

DECEMBER 2016

IMF SBA REVIEW RECAP

PERFORMANCE ANALYTICS

3 OF 5 MEFP PC MET END SEPT 2016
REQUESTS 4 PC WAIVER APPLICABILITY

JULY-NOV 2016 AREAR TO ITALY NOT MET*****

REQUEST MOVING TO SEMI-ANNUAL REVIEWS & RE PHASING OF SBA

3 OF 6 SB (STRUCTURAL BENCHMARKS) MET SEPT 2016
OF FISCAL REPORTING TABLES OF 2014 IMF GOVERNMENT FINANCE
STATISTICS MANUAL & FINANCIAL, MANAGEMENT LAW...

OTHER SBS POSTPONED TO 2ND & 3RD REVIEWS..DOMESTIC AREARS
INVENTORY...CIVIL SERVICE WAGE AUDIT...PENSION PAYROLL

IT (INDICITIVE TARGETS) ON PC'S AT END OF 1ST & 3RD QUARTERS
ENSURING PROGRAM PERFORMANCER ON QUARTERLY
FREQUENCY...

REQUESTED END TO 1ST REVIEW AND PURCHASE OF 2ND SBA
INSTALLMENT & COMMITS TO IMPLEMENTING THE ECONOMIC &
FINANCIAL, POLICIES 2016-2019...

RECENT ECONOMIC DEVELOPMENTS

3,3 MILLION DISPLACED IRAQIS
10 MILLION (26% POPULATION) IN NEED OF HUMANITARIAN
ASSISTANCE
GDP ERVISED UP 2.8% 2014..UP 13.6% 2015
SEPT 2016 CPI ROSE 1.2% EXCLUDING ISIS OCCUPIED AREAS ABOUT
20% OF POPULATION...
GROSS FOREIGN RESERVES END JUNE 2016 \$47.6 BILLION 7.4
MONTHS IMPORTS NEEDS...

BROAD MONEY CONTRACTED 2.8% WHILE PROGRAMMED TO GROW 8.6%...

JULY 2016 DONOR CONFERENCE YIELDED \$2.1 BILLION AID TO IRAQ FOR DE-MINING..HUMANITARIAN..IMMEDIATE STABILIZATION AND LONG TERM RECOVERY...

OFFICIAL EXCHANGE RATE & PARALLEL EXCHANGE RATE INCREASED FROM 3% (12/2015) TO 9% (5/2016)...WITH CBI USD AUCTIONS DECREASING BY ONE THIRD YTD...

IRAQI DOLLAR BONDS 2028 YIELD 9% IN NOV 2016...

E. Revenue Reforms

36. In order to strengthen revenue, the government will implement the following measures:

· *Audit the financial statements of the Development Fund for Iraq and Successor Account 300/600 at the CBI* to check that all oil revenue reaches the treasury and monitor the use of the resources deposited in that account. The Ministry of Finance will continue to have all the transactions moving the balance of its foreign exchange account 300/600 at the CBI audited by an international audit company every six months and will post the audit reports on its external website within six months after the end of each audited semester (SB, Table 2).

SO...FINANCIAL STATEMENTS FOR DFI & CBI 300/600 ACCOUNT ALONG WITH REQUISITE OIL REVENUES TO BE MONITORED TO ASSURE FUNDS REACH TREASURY ACCOUNT AND USED ACCORDINGLY AS WELL AS AUDITED IN 6 MONTH INTERVALS BY INT'L AUDITING COMPANY AND REPORT RESULTS PUBLISHED ON ITS WEBSITE WITHIN 6 MONTHS OF EACH AUDIT SEMESTER...

Conduct *diagnostics of the tax and customs codes* to simplify them and broaden the tax base. The Ministry of Finance will, by end-February 2017, prepare tax policy measures to increase tax and customs revenue,

with technical assistance from the IMF and the World Bank. The government will introduce tax policy measures to increase non-oil tax revenue in its draft budgets during the period of the SBA (¶31).

SO...BY END OF FEB 2017 THE MoF WILL PREPARE TAX POLICY MEASURES WITH TECH ASSISTANCE FROM IMF & WB..AND WILL INCREASE TAX REVENUES IN ITS DRAFT BUDGET DURING SBA PERIOD...

Conduct diagnostics of the tax and customs administrations with a view to modernize them and broaden the tax base, with technical assistance from the **IMF, the World Bank, the World Customs Organization, and the United Nations Conference for Trade and Development (UNCTAD)**. The Ministry of Finance will, by **end-February 2017**, propose a strategy to strengthen the tax and customs administration, with technical assistance from the IMF and the World Bank. The Customs Administration will, by **end-December 2016**, propose a strategy to implement the UNCTAD ASYCUDA information system in its administration.

SO...WITH TECH ASSISTANCE FROM IMF, WB, WORLD CUSTOMS ORGANIZATION, UN CONFERENCE FOR TRADE & DEVELOPMENT WILL CONDUCT DIAGNOSTICS TO MODERNIZE TAX BASE AND...HERE BY END OF FEB 2017 THE MoF WILL PROPOSE STRATEGY TO STRENGTHEN TAX BASE WITH TECH ASSISTANCE FROM IMF & WB...AND...BY END DECEMBER 2016 THE CUSTOMS ADMINISTRATION WILL PROPOSE STRATEGY TO IMPLEMENT UNCTAD ASYCUDA INFORMATION SYSTEM IN ITS ADMIN...

F. Expenditure Reforms

37. In order to decrease expenditure, the government will implement the following measures:

- *Control the evolution of wages and pensions* by a combination of the

following measures, in addition to those implemented in the 2017 budget (¶31-32):

completing the audits of the wage earner and pensioner payrolls of the civil service by the Board of Supreme Audit (BSA) to first identify, and then cancel payments to, illegitimate wage and pension recipients (¶21);

SO...UPON BSA AUDIT RESULTS & ACTIONS IN ADDITION TO THOSE IN 2017 BUDGET...IDENTIFY & CANCEL PAYMENTS TO ILLIGITIMATE SALARY & PENSION RECIPIENTS...

implementing legislative changes to contain the evolution of government and SOE employees' wages and non-contributory pensions paid by the Treasury (for e.g., pensions paid to war victims, political opponents of the previous regime, journalists, lawyers, ...); as a first step, compile an inventory of all the laws and regulations governing these wages and pensions; legislative changes to that end will be discussed during the third review (¶47);

SO...BY THE 3RD SBA REVIEW...AN INVENTORY OF ALL LAWS, REGULATIONS GOVERNING SOE WAGES, PENSIONS, WAR VICTIMS, POLITICAL VICTIMS ETC...PAID BY THE TREASURY...

adopting, by **end-December 2017**, revised parameters of the public pension system proposed by the World Bank.⁹

AND..BY END DECEMBER 2017...ADOPT WORLD BANK PROPOSED REVISED PUBLIC PENSION PARAMETERS...

