



United Nations
Development Programme



Project Document

Budget Execution Support in the Kurdistan Regional Government

April 2009

Project Document

Project Title **Budget Execution Support in the Kurdistan Regional Government**

UNDAF Outcome(s): N/A
N/A

Expected CP Outcome(s): In the absence of UNDAF & CP, this project contributes to Economic Reform and Diversification pillar of the UN Iraq Assistance Strategy 2008-2010 : Outcome 1: Improved policies, strategies and related institutional developments that are sensitive to the MDGs, social inclusiveness, gender equality and pro-poor economic growth

Output 1

Budget policy, planning and formulation strengthened in the Regional Government.

Output 2

Budget execution and monitoring strengthened.

Output 3

Reporting, oversight and control systems reinforced.

Output 4

Management information systems and human resources upgraded.

Expected Output(s):
(Those that will result from the project)

Executing Entity: UNDP Iraq

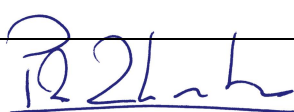
Implementing Agencies: UNDP Iraq

Brief Description																												
<p>The Project aims at strengthening the capacities of the Kurdistan Regional Government (KRG) in budget policy, planning, execution, and control. Improving this budgetary process is key to accelerate the Kurdistan Region stabilization, reconstruction and development efforts. In doing so, the KRG's budgetary capacity in policy, planning, execution and control will be strengthened, transparency and accountability in the mobilization and use of KRG public resources improved and capacity built for public financial management in the KRG.</p>																												
<p>Programme Period: __Thirty six months__</p> <p>Key Result Area (Strategic Plan): Strengthening responsive governing institutions</p> <p>Atlas Award ID: _____</p> <p>Start date: _____</p> <p>End Date _____</p> <p>PAC Meeting Date _____</p> <p>Management Arrangements _____</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Total resources available</td> <td style="width: 30%;">USD 950,000.00</td> <td style="width: 40%;"></td> </tr> <tr> <td>Total allocated resources:</td> <td>USD 950,000.00</td> <td></td> </tr> <tr> <td>Regular-TRAC</td> <td>USD 950,000.00</td> <td></td> </tr> <tr> <td style="text-align: center;">○</td> <td></td> <td style="text-align: right;">Government</td> </tr> <tr> <td style="text-align: center;">○</td> <td></td> <td style="text-align: right;">None</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Donor</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">TBD</td> </tr> <tr> <td>Unfunded budget:</td> <td>__TBD__</td> <td></td> </tr> <tr> <td>In-kind Contributions</td> <td>__N/A__</td> <td></td> </tr> </table>	Total resources available	USD 950,000.00		Total allocated resources:	USD 950,000.00		Regular-TRAC	USD 950,000.00		○		Government	○		None			Donor			TBD	Unfunded budget:	__TBD__		In-kind Contributions	__N/A__	
Total resources available	USD 950,000.00																											
Total allocated resources:	USD 950,000.00																											
Regular-TRAC	USD 950,000.00																											
○		Government																										
○		None																										
		Donor																										
		TBD																										
Unfunded budget:	__TBD__																											
In-kind Contributions	__N/A__																											

Agreed by the Government of Iraq: _____

Agreed by The Kurdistan Regional Government: _____

Agreed by (UNDP): _____



Note

The purpose of this document is to detail the future expansion of the budget execution support project beyond its start-up phase in the KRG. During the initial phase of the project, UNDP committed TRAC resources in the amount of \$950,000.00 to launch the original studies. As the original proposal did not reflect a full budget execution strategy including policy, planning, formulation, execution, reporting, and oversight, this revision has surveyed the KRG environment and issues surrounding all aspects of the budgetary processes. UNDP is now ready to propose an expanded strategy which is detailed in this document. Additional resource mobilization will be required and sought to fund all the proposed activities detailed below.

Table of Contents

- I. SITUATION ANALYSIS**
- II. STRATEGY**
- III. RESULTS AND RESOURCES FRAMEWORK**
- IV. ANNUAL WORK PLAN**
- V. MANAGEMENT ARRANGEMENTS**
- VI. MONITORING FRAMEWORK AND EVALUATION**
- VII. LEGAL CONTEXT**
- VIII. ANNEXES**
 - 1. Risk and Mitigating Log
 - 2. Documents in Project File
 - 3. Preliminary Budget
 - 4. PFM Reform Advisory Board
 - 5. Joint Project Formulation and Implementation Team
 - 6. Abbreviations and Acronyms
 - 7. Legal, Budgetary and Financial Definitions

PART I. SITUATION ANALYSIS

COUNTRY AND REGIONAL BACKGROUND

1. Iraq has abundant human and natural resources: a population of approximately 30 million inhabitants, the world's second-largest oil reserves, considerable gas reserves, and ample water. The oil sector dominates Iraq's economy: it accounts for two-third of the GDP and provides over 90 percent of government revenues. For the people of Iraq to benefit from hydrocarbons revenues, budget execution reforms in Iraq are a priority.
2. The Iraqi Constitution of 2005 allocates greater powers to the Kurdistan Regional Government (KRG) and governorates, particularly in the management of public resources. Thus, strengthening of public financial management practices in general and budget execution in particular at both the national and sub-national levels in Iraq is central to preserving the integrity and accountability of both the national and sub-national governments, and enabling efficient and effective resource management, budget execution, and service delivery.
3. With a population of around 4 million, the Kurdistan Regional Government (KRG) composed of three governorates namely Duhok, Erbil and Suleimaniah. KRG covers approximately 40,000 square kilometers. The capital and seat of the Kurdistan Regional Government is Erbil. The Kurdistan Regional Government exercises executive power according to the Kurdistan Region's Constitution and laws as enacted by the democratically elected Kurdistan National Assembly.
4. The current government is led by Prime Minister Nechirvan Barzani since 7 May 2006. Iraqi Kurdistan has been largely stable and autonomous region. It has remained isolated from the sectarian violence prevailed elsewhere in Iraq. The federal model for Iraq, established by the Constitution, has suited the KRG which has taken full ownership and control over its development agenda through a far reaching decentralization program. An important factor that has led to KRG's success is the stable parliamentary coalition between the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), which strengthened their voice and political clout at both regional and national levels.
5. A referendum on whether the Kirkuk Governorate should join the KRG, originally scheduled in December 2007, has been currently put on hold. Disagreements over the future of Kirkuk will continue to strain ties between the Kurdish and some Arab parties. Despite this contentious issue, the Iraqi Constitution of 2005 allocates greater powers to Kurdistan Region, particularly in the management of public resources.

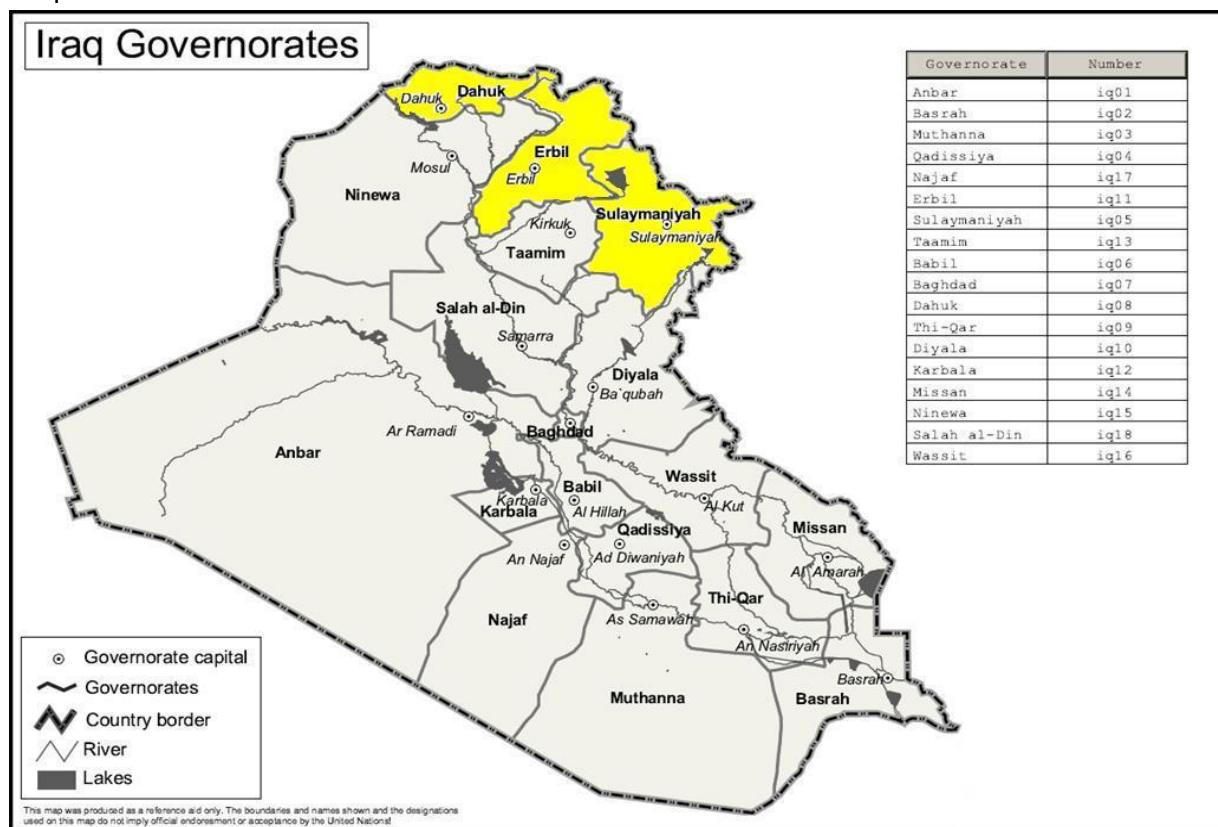
RATIONALE

6. In 2008, the Government of Iraq (GoI) adopted a Public Finance Management (PFM) Action Plan which was presented to donors in February 2009. This Action Plan provided a strategic framework for improving PFM at both central and sub-national levels. In this context, the KRG authorities sought UNDP assistance on 18 February 2009, in designing and implementing a Regional PFM Action Plan for the KRG.

7. The proposed Budget Execution Support (BES) project has supported this initiative from its inception phase. This project would provide the overall framework for donors' support to the KRG PFM Action Plan, focusing on budget execution. It will primarily target resource managers and their supervisors in the Ministry of Finance (MoF) and Ministry of Planning (MoP), as well as line ministries, the KRG Board of Supreme Audit (BSA), the Governor's Offices and the Kurdistan National Assembly. The project document builds upon the approved project titled "Preparatory Assistance for the Development of a Comprehensive Area-Based Recovery Programme in the Kurdistan Region of Iraq" which has been cleared by the Government of Iraq with total resources of US\$ 950,000.

PROJECT AREA

The project area is Kurdistan which is composed of three governorates namely Duhok, Erbil and Sulaymaniyah. KRG covers approximately 40,000 square kilometres in the north east of Iraq.



METHODOLOGY

8. The project preparation comprised of various activities, including:

- Consultations with UNDP Senior Management and staff working on Recovery & Crisis Prevention (RCP), Governance, Poverty Alleviation, and Security issues held;
- Desk review of documents including, the International Compact with Iraq (ICI), the National Development Strategy (NDS), and related reports on economic recovery, governance, public financial management, and decentralization from Gol and KRG, UN Agencies, the World Bank, Government of Japan, the Government of the United States, the Government of the United Kingdom, and other partners completed;

- Field visits for fact findings, data collection, and technical discussions with key stakeholders have been conducted;
- Analytical works to underpin the proposed project have been reviewed ; and workshops on BES best practices including lessons learned conducted;
- Missions undertaken to Erbil, Dohuk and Suleymania at different project preparation stages, notably inception, appraisal, and launch, aiming to ensure ownership of, and participation in, the proposed operation. These missions included meetings and seminars with KRG authorities from both executive and legislative branches including: Governorate Council (GC) Members, Technical Directorates, staff working in the Governor's Office, Regional Reconstruction Team (RRT), as well as international and local NGOs working in Kurdistan Region; and
- Consultations with other partners with a view to ensure coordination and harmonization on Public Finance Management (PFM) and Budget Execution Support (BES), including, the World Bank, JICA, USAID, and DFID have been conducted.

PROBLEM DESCRIPTION: BUDGETARY PROCESSES IN KRG

9. This section analyzes the KRG budgetary process, including fiscal decentralization and revenue allocations including; key issues affecting the budget policy, planning, execution, reporting processes and control; the efficacy and transparency of public procurement procedures; and accountability of payment and treasury operations. The section additionally reviews the budget management information systems (MIS) and human resource capabilities. It further discusses the alignment of the KRG's budgetary rules and procedures with the budget chain of the Central Government.

