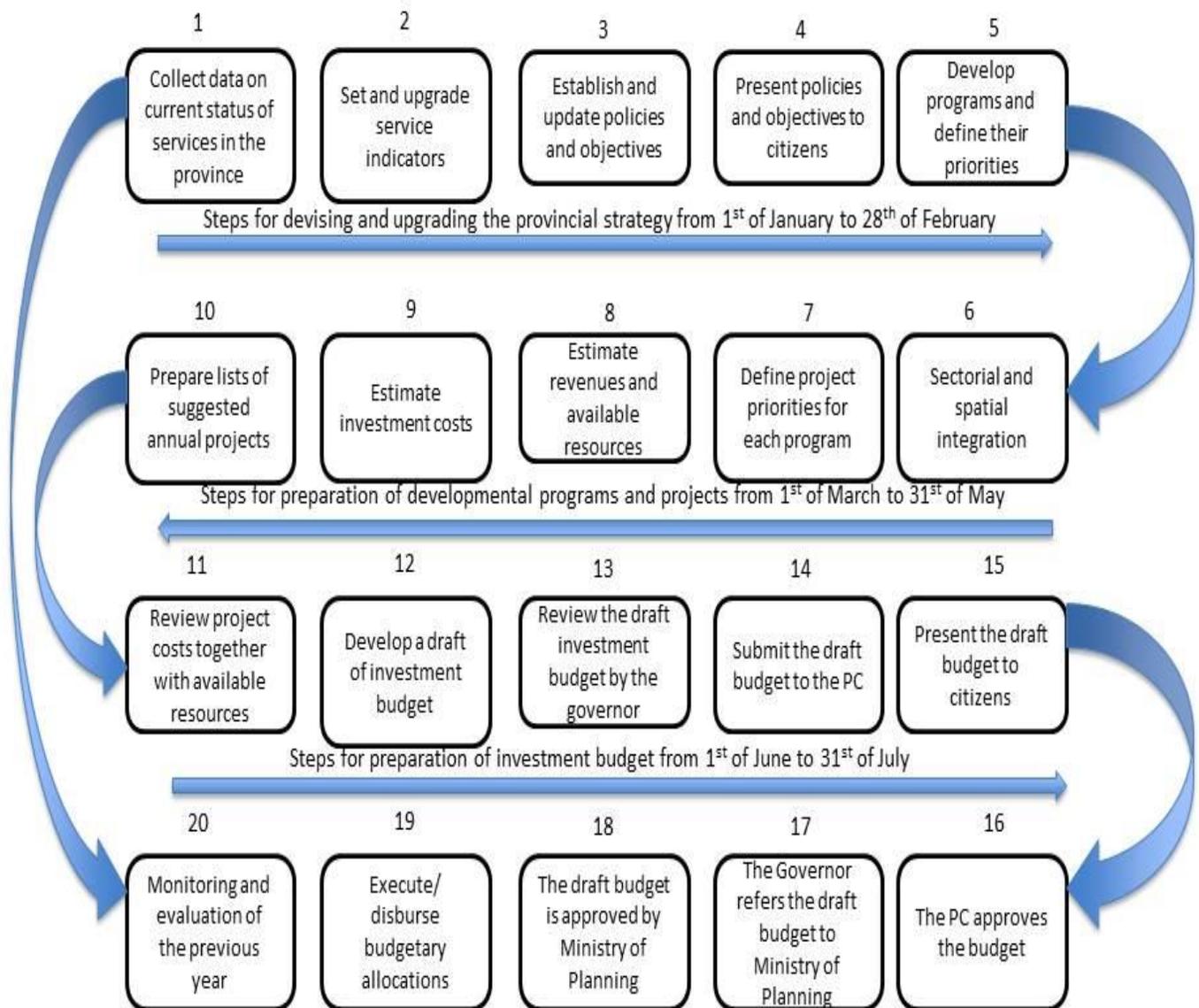






## Investment Budget Preparation Procedures (Current and Investment Expenditures)





**Provided below: A brief explanation on each of the above steps, how to implement each step, and the authority in charge of its implementation**

### **Step 1: Collect Information on the “as is” Status of Services in the Province or any Other Information as Needed**

The available sources of information on the current status of services in the province are multiple according to their source, including information directly collected from service directorates, citizen satisfaction surveys, citizen complaints offices, and open meetings with people and provincial directorates affiliated to Ministry of Planning. Since the planning and budget preparation process is not limited to improvement of service delivery only, and since the process extends beyond improvement to achieve a comprehensive and sustainable growth at provincial level, then the information will not be restricted to only services and may be broader to include information on population, economy and environment of the province.

