



Empowered lives.  
Resilient nations.

United Nations Development Programme - Iraq  
**KRG BUDGET EXECUTION SUPPORT PROJECT**  
**1<sup>ST</sup> AND 2<sup>ND</sup> Quarter, 2014 Progress Report**



<b>Project Title:</b>	KRG BUDGET EXECUTION SUPPORT PROJECT
<b>UNDP Project #:</b>	Atlas ID: 00061923 Award ID: 00050223
<b>Project Duration:</b>	2008 - 31 <sup>st</sup> December, 2014
<b>Project Resources:</b>	DoS, KRG, TRAC
<b>UNDP Iraq Focal Point:</b>	Mr. Tha'ir Shraideh – Project Manager

<b>UNDAF Outcome(s)</b>	Priority 1: Improved governance, including protection of human rights Outcome 1.2: The Iraqi state has more efficient, accountable and participatory governance at national and sub-national levels.
<b>CP Outcome(s):</b>	Strengthened regulatory frameworks, institutions and processes in place for accountable, transparent and participatory governance at national and local levels.
<b>Output(s):</b>	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
<b>Implementing Partner:</b>	UNDP
<b>Responsible Partner:</b>	UNDP
<b>Project Location(s):</b>	Kurdistan Region – Iraq

## **KRG Budget Execution Support Project Donors**

***US  
Department  
of State***



***Kurdistan  
Regional  
Government***



***United  
Nations  
Development  
Programme***



# Table of Content

1. <i>Context</i> .....	1
2. <i>Quarter Implementation Progress</i> .....	2
2.1 <i>Output (1)</i> .....	2
2.2 <i>Output (2)</i> .....	3
3. <i>Challenges</i> .....	4
3.1 <i>UNDP Response to Challenges</i> .....	4
4. <i>Future Plans</i> .....	5
5. <i>Financial Section</i> .....	6
Table (1) <i>Funding Overview</i> .....	6
Table (2) <i>Expenditure Status (per Donor)</i> .....	6
6. <i>Annexes</i> .....	7
Annex (1) <i>Performance Tracking</i> .....	7
Annex (2) <i>Risk Log</i> .....	9

## 1. Context - Background

---

Iraq has abundant human and natural resources: a population of approximately 30 million inhabitants, the world's second-largest oil reserves and considerable gas reserves. The oil sector dominates Iraq's economy: it accounts for two-thirds of the GDP and provides over 90 percent of government revenues. For the people of Iraq to benefit from hydrocarbon revenues, public financial management reforms are priority.

The Iraqi Constitution of 2005 allocates greater powers, particularly in the management of public resources, to Iraq's provinces/governorates and substantial autonomy to any province or group of provinces organized into a region, with the Kurdistan Region (KR) being the only recognized to date. Thus, the 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 governmental integrity and accountability as well as enabling efficient and effective resource management, budget execution, and service delivery.

With a population of around 4 million and an area of approximately 40,000 square kilometers, the Kurdistan Region is composed of three Governorates, namely: Duhok, Erbil and Sulaymaniyah. 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.



Iraqi Kurdistan has been largely stable and has remained isolated from the sectarian violence prevailing elsewhere in Iraq. The Federal Model for Iraq, established by the National Constitution, has suited the KRG, which has taken full ownership and control over its development agenda.

This Project aims at strengthening the capacities of the Kurdistan Regional Government (KRG) in budgetary process and is the foundation to accelerating the Kurdistan Region stabilization, reconstruction and development efforts. In doing so, (i) the KRG's budgetary capacity in policy, planning, execution and control will be strengthened, (ii) transparency and accountability in the mobilization and use of KRG public resources improved and (iii) capacity developed for public financial management in the KRG.

## 2. Quarter Implementation Progress

---

This report reflects the project progress from 1<sup>st</sup> January through 30<sup>ie</sup>th of June 2014 on the implementation status of KRG Budget Execution Support (BES) Project.

### **2.1 Output (1): Budget policy, planning and formulation strengthened**

#### **Q1 2014 Progress:**

During Q1 2014, UNDP Project team continued assisting KRG Ministry of Planning with the preparation of 2014 Capital Investment Budget. The project team assisted in cross checking all proposed projects with the budget ceilings of line ministries, and the classification of the status of projects as completed, ongoing, or new. Hence, in February 2014, BES team assisted DG of Capital Investment in preparing the following: 1) a new Budget Call Circular (BCC) form and; 2) a new project list based on the new BCC for all KRG ministries. KRG line ministries went through two training sessions to guide them in how to complete the new BCC form appropriately. The BES team efforts were ongoing even since March, when BCC forms were received back from line ministries and worked with the RAND cooperation to develop a mechanism for project screening and approval based on the information provided in the completed BCC forms.