FISCAL DECENTRALIZATION, REVENUE AND EXPENDITURE OVERVIEW

10. Decentralizing budget execution is necessary to support the ultimate objectives of effective delivery of basic social services and investment in infrastructures at the local level. The legal foundation for the KRG budget can be found in several sources¹:
 - The Constitution of Iraq – 2005
 - CPA Order 71 – Local Governmental Powers – 2004 which is to be abolished by mid-March 2009
 - Law of Governorates Not Incorporated Into a Region – 2008
 - CPA Order 95 -Financial Management Law and Public Debt Law – 2004
 - Annual General Federal Budget Law
 - Annual Instructions on the Implementation the General Federal Budget
 - CPA Order 87 – Public Contracts – 2004
 - Regulations for Implementing Governmental Contracts – 2007
 - Instructions for Government Contract Execution – 2008
 - MoPDC Subsidiary Regulations and Guidelines

¹ Refer to Annex #9 for legal, budgetary and financial definitions and background of the above mentioned documents as well as a brief description of the Provincial Government Structure.

11. The KRG receives its share of the Federal Budget, which includes both operations and maintenance (O&M) expenses and capital investment funding. The O&M budget accounted for 71 percent of the total Federal Budget for 2008. The Central Government's Capital Budget covered 20 percent and the Regional Development Fund (RDF) amounted to 9 percent.

National Budget Analysis – 2008 (US\$ million)

	O&M Budget	Capital Budget	RDF Budget	Total Budget	O&M %	CG Inv. %	ARDP %	Total Inv. %
Original Budget 2008	\$36,826	\$9,234	\$3,826	\$49,885	74%	19%	8%	26%
Supplemental Budget 2008	\$14,298	\$5,183	\$2,870	\$22,351	64%	23%	13%	36%
Total Budget with Supplemental	\$51,124	\$14,417	\$6,695	\$72,236	71%	20%	9%	29%

KRG FISCAL REVENUE OVERVIEW

12. The KRG derives over 97 percent of its revenues from transfers from the Central Government. These transfers are highly dependent on oil revenues, which account for over 90 percent of Iraq's fiscal revenues. Fiscal transfers to Kurdistan fit into four categories (Table II.1):

- i) **The Divisible Pool:** According to the 2005 Constitution, the criteria for allocating revenues to Kurdistan Region identify national expenditures as sovereign expenditures as well as other in-kind expenditures, which are deducted before granting the Kurdistan Regional Government a population-based share of the divisible pool. This share is 17 percent, based on its national population. Kurdistan's cash allocations are transferred directly from the Central Bank of Iraq (CBI) to the Kurdistan Central Bank in Erbil two to three times per month, often with delays. The Ministry of Finance has reported that average delays, exceeded three months during 2008. The allocations for National/Sovereign Functions are accounted for by the Central Government to represent sovereign revenues. The 2008 Budget included 23 national functions and oversight activities, and made special provisions for security.
- ii) **In-kind Expenditures:** In-kind expenditure programs covering food rations, fuel subsidies, and medical drugs are deducted from the revenue pool. Within each program, KRG is expected to receive a share claimed at 17 percent. To date, in-kind allocations are subject to contentions between KRG and the Central Government about the lack of transparency in the calculation of actual transfers and values of such allocations. The KRG's authorities complained that the earmarked fuel subsidies have not been received for the past three years and also noted that portions of the food ration subsidies have been unjustly withheld by the Central Government.
- iii) **Regional Development Fund:** This Fund aims at supporting the development of all governorates. The KRG governorates received 1,034 billion Iraqi Dinars cash transfers from the Fund in 2008. However, this represented only 11.2 percent of the total Fund and was well below the share of 13.1 percent KRG used to receive under the Oil-for-Food Program. KRG is aiming at an allocation of 17 percent, with the KRG authorities seeking full commitment from the concerned central ministries in the disposition of this Fund as there seems to be no consistency in the application of the standard formula with reference to the determination of this allocations.

- iv) **Regional Development Banking Program:** Under this program, Kurdistan was allocated 60 billion Iraqi Dinars in 2006, amounting to 22 percent of total allocations for this development program in that year.

13. In addition, the KRG has the autonomy to collect its own revenues, mostly from customs at the borders of Turkey and Iran, and to a lesser extent from rent incomes and fees. The applied taxes and duties amount to 5 percent of the value of non-humanitarian goods imported into Kurdistan. KRG's own revenues were estimated at US\$162 million in 2007 and US\$177 million in 2008, representing less than 2.2 percent of transfer levels.

14. These revenues were not included in the Federal Budget and, therefore, were subject to disputes with the Central Government which contended that they should be reported to the Federal Budget in accordance with the law and regulations assigning customs as a national revenue source with uniformed taxation and administration across the country. This issue has now been resolved with the Central Government deducting the KRG's own revenues from its 17% fiscal transfers. More promising sources of local incomes would come from tax collections from production-sharing agreements in the oil sector, if and when the draft law on hydrocarbon is enacted.

Table II.1: KRG's Revenues from Federal Budget

Summary Allocations	2007			2008		
	IQD Million	USD Million	KRG Allocation	IQD Million	USD Million	KRG Allocation
Total Estimated Expenditures	51,727,468	41,054		86,683,832	72,237	
minus national sovereign expenditures	10,135,420	8,044		19,123,265	15,936	
minus in-kind programs (17% earmarked for KRG)	5,731,130	4,549	x (17%)	9,485,177	7,904	x (17%)
minus Reg Dev. Funds programs (13.1% shared with KRG)	3,000,000	-2,381	x (13.1%)	8,033,850	6,695	x (13.1%)
National Divisible Pool	32,860,918		x (17%)	50,041,540	41,701	x (17%)
KRG Allocation	5,586,356	4,434		8,507,061	7,089	
plus allocation for RDBP						
plus Regional Development Fund	396,000	314		1,034,310	862	
Total KRG Cash Allocations	5,982,356	4,748		9,541,371	7,951	
To be withheld				263,511		
Balance				9,277,860		

Exchange rate: US\$ 1.00 = IQD 1,197 in 2008

Source: KRG Minister of Finance

15. Like the rest of the country, KRG's dependence on volatile oil revenues has made the budgetary process highly unpredictable. With rising oil prices, the authorities embarked into ambitious expenditure programs, especially over the last year. These programs are now being scaled down and subject to further adjustments in the light of the sharp fall in oil revenues expected during 2009-2010. Depending on where the average price of oil settles for the year, KRG revenues could be substantially different at the end of the year than at the beginning. In the absence of sustainable mechanisms for managing overall fluctuations in oil revenues, at both central and local levels, fiscal management remains a key challenge for KRG Authorities.
16. To cope with such a volatile situation, international experience suggests de-linking the medium term expenditure planning from the short-term oil revenue estimates. KRG's appropriate levels of expenditures would ideally be determined in the context of a medium-term expenditure framework (MTEF). Such a framework should be based on some agreed-upon standards to budget for core expenditures, based on essential needs and fiscal capacity. The MTEF would also note the quality and sustainability of expenditure levels by ensuring that capital projects are completed as planned and budgeted, rather than their completion being contingent on the fluctuations of oil revenues and transfers. A full discussion of an MTEF is beyond the scope of this project; however, it is a critical tool for consideration by the authorities in order to strengthen their capacity for making fiscal projections, managing revenues, and enhancing budget credibility and sustainability in the medium and long term.

KRG FISCAL EXPENDITURE OVERVIEW

17. On the expenditures side, KRG's fiscal spending fit into three categories: wages, recurrent non-wages, and capital expenditures. A breakdown of these categories is provided in Table II.2 below. Wage bills which accounted for over 36 percent of total spending in 2007 put heavy pressures on fiscal sustainability and contributed to crowding out capital expenditures. These pressures were driven by both the size of the civil service and its accompanying payroll and were further exacerbated by the use of civil service for social safety nets.

Table II.2: KRG's Aggregate Expenditures
(IQD millions)

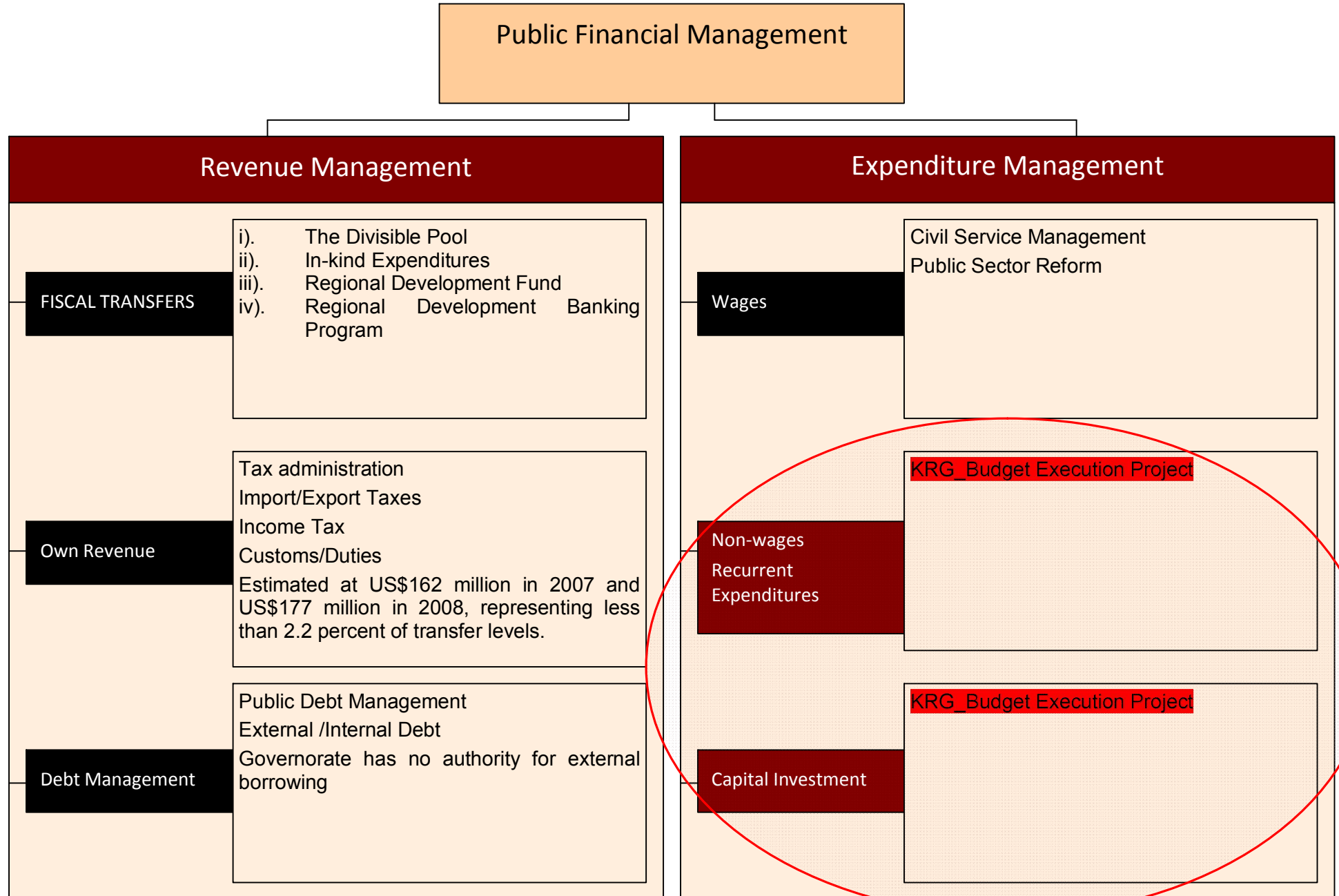
Category	2007			2008		
	Received	Spent	% of total	Received	Spent	% of total
Wages	1,800	2,180	36%	2,800	2,789	29%
Recurrent non-wages spending	2,216	1,839	31%	2,286	2,289	24%
Capital expenditures	1,966	1,975	33%	4,191	4,442	47%
Total	5,982	5,994	100%	9,277	9,520	100%

Source: KRG Ministry of Finance

18. To address wage bill issues, significant efforts are needed to transform the KRG's civil service from its current role of social safety net into a professional and modern civil service. This will require a far reaching civil service reform program combined with new ways of providing cost-effective social transfers. These activities are beyond the scope of the proposed BES Project.

UNDP'S AREA OF INTERVENTION

19. This project will focus on improving the efficiency of non-wage recurrent and capital expenditures, by helping set priorities across key sectors and ensuring that spending within sectors is efficient and reaches front-line service delivery units such as schools and clinics. A flowchart reflecting UNDP Budget Execution intervention in the KRG is provided below:



20. The design of the BES project is timely to support the efforts aimed at accelerating the reconstruction efforts in the KRG by the Authorities. These efforts were reflected in the increased of capital expenditures from 33 percent of total budget in 2007 to over 47 percent in 2008. This was accompanied by a reduction of both the wage bill and other recurrent (non-wage) expenditures whose shares of the total budget fell from 36 percent to 29 percent and from 31 percent to 24 percent, respectively, during the same period.