Reform the electricity sector by a combination of the following measures:

- implementing the progressive electricity tariff schedule decided by the government in January 2016, which could yield nearly ID 2.1 trillion (1.6 percent of non-oil GDP) in additional revenue for the electricity

sector; the additional revenues will be used to finance off-budget investment and repay bank loans of the electricity companies;¹⁰ the tariff increase did not increase the tariff for the consumption below 1500 kilowatts per month in order to shield the poorest; and

AND THIS IS THE OUTLINE OF THE ELECTRICITY TAX SCHEDULE THEY OUTLINED IN JAN 2016..

reducing gas flaring by using it for electricity production, which, according to the World Bank, could yield about ID 1.4 trillion (\$1.2 billion, or 1.1 percent of non-oil GDP) in budget savings per year with an upfront cost of \$0.5 billion starting in 2017:¹¹ to that end, the ***Ministry of Oil will: pay all its outstanding 2016 arrears (\$350 million at end-August) by end-October; pay its estimated remaining gas purchase from BCG in 2016 amounting to \$300 million within the contractual 45 day-period after billing; pay the \$150 million authorized by the Minister of Finance for capital investment by end-September to finance the gas flaring-reducing investment project at the BGC; and allocate about \$1 billion for gas purchase from BGC and \$200 million for capital expenditure in the 2017 draft budget*** (¶31). In order to stop the accumulation of arrears to BGC, the scope of the PC on the stock of arrears to IOCs will be widened to include arrears to BGC starting in December 2016 (TMU, ¶9).

paying energy bills on time; the Ministry of Electricity will pay the arrears identified at end-June 2016, i.e., \$944 million in 2016 (¶21).

SO...HERE IS AN OUTLINE OF THE BUDGET REVENUE BENEFITS TO USING GAS FLARING PROCEEDS TOWARD ELECTRICITY PRODUCTION AND MINISTRY OF OIL USING PROCEEDS TO PAY DOWN AREARS AMOUNTING TO \$944 MILLION IN JUNE 2016...

Reform the social transfers.¹² **The Ministry of Labor and Social Affairs (MOLSA)** is setting up a **Proxy Means Testing (PMT)** data base with the assistance of the World Bank. When that

database is completed, the MOLSA will have a database that will be used to determine eligibility for cash transfers based on available budget. This same database could be utilized by other programs (i.e., PDS) to target their assistance (cash or in-kind) to the poor households based on their welfare scores as determined by the PMT.

SO... MINISTRY OF LABOR & SOCIAL AFFAIRS (MOLSA)...WILL SET UP A PMT (PROXY MEANS TESTING DATABASE WITH ASSISTANCE FROM WORLD BANK..TO DETERMINE ELIGIBILITY OF CASH TRANSFERS BASED ON BUDGET AVAILABILITY...

Reform state-owned enterprises (SOEs). Non-financial SOEs in Iraq include a large variety of public entities, including ministries' directorates/departments, and bodies. **There are 176 SOEs in Iraq, with over 550,000 employees, of whom 30 to 50 percent are estimated to represent excess labor.** Many of these SOEs have **limited rationale beyond providing public employment.** **As a result, they are structurally loss-making and present a large burden for public finances.** The exact scope and scale of the economic, financial and fiscal cost that SOEs represent in Iraq is, however, unknown due to poor reporting of key financial and economic statistics on the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of non-financial SOEs. Building on this information, the government will elaborate measures to restructure the non-financial SOEs on the occasion of future reviews of this SBA.

SO LASTLY..IN SUBSEQUENT SBA REVIEWS...IRAQ WITH WB ASSISTANCE WILL SET UP A DATABASE TO MONITOR THE FISCAL RISKS OF NON FINANCIAL SOE'S...WITH INTENTION OF USING DATA FOR RESTRUCTURING OF THESE ENTITIES AND DISCUSSED IN SUBSEQUENT SBA REVIEWS...

G. Public Financial Management Reforms

38. In order to strengthen fiscal discipline, the government will implement the following measures:

Improve Government Finance Statistics (GFS) reporting. Building on the IMF technical assistance recommendations, the Ministry of Finance has sent to the IMF staff fiscal reporting tables (including revenue, expenditures and financing) at end-December 2015, end-March 2016 and end-June 2016 in compliance with the **IMF Government Finance Statistics Manual 2014 (GFSM 2014, SB for the first review, Table 2).** It will publish quarterly fiscal reporting tables in compliance with the IMF GFSM 2014 with a quarter lag on the external website of the Ministry of Finance starting on **January 1, 2017.**

SO...IN ACCORDANCE WITH PAST COMMITMENTS TO THE IMF GOV'T FINANCE STATISTICS MANUAL GFSM...IRAQ MoF WILL STARTING JANUARY 1, 2017 PUBLISH QUARTERLY FISCAL REPORTING TABLES WITH QUARTER LAG ON ITS WEBSITE...

Survey, audit and pay domestic arrears:

○ *The government will monitor with quarterly surveys the accumulation of arrears by systematically recording in detail and monitoring the existing unpaid obligations on a regular basis.* It will complete **by end-February 2017** a survey of all domestic arrears, i.e., payment due for more than 90 days, covering a period at least until September 2016, including: (i) current spending (salaries, pensions, goods and services and capital purchases), managed by the Ministry of Finance; and (ii) non-oil investments (projects and any associated penalties), managed by the Ministry of Planning. The Ministry of Finance will elaborate a consolidated report on all these arrears for the included ministries (SB for the first review postponed to the second review, ¶21

and Table 2). At end-June 2016, the government identified arrears in an amount of ID 12.5 trillion (\$10.6 billion, or 6.1 percent of GDP, ¶21)

SO.....BY END OF FEBRUARY 2017 MoP WILL COMPLETE A SURVEY OF DOMESTIC AREARS AND SUBMIT CONSOLIDATED REPORT FOR THE INCLUDED MINISTRIES AND BE REVIEWED IN 2ND SBA REVIEW AFTER BEING POSTPONED...

