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**TARABOT**  
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# Introducing a Performance Perspective in Budgetary Management

## A Roadmap

January 2013



## Acronyms

|              |   |  |
|--------------|---|--|
| <b>CoA</b>   | : | Chart of Account                                 |
| <b>BOPA</b>  | : | Budget Outlook Paper                             |
| <b>BPG</b>   | : | Budget Procedures Group                          |
| <b>BSP</b>   | : | Budget Strategy Paper                            |
| <b>BSC</b>   | : | Budget Steering Committee                        |
| <b>CoFoG</b> | : | Classifications of Functions of Government       |
| <b>GDP</b>   | : | Gross Domestic Product                           |
| <b>GFS</b>   | : | Government Financial Statistics                  |
| <b>GoI</b>   | : | Government of Iraq                               |
| <b>GRB</b>   | : | Gender Responsive Budgeting                      |
| <b>IFMIS</b> | : | Integrated Financial Management System           |
| <b>IPSAS</b> | : | International Public Sector Accounting Standards |
| <b>MIS</b>   | : | Management Information System                    |
| <b>MoF</b>   | : | Ministry of Finance                              |
| <b>MPER</b>  | : | Ministerial Public Expenditure Review            |
| <b>MTEF</b>  | : | Medium Term Expenditure Framework                |
| <b>MTBF</b>  | : | Medium Term Budget Framework                     |
| <b>MTFF</b>  | : | Medium Term Fiscal Framework                     |
| <b>MWG</b>   | : | Macroeconomic Working Group                      |
| <b>NGO</b>   | : | Non-Government Organization                      |
| <b>PBB</b>   | : | Program-Based Budgeting                          |
| <b>PER</b>   | : | Public Expenditure Review                        |
| <b>PRS</b>   | : | Poverty Reduction Strategy                       |
| <b>SCOA</b>  | : | Standard Chart of Accounts                       |
| <b>SWG</b>   | : | Sector Working Group                             |

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## I. EXECUTIVE SUMMARY

**1. The public financial management system (PFM) in Iraq, though still relatively weak in many areas, has been improving steadily over the past few years.** A number of relevant and important reforms have been initiated since 2003. Most notably some legal reforms of financial management, introduction of audit techniques, and introduction of a macro-fiscal framework.

### A. Key Challenges

**2. It is well recognized by the authorities that the present Iraqi budget system has weaknesses, and needs to be improved.** It should be pointed out that, as in many countries, the specific solutions to these weaknesses must be a national, Iraqi, solution.

#### 1. Budget Formulation

**3. Although budget formulation has improved notably as a result of the reforms implemented over the previous years, a number of issues should be addressed in order to ensure that the budget is an effective instrument for attaining the Government's objectives.** The budget structure is primarily based on administrative and economic classification, and it is difficult to identify how policy objective are accommodated in budget allocations. The capacity to produce reliable estimates of medium term budget development is limited. Parliamentary approval of the budget comes much later after the onset of the fiscal year.

#### 2. Budget Execution

**4. Despite some improvements, budget execution remains weak.** The reengagement, development, and implementation of a computerized Integrated Financial Management System (IFMIS) over the last few years have not progressed well. The quality, accuracy, and timeliness of financial reports and accounting are still poor.

#### 3. Legal Framework

**5. CPA 95 (2003) – The government's budget and financial management does not adequately cover key areas of budget formulation and budget execution.** The supporting regulations necessary to ensure that the intent and provisions of this law are relatively weak. In general, there is limited compliance with financial rules and regulations, and sanctions for non-compliance are infrequently enforced.

### B. Recommendations

**6. The key recommendations required for any forward road map are outlined in the following paragraphs.**



## 1. Budget Formulation

**7. In order to enhance economic growth and reduce poverty, the Iraqi government policy is increasingly calling for policy based budget management and resource allocation, fiscal discipline, and sustained budget balance.** Consequently, the budget preparation process in Iraq needs to be strengthened with the aim of institutionalizing: i) clear process for expressing policy objectives and their link to government decisions on expenditure allocations through the budget; ii) firm overall restrictions for central fiscal parameters; and, iii) a clear top-down approach to budget preparation. The budget calendar needs to be further revised, and Parliament should be given substantially more time for considering the budget.

**8. The capacity to produce reliable estimates of medium-term budget expenditures needs to be developed.** A first step in this direction would be a requirement that ministerial budget teams, or sector working groups, should develop a base-line estimate (i.e. the expenditure development resulting from unchanged policies) as well as for new programs and activities.