BUDGET POLICY

21. The KRG has not yet established regional and sectoral policies and strategies linked to the budget planning, and execution. Sector budget allocations are project rather than policy based. Failure to link policy, planning, and execution have contributed to poor budgeting outcomes. In the absence of a clear policy mechanism, policy making and planning often disconnect from each other and from budgeting. This is due to the fact that they are not constrained by resource availability or by strategic development priorities. Overall, this leads to mismatches between what is promised through regional government policies and what is affordable. The annual budgeting process therefore becomes more about scrambling to keep things afloat rather than allocating resources on the basis of clear policy choices to achieve strategic development objectives. This situation was reflected in the Ministry of Agriculture's five-year public investment program, which compiled several projects totaling more than US\$ 10 billion, without clear priorities or resources identified.
22. Nevertheless, the Authorities are striving to move from the current ad hoc system of sector budget allocations based on projects towards policy - based budgeting. Reforming the budget cycle is a key step towards this direction. Currently the budgetary process in the KRG is governed by the Financial Management Law and Public Debt Law set out in the CPA Order 95, which is also used at the Central Government level. Budget proposals are collected by the Ministry of Finance and the Minister of Planning respectively for the recurrent and capital budgets from the line ministries and the Finance Directorates in each Governorate who negotiate budget figures. Upon completion of these negotiations, the Council of Ministers deliberates over budget proposals and identifies priorities based on the total fiscal transfers received from Baghdad. This budget will be subsequently approved by the Parliament. This process however remains unpredictable given the uncertainties of the timing and amounts of transfer and cash flows released to the KRG's Central Bank.

BUDGET PLANNING AND FORMULATION

23. Strengthening the planning tools of the budget is essential to enhance its credibility and effectiveness. At present, sector expenditures are not fully aligned with strategic priorities. Budget requests do not reflect strategic priorities within sectors, or more broadly across sectors. The lack of budget predictability makes it difficult for ministries to effectively plan and implement programs with programs tending to be project based rather than policy based.
24. This situation is compounded by low capacity, poor statistical systems, and scarce skilled workers. In case of hard budget constraints, capital budgets are often rationed by the Council of Ministers without clearly identified rules and priorities. In this context, Kurdistan Region ministries reported that they have not been informed on ex-ante budget ceilings or on the criteria for ex-post arbitration by the Ministry of Finance and/or the Council of Ministers.

25. The KRG's financial planning cycle starts in June every year. Budget proposals are collected from ministries at mid-year to prepare for the following year's budget. The tables are sent out from the Ministry of Finance (MoF) to have the first half of that year's actual budget and the following year's estimated budget filled in. Based on the completed tables, the MoF and Ministry of Planning (MoP) start negotiations with line ministries on their recurrent and capital budgets, respectively. The MoP deals with capital investments and the MoF with recurrent spending. On the basis of priorities set by the Parliament, the Council of Ministers allocates budget according to priorities, but not based on any regional development strategy. Allocations for on-going projects are made first before funds are provided to new projects, until the budget is divided out. Projects are subsequently implemented based on needs.

26. However, there are many obstacles in this process. Unless the Budget Law is enacted by the Council of Representatives of Iraq, funds will not be sent to the KRG. While waiting for this process to finalize, KRG ministries are only permitted to spend portion of their previous' years monthly expenditures until the current budget is approved. As a result, in the KRG, the cash flow is not only delayed, but it is unknown when approval from Central Government is expected and when funds are transferred to KRG. In fact, discussions on the budget should normally start in June with relevant ministries and the budget transferred in December, as the fiscal year is from January to December.

27. Furthermore, when the KRG Council of Ministers demands allocations of funds for certain projects, those projects are added to the list of priorities and/or funded through deduction from other projects. Other politically motivated deviations of the allocation procedure also occur. These ad hoc arrangements have hampered the predictability of the budgetary process which has become more dependent of political factors rather than development priorities and implementation capacities.

28. In addition, budget formulation has been hampered by the lack of clearly defined rules and budget ceiling. To help address this situation, the authorities plan to introduce budget call circulars (BCCs) once adopted at the national level, and requested technical assistance to help prepare and disseminate BCC user guidelines and train staff.

29. Apart from the Ministry of Education where some noticeable efforts have been reported; a multi-year perspective is not effectively followed in most line ministries within fiscal planning. In several instances, capital projects lack adequate budgeting of recurrent costs for operation and maintenance. Budget planning also suffers from the lack of medium-term perspective and reasonable assurances that capital projects, once approved by KRG, will continue to be funded by federal transfers. As a result, spending ministries often sign contracts only when the cash is at hand, resulting in an erratic pattern of spending.

BUDGET EXECUTION AND MONITORING

30. Some of the main factors affecting budget execution in the KRG include: low credibility; lack of transparency, accountability and predictability; weak reporting, no monitoring and evaluation processes; and upstream and downstream constraints on capital and recurrent expenditures. From the onset, budget execution has been hampered by irregular and unscheduled transfers from the Central Bank of Iraq to the KRG Central Bank.

31. These transfers were not based on realistic projections of the Central Government and sometimes came at the end of the month and, in other instances, the month after. The delays reached one month for recurrent expenditures and over two months for capital expenditures, delaying payments and project funding. The KRG Authorities sought cooperation from the Central Ministry of Finance and the CBI to make cash flows available at the beginning of the month based on clearly defined policy, in order to be able to plan and execute the budget more accurately.
32. KRG budget execution requires significant improvements, as reflected in Table II.3 below which provides aggregated expenditure data for the two sub-administrations Erbil/Duhok and Al Suleimaniah over the last two years. Total allocations received by the KRG were in line with anticipated budgets; however transfers were often executed on irregular basis which in turn caused some payment delays. The rate of budget execution exceeded 100 percent; however, sizeable deviations were reported in the composition of actual spending each year.
33. For instance, capital spending exceeded the budgeted amount by over 90 percent in 2007 and by 101 percent in 2008, suggesting inadequate budgeting of investment projects from the outset. Furthermore, in 2007, salaries exceeded their budgeted amounts by 25 percent. On the other hand, governing expenses were 30 percent lower than the budgeted amount that year. These deviations were subsequently corrected and, in 2008, the actual expenses under these two categories (salaries and governing expenses) were consistent with their respective budgets as established at the beginning of the fiscal year.
34. Budgetary tools for monitoring spending also need to be strengthened. At present, information sharing from the Ministry of Finance with line ministries is not systematic and these ministries often lack reliable data on the availability of funds and therefore cannot commit expenditures in a timely fashion. The budgetary process is also deficient in several areas related to comprehensiveness and transparency. Currently the KRG budget is prepared on the new system adopted by Baghdad based on IMF GFS 2001. It should be note that the manual on the chart of accounts is not yet available. This manual is being finalized in Baghdad and will need to be rolled out and disseminated in the KRG as well. The budget additionally lacks critical data from donor-funded projects which are not tracked nor accounted for by KRG Ministry of Finance.

Table II.3: Summary Budget Execution in KRG - (IQD billions)

Erbil/Dohuk/Suleimaniah				
	2007 Budget	2007 Realized	2008 Budget	2008 Realized
Total Allocations	6,106	6,199	10,097	9,490
Transfers (Cash)	5,982	5,994	9,541	9,541
Own Revenues	124	205	556	212
Withheld				263
Expenditures				
Salaries	1,500	1,879	2,500	2,456
Pensioners Salaries	300	301	300	337
Service Requirements	45	62	202	76
Goods Requirements	100	82	229	94
Asset Maintenance	130	135	108	110
Capital Expenditure	185	351	185	372
Governing Expenses	1,756	1,209	1,562	1,637
Investment Projects	1,966	1,975	4,455	4,442
Total Expenditures	5,982	5,994	9,541	9,524
Withheld				263

Source: KRG Ministry of Finance

35. The MoP stressed the need to improve the quality of capital projects and their selection process in order to enhance the budget effectiveness in delivering public services. The MoP has been playing an increasing role in screening projects at entry and monitoring the quality of capital investment in the existing portfolio, which has resulted in the MoP requesting further technical assistance to strengthen its capacity in these areas.
36. Other factors affecting the budget performance include delays in project execution by sector ministries after their approval; lack of adequate information from the Technical Departments in Governorates to allow timely redeployment of un-disbursed funds of non-performing projects in line ministries; poor execution of public capital projects and weak oversight by beneficiary ministries, leading to inefficient execution; delays in execution, weak capacities of some contractors, cost over-run disputes, lack of speedy dispute resolution mechanisms; payment constraints and delays resulting from deficient treasury operations, inefficient cash budgeting system, and weak banking system for financial intermediation.

BUDGET REPORTING, OVERSIGHT AND CONTROL

37. KRG operates a cash-based system of accounting which does not fully identify, capture and record commitments. Cash transfers are made by the MoF to respective bank accounts of spending units with minimal controls over appropriations. At the Treasury Department, such transfers are booked as expenses. The reconciliation and consolidation of accounts are done manually. Reporting is limited to preparation of trial balance which is essentially a book balancing tool. It provides no standard reports for budget variance, cash flows, or fixed assets. This results in the accounting system being unable to provide full and timely information on budget performance.
38. Financial reporting is still done manually in several spending units, and in instances where reporting is computerized, there is no integrated financial management information system compatible across ministries. Two types of information systems exist: (i) a centralized system which belongs to the Treasury Department and is used for all payments processed by it; and (ii) a decentralized system which is used for all payments within the ministry or other spending unit.
39. Oversight and internal controls are carried out within each spending unit by internal auditors. Internal audits also cover administrative and personnel issues. For these controls to be effective, procedures should be clear, predictable and standardized, which is not the case in the KRG. Furthermore, the depth and coverage of these controls vary from one ministry to another. The KRG Board of Supreme Audit (BSA) provides overall guidance for maintaining a system of internal controls and conducts the external audits after the implementation of the budget. However, the BSA does not receive the consolidated financial statements transmitted to the Parliament by the Ministry of Finance in a consistent and timely fashion, which has caused further delays in auditing accounts.
40. Another inconvenient issue is the existence of two BSA structures: (a) the first one in Erbil covering Dohuk and Erbil Governorates, which is mandated to audit MoF's reports; and (b) the second structure in Suleimaniah, which only covers the Governorate of Suleimaniah. The full integration of these two structures is in progress but continues to pose organizational and technical challenges to ensure unified procedures and standardized auditing framework in the KRG.
41. Other challenges facing the BSA relate to: (a) the lack of qualified staff and shortage of capacity; (b) the need to upgrade its auditing practices in order to meet sound international standards; and (c) the need to affiliate the BSA with regional and international auditing institutions, such as INTOSAI, ARABSAI and ASOSAI.

PUBLIC PROCUREMENT FUNCTION

42. Public procurement in KRG broadly follows Iraq's national standards. Current procedures have a number of features that are not in line with generally accepted standards of good practice. These range from inadequate requirement for registration of suppliers and contractors, an absence of adequate bidding documents to insufficiently transparent bid submission, opening and evaluation procedures, and contract award procedures as well as lack of effective bid protest mechanisms and publicity on contract awards.

43. However, new procurement law and standard bidding documents are now being developed at the national level with support from the World Bank, the United States and other partners. The draft law and regulations were signed off by the Government of Iraq in 2008 and are under review by the Shura Council, before being submitted to Parliament for approval. Looking forward, technical assistance should be provided to KRG Authorities to implement these new guidelines and procedures which are intended to conform to international sound practices.

PAYMENT AND TREASURY OPERATIONS

44. The KRG Authorities sought technical assistance to analyze and strengthen the efficacy of public expenditures and related treasury operations. Currently, both the Central Government and sub-national governments use cash-based payment systems which provide authorities to make cash payments over the fiscal year only, thus precluding the ability to make future commitments, notably for multi-year capital investment. Furthermore, KRG does not seem reasonably assured that their capital projects will be funded continuously by the Central Government. As a result, KRG Authorities sign contracts only when the cash is at hand, resulting in an erratic pattern of spending or, in some cases, no implementation at all.

45. To date, there are eight treasuries in the KRG, including one in central Erbil, four outside Erbil in Akre, Dohuk, Soran and Zakho, and three in Suleimaniah. However, these centers are not interconnected nor linked with the MoF/MoP, resulting in a lack of real time information on their operations. The Authorities sought UNDP to assess the treasuries' and banks' work process. The banks play a key role in tracking the cash movements and thus provide another means to control the spending units through monitoring of their accounts and reporting on their bank statements.