On the basis of each of these surveys, the government will prepare plans for the orderly payment of the arrears, following an independent audit of the arrears by the BSA and a repayment schedule in line with the government's financing capacity. On September 27, the Council of Ministers adopted a decision to require verification by the Board of Supreme Audit of all the arrears on non-oil investment identified so far by the Ministry of Planning before starting the payment of any of these arrears. For the arrears on wheat purchase and other ration cards goods identified by the Ministry of Trade, the Council of Ministers adopted another decision on October 17 according to which payment of arrears could start but that the BSA would check the validity of the arrears before they are repaid (these two decisions constituted a prior action for the first review). The BSA will complete the audit of the arrears on non-oil investment by end-December 2016 (proposed SB for the second review). In light of the results of this audit, the government and the IMF staff will discuss the pace of reimbursement of these arrears on the occasion of the second review. In anticipation of the results of this audit, the government has put a provision of ID 1.3 trillion in the 2017 budget for the repayment of these arrears (¶32) and will prepare a supplementary budget in 2017 if this provision proves insufficient. For the other arrears identified so far, i.e., the arrears of the Ministry of Oil to IOCs and the arrears of the Ministry of Electricity on electricity purchase (¶¶21 and 35), the government has authorized their repayment without prior audit of the BSA because the reception of the underlying goods and services by these ministries has already been sufficiently established.

SO...OFF OF CoM DECISION TO REQUIRE BSA VERIFICATION OF ALL ARREARS ON NON OIL

INVESTMENT IRAQ WILL PREPARE PLANS FOR ORDERLY PAYMENT OF ARREARS IDENTIFIED AND ALLOCATED IN 2017 BUDGET AS 1.3 BILLION IQD...

*The government **will observe a ceiling on the accumulation of arrears on non-oil investment as surveyed by the Ministry of Planning** (IT, Table 2). The scope of this IT will be widened to include all arrears on the occasion of future reviews in light of the results of the survey of arrears on the occasion of the second review. This IT will be upgraded to a PC on zero accumulation of arrears as soon as the government has developed the ability to reliably monitor and prevent them.*

AND ...AS IN MANY PREVIOUS LOI'S...THE OBSERVANCE OF A CEILING ON ARREARS ACCUMULATION BY MoP IS COMMITTED TO AS AN IT...AND LATER UPGRADED TO AN SB WHEN ZERO ACCUMULATION OF ARREARS ATTAINED AND MoP PROVES ABILITY TO MONITOR & PREVENT THEM...

***Take steps to move to a Treasury Single Account (TSA).** As a first step, the Ministry of Finance and the CBI compiled a list of all bank accounts controlled by the Ministry of Finance and all spending units and sub spending units of the federal government, in CBI, state-owned and commercial banks at end-December 2015. Going forward, the Ministry of Finance will implement the following measures:*

Constitute a working group comprising representatives of the Ministry of Finance, CBI, Al Rasheed and Rafidain Banks and TBI to take stock of the readiness of the payment and settlement systems in the country, and develop a plan for modernizing systems to **enable operation of a TSA** by **end-December 2016**.

SO....AGAIN AS OUTLINED IN MANY OTHER IMF LOI/MEFP/TMU...IRAQ ASKED TO MOVE TO TSA AND OUTLINED STEPS TO ACHIEVE THAT STARTED IN 2015 AND INCLUDED COMPILING A LIST OF ACCOUNTS

CONTROLLED BY MoF, AND CREATING WORKING GROUP OF MoF, CBI, 2 SOB'S AND TBI TO ASSESS READINES OF PAYMENT & SETTLEMENT SYSTEMS & PLANS FOR MODERNIZING AND ENABLING TSA BY END OF DECEMBER 2016...

In light of the existing and planned banking and financial management information technology infrastructure, **develop a strategy and design an action plan for the phased development of the TSA by end-March 2017.**

AND...BY END OF MARCH 2017 SUBMIT ACTION PLAN FOR PHASED DEVELOPMENT OF THE TSA...

Create a Cash Flow Management Unit (CMU) and mandate it to develop cash flow forecasts that will identify cash needs over the course of the budget year as one of its core responsibilities (by end-December 2016) with the support of technical assistance by the IMF. These cash flow forecasts should include details of all receipts and payments into and from the central government accounts and should be used to inform the spending units about funding operations. The CMU will develop: **12-month rolling revenue cash forecasts by end-March 2017;** and **12-month rolling expenditure cash forecasts based on the larger spending units by end-June 2017.** Throughout 2017, the government will build CMU capacity to develop accurate in-year cash plans, including scenario analysis.

SO...BY END OF DECEMBER 2016 WITH TECH ASSISTANCE FROM IMF IRAQ WILL CREATE A CASH-FLOW MANAGEMENT UNIT (CMU) TO DEVELOP CASH FLOW FORECASTS AND NEEDS OVER THE COURSE OF BUDGET YEAR...AND 12 MONTH ROLLING REVENUE CASH FORECASTS STARTING BY END OF MARCH 2017 AND 12 MONTH ROLLING EXPENDITURE CASH FORECASTS OF LARGER SPENDING UNITS BY END OF JUNE 2017...

Set up a Cash Management Committee (CMC) by end-December 2016 to : (i) oversee the timely and orderly financing of the budget including monitoring of all outflows and monitor all inflows in the TSA/Treasury main accounts, all revenue collection and spending; (ii) monitor the macro-fiscal, macro-economic and monetary situation and activate corrective actions in a timely manner; (iii) ensure coordination and sharing of information between the key stakeholders; and (iv) facilitate policy discussions. Chaired by the most senior official of the Ministry of Finance, the CMC will include representatives of the Debt Management Department, the Budget Department, the Treasury, the Ministry of Oil, large spending units, and the CBI.