## 2. Results Based Management - Performance Budgeting

**9. One of the objectives of budget policy reform is to support the introduction of results based management (RBM), as a management tool throughout the government sector.** Given the current situation in the Iraqi public sector, a suitable first step to move towards a results based management system would be to introduce program budgeting through which government activities – and their associated expenditure – could be categorized according to the intended outcome. It should be pointed out that a program classification should be used as a complement to the existing economic, functional, and administrative classification of the budget. After a program classification has been successfully implemented, further steps will be required to introduce performance budgeting.

**10. The introduction of program budgeting is an ambitious and laborious reform that requires an initiated, well-structured and prudent approach.** Such fundamental change in the way the government sector is planned, budgeted, managed and controlled will, by necessity affect virtually all aspects of administration. A well-informed and logically structured reform agenda can, to a certain extent, eliminate difficulties in the transition from an input-based to a program-based budgeting system. It is also important to give priority to other more urgent reforms: in particular, strengthening of the budget preparation process and the MTBF in Iraq are essential requirements for the successful implementation of program budgeting.

**11. An introduction of program budgeting in the Iraqi administration could conceivably stretch out over five to seven years.** This brief report provides a road map – giving an overview of how the introduction of program budgeting in Iraq could be structured.

## 3. Legal Framework for Public Financial Management

**12. A comprehensive review of the current status of public financial legislation is essential in order to develop an integrated comprehensive legal framework for financial**



**management.** It is recommended that one piece of comprehensive legislation be developed to govern public financial management in Iraq rather than introducing separate legislation for budget management processes.

## II. STRENGTHENING BUDGET PREPARATION

**13. The main purpose of budget preparation and formulation is to establish a clear and transparent presentation of the budget document reflective of policy objectives and allocative efficiency following a credible budget process.** Some of the main elements that are required in order to reform the budget process are discussed below.

### A. Promoting Fiscal Discipline in the Budget Process

**14. Although there is an overall commitment to fiscal discipline, the budget process has not been organized in a manner that facilitates a firm command over the development of government finances.** The existence of explicit, quantified medium term targets for central / line ministry expenditure should be considered. These targets should be non-negotiable in the course of the budget preparation phase, and should guide the prioritization of expenditure. In Iraq's budget outlook documents, the government currently lays out its expenditure ceiling for all government expenditure. In the continued preparation of the budget, the Government needs to be committed to this level of expenditure, and the sum of all budget estimates should not be allowed to exceed the overall ceiling.

**15. The Government should also be restricted by the ceiling in terms of budget outcome, and that actual expenditure is not allowed to exceed the ceiling.** This would require enhancing the capacity to closely monitor and forecast both current and upcoming years' expenditure. Through the development of models for assessing expenditure development, the ability of the government administration to provide credible medium-term projects of expenditure development could be enhanced.

### B. Enhancing a Medium-Term Budget Framework

**16. The introduction of a medium term expenditure framework in the Iraqi budget process is a significant achievement.** However, the capacity to produce reliable estimates of medium term budget development needs to be strengthened. Currently, the Budget Department in the Ministry of Finance makes an in-house base-line assessment of the expenditure needed to continue existing policies over the medium term. The assessment is then compared to the revenue projections in order to arrive at room for new policy initiatives. This rudimentary system of calculating base-line expenditure should be viewed as a second-best solution until the capacity to provide expenditure projections is fully developed in the line ministries. A first step in this direction would be a requirement that there should be a clear separation between base-line expenditure and proposed expenditure for new programs in the reports submitted to MoF, as opposed to the current practice where the reports contain a total sum of proposed expenditure. Such information would be valuable when comparing with the information already produced in the Ministry of Finance.

**17. In order to clarify the line ministries responsibility for producing credible medium term estimates of budget expenditures, the format, content, and frequency of budget circulars needs to be improved.** Line ministries should be required to submit budget estimates

under respective ceilings in a format that clarifies composition of expenditure and that facilitates the negotiations of individual items. For this reason, it is desirable that the presentation of the budget estimates, except for the economic and administrative classification, is complemented with information on the purpose of expenditure items in an unambiguous functional or program dimension. Line ministries may in their budget submissions be given an opportunity to propose new spending programs outside the ceiling, as a vehicle to draw the Cabinet’s attention to certain areas. These proposals should, unequivocally, be presented separately, and under no circumstances should the expenditure for approved programs be mixed with expenditure for yet unapproved programs.