MANAGEMENT INFORMATION SYSTEM AND HUMAN RESOURCES

46. There is no integrated financial management information system for computing budgetary operations on real time. An information technology system is in place to manage the budget at the MoF, however, it is not sufficiently comprehensive and is not extended to all spending units. The Authorities have recently prepared a project for an information technology strategy, with relevant financial management applications. However, no funding has yet been mobilized to support this initiative. Care should also be given to ensure not only integration and consistency of budget MIS software and hardware within the KRG budgetary chain, but also with the system under operation at Central Government.

UNDP AND DONORS' EXPERIENCE IN BUDGET EXECUTION SUPPORT

UNDP'S EXPERIENCE IN BUDGET EXECUTION SUPPORT

47. UNDP Iraq has an extensive and diverse experience in "Area Based Development" (ABD) mechanism and recovery in some part of Iraq since 1995. The UNDP Iraq team has experience in delivering budget execution programs as well as building legislative and institutional capacity in Iraq. UNDP is successfully implementing its Budget Execution Support Program in Al Basra, and continues to support the strengthening of Al Basra Governorate institutions in order to enhance efficient and effective resource management, budget execution and service delivery. Currently, budget execution projects are being initiated in Erbil and Al Anbar. UNDP Iraq permanently has 5 offices in Baghdad, Al Basra, Erbil, Al Najaf and Al Ramadi. In addition, UNDP Iraq has a network of trusted national partners that have extensive experience in the delivery of development activities.

DONORS' EXPERIENCE IN BUDGET EXECUTION SUPPORT

48. This project capitalizes on the governance and public finance activities carried out over the past three years by the Government of Iraq and the KRG Authorities with support from UN Agencies, the World Bank, Japan (JICA), the United States (US Treasury and USAID), the United Kingdom (DFID), and other partners. This project is the pilot phase for introducing an integrated programmatic approach which combines area-based development with capacity building initiatives, and which targets the sub national levels of government.

PART II. STRATEGY

49. The role of UNDP in Iraq is derived and defined from Security Council Resolutions (SCR) 1546 (2004) and SCR 1770 (2007) as well as the UNDP 2008-2011 Strategic Plan and the UN Iraq Assistance Strategy 2008-2010. At the national level, UNDP's budget execution assistance strategy and intervention in Iraq is aligned with the Government of Iraq's (GoI) national priorities, namely the National Development Strategy (NDS) (2005- 2007 and 2007 - 2010); as well as objectives set forth in the International Compact with Iraq (ICI) (2007) and the Millennium Development Goals (MDG) benchmarks.
50. UNDP's overarching objective is to help the KRG build efficient, inclusive, transparent and accountable institutions for good governance, and sustainable economic recovery. As a member of the United Nations Country Team (UNCT), UNDP's work program is organized around the eight interagency SOTs that focus on education, water sanitation, health and nutrition, housing and shelter, food security, governance support, economic reform and diversification, and protection. The endorsement of this strategy paved the way for a US\$1.3 billion allocation for the UNDG Iraqi Trust Fund as of 30 June 2008.
51. This project will attempt to establish stronger linkages with current and future UNDP projects, namely with the anti-corruption project, the BSA support project, the decentralization and local governance project, the public sector reform programming project, the private sector development program project and the LADP project.
52. **The main objective of the proposed BES Project is to support the KRG's efforts to develop more effective, accountable, and transparent public financial management systems.** The project will help strengthen budget formulation, execution and control, improve public financial reporting, modernize public procurement, and develop capacity in PFM. The Project design was based on the Draft Logical Framework proposed by UNDP and adopted by the members of the KRG Joint Project Formulation Team on 18 February 2009.
53. On 18 February 2009, the Authorities requested UNDP's support to prepare a regional PFM Action Plan for the KRG. This Action Plan will provide an overall policy and operational framework for: (a) designing and implementing an integrated PFM reform and institution building program; (b) aligning this program with the PFM Action Plan currently implemented at the national level; and (c) fostering coordination and helping to mobilize donors' support to priority reforms and capacity building.
54. The proposed Action Plan would comprise time bound indicators for monitoring progress of budgetary reforms. To ensure broad-based ownership of and participation in this reform program, a workshop will be organized in April 2009 to bring together key stakeholders involved in public finance and budget execution from both the executive and legislative branches of KRG , as well as representatives of the Central Government and donors. The adoption of the Action Plan is a key outcome of the project.
55. The BES Project built on various analytical reports carried out by USAID, DfID and/or the World Bank, including the Public Finance Institutional Assessment (2008) and Diagnosis of Sub-national Public Financial Management (2007). The Project has also benefited from individual meetings with the KRG Deputy Prime Minister, Acting Finance Minister and Deputy Finance Minister, the KRG Minister of Planning and his staff, the Minister of Municipality and her staff, the Minister of Electricity and his staff, the Head of the Supreme Board of Audit and his staff, the KRG Office of Coordinator for the UN Affairs-OCUNA, the Speaker for the KRG Parliament, the USAID Director of Regional Reconstruction Team, from various experts from regional line ministries, and all members of the Joint Project Formulation Team.

The Project's logical framework summarized its main outcomes, outputs and activities. It has four components aiming at strengthening: (i) budget policy, planning and formulation; (ii) budget execution and monitoring; (iii) reporting, oversight and control; and (iv) MIS and human resources.

56. Component 1: Strengthening Budget Policy, Planning and Formulation: This component aims at laying strong foundations for a policy and planning framework to support a credible annual budgeting process framed by a medium-term perspective and complemented by more rigorous policy and planning regional development strategy and detailed sector strategies.

Outputs include:

- A regional PFM Action Plan is established
- A framework for donor coordination in support of the proposed KRG PFM Action Plan is established.
- A regional development strategy (RDS) aligned with NDS, ICI and MDG is completed.
- Draft sector development strategies (SDS) aligned with NDS, ICI and MDG, completed
- KRG Budgets for 2010-2011 are policy-based and address both capital and recurrent expenditures in key sectors in a medium term framework.
- New Budget Users Manual implemented and adhered to
- A communication strategy is prepared.

Activities include:

- Drafting a regional PFM Action Plan
- Organizing a workshop with stakeholders to review the Draft regional Action Plan
- Organizing and establishing a KRG led donor coordination group on PFM
- Providing technical assistance (TA) to assist the Governorate prepare a costed RDS
- Providing TA to help ministries (Education, Health and Labor) prepare their MDG-based SDS
- Providing TA to help prepare multi-year public investment program (PIP) in these sectors
- Organizing stakeholders' consultations to review the proposed PIP and SDS
- Provide TA to MoF/MoP in linking regional/sector development policies with budget formulation in multi year planning
- Communication and capacity strengthening in the use of new budget planning tools and procedures
- Disseminating the Budget Manuals that are being developed in Baghdad in the KRG
- Conducting on-the-job training to support implementation of the new Budget Manual
- Designing and implementing a communication strategy to explain the purpose and benefits of the reform to all stakeholders and the general public
- Hiring an expert in fiscal decentralization to advise KRG authorities on international good practices.

57. Component 2: Strengthening Budget Execution and Monitoring: This component aims at strengthening budget execution through enforcement of budget call circular, upgrading of procurement practices, and reinforcement of payment and treasury functions.

Outputs include:

- New Budget Call Circular (BCC) is implemented by KRG Authorities, once adopted.
- A diagnosis of staff skills in financial management is conducted in the Governor's Office and the capacity strengthening program is established.
- Once adopted at the national level, the new procurement laws, regulations, standard bidding, evaluation, and reporting documents are disseminated and implemented in KRG.
- Technical capacities and skills of procurement departments are reinforced.
- Regional public procurement information and monitoring system in order to track all procurement processes established.
- New procedures for cash payments are implemented in the KRG, consistent with those implemented at the national level, allowing timely payments to be executed.
- New procedures to account for commitments which are consistent with the national system are implemented.

Activities include:

- Reviewing of international good practices in preparing BCC for sub national government.
- On-the-job training of budget officers to support implementation of the new BCC.
- Designing and implementing of training courses is conducted in the Governor's Office.
- Reviewing the process of coordination between the KRG Ministry of Planning (MOP) and Ministry of Finance (MOF) in the execution and monitoring process of the budget.
- Disseminating new procurement laws and regulations and standard documents, once enacted at the national level.
- Designing a skill enhancement program of key public procurement officers in KRG.
- Setting-up internet-based public procurement information and monitoring system.
- Publishing a procurement bulletin to track progress and enhance accountability.
- Diagnosing current cash release system with a view to introduce in KRG the new rules and procedures being developed at national level.
- Supporting the roll-out and dissemination of the new cash payment system to spending units in KRG.
- Establishing information management system to link all eight treasuries to MoF.
- Revising the forms and content of cash flow statements.
- On-the-job training in implementing the new accounting and payment systems.

58. Component 3: Strengthening Budget Reporting, Oversight and Control: This component aims at improving information on financial flows and strengthening both internal and external controls in order to enhance accountability and transparency over the use of public resources and mitigate related fiduciary risks.

Outputs include:

- A modern budget reporting framework is implemented.
- Internal control systems are assessed and new guidelines issued.
- Capacity of the KRG Board of Supreme Audit is reinforced.
- Public accounts are audited and publicized in a timely fashion.
- Linkage with International Auditing Institutions established with SBA (ArabSai; Intosai; Asosai).

Activities Include:

- Reviewing and identifying gaps in the reporting framework, including procedural guidelines, documentation and forms
- Reviewing rules and procedures for reporting financial statements to the BSA to allow the BSA to be fully informed and conduct timely audits
- Assessing reporting tools and capacity of spending units
- Designing analytical guidelines for budget analysis and capacity strengthening of Budget Officers.
- Diagnosing budgetary internal control systems.
- Drafting of new controls, reporting, and accountability guidelines
- Capacity strengthening of Inspector General
- Supporting the linkage between the International Auditing Institutions and KRG SBA.

59. Component 4: MIS and Capacity Building: This component aims at upgrading the financial management information system, both hardware and software, and strengthening the capacity of the staff involved in the budgetary processes.

Outputs include:

- The KRG financial and management information system (FMIS) software and hardware are supported and key functions are automated.

Activities include:

- Conducting a need assessment of KRG's FMIS software and hardware
- Assessing the extent of automation of procedures along the budget cycle
- Stock-taking of the skill levels in key budgetary units
- Designing sustainable skill enhancement programs.

PART III. RESULTS AND RESOURCES FRAMEWORK

Intended Outcome as stated in the Country Programme Results and Resource Framework: Refer to I. Situation Analysis				
Outcome indicators as stated in the Country Programme Results and Resources Framework, including baseline and targets: Refer to I. Situation Analysis				
Applicable Key Result Area (from UNDP 2008-11 Strategic Plan): 1.1 Promoting inclusive growth, gender equality and MDG; 5. Macroeconomic policies, debt-sustainability frameworks, and public financing strategies promote inclusive growth and are consistent with achieving the MDGs; 2.2 Strengthening responsive governing institutions; 4. National, regional and local levels of governance expand their capacities to reduce conflict and manage the equitable delivery of public services				
Applicable Key Result Area (from UN Iraq Assistance Strategy 2008-2010): Economic Reform and Diversification: Outcome 1: Improved policies, strategies and related institutional developments that are sensitive to the MDGs, social inclusiveness, gender equality and pro-poor economic growth; Output 1.1: Strengthened capacities for federal budget preparation and execution				
Partnership Strategy: N.A.				
Project title and ID (ATLAS Award ID):				
INTENDED OUTPUTS	OUTPUT TARGETS FOR (YEARS)	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS
<p>Output 1:Budget Policy, Planning , Formulation as well as institutions strengthened in the KRG</p> <p>Baseline: Non existent strategic planning</p> <p>Indicators: - 3 workshops held with stakeholders to respectively review the draft PFM Action Plan, Regional Development Strategy and Sectoral Development</p>	<p>Targets (2009) - A regional PFM Action Plan aligned with NDS, ICI, current WB project and MDG prepared</p> <p>Targets (2009) - A framework for donor coordination in support of the proposed KRG PFM Action Plan established</p>	<p>1 A regional PFM Action Plan aligned with NDS, ICI, current WB project and MDG prepared .</p> <ul style="list-style-type: none"> ▪ Draft a regional PFM Action Plan, with a road map for reforms; ▪ Organize a workshop with stakeholders to review the Draft Action Plan; ▪ Consult with Officials to support Action Plan ownership and adoption. <p>2 A framework for donor coordination in support of the proposed KRG PFM Action Plan established</p> <ul style="list-style-type: none"> ▪ Organize and establish a KRG led Donor Coordination Group on PFM. <p>3 A Regional Development Strategy (RDS) aligned with NDS, ICI and MDG</p>	<p>KRG Minister of Planning/UNDP-Iraq</p> <p>KRG Minister of Finance and Minister of Planning/UNDP-Iraq</p>	