AND...BY THE END OF DECEMBER 2016 SET UP A CASH MANAGEMENT COMMITTEE (MADE UP OF DEBT MGMT DEPT, BUDGET DEPT, TREASURY, OIL MINISTRY & CBI) TO OVERSEE TIMELY & ORDERLY OF THE BUDGET INCLUDING MONITORING OF INFLOWS & OUTFLOWS IN TSA...MONITOR ECONOMIC, FINANCIAL & MONETARY SITUATION AND ACTIVATE TIMELY CORRECTIVE ACTIONS...AND ENSURE COORDINATION OF INFORMATION SHARING BETWEEN KEY STAKEHOLDERS AS WELL AS FACILITATE POLICY DISCUSSIONS CHAIRED BY MOST SENIOR MEMBER OF MoF...

Gradually incorporate all government-related cash operations in the TSA, initially through the use of zero-balance operations during 2017–18, in light of the results of the audits of the financial statements of Rasheed Bank and Rafidain Bank and in sync with the implementation of their restructuring strategy (¶41) and the liquidity situation of any other bank where the government has accounts.

SO..BY INITIALLY USING “ZERO BALANCE OPERATIONS” DURING 2017-2018 IRAQ WILL

GRADUALLY INCORPORATE ALL GOVERNMENT RELATED CASH OPOERATIONS IN TSA...

Design and implement a commitment control system for budget execution, in line with IMF technical assistance recommendations. To avoid emergence of new arrears, the immediate focus will include:

AND...WITH IMF TECH ASSISTANCE IRAQ WILL DESIGN & IMPLEMENT A COMMITMENT CONTROL SYSTEM FOR BUDGET EXECUTION...

preparing a monthly budget execution report based on inputs from spending units;

implementing cash rationing for each spending unit;

improving the recording of commitments: decisions by the Minister of Finance and the Minister of Planning requiring all spending units to record all existing commitments; and production, by the Ministry of Finance, of a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning (two SBs, Table 2);

prohibiting any commitment beyond quarterly allocations;

designing the templates required for a manual commitment control system based on the Appendix 3 to the December 2015 FAD technical assistance report **(by end-December 2016)**;13

SO..HEE BY THE END OF DECEMBER 2016 THE DESIGN OF TEMPLATE FOR A MANUAL COMMITMENT CONTROL SYSTEM WILL BE COMPLETED...

conducting training for spending units on the new system, including a clear definition of commitments **(by end-March 2017)**;

AND...BY THE END OF MARCH 2017...TRAINING ON NEW

SYSTEM SPENDING UNITS & CLEAR DEFINITION OF COMMITMENTS....

requiring all spending units to record all existing commitments (by end-March 2017);○ Ministry of Finance to produce a report of all recurrent and investment commitments (by project) in coordination with the Ministry of Planning as **at end-December 2016**;

AND...MoF WILL BY END OF DECEMBER 2016 PRODUCE A REPORT OF ALL RECURRENT & INVESTMENT COMMITMENTS BY PROJECT IN COORDINATION WITH MoP...

ensure that commitment control functionality is designed in the Integrated Financial Management Information System (IFMIS) **by end-March 2017**; and

test the commitment functionality in the IFMIS pilot sites (in line with IFMIS pilot plans) **by end-2018**.

AND... BY END OF MARCH 2017...INCORPORATE COMMITMENT CONTROL FUNCTIONALITY TO IFMIS...AND LASTLY TEST COMMITMENT FUNCTIONALITY OF IFMIS PILOT SITES BY END OF 2018...

Design and implement an Integrated Financial Management Information System (IFMIS) with the assistance of the World Bank:

as a first step, the Ministry of Finance adopted, in July 2016, a road map detailing its core functional requirements, such as: the chart of accounts, multi-year expenditure tracking; carry-over of resources from one year to the next; and management of advances and cash management arrangements;

as a second step, the Ministry of Finance will take the necessary steps to **hire a company to develop the IFMIS**: it published the final standard bidding documents on its web site, and will sign the contract with the selected IFMIS vendor **by end-February 2017**;

SO...BY THE END OF FEBRUARY 2017 THE MoF WILL HIRE A COMPANY TO DEVELOP IFMIS AND PUBLISH FINAL STANDARD BIDDING DOCUMENTS ON ITS WEBSITE AND SIGN CONTRACT WITH IFMIS VENDOR....

○ as a third step, the Ministry of Finance will develop, test and accept the IFMIS by end-November 2018; and

AND MoF WILL DEVELOP ...TEST AND ACCEPT IFMIS BY THE END OF NOVEMBER 2018...

as a final step, the Ministry of Finance will **progressively roll out the IFMIS to pilot sites** including the Ministry of Finance, the Ministry of Planning, the Ministry of Interior, the Ministry of Construction, Housing and General Municipalities, and the Baghdad and Babil Governorates **by end-June 2020**.

LASTLY...THE MoF WILL PROGRESSIVELY ROLL OUT IFMIS TO PILOT SITES AT INTERIOR MINISTRY...CONSTRUCTION MINISTRY...FINANCE MINISTRY...PLANNING MINISTRY BY END OF JUNE 2020...

Implement Public Investment Management (PIM) reform with the assistance of the World Bank in line with Decree 445 of October 18, 2015 on PIM:

SO...AS WE SEE HERE AND MANY OTHER LOI'S...THE COMMITMENT TO PIM ACTIONS WITH TECH ASSISTANCE FROM WORLD BANK ARE ADDRESSED ALONG WITH CLEARLY DEFINED DEADLINES...

design the organizational structure of the PIM Central Unit at the federal Ministry of Planning (April 2016) and make this structure fully operational **(by end-December 2016);**

SO HERE THEY HAVE UNTIL THE END OF DECEMBER 2016 TO MAKE PIM CENTRAL UNIT STRUCTURE COMPLETELY OPERATIONAL...

make and publish on the Ministry of Planning website a detailed

inventory at both ministry and governorate levels of the portfolio of public investment projects (on-going and new projects with a minimum cost of US\$10 million), having a feasibility study made through cost–benefit analysis and expenditure efficiency **(by end-December 2016;**

BY END OF DECEMBER 2016 MoP WILL CREATE & PUBLISH ON ITS WEBSITE A DETAILED INVENTORY AT MINISTRY & GOVERNATE LEVELS OF THE PORTFOLIO OF PUBLIC INVESTMENT PROJECTS WITH MINIMUM COST OF USD \$10 MILLION WITH FEASIBILITY STUDY..COST BENEFIT ANALYSIS AND EXPENDITURE EFFICIENCY REPORTS...