### **Step 2: Identification and Updating of Service Standards and Indicators**

Some services have no clear standards and indicators. They may be outdated or obsolete. In this case, information collected in the first stage will be used to lay the foundation for the development of new service standards or the upgrading of existing ones. This step is critical for planning and assigning of allocations between various programs and projects. These standards and indicators are gathered by asking: 1) Where are we? and 2) Where to we want to be? Responses to both questions will become the basis for formulating the province’s development policy, as well as future trends in the development and improvement of services at the provincial level.

### **Step 3: Formulate Policies and Identify Objectives**

The Provincial Council (PC) will assume responsibility for the formulation of policies<sup>1</sup> by using all the available information, statistics, and identified/upgraded service standards and indicators. Such information and indicators will present an overview on existing gaps in the level of services delivered to citizens. The formulation of policies largely relies on the geographic, demographic, and economic nature of the province.

The policies set by PC will guide developmental efforts aimed at achieving the policy objectives. Formulation of policies should be accompanied by identification of clear, realistic, measurable, achievable, sustainable, and scheduled (as per set timelines) objectives of these policies. Specification of clear objectives for policies will move planning and budget preparation in the right direction, as well as those set by the province’s public policy.



#### **Step 4: Present Policies and Objectives to Citizens**

#### **Step 5: Creation of Programs and Specification of Priorities**

Once policies are created and the Provincial Council specifies objectives, the executive authority will translate these policies into specific programs so that the objectives of these policies are achieved within the defined timeline. It will be favorable to introduce the concept of “program” at this time, defined below:

**Program:** A set of projects, activities, and procedures that are established in order to achieve specific objectives stated in policies within a defined period of time. The policy objectives may not be accomplished within a program and it may be essential to design more than a program to carry out a policy. Programs do not signify programs only and may include other items, such as a set of draft laws, instructions, or administrative procedures. What combines these elements is that they are designed to accomplish the goal of provincial public policy. Since policy objectives are not achievable within the budget year, these programs often tend to take 3 to 5 years to accomplish their objectives.

Programs must have clear objectives, which need to be determined according to the information, standards and indicators that were collected and identified during Steps 1 and 2 (above). Information and indicators will have an effect on the identification of priorities regarding the implementation of these programs. Since policies are determined based on the gathered information and indicators, these will impact the design of programs. Implementation priorities must be defined on the basis of the degree of impact, i.e., indicator levels will be improved.

The decisive factor in the specification of program priorities will be shown by the extent to which these programs assist in reaching the desired goal. In addition, there are other factors to consider in the specification of priorities. These include cost, time, environment, and availability of implementation capabilities.

#### **Step 6: Sectoral and Spatial Integration**

Once the suggested programs are placed among priorities of implementation, these programs must be subject to sectoral, spatial, and ministerial integration. Integration becomes important when programs are proposed. Programs should be integrated with connections established between the programs. For example, if a program for land reclamation is proposed, it should not contradict with other programs such as highway improvements, but should be linked to programs that enhance irrigation systems or establish of dams. At the same time, spatial integration of these programs should occur – the suggested programs should be distributed equally throughout the province so that equal growth occurs within the province. In addition, the spatial growth may become broader and include more than just one province. A specific program may impact several provinces, thus making it possible for all participating provinces to co-fund these programs. Ministerial integration simply means that suggested programs should not contradict with Ministry programs. For example, health programs tend to be local and



national. Therefore, it would be appropriate to discuss any proposed provincial level program with officials from Ministry of Health to avoid repetition or incompatibility.

