Report Number: ICRR0024064

1. Project Data

Project ID	Project Name
P170704	IQ: PFM Oversight & Accountability
Country	**Practice Area(Lead)**
Iraq	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-B1910	31-Aug-2022	538,440.59
Bank Approval Date	**Closing Date (Actual)**	
30-Oct-2020	13-Sep-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	8,500,000.00	8,500,000.00
Revised Commitment	8,500,000.00	538,440.59
Actual	538,440.59	538,440.59

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The project development objective was "to strengthen institutions and mechanisms of fiscal accountability and oversight at federal and regional levels." (PAD, p. 15).

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project comprised three components:

Component 1: Enhancing Fiscal Accountability (*Appraisal: US$7.70 million, Actual: US$0.60 million*): This component was expected to contribute tofiscal accountability through three sub-components. These included: (a) refining payroll processes for transparent reporting; (b)improving efficiency and oversight in public procurement to prevent fund misuse; (c)and strengthening fiscal oversight over budget and non-financial State-Owned Enterprises (SOEs). Initiatives such as expanding coverage of digital payment systems, automating employee identification, and establishing an e-government procurement system were expected to contribute to achieving these objectives. Additionally, enhanced external audit and legislative oversight would ensure proper resource management and fiscal discipline. This component aimed to enable the following: (i) scaling up the coverage of the Central Payroll Management Information System (CPMIS), (ii) automating the process for generating unique employee identification (IDs), (ii) expanding the coverage of the Central Bank of Iraq's e-payment, (iii) establishing and piloting an e-government Procurement (e-GP) system and coordinating the ongoing e-procurement activities of the Kurdistan Regional Government (KRG) with those of the Federal Ministry of Planning (MoP), and (iv) strengthening external audit and legislative oversight of the budget, and financial oversight of nonfinancial SOEs.

Component 2: Transparency, Integrity and Legal Certainty (*Appraisal: US$ 3.95 million, Actual: US$ 0.00 million, Undisbursed*): This component was designed to improve fiscal transparency such that financial information would be more accessible to the public. This component also included measures for the identification and mitigation of corruption risks within fiscal processes,and promoting integrity. Other interventions around legal clarity and the establishment of clear guidelines and regulations, were expected to contribute to a reduction in ambiguity and enhance compliance within the fiscal system.

Component 3: Project Management and Implementation Support (*Appraisal: US$ 0.85 million, Actual: US$0.00 million*): This component included activities such as coordinating project activities, providing technical assistance, and ensuring proper monitoring and evaluation to facilitate the successful execution of reform initiatives.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

<u>Project Cost:</u> The Project was approved as Investment Project Financing of $12.5 million of which $8.5 million were Recipient Executed (RE) and $4.0 million were Bank Executed (BE) on behalf of the client. The actual project cost was significantly lower than the cost estimated at appraisal because of implementation constraints.

<u>Financing:</u> Of the approved total of US$12.5 million, only US$0.60 million was utilized, accounting for just about 5% of the approved funds. The project was funded through a WB Grant, Grant No TF0B1910.

<u>Borrower Contribution:</u> At appraisal, no borrower's contribution was estimated, and none materialized at project closing.

Dates: The project closing date was extended from August 31, 2022, to September 13, 2023. This extension did not involve any alterations to the PDO Result framework, or Components. The decision to extend was prompted by the Government's request, dated March 3, 2022, for additional time to finalize project implementation, which had experienced delays since its inception. The Government also requested that certain priority activities be implemented by the Bank on its behalf under the Recipient-Executed via the Bank-Executed arrangement. However, the request for Bank Execution on behalf of the Government was not accommodated.

A desk-based Mid-term Review (MTR) conducted in August 2022, replacing the initially planned in-country MTR scheduled for April 2022. The in-person mission was not feasible due to security concerns and the client's reluctance to engage in virtual meetings. Additionally, disruptions arose from the suspension of World Bank missions in August 2022 due to security reasons. Consequently, a proactive restructuring during the MTR extended the project implementation period by 13 months, with a revised closing date of September 13, 2023. While the European Union (EU) approved the extension to allow more time for project activities, the EU did not agree to convert Recipient-Executed (RE) to Beneficiary Engagement (BE).

3. Relevance of Objectives

Rationale

Country Context: Following the regime change in 2003, Iraq endured prolonged social and political turmoil, rendering it one of the world's most fragile states in 2020 ranked the 17th most fragile country in the world according to the 2020 Fragile States Index).