AS WE SEE HERE...A HUGE CHANGE OF CULTURE AWAY FROM THE MASSIVE CORRUPTION THAT DEPLETED THE PROJECTS FROM PREVIOUS DFI PROJECTS AND BUDGETS,...

conduct a capacity needs assessment for the PIM Central Unit at the federal Ministry of Planning and in the two IFMIS pilot governorates of Baghdad and Babil **(by end-December 2016);** and

HERE....WE SEE MoP AND 2 PILOT IFMIS SITES IN BABIL & BAGHDAD WILL CONDUCT A CAPACITY NEEDS ASSESSMENT FOR THE PIM CENTRAL MANAGEMENT UNIT BY THE END OF DECEMBER 2016

conduct training for the PIM Central Unit in line with the recommendations of the capacity needs assessment with a preliminary focus on the Logical Framework Approach and the Integrated Project Appraisal at a basic level **(by end-2017).**

AND...LASTLY BY THE END OF 2017 TRAINING FOR PIM CENTRAL UNITS WITH INITIAL FOCUS ON LOGICAL FRAMEWORK APPROACH AND BASIC LEVEL PROJECT APPRAISAL FROM RECOMMENDATIONS OF CAPACITY NEEDS ASSESSMENT REPORT...

Audit budget execution. The BSA will submit its report of the execution of the 2015 budget to parliament before **the end of 2016.**

SO...HERE BY END OF 2016 THE BSA WILL SUBMIT ITS REPORT OF THER EXECUTION OF THE 2015 BUDGET

Strengthen Debt Management. The capacity of the Public Debt Directorate will be strengthened with technical assistance support from the Japanese International Cooperation Agency (JICA), one of the largest bilateral and concessional lenders to Iraq. In October 2015, a workshop was held with support from a debt management expert from JICA. This will be followed by a package of training programs consisting of a series of seminars and practical trainings for strengthening the capacity of the Public Debt Directorate. Some training courses may be held in cooperation with neighboring countries and international financial institutions. As a first step, the Public Debt Directorate will seek assistance to strengthen its debt recording systems. **The Debt Directorate will conduct a survey of all guarantees issued by the government (new SB for the second review, Table 2).**

AS THE FINAL SECTION OF PFM...IRAQ IS ASKED TO STRENGTHEN THEIR DEBT MANAGEMENT EXPERTS THROUGH CONTINUED COOPERATION FROM JICA AND THE PUBLIC DEBT DIRECTORATE AND CONDUCT A SURVEY OF ALL GUARANTEES ISSUED BY THE GOV'T AS A SB FOR THE 2ND SBA REVIEW.....

H Anti-Corruption Measures

39. In order to combat corruption, the government will implement the following measures:

On 11 August 2016, the Iraqi government executed a memorandum of understanding with the United Nations Development Program (UNDP), pursuant to which the UNDP will provide assistance to the Iraqi government in the following areas. First, the UNDP will provide staff to support the Iraqi government in the investigation of cases of corruption, in particular relating to financial transactions involving the transfer of money out of Iraq. The assistance will also involve providing advice on how to return such financial assets once traced. Second, the UNDP will provide assistance on legislation to the various bodies involved in

investigation of corruption, such as the Bureau of Supreme Audit, the Inspector Generals and the National Integration Commission. In particular, the goal of this assistance is to make the various bodies more robust. Third, the UNDP will provide staff to assist in capacity building. Fourth, the UNDP will provide assistance to Iraq on matters relating to corruption and public relations. The UNDP staff providing such assistance arrived in Iraq in October 2016.

SO...HERE THE PARTICULARS TO THE MOU BETWEEN IRAQ & THE UN IN AUGUST 2016 IS OUTLINED WITH ASSISTANCE COMMITTED TO IN 4 AREAS OF...1) PROVIDING STAFF TO SUPPORT GOI IN INVESTIGATING CORRUPTION CASES ESPECIALLY IN CASES WHERE STATE MONEY HAS LEFT IRAQ AND ADVISE RECOVERY OF ASSETS TO IRAQ ONCE TRACED...2) STRENGTHEN & PROVIDE GUIDANCE OF LAWS NEEDED TO SUPPORT REQUISITE CORRUPTION INVESTIGATIVE INSTITUTIONS INCLUDING BSA...INSPECTOR GENERAL & NATIONAL INTEGRATION COMMISSION...3)PROVIDE SWTAFF FOR CAPACITY BUILDING...4) ASSIST IRAQ IN MATTERS OF CORRUPTION & PUBLIC RELATIONS...

SO...HERE THE UN IS FIRMLY COMMITTED TO PROVIDING ASSISTANCE AND EVEN STAFF IN EFFORTS TO MITIGATE CORRUPTION FROM INVESTIGATING TO ASSET RECOVERY TO PR MANAGEMENT...

The Council of Ministers—after review by the Shura Council— will approve and forward to parliament **by January 2017** draft amendments to the 2011 law establishing the Commission on Integrity in order to strengthen its governance, accountability and oversight, and independence, and provide it with powers in line with the United Nations Convention Against Corruption (UNCAC, SB, Table 2). The draft amendments will include the essential elements of a legal framework including clarity regarding the institution’s mandate, which consists of: its objectives and functions and its powers to achieve them; clear governance and oversight and an accountability structure; operational

and financial autonomy; eligibility criteria for appointments; and clear and transparent rules and procedures for dismissal, and protection for its management and staff. The draft amendment will also include requirements to set-up a comprehensive asset (in Iraq and abroad) declaration regime for senior public officials, their family members, and associates, and a requirement to publish the asset declaration.

SO...HERE IS THE COMMITMENT TO AMEND THE INTEGRITY COMMISSION LAW BY JANUARY 2017 BY STRENGTHENING ACCOUNTABILITY... OVERSIGHT & INDEPENDENCE ON POWERS IN LINE WITH UNCAC AND EVEN TELL US WHAT THE AMENDMENTS WILL INCLUDE...1) ELEMENTS OF LEGAL FRAMEWORK INCLUDING CLARITY OF INTEGRITY COMMISSION MANDATES...OBJECTIVES...FUNCTIONS & POWERS...2) CLEAR GOVERNANCE OVERSIGHT & ACCOUNTABILITY STRUCTURE...3) OPERATIONAL & FINANCIAL AUTONOMY...4) APPOINTMENT ELIGIBILITY CRITERIA...5) TRANSPARENT RULES & PROCEDURES FOR DISMISSAL...6) PROTECTION FOR MANAGEMENT & STAFF...7) CREATION OF DOMESTIC & FOREIGN ASSET DECLARATION REGIME FOR PUBLIC OFFICIALS...THEIR FAMILY MEMBERS & ASSOCIATES AND REQUIRE PUBLICATION OF THESE ASSET DECLARATIONS...