During March 2014, BES team supported the preparation KRG Capital Investment 2014 Budget project list for Iraq Central Government after all 2014 projects (5,045) had been assigned Baghdad sector codes to.

Furthermore, based on the cooperation with Local Area Development Programme (LADP II), the project team assisted MoP with readjusting provincial allocations according to the approved number of population in each governorate. UNDP worked closely with MoP's Database Office (KDMS) to ensure correct data entry and propose solutions for faced deficiencies to the database developing company. The BES team provided assistance to MoP KDMS staff in some communication with the contracting company and digging into the system checking any possibility to be used for output and development indicators. Moreover, the project team worked closely with RAND Cooperation to revise Kurdistan Region sector classification (OECD) and prepared a more comprehensive list of sub-sectors to capture all KR needs. Later, KR sub-sectors were mapped with KR 2020 vision objectives and output indicators - which were all uploaded to KDMS system.

In March, BES team held a training workshop on "Efficient Work Environment Workshop". The workshop was attended by 18 participants (50% females and 50% males) from the public sector in KRG; including MoP, MoF, Ministry of Housing and Construction, MoH). Participants were from staff responsible for Capital Investment budget and planning. The purpose of the training was enhancing the coordination and professional communication amongst public sector servants in KRG, mainly MoP DG of Capital Investment Budget with the Investment Budget Departments in line ministries. Workshop was also attended by DoS MoE officer. The workshop aimed to enhance the coordination and professional communication amongst public sector servants in KRG, mainly MoP and MoF. (*More details in Annex 1*)



#### **Q2 2014 Progress: Assisting MoP with Capital Investment Budget**

During the second quarter, UNDP Project team worked with RAND International (MoP contractor) for handing over the prepared systems to MoP; the systems covered: New Project Selection, Calculation of 2015 Budget Ceilings, and Ministry Budget Execution Reports. The

next step is to train MoP staff on updating those systems after implementation. The efforts on this started in May 2014, where the project team worked with RAND International to stand on KDMS system limitations in both KR 2020 objectives and output indicators. The findings were more into reflecting adjustments on the system to be able to assign objectives and output to projects within the system.

Within the second quarter, the UNDP project team revised 2014 Budget allocations based on final / actual 2013 expenditure. As a result, a list of projects with some pending issues was prepared, enabling MoP to work on sorting these issues out in close coordination with line ministries. In April 2014, the project team participated in a round table discussion arranged by DG of Capital Investment Budget for KRG line ministries, later in the same month BES project team assisted in preparing the final list of New Project selected for 2014; a list that provides KRG line ministries with the approved projects by KRG MoP and the reasons behind rejecting others. Later, UNDP project team assisted in preparing the presentation for Minister of Planning on the Capital Investment Budget for 2014.

Also in April 2014, Project team went through the KDMS system to ensure that the changes requested by MoP were all addressed and corrected in the system. The team was able to indicate some pending issues, on which a report was drafted and submitted to KDMS contractor.

In May 2014, BES Project Management team conducted several meetings with DG of Capital Investment Budget; focusing on the project's activities, deliverables and its future. Additionally, it was agreed that BES would help with the preparation of a training plan on KDMS system targeting three governorates in KR and assisting those governorates incorporating all their projects within the system. Later in the same month, a meeting was conducted with MoP KDMS team to stand on: 1) the tools and requirements that would allow sharing KDMS system with KR governorates; as this requires good internet speed and; 2) the best time to conduct the introductory training to KR governorate offices' DGs and directors.

During June, 2014 UNDP project team conducted a Skype meeting was conducted with Synergy International and KDMS system tackling issues especially regarding RDV objectives and output indicators were discussed.

During the second quarter, 2014 BES Project Management team met with DG of Capital Investment Budget focusing on LADP project activities, deliverables and the upcoming activities. In the last meeting held in June, it was agreed that BES project team will prepare a training plan on KDMS for projects' staff in governorates as of August, 2014.

## ***2.2 Output (2): Budget execution and monitoring is strengthened***

### **Q1 2014 Progress:**

In February, 2014 BES Project Management team conducted a meeting with MoF Head of Cash Management Department - Mr. Nader Majeed Nader, to discuss the concept note presented for the implementation of Treasury Single Account (Cash Management System). This concept note describes a technical phase under KRG BES Project, for providing technical assistance to implement TSA system in KRG. This project aims to increase KRG's capacity in cash management, which will improve its capacities in budget planning and execution. It will also increase the transparency and oversight of expenditures.

### **Q2 2014 Progress:**

Follow-up on the latest discussions that took place during the first quarter was done during the past three months. Still waiting for KRG MoF feedback to finalize the concept note.