At the time of appraisal, governance in Iraq had declined, evidenced in various indicators. Perceived governance along its six dimensions captured by the World Governance Indicators, was low.\ Previous gains in controlling corruption, political stability, and regulatory quality had diminished. Transparency International's Corruption Perceptions Index placed Iraq among the lowest performers, ranking 168th out of 180 countries. Trust in public institutions eroded significantly, with 47% of respondents citing corruption as their main concern in 2019, while 83% believed corruption was worsening.

1. Trust in public institutions had eroded and corruption undermined government effectiveness In terms of fiscal oversight, the 2017 Public Expenditure and Financial Accountability Assessment found Iraq's Public Financial Management system unsatisfactory, with significant weaknesses such as poor financial monitoring of State-Owned Enterprises (SOEs) and weak external audit functions. Trust in justice and lower government tiers also deteriorated. The lack of legal certainty and availability of information made it difficult for citizens and investors to hold public officials accountable, since the underlying rules were not fully disclosed, (PAD, pg. 2).

Alignment with Government Reform Agenda: The Government of Iraq (GoI) and the KRG prioritized governance reforms and accountability. GoI aimed to rebuild state legitimacy and enhance public resource management efficiency through the adoption of a modern financial management system. The enactment of a new Financial Management Law demonstrated this commitment. KRG, on the other hand, focused on fighting corruption, ensuring transparency in economic fields, and supporting key institutions like the Supreme Audit Institution and the Commission of Integrity and Public Prosecution.

The PDO was closely aligned with Iraq's overarching development strategies, including the National Development Plan 2018-2022, the Poverty Reduction Strategy 2018-2022, Iraq Vision 2030, and the 2020 Iraq's Council of Ministers White Paper. Specifically, Pillar 5 of the White Paper emphasized the importance of enhancing economic governance and strengthening the legal and regulatory framework of public administration. This focus aimed to empower institutions and individuals to implement reforms that promote transparency, combat corruption, and enhance the effectiveness of public procurement and administration.

Alignment with World Bank Strategy (WB) and Country Partnership Framework (CPF) 2021-2025: The project supported the WB's engagement and policy dialogue in Iraq on fiscal and economic governance reforms. The PDO was fully aligned with Pillar 1 of the WB's Country Partnership Framework (CPF) 2021-2025: Improved Governance, Transparency, and Accountability through Transparent, Open, And Effective Government which underscored the critical importance of improving governance and implementing fundamental reforms that promote transparency and accountability in the public sector.

The project was also in line with the two pillars of the World Bank Group's MENA Strategy, focusing on renewing the social contract and supporting recovery and reconstruction efforts. It aimed to enhance government effectiveness and strengthen its social contract with citizens by bolstering fiscal oversight, accountability mechanisms, and institutions. This also included improving revenue collection, managing fiscal risks (including those incurred by SOEs), and ensuring the efficiency of public expenditure. Furthermore, the project sought to facilitate dialogue between the government and civil society by promoting public participation in the budget process.

Overall, the project's objectives were inherently ambitious, particularly within the context of Iraq's fragile, conflict-ridden, and volatile (FCV) status, which was compounded by a challenging security landscape. Building upon previous Bank initiatives such as the Modernization of Public Financial Management Systems Project (IFMIS) and the Iraq Reform, Recovery, and Reconstruction project (I3RF), the project aimed to strengthen institutions and mechanisms of fiscal accountability and oversight at both federal and regional levels. However, despite aligning with both the Bank's and the country's objectives, there was a notable lack of acknowledgment regarding capacity constraints and the project's intended short duration. Given these complexities, adjustments were necessary to ensure optimal alignment with Iraq's context and constraints. Given the moderate shortcomings, the relevance of Objectives is assessed as Substantial.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To strengthen institutions and mechanisms of fiscal accountability and oversight at federal and regional levels

Rationale

According to the Theory of Change (ToC) outlined in the PAD (p. 23) the project aimed to enhance financial accountability and oversight by addressing critical constraints such as decentralized payroll management, procurement accountability issues, weak oversight on SOEs, and limited external audit capacity. In addition, the project sought to address significant deficiencies in Iraq's financial management systems, particularly regarding budget transparency and adherence to international standards in the extractive industry. The ToC targeted three main issues: Operationalizing the CPMIS which was expected to streamline payroll processes and ensuring centralized control and improving transparency in salary disbursement across government entities. Second, responding to the low Open Budget Index Rating and the lack of compliance with the Extractive Industry Transparency Initiative (EITI) 2019 standards. Third, the ToC concentrated on project activities aimed at enhancing the weak external audit function within the context of Iraq's PMF systems, which were rated poorly ("rated D") on various fiscal accountability dimensions. Additionally, the Federal Board of Supreme Audit (FBSA) had not published the Annual Financial Statement audit report since 2014; and in KRI, no budget was appropriated for this purpose for the past five years.