SO..THIS IS EXACTLY WHAT WE SHOULD LOOK FOR AND EXPECT CONCERNING THE INTEGRITY COMMISSION LAW WHEN AMENDED IN PARLIAMENT...AND WILL BE DONE BY JANUARY 2017....

In line with UNCAC requirements, the Council of Ministers will adopt

and forward to the parliament **by December 2016** amendments to the Criminal Code to criminalize all corruption acts including illicit **enrichment, bribery in the private sector, and obstruction of justice.**

SO HERE...THE CoM BY DECEMBER 2016 FORWARD TO PARLIAMENT AMENDMENTS TO THE CRIMINAL CODE TO

CRIMINALIZE ALL CORRUPTION ACTS INCLUDING ILICIT ENRICHMENT...BRIBERY IN PRIVATE SECTOR & OBSTRUCTION OF JUSTICE...THINK HOW IMPORTANT THIS IS ESPECIALLY TO A COUNTRY SO STEEPED IN CORRUTIVE CULTURE AND FOREIGN INVESTOR PRIVATE SECTOR CONFIDENCE....ABSOLUTELY PARAMOUNT!!!!

In line with UNCAC requirements, the Council of Ministers will adopt and forward to the parliament **by February 2017** several draft legislations that are currently being finalized by the Commission on Integrity to strengthen the legislative anti-corruption framework. The draft laws are related to access to information, conflict of interest, asset recovery, and protection of whistleblowers and witnesses.

AND LASTLY...BY FEBRUARY 2017 THE CoM WILL WILL ADOPT & FORWARD TO PARLIAMENT DRAFT LEGISLATION CURRENTLY BEING FINALIZED BY THE INTEGRITY COMMISSION TO STRENGTHEN THE LAWS & ANTI-CORRUPTION FRAMEWORK RELATIVE TO ACCESS OF INFORMATION...CONFLICT OF INTEREST...ASSET RECOVERY...AND WHISTLEBLOWER & WITNESS PROTECTIONS...

I. Banking Supervision

40. As of December 31, 2015, there were 56 banks operating in Iraq including 7 state-owned banks (SOB) of which one is an Islamic bank, 32 Iraqi private banks, of which 6 are Islamic banks, and 17 foreign branches, of which 5 are Islamic banks. The SOBs dominate the financial sector and account for the bulk of assets and credits. Three of the SOBs, Rafidain Bank, Rasheed Bank and Trade Bank of Iraq (TBI), account for around 90 percent of the banking system's assets.

41. The financial positions of Rasheed Bank and Rafidain Bank are fragile following years of quasi-fiscal operations. As a first step to restructure these banks, the Ministry of Finance appointed international auditors to audit their latest financial statements according to international standards, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank. The auditors will submit their audit reports to the Ministry of Finance by end-February 2017. As a second step, the Ministry of Finance will, by end-August 2017, elaborate a restructuring plan for these two banks, in cooperation with the Executive Committee for the restructuring of these banks and the World Bank, in light of the results of the aforementioned audits.

SO...HERE THEY ASSERT IN THE SCOPE OF PRIVATIZING THE SOB'S...THE MoF APPOINTED INT'L AUDITORS TO REVIEW THEIR LATEST FINANCIAL STATEMENTS ACCORDING TO IAS IN COOPERATION WITH WB & EXECUTIVE RESTRUCTURING COMMITTEE AND REPORT THEIR FINDINGS TO MoF BY THE END OF FEBRUARY 2017...AND AS 2ND STEP...THE MoF WILL BY THE END OF AUGUST 2017 DEFINE THE RESTRUCTURING PLAN FOR THESE 2 BANKS IN COOPERATION OF WB & EXECUTIVE RESTRUCTURING COMMITTEE AWAY FROM AUDIT RESULTS...

42. The CBI will continue to implement reform measures to enhance the stability of the banking sector in Iraq which include inter alia:

working on reviewing and assessing CBI prudential regulations with the assistance of the IMF Middle East Technical Assistance Center (METAC) and the World Bank;

strengthening banking supervision including for AML/CFT, with IMF and World Bank technical assistance;

compiling and publishing financial stability indicators, elaborated with IMF technical assistance **(by end-December 2016)**;

enforcing the minimum capital requirement of banks of ID 250 billion (\$214 million), a level to which all private banks except one have increased their capital;

**SO....HERE ARE THE CBI REFORM MEASURES TO
ENHANCE THE STABILITY OF THE BANKING SECTOR...1)
CONTINUED REVIEW & ASSESSMENT OF CBI PRUDENTIAL
REGULATIONS WITH METAC ASSISTANCE...2)
STRENGTHENING BANKING SUPERVISION OF AML/CFT...3)
COMPILING & PUBLISHING FINANCIAL STABILITY
INDICATORS WITH IMF TECH ASSISTANCE **BY END OF
DECEMBER 2016**...4) ENFORCE MINIMUM CAPITAL
REQUIREMENTS 250 BILLION IQD...**

contracting a consultant to assist the CBI in rating banks, whereby they have already rated 17 banks: three banks were rated “satisfactory”, eight banks rated “fair” and six banks “marginal”;

preparing a Deposit Insurance Scheme which stipulates the establishment of a corporation to be licensed by the CBI, of which banks will have the opportunity to take a share in the capital;

contracting a private firm to provide the CBI with a credit registry system for sharing information among banks on their common existing and potential borrowers;

issuing a banking law for financial institutions offering Islamic services;

penalizing, financially and administratively, banks and non-bank financial institutions for any non-compliance with laws and regulations in force; and

introducing the international bank account number (IBAN) system in Iraq.