### 3. Challenges

---

Slow and outdated budget allocation approval processes and subsequent delays in actual transfers of funds from the Ministry of Finance to Governorates and Line-Ministries for implementation, cripple local efforts to provide quality essential services to their citizens. In addition, there tends to be limited experience and weak capacity at local level to carry out integrated, participatory strategic planning and budgeting, which could support governorates to respond to local communities' most important needs while aligning their development efforts with national priorities and vision. Lastly, there is a lack of transparency and accountability in public financial management that gives weight to allegations of rampant corruption and misuse of public resources. Based on this general view, the project faces the following major challenges:

- Rapid political changes in Iraq and KRG leads to rapid changing in priorities by counterparts and take away lots of the needed attention.
- The level of commitment of KRG Government for the implementation of proposed PFM products is considered to be a major challenge considering political constraints and available capacities.
- Lack of capacities and coordination with the Central Government in PFM activities, which causes reluctance in going forward with needed reforms

#### **3.1 UNDP Response to Challenges**

In accordance with the general shift in UNDP intervention strategy from immediate post-conflict reconstruction to capacity development and policy based interventions, this project is helping to increase the technical capacity of communities and local governments and their control over decisions and resources that affect their development, while preserving center-periphery coordination and consultation. It engages and empowers people through a participatory process of local development planning, budgeting and implementation. UNDP will assist Local Authorities in performing their role and assuming their responsibility for planning and managing local revenues and expenditures to support and facilitate the expansion of pro-poor quality services in target project areas. Concurrently, citizen accountability mechanisms regarding the use of public resources and the quality of service delivery will be developed.

Within this framework, the proposed Budget Execution Support (BES) project attempts to establish strong linkages with current and future UNDP projects, namely with the Anti-Corruption Project, the Board of Supreme Audit Support Project, the decentralization and local governance projects, the Public Sector Reform Programme, the Private Sector Development Programme, and the Local Area Development Programme.

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. Specifically, it will help strengthen budget formulation, execution, monitoring, control, and reporting; modernize public procurement; and develop PFM capacity generally.

At that time, the Authorities requested UNDP's support to prepare a regional Public Financial Management Action Plan for the KRG. This Action Plan, has been prepared and approved which provides an overall policy and operational framework for: (a) designing and implementing an integrated Public Financial Management (PFM) reform and institution building program; (b) aligning this program with the PFM Action Plan currently implemented at the national level; (c) assisting to coordinate and mobilize donors' support for priority reforms and capacity building, and (d) monitoring progress in implementing the PFM reforms.

#### *4. Future Plans*

---

The future plans for the third quarter will be mainly as follows:

- Introduce KDMS to the governorates to harmonize the budget planning and execution at the governorate level with capital investment directorate at MoP.
- General support for the Capital Investment Directorate at MoP.
- Explore the utilization of KDMS as a tool for managing and monitoring the Public Investment Programme.



## 5. Financial Section

**Table 1: Funding Overview**

Donor	Commitment (USD)	Received (USD)	Balance (USD)
DoS	2,000,000	2,000,000	-
KRG	500,000	400,000	-
UNDP	1,500,000	1,366,917.15	133,082.85
<b>Total</b>	<b>4,000,000</b>	<b>3,766,917.15</b>	<b>133,082.85</b>

Notes:

- KRG retained USD100K out of the total amount KRG authorities committed to (USD 500K) for project miscellaneous expenses.

**Table 2: Expenditure Status (by donor)**

Donor	Budget	Activity	Expenditure from 1 Jan – 30 June 2014		Total Expenditure	Balance
			Commitment	Disbursement		
DoS	162,066	1	12,740	136,302	149,042	13,024
KRG	277,431	2	5,699	62,609	68,308	209,123
UNDP	300,000	3	12,201	28,847	41,049	258,951
<b>Total</b>	<b>739,497</b>		<b>30,640</b>	<b>227,758</b>	<b>258,399</b>	<b>481,098</b>