Recognizing these challenges, the ToC sought to implement measures to enhance budget transparency, including improving public access to budget information, gender-based budgeting, enhancing reporting mechanisms, and strengthening accountability mechanisms. Additionally, the project aimed to address the completion of risk-based external audit reports, aiming to incentivize their publication based on risk assessments. Moreover, efforts were to be made to develop and adopt manuals for auditing oil revenue and social expenditures, aiming to enhance social auditing. These reforms were expected to lead to strengthened fiscal management information systems, as well as enhanced fiscal accountability and oversight mechanisms at both the federal and regional levels.

<u>Outputs:</u>

- Piloting of centralized payroll management information system (CPMIS): **(Not Achieved).**
- Operationalization of an e-procurement IT platform: Despite efforts to establish the platform and pilot it for 10 percent of large procurement transactions in two federal ministries, the platform's deployment and piloting were not realized. This setback underscores the challenges faced in integrating electronic procurement mechanisms into government operations. **(Not Achieved).**
- Increased rating on budget transparency (under the Open Budget Index): Despite efforts to enhance budget transparency, the actual rating fell significantly short of the ambitious target (an increase to 20.00), reaching only 6.00 from a baseline of 9.00, highlighting the need for further steps to improve transparency in budget processes. This represents a regression from the baseline rating rather than any progress. While efforts may have been exerted to enhance budget transparency, they proved insufficient to meet the ambitious target set. This shortfall underscores the need for further steps to be taken to effectively enhance transparency in budget processes in the future. **(Not Achieved).**

Progress in implementing Extractive Industry Transparency Initiative (EITI) 2019 standards: While Iraq made some (moderate) progress in implementing the EITI 2019 standards, as attested by the EITI board in a report released in July 2022 that Iraq made moderate progress in meeting the 2019 EITI standards, this fell short of the significant advancements anticipated at the project's closure, indicating a need for continued efforts to strengthen governance and accountability within the extractives sector. **(Not Achieved, with some partial progress toward achievement).**

- Completion of risk-based external audit reports: Only 0.50 risk-based external audit reports were completed against a target of two, indicating a delay or shortfall in achieving the planned external audit reports. **(Not Achieved, with only half a report completed).**
- Design of e-GP strategy and roadmap: Separately, the draft e-GP strategy and roadmap, developed under the Bank-Executed part of the project, were not approved and launched. Despite efforts to strengthen anti-corruption measures and enhance public investment management, this aspect of the initiative did not progress as anticipated. **(Not Achieved)**

Overall, the theory of change was sound with clear activities aligned to driving reforms to governance processes and operational needs. However, progress towards the achievement of the PDO is deemed negligible. Very little activity was carried out, was partially delivered and not sufficiently supported which ultimately led to limited progress made towards the objective.

Rating
Negligible

OVERALL EFFICACY

Rationale
There was one over-arching objective with a range of governance tools aligned to moving ahead to improve and strengthen institutions and their functions. However, delivery against these commitments was poor and ultimately little progress was made. Thus, the overall efficacy is rated Negligible.

Overall Efficacy Rating	Primary Reason
Negligible	Low achievement

5. Efficiency

The PAD anticipated significant economic benefits, including improved efficiency in procurement processes, wage bill management, and the operational and financial management of SOEs. However, no quantitative economic analysis was conducted during the project's design phase to assess cost-effectiveness or compare cost to benefits. These anticipated economic benefits were not realized due to the limited implementation of project activities. Additionally, actual fund disbursement was much lower than forecast. Only seven percent of the Recipient-Executed project funds were disbursed, resulting in negligible results. Thus, efficiency is rated negligible.

Efficiency Rating

Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of the objectives is deemed Substantial. There was clear need for the reforms and a reasonable set of activities aligned to this end. However, given that efficacy of the project is rated Negligible, and its' efficiency is rated Negligible, the overall outcome is rated Highly Unsatisfactory.

a. Outcome Rating

Highly Unsatisfactory

7. Risk to Development Outcome

The lack of substantial advancements in project implementation and PFM reform in preceding years, combined with the Government's inclination to cancel main activities, suggests a significant shift in priorities. This circumstance diminishes the likelihood of sustaining the minimal outcomes achieved thus far.