**SO...HERE...NOTE THAT THESE INITIATIVES HAVE BEEN
PART OF THE LOIS SINCE 2015 AND HAVE ALL BEEN
COMPLETED**

43. Building on the safeguards assessment conducted by the IMF in December 2015, the government will strengthen the legal framework of the CBI to provide for independent oversight of the CBI's operations. The Governing Council of the CBI will, **by end-December 2016**, approve a new charter for the Audit Committee prohibiting Central Bank of Iraq executive representation on the committee (SB, Table 2). The Council of Ministers will, **by end-March 2017**, approve and introduce to parliament amendments to the Law on the Central bank of Iraq to strengthen CBI governance and the internal control framework, in line with the IMF safeguards assessment's recommendations (SB, Table 2). Specifically, the CBI Law should be amended to: (i) specify external auditor selection criteria and timely appointment (i.e., before the end of the fiscal year for which the financial statements need to be audited); (ii) shift the authority to appoint the external auditor from the Ministry of Finance to the CBI; (iii) provide for multi-year appointment terms for the external auditor; (iv) provide for timely publication of audited financial statements; (v) establish an audit committee, including its mandate and composition, and representation on the CBI Board; (vi) change the CBI Board's composition to a non-executive majority; (vii) strengthen the autonomy of the chief internal auditor; and (viii) require market-based rates for lender of last resort operations. The proposed amendments should be developed in consultation with the IMF.

SO...HERE..BUILDING ON IMF SAFEGUARD ASSESSMENTS THEY COMPLETED IN DEC 2015...THE GOI COMMITS TO STRENGTHENING THE LEGAL FRAMEWORK OF CBI TO PROVIDE INDEPENDENT OVERSIGHT OF CBI OPERATIONS...THE CBI GOVERNING COUNCIL WILL BY THE END OF DECEMBER 2016 APPROVE A NEW CHARTER FOR THE AUDIT COMMITTEE PROHIBITING CBI EXECUTIVE REPRESENTATION ON THE COMMITTEE AND BY END OF MARCH 2017 THE CoM WILL APPROVE & PRESENT TO PARLIAMENT AMENDMENTS TO THE CBI LAW TO ACHIEVE THE FOLLOWING IN LINE WITH IMF SAFEGUARD ASSESSMENTS TOWARD STRENGTHEN CBI GOVERNANCE & INTERNAL CONTROL FRAMEWORK...1) SPECIFY EXTERNAL AUDITOR CRITERIA & TIMELY APPOINTMENT...2) SHIFT

**APPOINTMENT AUTHORITY FROM MoF TO THE CBI...3)
PROVIDE MULTI YEAR APPOINTMENT TERMS FOR EXTERNAL
AUDITOR...4) PROVIDE TIMELY PUBLICATION OF AUDITED
FINANCIAL STATEMENTS...5) ESTABLISH AUDIT COMMITTEE
INCLUDING ITS MANDATE & COMPOSITION AND
REPRESENTATION ON CBI BOARD...6) CHANGE CBI BOARD
COMPOSITION TO A NON EXECUTIVE MAJORITY...7)
STRENGTHEN THE AUTONOMY OF THE CHIEF INTERNAL
AUDITOR...8) REQUIRE MARKET BASED RATES FOR LENDER
OF LAST RESORT OPERATIONS ALL AMENDMENTS TO BE
DONE WITH IMF TECHNICAL ASSISTANCE...**

44. On November 25, 2015, the prime minister approved CBI credit lines to banks in an amount of ID 6 trillion, with a state guarantee, for on-lending to small and medium-sized enterprises (SME, ID 1 trillion) and agriculture or infrastructure projects (ID 5 trillion). So far the CBI has disbursed ID 21.2 billion for the former and 0.5 trillion for the latter. Before proceeding any further with these initiatives, the Ministry of Finance and the CBI will analyze the potential fiscal risks posed by these credit lines. In light of this analysis, the government will discuss with IMF staff whether to continue executing these credit lines on the occasion of the second review (¶47).

**LASTLY...THE CBI & MoF WILL ANALYZE THE RISKS
ASSOCIATED WITH CREDIT LINES TO BANKS WITH STATE
GUARANTEES FOR SME AND AGRICULTURE & INDUSTRY
PROJECTS AND DISCUSS ANALYSIS RESULTS WITH IMF AT 2ND
SBA REVIEW....**

J. Anti-Money Laundering and Countering the Financing of Terrorism Measures

45. *The government will implement reforms to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) framework.* This will contribute to improve the integration of the domestic financial system into the global economy, lower transaction

costs, improve governance, reduce the size of the informal sector, disrupt ISIS funding, and reduce the terrorist threats it poses.

SO...THIS SECTION TALKS ABOUT THE CONTINUED STRENGTHENING OF REFORMS IN AML/CFT THAT WILL CONTRIBUTE TO IMPROVING THE INTEGRATION OF IRAQS DOMESTIC FINANCIAL SYSTEM INTO THE GLOBAL ECONOMY...

As a first step, on October 9, 2016, the government adopted a by-law to set up a mechanism to comply with the relevant United Nations Security Council resolutions related to terrorism and terrorism financing in line with Recommendation 6 of the Financial Action Task Force on Money Laundering and Terrorism Financing (FATF) (SB, Table 2). In addition, the CBI will, **by end-December 2016**, adopt regulations imposing AML/CFT preventives measures for licensed entities to implement the 2015 law in line with the relevant FATF Recommendations.

SO...HERE THEY OUTLINE THAT BY END OF DECEMBER 2016 IRAQ WILL ADOPT REGULATIONS TO ENFORCE AML/CFT PREVENTATIVE MEASURES FOR LICENSED ENTITIES IN LINE WITH THE 2015 LAW ADOPTED BY UN SECURITY COUNCIL ^ RECOMMENDATION 6 OF THE FINANCIAL ACTION TASK FORCE (FATF)...

As a second step, the CBI will develop its supervisory capacity to enhance the compliance by these entities with AML/CFT obligations. In this respect, it will adopt risk-based AML/CFT onsite inspection procedures **by end-January 2017**, and tools for AML/CFT offsite monitoring of licensed entities **by end-April 2017**. It will allocate 5 experienced supervisors to properly cover AML/CFT issues during onsite examinations and ensure effective implementation. The CBI will recruit 5 additional experienced supervisors **by end-January 2017**.

