3.4.1 Status of ISSAI-compliant pilot audits 3.4.2 % trained Federal Board of Supreme Audit (FBSA) and Kurdistan Regional Government Board of Supreme Audit (Kurdistan Regional Government BSA) staff on ISSAI-compliant audit methodologies (m/f)	3.4.1 TBD 3.4.2 Zero	3.4.1 Pilot audit reports are issued 3.4.2 TBD	Government reports	
Output 3.5	3.5 Strengthened Institutions to combat and reduce corruption Institutions	3.5.1 Number of offices where pilot online case management system is installed 3.5.2 % Judges and Prosecutors trained on topics such as asset recovery, anti-money laundering, and procurement at federal and Kurdistan Regional Government levels (m/f)	3.5.1 Zero 3.5.2 TBD	3.5.1 and 3.5.2 TBD	Government reports	

** baseline and targets for indicators will be finalised before the signature of the contract agreement. A PEFA has been conducted and will be published towards the end of 2017. Once published, the scores will be used as baseline.*