## 6. Annexes

### Annex I: Performance Tracking Matrix

Result/Goals	Performance Indicators	Baseline Info	Performance Benchmark and Targets	Implementation Progress in reporting quarter
<b>Output 1:</b> Budget policy, planning and formulation strengthened	Submission of concept note for implementing a follow up programme on KDMS to connect it with BES deliverables and public budgeting.	KDMS was provided through another UNDP Project as software and data base.	Analytical report on KDMS as a tool for formulating and monitoring Public Investment Programme.	<ul style="list-style-type: none"> <li>- Assisting KRG MoP with the preparation of 2014 Capital Investment Budget, and preparing KRG Capital Investment 2014 Budget project list for Iraq Central Government.</li> <li>- Assisted MoP with readjusting provincial allocations.</li> <li>- Closely worked with MoP's Database Office (KDMS) to ensure correct data entry and propose solutions for faced deficiencies to the developing company. Work with RAND International (MoP contractor) took place for handing over the prepared systems to MoP.</li> <li>- Held a training workshop on "Efficient Work Environment Workshop" to enhance the coordination and professional communication amongst public sector servants in KRG.</li> <li>- Assisted in preparing the presentation for Minister of Planning on the Capital Investment Budget for 2014</li> </ul>
<b>Output 2:</b> Budget execution and monitoring is strengthened	Submission of concept note for implementing a follow up programme on KDMS to connect it with BES deliverables and public budgeting.	No existing cash management system in KRG.	Analytical report on KRG's cash management system, with implementation plan for a treasury Single Account)	<ul style="list-style-type: none"> <li>- Follow up meetings and discussions with MoF regarding the concept note presented for the implementation of Treasury Single Account (TSA)</li> </ul>
<b>Output 3:</b> Reporting, oversight and control systems reinforced	Number of capacity building workshops/Programmes delivered to relevant counterparts.	Capacity Needs Assessment Report conducted by the project.	<ul style="list-style-type: none"> <li>- Three capacity building Programmes/work shops</li> <li>- Concept Note on Institutional Building of BSA</li> </ul>	

## The Project is contributing indirectly to the following Outputs

Output	Notes
New Budget Manual being developed nationally to be implemented in KRG	Once developed nationally, the project will provide technical assistance to support implementation of a new Budget Manual.
When Procurement Laws are implemented at the national level, law regulation, standard bidding evaluation and reporting documents are disseminated in KRG	Once developed nationally, the project will provide technical assistance to disseminate and provide capacity building on the new procurement law and regulations. The project will also review KRG regional legislations to conform to the new law.
New procedures to account for commitments which are consistent with the national system are implemented	Once developed nationally, the project will seek KRG compliance with the new accounting instructions regarding accounting for commitments and revising the form and content of cash flow statements. The project will conduct capacity assessment of treasury staff and design training programs in liaison with national initiatives, including on-the-job training in implementing the new accounting and payment systems.
KRG financial and management information system software and hardware are established and key functions are automated	To be implemented by the World Bank Project with Central Government (CG)
Technical capacities of procurement departments are reinforced	To be implemented by the World Bank Project with CG
Sub-national public procurement information and monitoring system that track all procurement are implemented	To be implemented by the World Bank Project with CG
New procedures for cash payments are implemented in KRG consistent with those of the national level	To be implemented by the World Bank Project with CG

## Annex II: Risk Log

#	Description	Type	Impact & Probability on a scale 1 (low) to 5 (high)	Countermeasures / Management. Response	Owner
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, risk levels and security in KRG	<i>Political</i>	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. <b>Probability=2</b> <b>Impact = 5</b>	UNDP will monitor the security and political situation with UNAMI. If the situation deteriorates, project activities would be scaled down to mitigate the risks incurred in delivering technical assistance in conflict-affected areas.	<b>UNDP Project Management Team</b>
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.	<i>Strategic</i>	Delays in enacting legislation and adopting new PFM procedures at the national level would delay 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. <b>Probability = 4</b> <b>Impact = 4</b>	UNDP will have a proactive approach with both central and regional authorities on their respective PFM action plans. UNDP will liaise with other donors (USAID, DFID, World Bank) to ensure timely execution of agreed reforms at the national level which would otherwise delay KRG reform agenda. Other project activities that do not require prior actions from Central Government will proceed in the meantime.	<b>Joint Project Formulation Team (JPFT)</b>
3	Risks of weak cooperation on PFM reforms between the Central Government and KRG Authorities due in part to protracted political and financial issues.	<i>Operational</i>	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 procedures with those at the national level. <b>Probability = 3</b> <b>Impact =4</b>	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 central and regional levels.	<b>JPFT</b>
4	Governance risks pertaining to corruption and mismanagement of public resources.	<i>Operational</i>	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. <b>Probability = 3</b> <b>Impact = 4</b>	UNDP will act on both demand and supply sides of good governance by: (a) raising awareness of reforms in both the executive and legislative branches of government and with the general public; (b) fostering transparency through dissemination of project activities and results; and (c) Public accountability through disclosure of procurement steps & outcomes.	<b>JPFT</b>
5	Difficulty in attracting seasoned experts to work in KRG for extended periods of time.	<i>Organizational</i>	Could delay project execution. <b>Probability = 2</b> <b>Impact = 2</b>	UNDP to mobilize the UN roster of PFM consultants, reach out to other donors, private sector and tap into Iraqi diasporas.	<b>UNDP Project Management Team</b>
6	Change of Project Management structure at a critical juncture of the BES project execution.	<i>Operational Organizational</i>	Could slow-down the pace of project execution, and the oversight of consultants. <b>Probability = 2</b> <b>Impact = 2</b>	UNDP to consult with KRG Authorities in order to implement the most effective arrangements, with project staff to be present in Erbil during the upcoming quarter.	<b>UNDP-Iraq</b>