### **Step 7: Identification Project Priorities for Each Program**

Identification of project priorities within the program depends on a set of financial, economic, environmental, and social factors. However, the decisive factor when identifying project priorities is the extent of the project's impact on achieving the desired objectives, i.e. what percentage is achieved by the project in accomplishing the objective. As mentioned earlier, programs may include draft laws, instructions, or administrative procedures. Therefore, enacting a law, issuing special instructions, or taking specific administrative actions may achieve the program objective. In this case, implementation priority will be given to these factors.

In general, if we are to address how to identify a project's priorities based on its current concept, conducting initial feasibility studies will be crucial to determining priorities during this stage. Identification of priorities also depends on examination of alternatives available to achieving the program objective. Selection from available alternatives will form a standard for the identification of priorities.

### **Step 8: Estimation of Revenues and Available Resources**

Available resources, for our purposes, are defined as: all the provincial level resources that are on hand, including financial, humanitarian, technical, economic, and environmental. Identification of such resources is crucial when translating suggested programs and projects into annual plans for implementation. In other words, it is possible to include these programs and projects into the province's annual investment budget.

Regarding estimating revenues at the provincial level, there are various types of financial revenues that can be generated as stated in Law 21 of 2008, as amended, as well as financial resources allocated to provinces from oil and gas, border crossings, and entry visa fees. Generally speaking, it is possible to pre-estimate these and other types of revenue using simple mathematical methods. Estimating expected revenues can be done by examining the identified project implementation priorities included in the annual plan, and mainly depends on the size of revenues. Consequently, the distribution of revenues between various programs and projects with the aim to achieve policy and program objectives will be an important factor when selecting program and project implementation priorities to include within the province's investment budget.

### **Step 9: Estimation of Investment Costs**

After a clear picture of the available resources and expected revenues is formed by those who establish plans and develop budgets, it will be necessary to estimate and calculate investment costs in order to achieve harmony between what is on hand and what is planned for. By Investment costs, are defined as: all the potential expenses related to implementing the projects.



The investment costs are usually calculated through detailed feasibility studies that state all the costs related to project implementation.

The estimation of investment costs should be as accurate as possible to avoid planning for a large number of projects when financial resources are limited. For example, some provinces formulated grand plans that exceeded expected revenues, which led to a large number of unaccomplished projects and significant administrative and regulatory burdens.

### **Step 10: Preparation of a List of Suggested Annual Projects**

Once overall costs for suggested projects are estimated, a list of suggested annual projects is prepared to enable implementation of these projects during the next fiscal year, including projects that were identified as priorities to implement in order to achieve the objectives. This list should contain specific information on each suggested project, including the estimated cost, project location, method of finance (ministerial or local), an implementation timeline, and any other necessary information. The source of most of this information should be found in the detailed feasibility studies attached to the list.

### **Step 11: Review of Project Costs and Available Resources**

At this stage, the overall costs of suggested projects and available human, administrative, technical, and financial resources will be reviewed and the best utilization of available resources will be reached. It may be necessary to redistribute project priorities in light of this review in order to determine the best allocation of resources between the suggested projects. Indeed, such redistribution may be subject to other considerations. The list of projects may be decreased to contain only those of higher priority, with other lower priority projects removed to balance available resources with expected costs.

### **Step 12: Development of an Investment Budget Draft**

Once a final list of suggested projects is prepared, an investment budget draft is then developed for the province.

In general, the draft budget may contain the following items:

- An introduction to the policies adopted
- A summary of the main and secondary goal or objectives of the budget that need to be achieved
- The planning considerations that the budget was based on
- A general budget outline
- Presentation of the total expected revenues
- Presentation of the expected investment spending totals
- Detailed tables specific to each suggested project on the list along with its economic feasibility study

### **Step 13: Gubernatorial Review of the Investment Budget Draft**

The governor, his/her deputies, and advisors, each of who has a respective field of specialization, will review the draft budget to see if it achieves the: 1) objectives set within the



policies adopted by Provincial Council (PC); 2) priorities; and 3) details of expected revenues and costs. They will verify that all suggested projects meet the general conditions as required by Ministry of Planning. Once the draft budget is reviewed and approved by the Governor, the draft budget will be referred to the PC.