<p>Strategy</p> <ul style="list-style-type: none"> - 3 strategic planning documents (i.e PFM Action Plan, Regional Development Strategy and Sectoral Development Strategy) prepared and adopted for the KRG - New Budget Users Manual implemented and adhered to in the KRG - # of staff who underwent on-the-job training to implement the new budget users manual - Policy-based 2010-11 KRG Budget formulated - Communication strategy prepared 	<p>Targets (2011)</p> <ul style="list-style-type: none"> - A regional development strategy (RDS) aligned with NDS, ICI and MDG costed completed <p>Target (2011)</p> <ul style="list-style-type: none"> -Draft sector development strategies aligned with NDS, ICI, and MDG completed <p>Target (2010)</p> <ul style="list-style-type: none"> -KRG Budget for 2011 are policy based and address both capital and recurrent expenditures in key sectors in a medium term framework <p>Target (2010)</p> <ul style="list-style-type: none"> -New Budget Users Manual implemented and adhered to in the KRG 	<p>is costed, completed.</p> <ul style="list-style-type: none"> ▪ Provide technical assistance to assist the Governorate to prepare a costed RDS; ▪ Organize a workshop with stakeholders to review the draft strategy; ▪ Conduct consultations with Officials to support its adoption. <p>4 Draft sector development strategies (SDS) are aligned with NDS, ICI and MDG, completed.</p> <ul style="list-style-type: none"> ▪ Provide technical assistance to assist selected ministries (Education, Health and Labor) prepare their MDG-based SDS; ▪ Provide technical assistance to prepare multi-year public investment program (PIP) in these sectors; ▪ Organize a workshop with stakeholders to review the proposed PIP and SDS <p>5 KRG Budgets for 2010-2011 are policy-based and address both capital and recurrent expenditures within key sectors in a medium term framework.</p> <ul style="list-style-type: none"> ▪ Provide advisory services to MoF/MoP in linking regional/sector development policies with budget formulation in multi year planning ▪ Provide communication and capacity strengthening in the use of new budget planning tools and procedures. <p>6 New Budget Users Manual implemented and adhered to in the KRG</p> <ul style="list-style-type: none"> ▪ Disseminate in the KRG the Budget Manuals that are being developed in Baghdad ▪ Conduct on-the-job training to support 	<p>KRG Minister of Planning/UNDP-Iraq</p> <p>KRG Minister of Planning/UNDP-Iraq</p> <p>KRG Minister of Finance and Minister of Planning/UNDP-iraq</p> <p>KRG Minister of Finance and Minister of Planning/UNDP-</p>	
---	--	---	---	--

	<p>Target (2009)</p> <p>-A communication strategy prepared</p>	<p>implementation of the new Budget Manual</p> <p>7 A communication strategy is prepared</p> <ul style="list-style-type: none"> ▪ Design and implement a communication strategy to explain the purpose and benefits of the reform to all stakeholders including the central government, regional Ministers, senior officials and the general public ▪ Hire a legal expert in financial & budgetary decentralization using the example of other countries to support the KRG 	<p>iraq</p> <p>KRG Minister of Finance/KRG National Assembly/UNDP -Iraq</p>	
<p>Output 2: Budget Execution/ Monitoring as well as institutions strengthened</p> <p>Baseline: N/A</p> <p>Indicators:</p> <ul style="list-style-type: none"> - New Budget Call Circular (BCC) implemented by KRG - # of budget officers who underwent on-the-job training on implementation of the new BCC - Sub-national budgetary functional analysis at the Governor's Office conducted - # of staff trained on financial management - New procurement laws and regulations and standard documents implemented in KRG, once enacted at the national level - # of staff trained procurement 	<p>Targets (2010)</p> <p>- New Budget Call Circular (BCC) is implemented by KRG</p> <p>Targets (2010)</p> <p>- A diagnosis of staff skills in financial management is conducted in the Governor's office and a capacity strengthening program is established</p> <p>Target (2010)</p>	<p>8 New Budget Call Circular (BCC) is implemented by KRG</p> <ul style="list-style-type: none"> ▪ Review of international good practices in preparing BCC for sub-national governments; ▪ Conduct on-the-job training to Budget Officers to support implementation of the new BCC. <p>9 A diagnosis of staff skills in financial management is conducted in the Governor's office and the capacity strengthening program is established</p> <ul style="list-style-type: none"> ▪ Conduct full sub-national budgetary functional analysis at the Governor's Office to ascertain capacities in budget execution. ▪ Design and implement training courses in the Governor's Office. ▪ Review the process of coordination between the KRG Ministry of Planning (MOP) and Ministry of Finance (MOF) in the execution and monitoring process of the budget. <p>10 Once adopted at the national level, the</p>	<p>KRG Minister of Finance /UNDP-Iraq</p> <p>KRG Governor's office/UNDP-Iraq</p> <p>All the KRG</p>	

<p>and related regulations</p> <ul style="list-style-type: none"> - Public procurement functional analysis conducted at the Governor's Office - Internet-based public procurement information and monitoring system set-up - Diagnosis of current cash release system conducted - Timely cash payments implemented (without delays longer than 1 month) - Information management system to link all treasuries to MoF established - # of treasury staff who underwent on-the-job training to implement of the new accounting and payment system 	<p>- Once adopted at the national level, the new procurement laws, regulations, standard bidding, evaluation, and reporting documents are disseminated and implemented in KRG</p> <p style="text-align: center;">Target (2010)</p> <p>- Technical capacities and skills of procurement departments are reinforced</p> <p style="text-align: center;">Target (2011)</p> <p>- Establish sub-national public procurement information and monitoring system in order to track all procurement processes</p> <p style="text-align: center;">Target (2011)</p> <p>- New procedures for cash payments are implemented in the KRG, consistent with</p>	<p>new procurement laws, regulations, standard bidding, evaluation, and reporting documents are disseminated and implemented in KRG</p> <ul style="list-style-type: none"> ▪ Disseminate new procurement laws, regulations and standard documents, once enacted at the national level; ▪ Support the revision of regional legislations to conform with the new procurement law, as needed; ▪ Provide training for staff within the Spending Units and Governor's Office. <p>11 Technical capacities and skills of procurement departments are reinforced</p> <ul style="list-style-type: none"> ▪ Conduct full public procurement functional analysis at the Governor's Office to ascertain capacities of implementing ▪ Design and implement a skill enhancement program of key public procurement officers in KRG <p>12 Sub-national public procurement information and monitoring system established in order to track all procurement processes</p> <ul style="list-style-type: none"> ▪ Setting-up an internet-based public procurement information and monitoring system. ▪ Publish a procurement bulletin to track progress and enhance accountability. <p>13 New procedures for cash payments are implemented in the KRG, consistent with those implemented at the national level, allowing timely payments to be executed.</p>	<p>procurements units/UNDP-Iraq</p> <p>All the KRG procurements units/UNDP-Iraq</p> <p>KRG MoF-All the KRG procurements units/UNDP-Iraq</p> <p>KRG Minister of Finance/UNDP-Iraq</p>	
---	--	--	--	--

	<p>those implemented at the national level, allowing timely payments to be executed.</p> <p>Target (2011) -New procedures to account for commitments which are consistent with the national system are implemented</p>	<ul style="list-style-type: none"> ▪ Conduct a diagnosis of current cash release system with a view to introduce in KRG the new rules and procedures being developed at national level; ▪ Support the roll-out and dissemination of the new cash payment system to spending units in KRG; ▪ Establish an information management system to link all treasuries to MoF; ▪ Assess the work processes of these eight (8) treasuries, and the bank account of the line ministries and spending units to be linked with the CBI. <p>14 New procedures to account for commitments which are consistent with the national system are implemented in KRG</p> <ul style="list-style-type: none"> ▪ Comply with the new accounting instructions to account for commitment; ▪ Revise the forms and content of cash flow statements; ▪ Assess the capacity of Treasury staff; ▪ Design training programs, in liaison with national initiatives; ▪ Conduct on-the-job training to support the implementing of the new accounting and payment system. 	<p>KRG Minister of Finance/UNDP-Iraq</p>	
<p>Output 3: Reporting, Oversight and Control strengthened</p> <p>Baseline: Current reporting, oversight and control mechanisms are inadequate and sometimes non-existent.</p>	<p>Targets (2011) -A modern budget reporting framework is implemented</p>	<p>15 A modern budget reporting framework is implemented</p> <ul style="list-style-type: none"> ▪ Review and identify gaps in the reporting framework, including procedural guidelines, documentation and forms. ▪ Review of rules and procedures for reporting financial statements to the BSA to allow the BSA to be fully informed and 	<p>KRG Minister of Finance/KRG National Assembly/UNDP-Iraq</p>	

<p>Indicators:</p> <ul style="list-style-type: none"> - Budget reporting framework reviewed - Diagnosis of budgetary internal control systems conducted - New guidelines drafted on controls, reporting and accountability. - KRG BSA included in the training programmes and knowledge sharing community of international and regional audit institutions 	<p>Targets (2011)</p> <ul style="list-style-type: none"> -internal control systems are assessed and new guidelines issued and adopted <p>Target (2010)</p> <ul style="list-style-type: none"> -Capacity of the KRG Board of Supreme Audit reinforced. Public accounts are audited and publicized in a timely fashion <p>Target (2009)</p> <ul style="list-style-type: none"> Linkage with international auditing institutions established with SBA (ARABOSAI; INTOSAI; ASOSAI) 	<p>conduct timely audits</p> <ul style="list-style-type: none"> ▪ Assess reporting tools and capacity of spending units ▪ Design of analytical guidelines for budget analysis and provide training to MOF Budget Officers. <p>16 Internal control systems are assessed and new guidelines issued</p> <ul style="list-style-type: none"> ▪ Conduct a diagnosis of budgetary internal control systems ▪ Draft new controls, reporting, and accountability guidelines ▪ Provide training to Inspector General. <p>17 Capacity of the KRG Board of Supreme Audit (BSA) is reinforced. Public accounts are audited and publicized in a timely fashion</p> <ul style="list-style-type: none"> ▪ Request a proposal for the strengthening the BSA capacity in internal audit; accounting standard, procurement/contracting, & IT training. <p>18 Linkage with international and regional audit institutions established with KRG BSA (ARABOSAI; INTOSAI; ASOSAI)</p> <ul style="list-style-type: none"> ▪ Conduct a mapping of the international and regional auditing institutions. ▪ Support the linkage between the International and regional audit institutions and KRG BSA. ▪ Ensure that there is no duplication with the national BSA support programme by UNDP 	<p>KRG Minister of Finance/UNDP-Iraq</p> <p>KRG Supreme Board of audit/UNDP-Iraq</p> <p>KRG Supreme Board of audit/UNDP-Iraq</p>	
---	--	--	--	--

<p>Output 4: Management Information System and Capacity Building strengthened</p> <p>Baseline: MoF/MoP and line ministers fragmented in their information-sharing ability .</p> <p>Indicators: - FMIS established in the KRG .</p>	<p>Targets (2011)</p> <p>-The KRG financial and management information system(FMIS) software and hardware are established and key functions are automated</p>	<p>19 The KRG financial and management information system (FMIS) software and hardware are established and key functions are automated.</p> <ul style="list-style-type: none"> ▪ Conduct a needs assessment of KRG's FMIS software and hardware; ▪ Assess the extent of automation of procedures along the budget cycle; ▪ Stock-taking of the skill levels in key budgetary units; ▪ Identify requirements needed to upgrade the capabilities of staff in charge of the budget chain; ▪ Design sustainable skill enhancement programs. 	<p>KRG Minister of Finance/KRG National Assembly/UNDP -Iraq</p>	
---	---	---	---	--

PART IV. ANNUAL WORK PLAN

Year 2009

EXPECTED OUTPUTS <i>And baseline, indicators including annual targets</i>	PLANNED ACTIVITIES <i>List activity results and associated actions</i>	TIMEFRAME				RESPONSIBLE PARTY	PLANNED BUDGET			
		Q1	Q2	Q3	Q4		Funding Source	Budget Description	Amount (USD)	
<p>Output 1:Budget Policy, Planning and Formulation strengthened</p> <p>Baseline: Non existent strategic planning</p> <p>Indicators:</p> <ul style="list-style-type: none"> - 1 workshop held with stakeholders to review the draft PFM Action Plan - 1 strategic planning document (i.e PFM Action Plan) prepared and adopted for the KRG - Communication strategy prepared 	<p>A regional PFM Action Plan aligned with NDS, ICI , current WB project and MDG prepared</p> <ul style="list-style-type: none"> ▪ Draft a regional PFM Action Plan, with a road map for reforms. ▪ Organize a workshop with stakeholders to review the draft Action Plan. ▪ Consult with officials to support its adoption. <p>A framework for donor coordination in support of the proposed KRG PFM Action Plan established</p> <ul style="list-style-type: none"> ▪ Organize and establish a KRG led donor coordination group on PFM. <p>A communication strategy is prepared</p> <ul style="list-style-type: none"> ▪ Design and implement communication strategy to explain the purpose and benefits of the reform to all stakeholders including the central government, regional Ministers, senior officials and the general public. <p>Hire a legal expert in financial & budgetary decentralization</p>			X		KRG Minister of Planning/UNDP-Iraq	TRAC	NA	NA	
				X						KRG Minister of Planning/UNDP-Iraq
					X					KRG Minister of Finance /UNDP-Iraq