AND HERE...AS A 2ND SWTEP TOWARD THIS END THE CBI WILL **BY THE END OF JANUARY 2017 WILL DEVELOP ITS SUPERVISORY CAPACITY AND ADOPT RISK BASED AML/CFT ON SITE INSPECTION PROCEDURES...AND **BY APRIL 2017** TOOLS FOR MONITORING LICENSED ENTITIES....**

THEY ALSO AGAIN...OUTLINE 5 EXPERIENCED SUPERVISORS TO PROPERLY COVER THE AML/CFT ISSUES & EFFECTIVE IMPLEMENTATION OF ONSITE INSPECTIONS...AND **BY END OF JANUARY 2017 RECRUIT 5 ADDITIONAL SUPERVISORS IN THIS CAPACITY...**

The CBI, in coordination with the AML/CFT Council, will provide the Financial Intelligence Unit (AML Bureau) with all the necessary financial, human, and technical resources to ensure a fully operational and effectively functional unit. The CBI will provide an appropriate budget to the AML Bureau **by end-December 2016**. Furthermore, the AML Bureau will recruit 5 additional experienced financial analysts¹⁴ **by end-March 2017** to analyze the suspicious transactions reports and disseminate them on a timely basis to the law enforcement agencies. The AML Bureau will recruit 5 additional experienced financial analysts **by end-March 2018**.

SO...HERE AS IN PREVIOUS IMF LOI/MEFP/TMU THEY OUTLINE IN COMPLIANCE WITH AML/CFT COUNCIL WILL PROVIDE THE FINANCIAL INTELLIGENCE UNIT WITH THE NECESSARY FINANCIAL, HUMAN, & TECHNICAL RESOURCES FOR THE FIU...AND **BY THE END OF DECEMBER 2016 THE CBI WILL PROVIDE AN APPROPRIATE BUDGET TO FIU...AND **BY THE END OF MARCH 2017** RECRUIT 5 ADDITIONAL EXPERIENCED ANALYSTS FOR ANALYZING THE SUSPICIOUS**

**TRANSACTION REPORTS & DISSEMINATE THEM TO
LAW ENFORCEMENT AGENCIES ON A TIMELY BASIS...**

**LASTLY...THE FIU (AML BUREAU) WILL RECRUIT 5
ADDITIONAL EXPERIENCED FINANCIAL ANALYSTS **BY
THE END OF MARCH 2018...****

The government will adopt a comprehensive cash-couriers' regulation to implement the requirement of Article 34–35 of the AML/CFT Law and in line with FATF Recommendation **by end-December 2016**. The Customs Administration will then take the appropriate measures to effectively implement the regulation in order to detect the physical cross-border transportation of currency and bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or associated predicate offenses, or that are falsely disclosed.

**IN THE LAST SEGMENT OF THE AML/CFT REFORM
MEASURES SECTION...IN ACCORDANCE WITH
AML/CFT LAW ARTICLE 34-35 THE GOI WILL ADOPT A
COMPREHENSIVE CASH-COURIERS REGULATION **BY
THE END OF DECEMBER 2016**,,,THIS WILL PRECEDE THE
IMPLEMENTATION BY THE CUSTOMS
ADMINISTRATION TO IMPLEMENT THE REGULATION
IN ORDER TO DETECT THE PHYSICAL CROSS BORDER
TRANSPORTATION OF CURRENCY AND BEARER
NEGOTIABLE INSTRUMENTS SUSPECTED TO RELATE
TO TERRORISM FINANCING, MONEY LAUNDERING OR
RELATED OFFENSES...**

Program Modalities and Monitoring

46. To facilitate effective program implementation, the government requests a rephrasing to move from quarterly to semi-annual reviews based on performance at mid- and end-year. Data requirements, including on timeliness, and the need to prepare audited data, make frequent reviews difficult, especially given the need to hold the reviews off-site (in Jordan). Hence, the government requests to move to semi-annual reviews and the associated rephrasing of the arrangement to reduce the burden on the government to produce such data and also to allow more time for the reforms to be implemented and the data for program monitoring to be prepared. The semi-annual reviews would continue to have PCs on the non-oil primary balance, the stock of total public debt, the stock of net domestic assets of the CBI, official foreign exchange reserves, the non-accumulation of new external arrears, the stock of outstanding arrears to IOCs and two IT on social spending and the stock of outstanding domestic arrears on non-oil investment (Table 1). The program would also have indicative targets on all these variables at the end of the first and third quarters of the year. In light of the revised fiscal program in 2016 (¶29), the government proposes to modify the level of the PCs on the central government non-oil primary balance, the gross international reserves of the CBI, the net domestic assets of the CBI, and the gross public debt at end-December 2016. In light of experience, the government also proposes to modify the definition of the PC on the non-oil primary balance, total public debt, GIR and NDA and to add a few adjustors to the PC on non-oil primary balance, GIR and NDA (¶16). Each program review will set a few SBs in areas that are essential for the success of the program (Table 2 contains the list until the third review). The **second review** will take place **on or after April 15, 2017**, and the **third review** **on or after October 15, 2017**.

**SO HERE IRAQ REQUESTS TO MOVE FROM
QUARTERLY REVIEWS TO SEMI ANNUAL REVIEWS
BASED ON MID AND END OF YEAR PERFORMANCE &
BE HELD OFF SITE IN JORDAN AND INCLUDE TIMELY**

AUDITED DATA PREPARATION BY MOVING TO SEMI ANNUAL REVIEWS LESSWEN THE BURDEN ON GOI TO PRODUCE THE DATA...THE NEW REVIEWS WILL CONTINUE TO HAVE PC'S ON NON-OIL PRIMARY BALANCE, PUBLIC DEBT STOCK BALANCE, STOCK OF NET DOMESTIC CBI ASSETS, OFFICIAL FOREIGN EXCHANGE RESRVES. FREEZE ON EXTERNAL ARREARS, STOCK OF OUTSTANDING ARREARS TO IOC'S, AND 2 IT'S ON SOCIAL SPENDING & STOCK OF OUTSTANDING DOMESTIC ARREARS ON NON-OIL INVESTMENT...

FURTHERMORE THE PROGRAM WILL HAVE INDICTIVE TARGETS (IT) FOR ON ALL OF THESE CRITERIA AT END OF 1ST & 3RD QUARTERS...

LASTLY...THE GOI WILL MODIFY PC'S & SB'S ESSENTIAL TO PROGRAM SUCCESS...AND ANNOUNCES THE DATE OF THE 2ND SBA REVIEW TO BE **ON OR AFTER BAPRIL 15TH, 2017... AND THE 3RD REVIEW TO BE **ON OR AFTER OCTOBER 15TH, 2017...****