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KRG BUDGET EXECUTION SUPPORT PROJECT

4TH Quarter, 2014 Progress Report



Project Title:	KRG BUDGET EXECUTION SUPPORT PROJECT
UNDP Project #:	Atlas ID: 00061923 Award ID: 00050223
Project Duration:	2008 - 31 st December, 2015
Project Resources:	USD \$4,000,000
UNDP Iraq Focal Point:	Mr. Tha'ir Shraideh – Project Manager
UNDAF Outcome(s)	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.
CP Outcome(s):	Strengthened regulatory frameworks, institutions and processes in place for accountable, transparent and participatory governance at national and local levels.
Output(s):	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
Implementing Partner:	UNDP
Responsible Partner:	UNDP
Project Location(s):	Kurdistan Region – Iraq

KRG Budget Execution Support Project Donors

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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 1st October through 31st of December 2014 on the implementation status of KRG Budget Execution Support (BES) Project.

During the reporting period of the BES Project, various meetings were held between KRG counterparts and UNDP BES project team which further assisted to strengthen the budget policy, planning and formulation. In addition, UNDP BES team assisted to trainings of the project staff in governorates on the KDMS system.

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

The developments that were accomplished under the output 1 during the reporting of Q3 2014 are as follows:

- Three meetings were conducted with Erbil, Dohuk and Sulaymaniyah Planning and Project Database Units to introduce KDMS system and explore the willingness of the governorates to use such system as their main database in the future. In addition necessary notes were taken on the system development recommendation to further align the system to the requirements of the governorates for future development such as Provincial Development Strategy and budget process mechanism.
- During the mentioned meetings a presentation on the Sector Classification System was done which was adopted by KRG and MoP and discussions were held to get updates on projects of the Governorates.

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

The developments that were accomplished under the output 2 during the reporting of Q4 2014 are as follows:

- The BES team worked with both database team (KDMS and PMIS) to do data analysis and compare project information and data such as allocation and expenditure.
- RDV and Sector unit staff supervised to assign sectors and RDV codes to all KRG ongoing and proposed projects (3500 projects)
- CIB website manager was assisted on reviewing the content of MoP capital investment budget website.
- Assistance to MoP DG of CIB was provided to review the proposal received for maintaining KDMS system and proposed certain changes like addition of some new component for further development of the system.
- Assistance continued for relevant staff relevant staff to finalize 2014 new project list and submitted the list to database teams (KDMS and PMIS) to amend the project list accordingly. As a result all projects that do not obtain the MoP criteria could be able to accept projects will be assigned as pending project till the required paper work is provided by the line ministries.
- BES team worked with both database team (KDMS and PMIS) to do data analysis and compare project information and data such as allocation and expenditure.
- BES team assisted in conducting capacity development activity training for newly assigned staff to the team of OECD sector classification, RDV objectives and output indicators, the staff is also supervised to assign all ongoing and proposed project sectors and right objectives.
- BES team is currently working with the responsible team for DG's capital investment website to review the content of the website and preparing reports on previous year's capital investment including budget call circular forms and budget preparation process.

- **New Implementation Phase was proposed (KDMS):**
UNDP discussed a new implementation phase to support, maintain and develop the KDMS system, as a tool to monitor, control and report the capital investment budget. Further discussions will take place next quarter to finalize a cost sharing agreement with MoP.

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 diverted much of the needed attention.
- The level of commitment of KRG Government for the implementation of proposed PFM products is a major challenge considering political constraints and available capacities.
- There is a lack of capacities and coordination within 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's 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 has assisted 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 have been 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 has helped to strengthen budget formulation, execution, monitoring, control, and reporting; modernize public procurement; and develop PFM capacity generally.

In 2008, 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:

- Continue with the discussions for an implementation phase under the project with MoP that can lead to a cost-sharing agreement to maintain and develop the KDMS system as a tool to monitor, control and report capital investment budget.
- Provide general support for the Capital Investment Directorate at MoP.
- Explore possible future cooperation with MoF for future possible activities, especially in regard to Treasury Single Account.

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
Total	4,000,000	3,766,917.15	133,082.85

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 Sept 2014		Total Expenditure	Balance
			Commitment	Disbursement		
DoS	245,297	1	0.68	158,028.49	158,029.17	87,267.83
KRG	277,431	2	5,699.20	93,655.04	99,354.24	178,076.76
UNDP	150,000	3	0	73,492.34	73,492.34	76,507.66
Total	672,728		5,699.88	325,175.87	330,875.75	341,852.25

6. Annexes

Annex I: Performance Tracking Matrix

Result/Goals	Performance Indicators	Baseline Info	Performance Benchmark and Targets	Implementation Progress in reporting quarter
Output 1: 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"> - Assisting KRG MoP with the preparation of 2014 Capital Investment Budget, and preparing KRG Capital Investment 2014 Budget project list for Iraq Central Government. - Assisted MoP with readjusting provincial allocations. - 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. - Held a training workshop on "Efficient Work Environment Workshop" to enhance the coordination and professional communication amongst public sector servants in KRG. - Assisted in preparing the presentation for Minister of Planning on the Capital Investment Budget for 2014
Output 2: 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"> - Follow up meetings and discussions with MoF regarding the concept note presented for the implementation of Treasury Single Account (TSA) - Proposed an implementation phase to support and develop KDMS system as a tool to monitor and report capital investment budget

Output 3: Reporting, oversight and control systems reinforced	Number of capacity building workshops/Programmes delivered to relevant counterparts.	Capacity Needs Assessment Report conducted by the project.	- Three capacity building Programmes/workshops - Concept Note on Institutional Building of BSA	- Capacity building workshops were provided to BSA on international auditing standards, and risk based approach for financial auditing
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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. Probability=2 Impact = 5	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.	UNDP Project Management Team
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. Probability = 4 Impact = 4	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.	Joint Project Formulation Team (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.	<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. Probability = 3 Impact =4	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.	JPFT
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. Probability = 3 Impact = 4	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.	JPFT
5	Difficulty in attracting seasoned experts to work in KRG for extended periods of time.	<i>Organizational</i>	Could delay project execution. Probability = 2 Impact = 2	UNDP to mobilize the UN roster of PFM consultants, reach out to other donors, private sector and tap into Iraqi diasporas.	UNDP Project Management Team
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. Probability = 2 Impact = 2	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.	UNDP-Iraq