<p>Output 3: Reporting, Oversight and Control strengthened</p> <p>Baseline: Current reporting, oversight and control mechanisms are inadequate and sometimes non-existent.</p> <p>Indicators: - KRG BSA included in the training programmes and knowledge sharing community of international and regional audit institutions</p>	<p>Linkage with International and regional Auditing Institutions established with BSA (ARABOSAI INTOSAI; ASOSAI)</p> <ul style="list-style-type: none"> ▪ Conduct a mapping of the international and regional auditing institutions. ▪ Support the linkage between the International and regional audit institutions and KRG BSA. ▪ Ensure that there is no duplication with the national BSA support programme by UNDP 				X	KRG BSA/UNDP-Iraq			
TOTAL									

Year 2010

EXPECTED OUTPUTS <i>And baseline, indicators including annual targets</i>	PLANNED ACTIVITIES <i>List activity results and associated actions</i>	TIMEFRAME				RESPONSIBLE PARTY	PLANNED BUDGET		
		Q1	Q2	Q3	Q4		Funding Source	Budget Description	Amount (USD)
Output 1: Budget Policy, Planning and Formulation strengthened Baseline: Non existent strategic planning Indicators: - New Budget Users Manual implemented and adhered to in the KRG - # of staff who underwent on-the-job training to implement the new budget users manual - Policy-based 2010-11 KRG Budget formulated	KRG Budgets for 2010-2011 are policy-based and address both capital and recurrent expenditures in key sectors in a medium term framework <ul style="list-style-type: none"> ▪ Provide advisory services to MoF/MoP in linking regional/sector development policies with budget formulation in multi year planning. ▪ Provide training for communication and capacity strengthening in the use of new budget planning tools and procedures. ▪ 				X	KRG Minister of Finance/Planning/UNDP-Iraq	TRAC	NA	NA
	New Budget Users Manual implemented and adhered to in the KRG <ul style="list-style-type: none"> ▪ Disseminate in the KRG the Budget Manuals that are being developed in Bagdad. ▪ Conduct on-the-job training to support implementation of the new Budget Manual. 				X	KRG Minister of Finance/Planning/UNDP-Iraq	TRAC	NA	NA
Output 2: Budget Execution and Monitoring strengthened Baseline: N/A	New Budget Call Circular (BCC) is implemented by KRG Review of international good practices in preparing BCC for sub-national governments. <ul style="list-style-type: none"> ▪ Conduct on-the-job training of budget officers to support implementation of the new BCC. 			X		KRG Minister of Finance//UNDP-Iraq	TRAC		

<p>Indicators:</p> <ul style="list-style-type: none"> - New Budget Call Circular (BCC) implemented by KRG - # of budget officers who underwent on-the-job training on implementation of the new BCC - Sub-national budgetary functional analysis at the Governor's Office conducted - # of staff trained on financial management - New procurement laws and regulations and standard documents implemented in KRG, once enacted at the national level - # of staff trained procurement and related regulations 	<p>A diagnosis of staff skills in financial management is conducted in the Governor's office and the capacity strengthening program is established</p> <ul style="list-style-type: none"> ▪ Conduct full sub-national budgetary functional analysis at the Governor's Office to ascertain capacities in budget execution. ▪ Design and implementation of training courses is conducted in the Governor's office. ▪ Review the process of coordination between the KRG Ministry of Planning (MOP) and Ministry of Finance (MOF) in the execution and monitoring process of the budget. 	X				KRG Governor' Office/UNDP-Iraq	TRAC	NA	NA
	<p>Once adopted at the national level, the new procurement laws, regulations, standard bidding, evaluation, and reporting documents are disseminated and implemented in KRG</p> <ul style="list-style-type: none"> ▪ Disseminate new procurement laws and regulations and standard documents, once enacted at the national level. ▪ Support the revision of regional legislations to conform with the new procurement law, as needed. ▪ Provide training for staff of the spending units and governor's office. 			X		All the KRG procurements units/UNDP-Iraq	TRAC	NA	NA

<p>- Public procurement functional analysis conducted at the Governor's Office</p>	<p>Technical capacities and skills of procurement departments are reinforced</p> <ul style="list-style-type: none"> ▪ Conduct full public procurement functional analysis at the Governor's Office to ascertain capacities of implementing. ▪ Design and implement a skill enhancement program of key public procurement officers in KRG. ▪ 			X		All the KRG procurements units/UNDP-Iraq	TRAC	NA	NA	
<p>Output 3: Reporting, Oversight and Control strengthened</p> <p>Baseline: Current reporting, oversight and control mechanisms are inadequate and sometimes non-existent.</p> <p>Indicators:</p>	<p>Capacity of the KRG Board of Supreme Audit (BSA) is reinforced. Public accounts are audited and publicized in a timely fashion</p> <ul style="list-style-type: none"> ▪ Request a proposal from SBA to strengthen their capacity on internal audit; accounting standard, procurement/contracting, & IT training 			X		KRG Supreme Board of audit/UNDP-Iraq	TRAC	NA	NA	
TOTAL										

Year 2011

EXPECTED OUTPUTS <i>And baseline, indicators including annual targets</i>	PLANNED ACTIVITIES <i>List activity results and associated actions</i>	TIMEFRAME				RESPONSIBLE PARTY	PLANNED BUDGET		
		Q1	Q2	Q3	Q4		Funding Source	Budget Description	Amount (USD)
<p>Output 1: Budget Policy, Planning and Formulation strengthened</p> <p>Baseline: Non existent strategic planning</p> <p>Indicators:</p> <ul style="list-style-type: none"> - 2 workshops held with stakeholders to respectively review the Regional Development Strategy and Sectoral Development Strategy - 2 strategic planning documents (i.e, Regional Development Strategy and Sectoral Development Strategy) prepared and adopted for the KRG 	<p>A regional development strategy (RDS) aligned with NDS, ICI and MDG costed, completed</p> <ul style="list-style-type: none"> ▪ Provide technical assistance to help the Governorate prepare a costed RDS. ▪ Organize a workshop with stakeholders to review the draft strategy. ▪ Conduct consultations with officials to support its adoption. 				X	KRG Minister of Planning/ UNDP Iraq	TRAC	NA	NA

	<p>Draft sector development strategies (SDS) aligned with NDS, ICI and MDG, completed</p> <ul style="list-style-type: none"> ▪ Provide technical assistance to help selected ministries (education, health and labor) prepare their MDG-based SDS. ▪ Provide technical assistance to prepare multi-year public investment program (PIP) in these sectors. ▪ Organize a workshop with stakeholders to review the proposed PIP and SDS. 				X	KRG Minister of Planning/ UNDP Iraq	TRAC	NA	NA
<p>Output 2: Budget Execution and Monitoring strengthened</p> <p>Baseline: N/A</p> <p>Indicators:</p>	<p>Establish sub-national public procurement information and monitoring system in order to track all procurement processes</p> <ul style="list-style-type: none"> ▪ Setting-up an internet-based public procurement information and monitoring system. ▪ Publishing a procurement bulletin to track progress and enhance accountability. 				X	MoF-All the KRG procurements units/UNDP-Iraq	TRAC	NA	NA

<p>- Internet-based public procurement information and monitoring system set-up</p> <p>- Diagnosis of current cash release system conducted</p> <p>- Timely cash payments implemented (without delays longer than 1 month)</p> <p>- Information management system to link all treasuries to MoF established</p> <p>- # of treasury staff who underwent on-the-job training to implement of the new accounting and payment system</p>	<p>New procedures for cash payments are implemented in the KRG, consistent with those implemented at the national level, allowing timely payments to be executed.</p> <ul style="list-style-type: none"> ▪ Conduct a diagnosis of current cash release system with a view to introduce in KRG the new rules and procedures being developed at national level. ▪ Support the roll-out and dissemination of the new cash payment system to spending units in KRG. ▪ Establish a information management system to link all treasuries to MoF. ▪ Assess the work processes of these 8 treasuries and the bank account of the line ministries and spending units to be linked with the CBI 				X	KRG Minister of Finance//UNDP-Iraq			
	<p>New procedures to account for commitments which are consistent with the national system are implemented</p> <ul style="list-style-type: none"> ▪ Revise the form and content of cash flow statements. ▪ Assess the capacity of treasury staff ▪ Design training program, in liaison with national initiatives ▪ Conduct on-the-job training to support the implementing of the new accounting and payment system 			X		KRG Minister of Finance//UNDP-Iraq			

<p>Output 3: Reporting, Oversight and Control strengthened</p> <p>Baseline: Current reporting, oversight and control mechanisms are inadequate and sometimes non-existent.</p> <p>Indicators:</p> <ul style="list-style-type: none"> - Budget reporting framework reviewed - Diagnosis of budgetary internal control systems conducted - New guidelines drafted on controls, reporting and accountability. 	<p>A modern budget reporting framework is implemented</p> <ul style="list-style-type: none"> ▪ Review and identify gaps in the reporting framework, including procedural guidelines, documentation and forms. ▪ Review of rules and procedures for reporting financial statements to the BSA to allow the BSA to be fully informed and conduct timely audits ▪ Assess reporting tools and capacity of spending units ▪ Design of analytical guidelines for budget analysis and provide training to MOF budget officers. <p>Internal control systems are assessed and new guidelines issued</p> <ul style="list-style-type: none"> ▪ Conduct a diagnosis of budgetary internal control systems ▪ Draft new controls, reporting, and accountability guidelines ▪ Provide training to Inspector General. 			X		KRG Minister of Finance/KRG National Assembly/UNDP-Iraq			
				X		KRG Minister of Finance/UNDP-Iraq			

<p>Output 4: MIS and human resources strengthened</p> <p>Baseline: MoF/MoP and line ministers fragmented in their information-sharing ability</p> <p>Indicators: - FMIS established in the KRG</p>	<p>The KRG financial and management information system(FMIS) software and hardware are established and key functions are automated</p> <ul style="list-style-type: none"> ▪ Conduct a Need Assessment of KRG's FMIS software and hardware ▪ Assess the extent of automation of procedures along the budget cycle ▪ Stock-taking of the skill levels in key budgetary units ▪ Identify requirements needed to upgrade the capabilities of staff in charge of the budget chain ▪ Design sustainable skill enhancement programs 				X	KRG Minister of Finance/Minister of Planning/KRG Line Ministers/UNDP Iraq	TRAC		
TOTAL									

Note: The Annual Work Plan and implementations arrangements will be further reviewed to reflect the role of other Financiers including the KRG Government and other Donors who might participate in parallel or Co-Financing of the BES project activities with UNDP

PART V. MANAGEMENT ARRANGEMENTS

UNDP INTERNAL COORDINATION ARRANGEMENTS

60. The project organization structure is attached below. The project team will work under the direct supervision of the DRR-RCP Head. The project will additionally benefit from the advice of the proposed oversight/Peer Review Team. Since the project components and activities have been identified and agreed upon with the KRG Authorities, a UNDP Internal Coordination mechanism has been put in place.