8. Assessment of Bank Performance

a. Quality-at-Entry

The WB's quality of entry for the project is considered unsatisfactory. Despite notable efforts to align it with the country's development challenges and capacity constraints, the project's scope was too broad and ambitious, as noted in decision review meetings and by peer reviewers. Objectives and indicators were overly ambitious, given the short implementation timeline and the challenging context of fragility, complex institutional arrangements, and low capacity at both Federal and Regional levels. The tight timeline, influenced partly by EU financial programming constraints and the Administrative Agreement with the WB, led to a technical design prioritizing financing availability over technical soundness. Implementing reforms, such as automating payroll and procurement systems, proved complex, requiring extended procurement processes. Additionally, insufficient consideration of lessons learned from previous projects hindered a more realistic project design and implementation strategy. Finally, the intended reforms relied on intentional change management activities, which were not adequately incorporated into the project design and implementation phase. Thus, the quality at entry is rated unsatisfactory.

Quality-at-Entry Rating
Unsatisfactory

b. Quality of supervision
The WB sought to engage with government counterparts amid challenging security concerns, as evidenced by the production of five Implementation Status and Result Reports (ISRs) spanning March 2021 to March 2023. These reports offer insights into the efforts undertaken to address challenges, particularly regarding Recipient-Executed activities. While 2022 saw no official field or virtual implementation support missions, and two ISRs relied on desk reviews, the WB utilized alternative strategies such as regular monthly check-in meetings with government counterparts to advance project implementation.

Moreover, through Beneficiary Engagement (BE) initiatives, the team provided hands-on support by assisting with critical tasks like payroll requirement analysis, risk-based audits, and facilitating the adoption of digital asset declaration systems. Despite these proactive measures, however, the quality of supervision remained unsatisfactory, primarily due to the absence of official missions in 2022 and the identified need for more robust engagement in specific project areas to move activities along and align them with required changes.

Quality of Supervision Rating
Moderately Unsatisfactory

Overall Bank Performance Rating
Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
There were several weaknesses in M&E design. The ToC framework exhibited various inconsistencies and weaknesses. Crucially, the TOC failed to include necessary assumptions, such as political stability or stakeholder cooperation, which are essential for understanding external factors impacting project success. Furthermore, it lacked indicators for activities on behalf of the client and failed to differentiate between results at the Federal and Kurdistan Regional Government levels.

It's also worth noting the lack of alignment between the project's objectives and the indicators outlined in the TOC. While most of the indicators were measurable, achieving them within the project's short timeline was unrealistic. Specifically, the absence of an Intermediate Result Indicator for the Payroll system hindered progress measurement. Additionally, there was a notable lack of indicators to assess outcomes related to Component 3. In summary, these shortcomings highlight the need for a comprehensive revision of the TOC to effectively address these deficiencies and ensure a robust framework for project planning and monitoring.

b. M&E Implementation

The project encountered several issues with M&E implementation within its framework. Firstly, the absence of recruited M&E Specialists at the Project Implementation Unit (PIU) hampered the monitoring of all indicators outlined in the Result Framework. Moreover, semi-annual progress reports, mandated by the Grant Agreement, were not generated due to recipient-executed activities not being included in the national budget. Additionally, although indicators were reported in Implementation Status Reports by the WB team, data collection and reporting were not conducted by implementing partners as intended, resulting in gaps in project monitoring and evaluation processes.

c. M&E Utilization

The WB team periodically updated M&E data to facilitate decision-making. During implementation support missions, both the WB and the Government utilized actual progress data from the result framework to guide discussions and actions aimed at enhancing project implementation performance. Nevertheless, more effective utilization of the M&E data could have enabled more realistic corrective actions, such as restructuring and revising indicators. Weaknesses in the design, implementation, and utilization of the M&E system led to challenges in effectively evaluating progress toward objectives. Consequently, there was limited proactive assessment of progress and inadequate support for informed decision-making, highlighting a critical need for improvements in M&E practices.