#### **Step 14: Submission of the Draft Budget to the Provincial Council**

The draft budget will be referred to Provincial Council (PC) as per an official letter sent to the PC Chair. The Chair will distribute copies of draft budget to PC committees for review and consideration. PC members may provide comments or suggestions concerning the draft budget. The Committees will review: 1) the extent to which the draft budget achieves the objectives of the province's public policy; 2) the geographic locations of the projects and related activities to ensure the province as a whole has been taken into consideration; 3) the distribution of allocations between different sectors; and 4) the overall distribution of the project's between the districts and sub-districts per capita.

The PC Chair will set a date for a session where the draft will be presented and discussed, and the opinions and remarks of different committees are provided. In the case of an abundance of comments and suggestions, the PC Chair will call for another meeting to host the Governor, who will introduce his own opinion on items contained in the draft budget.

#### **Step 15: Present the Draft Budget to Citizens**

#### **Step 16: Provincial Council Approves the Budget Draft**

Once the Provincial Council (PC) is satisfied with investment budget draft, a vote is taken and the budget is approved by a majority of PC members<sup>2</sup>. The draft budget will be returned back to the governor according to an official letter.

#### **Step 17: Governor Refers the Budget Draft to the Ministry of Planning**

#### **Procedures: Cash Transfer to Districts**

The province asks the provincial Finance Directorate to open current accounts for districts under the name "Current Branch Account." Once this account is opened and a number is assigned to it, the province will finance this account from the cash balance of its current account based on the following steps:

1. The appointee in charge of district submits a request to the Governor's Office (GO) in which s/he states the amounts required within a month.
2. The request will be supplemented with a monthly trial balance, a statement of current account, and a sample statement of reconciliation.



3. The GO's Accounting Department will review the request along with its attachments to ensure the soundness of the financial procedures taken by the appointee in charge of the district, in terms of expenditures and revenues.
4. Once the auditing process is complete, the Accounting Directorate will issue an order to disburse the amount required from balance of its current account to the district administration's current account at the bank.
5. At the end of the month, the district's administration will prepare and send a trial balance, with all of its annexes, to the GO for consolidation into the province's trial balance and final referral to Finance Directorate on request of funding.

### Procedures: Audit and Control

The Audit and Control Section of the Spending Unit will review all current financial transactions before any disbursement of cash, and verify their soundness and adherence to accounting instructions and orders as issued by competent authorities (the Ministry of Finance, the concerned ministry, or provincial Finance Directorate). These orders include the Guiding Manual of Ministries' Internal Auditing Units issued by the Ministry of Finance.

**Current Classification of Expenses (Table 2)**

Statement	Type of Form	Type of Expense	Segment	Item	Type	Type Details
Expenses	2					
Current Expenses		01				
Staff Compensation			01			
Salaries and Fees				01		
Salaries					01	
Service Requirements			02			
Goods			03			
Asset Maintenance			04			
Capital Expenses			05			
Grants, Subsidies, Debt Service			06			
Commitments, and Foreign Contributions			07			
Special Programs			08			
Social Subsidies			09			



**Classification of Investment Spending (Table 3)**

Statement	Type of Form	Type of Expense	Segment	Item	Type	Type Details
Agricultural Sector	2	2	01	001 002 003 004		
Industrial Sector	2	2	02	001 002 003		
Transportation and Communication Sector	2	2	03			
Service Sector	2	2	04			
Education Sector	2	2	05			



The Ministry of Finance Budget Department should open new sections within the administrative classification for the provinces not incorporated into region. Regions and these sections need to be distributed as follows (Table 4):

Section	Division	Title
<b>47</b>		<b>Babil Province</b>
	01	Provincial Council
	02	Governor's Office
	03	Finance Directorate
	04	Babil Health Directorate
	05	Babil Education Directorate General
	06	Babil Municipalities Directorate
<b>48</b>		<b>Diyala Province</b>
	01	Provincial Council
	02	Governor's Office
	03	Finance Directorate
	04	Diyala Health Directorate
	05	Diyala Education Directorate General
	06	Diyala Municipalities Directorate
<b>49</b>		<b>Najaf Province</b>
	01	Provincial Council
	02	Governor's Office
	03	Finance Directorate
	04	Najaf Health Directorate
	05	Najaf Education Directorate General
	06	Najaf Municipalities Directorate

This is considered as a model for the rest of the provinces in which decentralization will be implemented.