COORDINATION WITH NATIONAL STAKEHOLDERS

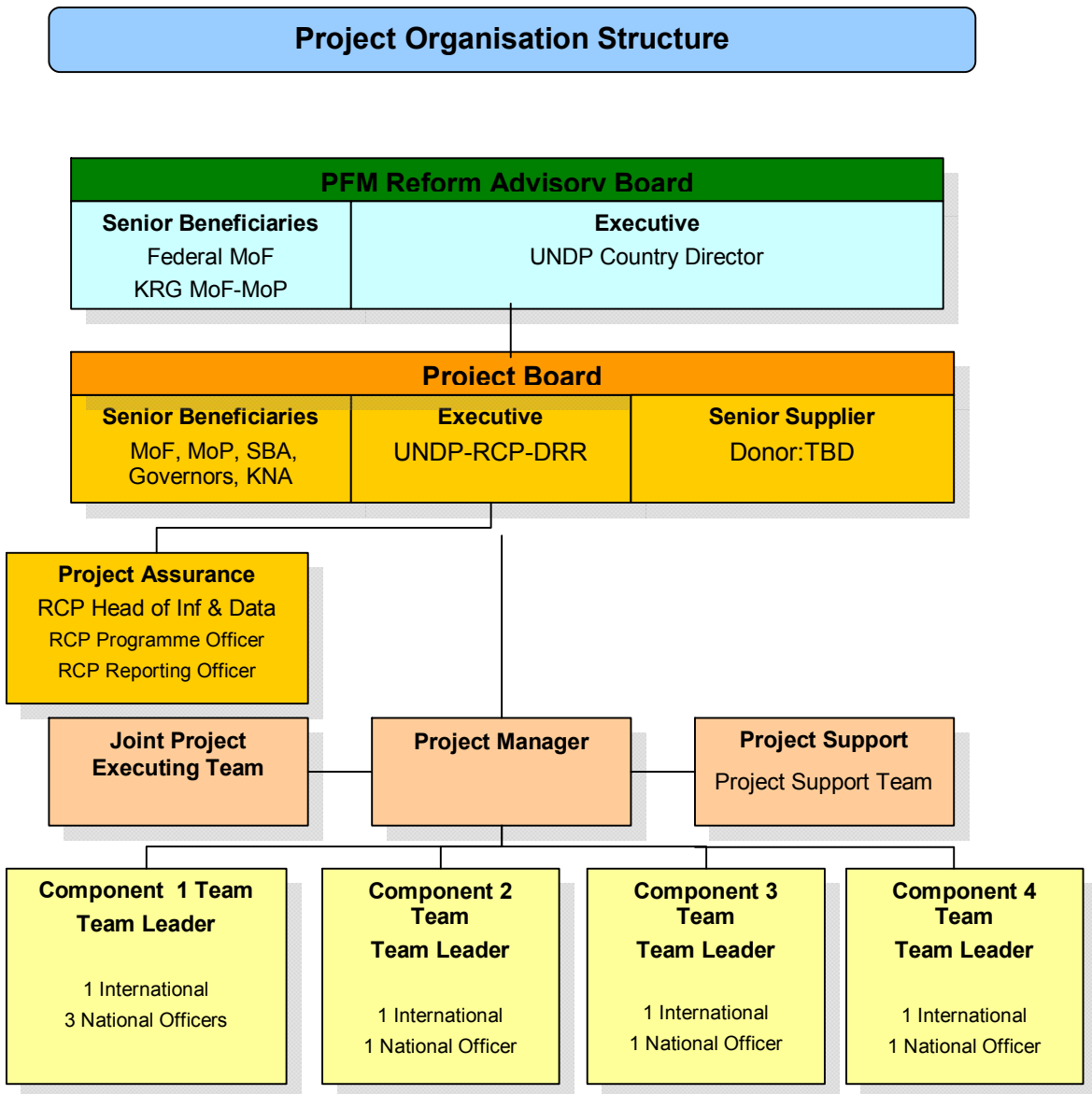
61. The structures established to oversee the implementation of the project include:

- The PFM Reform Advisory Board, comprising of senior KRG Government Officials and donor representatives;
- The Joint Project Formulation/Executing Team, comprising of senior sub-national ministries technical staff, members of the KRG Provincial Council, Members of the KRG National Assembly, Members of the KRG Supreme Board of Audit, KRG Governor's Office, Technical Directorates;
- KRG Office for Coordination of UN Affairs; and
- Universities and civil society organizations operating in KRG.

COORDINATION WITH INTERNATIONAL STAKEHOLDERS

62. The main international counterparts are anticipated to be the core donor group working on Public Financial Management in Iraq including the USAID, JICA, World Bank, DFID, other UN Agencies and the KRG Regional Reconstruction Team (RRT).

Note: The Annual Work Plan and implementations arrangements will be further reviewed to reflect the role of other Financiers including the KRG Government and other Donors who might participate in parallel or Co-Financing of the BES project activities with UNDP



Note: The Annual Work Plan and implementations arrangements will be further reviewed to reflect the role of other Financiers including the KRG Government and other Donors who might participate in parallel or Co-Financing of the BES project activities with UNDP

PART VI. MONITORING FRAMEWORK AND EVALUATION

63. In accordance with the programming policies and procedures outlined in the UNDP User Guide, the project will be monitored through the following:
64. **Within the annual cycle:** On a quarterly basis, a quality assessment shall record progress towards the completion of key results, based on quality criteria and methods captured in the Management table above. An Issue Log shall be activated in Atlas and updated by the Project Manager to facilitate tracking and resolution of potential problems or requests for change. Based on the initial risk analysis submitted (see Annex 1), a risk log shall be activated in Atlas and regularly updated by reviewing the external environment that may affect the project implementation. Based on the above information recorded in Atlas, a Project Progress Reports (PPR) shall be submitted by the Project Manager to the Project Board through Project Assurance, using the standard report format available in the Executive Snapshot. A project Lesson-Learned Log shall be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lessons-Learned Report at the end of the project. A Monitoring Schedule Plan shall be activated in Atlas and updated to track key management actions/events such as site visits and implementation of planned activities.
65. **Annual Review Report.** An Annual Review Report shall be prepared by the Project Manager and shared with **the Project Board and the PFM Reform Advisory Board**. As minimum requirement, the Annual Review Report shall consist of the Atlas standard format for the Quality Progress Report (QPR) covering the whole year with updated information for each above element of the QPR as well as a summary of results achieved against pre-defined annual targets at the output level.
66. **Annual Project Review.** Based on the above report, an annual project review shall be conducted during the fourth quarter of the year or soon after, to assess the performance of the project and appraise the Annual Work Plan (AWP) for the following year. In the last year, this review will be a final assessment. This review is driven by the Project Board and may involve other stakeholders as required. It shall focus on the extent possible to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes.

PART VII. LEGAL CONTEXT

67. This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of Iraq and UNDP, signed on 20 October 1976. Consistent with the Article III of the Standard Basic Assistance Agreement, the responsibility for the safety and security of UNDP and its personnel and property, rests with the Gol.
68. UNDP shall put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried out; assume all risks and liabilities and the full implementation of the security plan.
69. UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.
70. UNDP agrees to undertake all reasonable efforts to ensure that none of the UNDP funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via:
<http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>
This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

PART IV. ANNUAL WORK PLAN

ANNEX 1: RISK and MITIGATING LOG

Project Title: Budget Execution Support Project in the KRG

Award ID: _____

Date: _____ 2009

#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
1.	Security situation in KRG, although safer than in the rest of Iraq, is still fragile. Further deterioration in Kirkuk or elsewhere would severely impact the risk assessment in KRG as well.	January 2009	Political	Deterioration of security situation would have a negative impact on the ability of UNDP staff and consultants to provide TA to KRG officials under the project due to travel and other security-related restrictions. Enter probability on a scale from 1 (low) to 5 (high) P = 2 Enter impact on a scale from 1 (low) to 5 (high) I = 5	UNDP will monitor the security and political situation with UNAMI. If this situation deteriorates, project activities would be scaled down to mitigate the risks incurred in delivering technical assistance in conflict-affected areas.	UNDP Project Management Team	JPFT		
2.	Implementation of the regional PFM Action Plan in KRG, to be supported by the proposed BES project, is in large part subject to the pace of execution of the national PFM Action Plan by the Central Government.	February 2009	Strategic	Delays in enacting legislation and adopting new PFM procedures at the national level would retard their implementation in KRG as well as the training of staff in the new systems and procedures. These include, for instance, the new Budget User's manual, BCC guidelines, and procurement regulations and standard bidding documents. Probability = 4 Impact = 4	UNDP will have a proactive approach with both central and regional authorities on their respective PFM action plans. UNDP will also liaise with other donors (USAID, DfID, World Bank) in order to ensure timely execution of agreed reforms at the national level which would otherwise delay the KRG reform agenda. Other project activities which do not require prior actions from Central Government will proceed in the meantime.	Joint Project Formulation Team (JPFT)	JPFT		
3.	Risks of weak cooperation on PFM reforms between the Central Government and KRG authorities due in part to protracted political and financial issues.	February 2009	Operational	Uncertainties in the amount, timing, and accountability of fiscal transfers to KRG will continue to undermine the credibility and predictability of its budgetary process. Lack of genuine cooperation would also hinder the full alignment of KRG PFM	UNDP will: (a) support policy dialogue on fiscal decentralization between KRG and Central Government, working closely with other partners; and (b) foster outreach and partnership activities between their respective teams in charge of the PFM action plans at	JPFT	JPFT		

				<p>procedures with those at the national level.</p> <p>Probability = 2 Impact = 3</p>	central and regional levels.				
4.	Governance risks pertaining to corruption and mismanagement of public resources.	February 2009	Operational	<p>Corruption would weaken the project's ability to deliver results by undermining public confidence in the KRG authorities' commitment to improve public financial management and accountability.</p> <p>Probability = 3 Impact = 4</p>	UNDP will act on both demand and supply sides of good governance by: (a) raising awareness of reforms in both executive and legislative branches of government and in the general public; (b) fostering transparency through dissemination of project activities and results; and (c) public accountability through disclosure of procurement steps and outcomes.	JPFT	JPFT		
5.	Fiduciary risks pertaining to procurement and financial management under the project.	March 2009	Financial	<p>Fiduciary risks could delay project execution in case of inappropriate procurement or financial management operations.</p> <p>Probability = 1 Impact = 4</p>	Project financial management and procurement of goods and services will be carried out by UNDP, working closely with Iraqi counterparts.	UNDP Project Management Team	UNDP Project Management Team		
6.	Difficulty in attracting seasoned experts to work in KRG for extended periods of time.	March 2009	Organizational	<p>Could delay project execution.</p> <p>Probability = 2 Impact = 2</p>	UNDP to mobilize the UN roster of PFM consultants, reach out to other donors, and tap into Iraqi diasporas.	UNDP Project Management Team	UNDP Project Management Team		

ANNEX 2: Documents in Project File

1. UNDP Strategic Plan 2008-2011
2. United Nations Iraq assistance Strategy 2008-2010
3. United States Government Assistance to the KRG 2003-2009
4. USAID Government of Iraq-Federal Budget Process-Investment Budget
5. USAID-KRG Economic Assessment Report
6. World Bank Public Expenditure and Institutional Assessment (PEIA)
7. World Bank Sub-National Public Financial Management: A Diagnostic Report, November 2007
8. Minutes of meeting for the 14-20 February 2009 KRG missions
9. KRG Mission Report from 14-20 February 2009-03-07
10. KRG Mission Report from 24-27 January 2009
11. Aide Memoire UNDP's Mission from 24-27 January 2009
12. Aide Memoire UNDP's Mission from 14-20 February 2009-03-08
13. KRG Budget Execution Inception Plan
14. Iraq: Public Finance Management Action Plan

ANNEX 3: Preliminary Budget

The BES Project budget comprised two parts. The first part focuses on the project inception phase and has been detailed below. The second part will cover activities during the subsequent roll-out and project implementation phases. This part will be finalized after the mobilization of resources phase and completion of the complete procurement plan, costing all the required inputs in consultation with KRG authorities.

Budget Category	Item Description	Unit	Unit Cost US	FOUR MONTHS	
				Qty	Expenditures
I. PERSONNEL					
1.	Project Manager (L4 Amman)	1	16,000	4	64,000
2.	International Expert on Public Finance Management (L3 Erbil)	1	20,000	4	80,000
3.	National Expert on Iraqi Budgetary Processes (NOB-Erbil)	1	3,000	4	12,000
4.	Human Resource Associate (NOA-Erbil)	1	2,500	4	10,000
Sub-Total					166,000
II. LOCAL CONTRACTS					
1	Consultancy (support to data collection and diagnosis studies)	1	15,000	4	60,000
2	Accommodation in KRG (@244/day for 15 days per month)	15	244	4	14,640
Sub-Total					74,640
III. EQUIPMENT					
1	Communications and services (one satellite phone ie:Thyraya Phone)		1,000	4	3,000
2	Security tool kits (2 helmets, 2 ballistic vests)	1	750	2	1,500
3	Office equipment (Four (4)station sets in Amman & three (3) in Erbil)	1		1	2,000
Sub-Total					6,500
IV. TRAVEL					
1	Trips (four trips-air ticket at \$1,045.00 plus DSA at 20% of \$142.00=\$1,073)	1			4,300
Sub-Total					4,300
V. SECURITY (1.5% of total budget)					
1	(1.5% of total budget)	1			40,000
VI. MISCELLANEOUS including 10% of Erbil Common Premises					11,880
VII. INTERIM BUDGET FOR INCEPTION PHASE					303,320
VIII. BALANCE FOR ROLL-OUT PHASE (unallocated)					646,680
IX. PROGRAMME/PROJECT BUDGET TOTAL					950,000

ANNEX 4: PFM Reform Advisory board

Name	Organization & Title	Contact Information
Mr. Kadhim Ali Abdullah	Ministry of Finance, D.G. of the Economic Department, - Baghdad	kadhimali1952@yahoo.com 079.0191.8058
Mr. Amal Badee, Burjis	Ministry of Finance, Head of Budget Preparation Division, Budget Department - Baghdad	077 0533 3292
Mr. Baez Saeed Mohammad	Minister of Finance-Erbil-KRG	Rasheedtaher@yahoo.com
Mr. Othman Shwani	Minister of Planning-Erbil-KRG	Othman.shwani@krg.org othmanshwani@yahoo.com Othman.shwani@gmail.com
Mr. Paolo Lembo	UNDP Country Director-UNDP-Iraq-Amman, Jordan	Paolo.lembo@undp.org 962-0796388009
Mr. ElBalla Hagona	UNDP Deputy Director-Program-UNDP-Iraq-Amman, Jordan	Elballa.hagona@undp.org
Mr. Basil Comnas	UNDP Deputy Director-RCP-UNDP-Iraq-Amman, Jordan	Basil.comnas@undp.org 962-0796233377