M&E Quality Rating

Negligible

10. Other Issues

a. Safeguards

A Grievance Redress Mechanism (GRM) was developed but remained non-operational. The online complaint registration system was not implemented, and alternative measures, such as a complaint box accessible to all stakeholders, including those with disabilities, were not provided. Additionally, the hiring of an experienced communication professional for stakeholder awareness programs and the recruitment of a Social Safeguard Specialist at both Federal and Regional levels did not occur as planned.

b. Fiduciary Compliance

The Financial Management (FM) performance had a number of shortcomings: (i) failure to open all Project Designated Accounts except at KRG-MoP, (ii) lack of experience among FM seconded staff in WB-financed project policies, (iii) absence of updated accounting books by implementing entities except KRG-MoP, and (iv) non-inclusion of the project in the national budget.

Similarly, the Procurement performance was constrained, with three implementing agencies maintaining minimum procurement capacity, leading to progress only in KRI component activities. However, no progress was made in other project components due to the project's exclusion from the annual budget, hindering contract signings and implementation activities under Federal components.

c. Unintended impacts (Positive or Negative)

The project made some contributions to strengthening institutional and human resource capacities in several areas including various trainings, committee support and knowledge exchanges, though the impact of these activities remains inconclusive.

Additionally, although the project was not gender-tagged, capacity-building activities were provided to women. Thus, ten women from the Parliament received training on budget analysis and monitoring, and ten women from the FBSA and KRG-BSA participated in training on International Public Sector Accounting Standards (IPSAS) and got the IPSAS certificate. The Bank requested counterparts to be gender-sensitive when selecting participants for training. (ICR, p. 10).

d. Other

n/a

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Highly Unsatisfactory	Highly Unsatisfactory	
Bank Performance	Unsatisfactory	Unsatisfactory	
Quality of M&E	Negligible	Negligible	
Quality of ICR	---	Substantial	

12. Lessons

The IEG agrees with the lessons outlined in the ICR. With some modification, they are provided below:

- **Realism in Project Expectations and Timelines**: Assessing implementation capacity, especially in areas like e-GP, payroll, and corruption, should have informed the establishment of more flexible expectations. Given the intricate nature of PFM reforms, particularly in contexts characterized by low capacity and poly-crisis situations, it is imperative to foster realism and adaptability in project planning, choose appropriate activities and ensure disciplined execution.
- **Proactive Course Correction:** Despite initial efforts to extend the project's closing date and provide support to bolster performance, the underlying issues persisted, necessitating a reevaluation of the project's trajectory. In such circumstances, proactive restructuring or considering non-extension becomes imperative, especially when rooted in underlying political economy factors that remain unresolved. Where limitations exist in the project design, radical course correction should acknowledge the fundamental areas for change.
- **Robust Analytical Bases:** Lastly, while high-level governance reform aspirations outlined in the Government of Iraq's 2020 White Paper failed to materialize into tangible reforms, conducting a repeat Public Expenditure and Financial Accountability (PEFA) assessment, supplemented by Climate Responsive Public Financial Management (PEFA Climate) and Gender Responsive Public Financial Management (GRPFM) assessments, could have provided a comprehensive understanding of the Iraq PFM landscape. Such assessments, coupled with stakeholder participation and oversight at the highest levels, are necessary to provide the groundwork for a comprehensive reform strategy, fostering transparency and accountability in PFM reforms.

The IEG adds the following:

- **Co-ordination with Development Partners in FCV Contexts**: In developing programs for fragile and conflict-affected contexts like Iraq, it is vital to align interventions with evolving priorities amidst the transition to a more stable environment. Identifying comparative strengths and focusing on areas where effective delivery is feasible should guide strategic planning. Coordination with relevant stakeholders, including other donor partners and governmental bodies, is essential for increasing the likelihood of success for reform projects.
- **Scoping of Achievable Project Activities in Long-Term Reform Projects**: Additionally, extensive consultations with local stakeholders and the government are essential to better assess implementation capacity and to facilitate effective collaboration. Such engagement enables a comprehensive understanding of the local context, including potential challenges and gaps, thereby allowing for more precise scoping of project activities.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is candid, internally consistent and concise, offering a clear overview of the project and its objectives. The report draws attention to the weaknesses in the ToC framework, and identifies strengths and weaknesses in the M&E system, offering lessons for future reform projects in FCV contexts. Nevertheless, the report lacks in-depth coverage of implementation issues (especially those pertaining to the regional versus federal levels), which could have enriched the understanding of project execution. Also, it would have been advantageous to delve further into the specifics of some of the indicators.

a. Quality of ICR Rating

Substantial