ANNEX 5: Joint Project Formulation/Implementation Team**Chair:** Deputy Finance Minister, Mr. Rasheed Tahir**Deputy Chair:** DG Ministry of Planning, Mr. Zagros Fatah Siwaily

Name	Organization & Title	Contact Information
KRG MEMBERS		
Ministry of Finance		
Minister of Finance (GUEST)		
Mr. Rasheed Tahir Chair	Deputy Minister	Rasheedtahir@yahoo.com 964 750 445 1625
Mr. Nadir Majeed Nadir Focal point	Director General	Hawler91@yahoo.com 964 750 477 4369
Mrs. Cheeman Shamoon	Director General	
Mrs. Dilshada Ismail Hassan	Execution Director	07701445736
Ministry of Planning		
Minister of Planning (GUEST)		
Mr. Zagros Fatah Siwaily Deputy Chair- Focal Point	Director General Development Coordination and cooperation	Zagros25@hotmail.com Mop_relations@yahoo.com 00964.750.492.3604
Ministry of Municipalities		
Mr. Delair Kittani Focal Point	Senior Advisor	delair.kittani@sympatico.ca 964 750 796 6400
Ministry of Electricity		
Mr. Asaad Abdulla Mohammed Focal Point	General Director of Planning	contractingleaaa@yahoo.com 964 750 445 3825
Mr. Mahdi Abdullah	Expert	964 750 449 4678
Supreme Board of Audit		
Mr. Delzar Babaka Focal Point	Director General Management and Finance	964-750-4475787 dilzarshair@yahoo.com
Mr. Fareeq Soleman	Director General Audit	9647504453080 Newa2001@hotmail.com
Mr. Nashat Al-Qadi,	Audit Expert	Nazhat_qadi@yahoo.com 964 750 456 9335
Mr. Muhsen Mohamed Salih	Audit Expert	Hoshmand_khoshnaw@yahoo.com 964 750 456 9335
Erbil Governor's Office		
Mr. Fuad Mustafa Focal Point	Senior Advisor	Fuad_mustafa1973@yahoo.com 964 750 4647370
OCUNA		
Mr. Sami	Coordination Officer	Krg_unaffairs@yahoo.com
UNDP MEMBERS		
Mrs. Fatimata Sy	Project Manager Budget Execution	Fatimata.sy@undp.org 962-797203981
Mr. Humam Misconi	Senior Advisor	Humam.Misconi@undp.org
Ms. Natsuko Yukawa	Programme Specialist	Natsuko.yukawa@undp.org 962-795970253
Mr. Shawqi Younis	Programme Officer	964-7504687661 Shawqi.younis@undp.org

ANNEX 6: Abbreviations & Acronyms

ARDP	Accelerated Reconstruction Development Program
BSA	Board of Supreme Audit
CBI	Central Bank of Iraq
CG	Central Government
CoM	Council of Ministers
CoR	Council of Representatives
CPA	Coalition Provisional Authority
CPI	Commission on Public Integrity
CR	Continuing Resolution
DG	Director General
GoI	Government of Iraq
ID	Iraq Dinars
IG	Inspector General
KRG	Kurdistan Regional Government
MoPDC	Ministry of Planning and Development Cooperation
MoF	Ministry of Finance
ICI	International Compact with Iraq
NDS	National Development Strategy
GC	Governorate Council
PFM	Public Finance Management
O&M	Operations and Maintenance
OR	Operating Representative
NGO	Non-Governmental Organization
PAC	Preliminary Acceptance Certificate
PC	Provincial Council
PDS	Provincial Development Strategy
PDP	Provincial Development Plan
PIC	Project Implementation Card
PM	Project Manager
RRT	Regional Reconstruction Team
USD	United States Dollar
UNDP	United Nations Development Program

ANNEX 7: Legal, Budgetary and Financial Definitions

The Constitution of Iraq – 2005

The Constitution of Iraq was adopted in October 2005. It replaced the Transitional Administrative Law (TAL), except for the stipulations of Article 53(A) and Article 58. The TAL was issued by the Coalition Provisional Authority (CPA) in 2004.

With regard to the duties of the Council of Ministers (CoM), Section 3, Chapter 1, Article 62 of the Constitution states that the CoM will submit the draft General Federal Budget bill and the proposed amount to the Council of Representative (CoR) for approval. In the same Article, it states that the CoR may conduct transfers between the sections of the General Federal Budget and reduce the total of its sums, and it may suggest to the CoM that they increase the total expenses, when necessary.

In Section 4 - Powers of the Federal Government, Article 110, it states that the federal government will have exclusive authority in formulating the National Budget of the State. It further identifies in Article 112 the shared responsibilities between federal, regional, and provincial authorities. Shared responsibilities include the distribution of State revenues in a fair manner proportion to the population in all parts of the country. Article 114 further designates the following shared responsibilities:

- Manage customs;
- Manage main sources of electric energy and its distribution;
- Formulate environmental policies;
- Formulate development and general planning activities;
- Develop public health policies;
- Establish public educational policies; and
- Formulate and regulate internal water resources policies.

Local Government Structure

A province, also commonly known as a governorate, is an administrative unit, with three levels:

Provincial - Governorate

Districts - Qada'a

Sub-districts - Nahiya

The law establishes legislative councils corresponding to each of those three administrative units. Across Iraq, those three levels of councils already exist as a result mainly of CPA Order 71 and other laws and actions of the GoI predating the CPA.

Governorate Council

At the governorate level, the Governorate Council (GC) has an active role and does the following:

Elect and can remove the Governor and the Deputies in their associated province. The CoR can also remove the Governor with the recommendation of the Prime Minister.

Has an active role in nominating senior governorate officials serving in Central Government ministries in the province.

Approves the local security plans in conjunction with the national security plans.

Has the right to issue local laws, instructions, by-laws and regulations to organize the administration and financial affairs of the governorate in a manner that does not contradict the provisions of the Constitution of Iraq – 2005 and other federal laws

Prepares the governorate operational budget, approves the draft general budget plan and capital investment project list referred to it by the Governor

Qada and Nahiya Councils

The qada'a and nahiya councils have considerable rights and responsibilities and their duties are:

Elect and remove Qada and Nahiya council chairman and director;

Prepare and approve district and sub-district draft operational budget investment project listings before sending to the Governor;

Approve naming of streets and planning roads;
Monitor and evaluate education activities and public land; and

Present scientific studies and research for development of the Qadas

CPA Order 71 – Local Governmental Powers – 2004

This Order describes the authorities and responsibilities of the local governments and promotes the idea of government decentralization. The principles of the Order were designed to improve the delivery of public services to the Iraqi people and help the Iraqi government become more responsive to their needs. It recognized the Kurdistan Regional Government (KRG); and acknowledges no power over the territories under that government's jurisdiction. Governorate Council elections have been conducted on 31 January 2009. Following the elections, CPA Order 71 will be dissolved and the Law of Governorates Not Incorporated into Region – 2008 will replace it.

Law of Governorates Not Incorporated into a Region – 2008

The Law of Governorates Not Incorporated into a Region was passed in 2008. The provisions of the Law do not take effect until the election of new governorate councils scheduled for late January 2009. Until elections are held, a variety of laws enacted prior to 2003 and CPA Order 71 remain in effect.

The Law does not apply to the three governorates of Kurdistan Region. The Kurdistan Regional Government (KRG) may or may not decide to hold local elections simultaneously with the rest of Iraq. The KRG also may or may not choose to adopt all or some provisions of this Law.

CPA Order 95 – Financial Management Law and Public Debt Law – 2004

The Financial Management Law and Public Debt Law – June 2004 established a comprehensive framework for the conduct of fiscal and budgetary policy in line with international best practices. It crafted a structured process for the formulation of the federal budget and reporting requirements aimed at increasing the accountability and transparency of the budgeting process.

Annex A of this Order regulates the arrangements governing the preparation, adoption, recording, management, execution, and reporting of the federal budget of Iraq. It also governs the other budget related areas of internal control, accounting, and auditing. According to this

Order, the principles of transparency, comprehensiveness, and unity will be of fundamental importance in the preparation and execution of the budget.

Annual General Federal Budget Law

Upon the ratification of the CoR, the Presidency Council decrees an annual General Federal Budget Law each fiscal year (FY). The Iraqi FY begins on 1 January and ends 31 December. According to the budget cycle, the annual General Federal Budget Law should be decreed by 31 December of each year. Should that not happen, and it often does not, a Continuing Resolution is then placed in motion until the budget is finally approved. Each annual law corresponds with the formulated budget for that FY. Authorizations within that law are not carried over from one year to the next. For example, the annual General Federal Budget Law for FY 2006 does not apply to FY 2007 and beyond.

The General Federal Budget Law covers many areas from legal authorizations to tax exemptions. Below is a summary list of the topics covered in the Law:

- Identify the expected revenue amounts and sources;
- Direct the allocation of those revenues fairly;
- Estimate expenditure and deficit amounts;
- Authorize emergency reserve funds;
- Authorize spending authority;
- Stipulate transfers and reallocations between entities;
- Authorize the rollover of prior year funding;
- Determine the KRG allocation;
- Identify the percentage of Operations and Maintenance and Investment budget expenditures in regard to the total budget;
- Identify the official auditing authorities; and
- Authorize the Ministry of Finance to issue implementing instructions to facilitate the execution of the law.

Annual Instructions on the Implementation of the General Federal Budget

In accordance with the authority granted in the annual General Federal Budget Law, the Ministry of Finance (MoF) issues annual Instructions on the Implementation of the General Federal Budget for that year. As with the Budget Law the Instructions are also specific to each annual budget and do not carry over from one FY year to the next. For example, the Instructions for FY 2007 do not apply to FY 2008. When a new budget is passed, both a new Budget Law is enacted and new Instructions are issued.

This is a comprehensive document covering all aspects of the State budget and is heavily grounded in CPA Order 95 – Annex A. Below is a summary listing of the topics:

- Revenues
- Expenditures
- Budget Allocations
- Budget Transfers
- Purchasing Authority
- Employee Awards and Bonuses
- Write-offs – Assets and Debts

- Government Property
- Public Services
- Social Benefits
- Non-Financial Assets
- Public Corporations
- Capital Projects Expenditures
- Powers of a Minister
- Powers of the Ministry of Finance
- Powers of the Ministry of Planning and Development Cooperation

CPA Order 87 – Public Contracts - 2004

CPA Order 87 – Public Contracts was issued in May of 2004 as the governing regulation for public procurement. In Section 14, Paragraph 1 it states that the Minister of Planning and Development Cooperation (MoPDC), through the Office of Government Public Contract Policy (OGPCP) shall issue administrative instructions and regulations to implement this Order. Until 2007, this Order was the only implementing regulation. In 2007, in accordance with the guidance in Section 14, Paragraph 1, the MoPDC issued the Regulations for Implementing Governmental Contracts. These implementing Regulations expanded on the language of the Order and upheld the establishment of the dispute resolution Administrative Tribunals.

Regulations for Implementing Governmental Contracts – 2007

The Regulations for Implementing Governmental Contracts was issued by the MoPDC and approved by the CoM in 2007. These regulations are intended to establish general principles for implementing the public contracts that the governmental bodies and the public sector enter into with both Iraqi and foreign companies. The regulations are also intended to lay down the implementation methods of public tender solicitations for major construction, minor works, supplies, and consultative services. It also designates the bodies, authorized to open and evaluate tenders and determine contract awards. This regulation, in conjunction with CPA Order 87 – Public Contracts - 2004, lays out in detail the ministerial dispute resolution process. These contracting procedures are characterized by transparency, predictability and fair competition.

Instructions for Government Contracts Execution – 2008

The Instructions for Government Contracts Execution was issued by the MoPDC in 2008 and it replaced the Regulations for Implementing Governmental Contracts – 2007. These new Instructions basically restate similar language as in the previous Regulation but expand the explanations in some sections. In general, it intends to set general principles for the execution of government contracts that are signed by the public sector directorates with Iraqi and foreign entities for contracts supplying public works, supplies, goods and services, and consultations. It describes the authorized contract execution methods in addition to defining entities authorized to compete for public contracts and the eligibility requirements.

It lays out the procedures for tender solicitation and instructions to bidders on tender preparation and submission. General Contract Conditions are described as well as requirements for bidder bank guarantees and performance bonds.