**18. The format in which budget submissions are presented to the Budget Department (MOF) for scrutiny should provide clarity on the division of base-line expenditure for continuation of current policies and programs from the expenditure required for implementing new policies, or any changes to current policies that will have expenditure implications, as well as from any cost-saving proposals.** A possible format of presenting this information is given in Table 1 below.<sup>1</sup>

**Table 1: Format for Presenting Budget Submissions**

|   | <b>Year t</b>       | <b>Year t+1</b>                      | <b>Year t+2</b>                      | <b>Year t+3</b>                      |
|---|---------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 1. Cost of continuing policies unchanged      | Preliminary Outcome | Continuing Budget                    | Continuing Budget                    | Continuing Budget                    |
| 2. Cost increasing policy proposals           |                     | First year costs                     | Second year costs + new              | Third year costs + new               |
| 3. Efficiency gains and cost saving proposals |                     | First year savings                   | Second year savings                  | Third year savings                   |
| 4. Change to base-line                        |                     | Net savings or requests<br>(1+2) – 3 | Net savings or requests<br>(1+2) - 3 | Net savings or requests<br>(1+2) – 3 |

### **C. Timely Submission of the Budget Estimates**

**19. The budget calendar may need to be further revised, and Parliament should be given substantially more time for considering the budget.** The recent years’ revision of the budget formulation time-table, with an earlier start of the preparation process, has been welcome. However, according to good international practice (OECD Best Practices for Budget Transparency), the government’s draft budget should be presented to Parliament far enough in advance to allow a proper review. In no case, should be less than three months prior to the start of the fiscal year. Obviously, such a requirement would have profound effects on the organization of the budget process, and could hardly be achieved in the near-term. Nevertheless,

<sup>1</sup> This approach is used by a number of developed countries like Sweden, South Africa.



the need to modify current practice should be recognized by both the Government and Parliament, and preparations for how the budget preparation process can be structured should start as soon as feasible.

#### **D. Strengthening Linkages between Policy Decisions and Budget Allocations**

**20. The previous years' Iraqi budget reforms have thus far not produced the desired linkage between policy objectives and budgetary allocations.** In many instances, policy making and planning are the responsibility of departments within line ministries that have no mechanism to feed their results into the budget formulation process. Consequently, the budget submissions do not adequately reflect the operative prioritizations that are made within ministries. Furthermore, information produced in the various planning documentation is not consistent, and the structure used for determining budget allocations is often different from that used in budget documentation.

**21. It is necessary to integrate political and administrative practices to ensure that funding choices align with the priorities of the Government.** Thus the Cabinet needs to be more involved in establishing overall policy priorities in the early stages of the budget preparation process. The allocation between policy objectives should be facilitated by setting ceilings for overall programs, rather than by ministries, something which naturally requires the implementation of a program classification, as discussed in the following sections.

**22. A further issue which constrains the ability to allocate resources to policy priority areas is the structure of the budget.** The Iraqi budget structure is based primarily on administrative and economic classification. It is therefore difficult to assess what programs are being funded and whether funding is directed to priority areas. Where there are reallocations these are done on the basis of line-items, making it difficult to identify how policy objectives are accommodated in the budget allocations. In order to assess whether government priorities are being met, it is necessary to restructure the budget so that funding to program areas can be identified.

#### **E. Recommendations**

- 1. The budget preparation process should be critically reviewed internally with the aim of simplifying and streamlining current practices.** The function of various phases should be clarified, and the possibility of merging some of the steps should be considered. In addition, the structure of expenditure reviews and budget proposals should be harmonized to ensure the full potential of the various analysis of public expenditure is harmonized.
- 2. The submission of budget proposal estimates to Parliament should come significantly earlier than in the current process.** This would require a restructuring of the budget preparation time table, with an earlier started and a condensed process for arriving at ceilings.



3. **The frequency, contents and role of budget circulars should be reviewed**, with the aim of enhancing the budget preparation process in line-ministries.
4. **Alignment of the MTBF and strategic planning with the program budget:** In order to link strategic planning fully to the budget, ministry and agency strategic plans should be restructured primarily around programs. Program objectives should also be clearly linked to higher-level the government-wide objectives articulated in the National Development Plan.
5. **The capacity for producing credible medium-term projections for macro-economic and fiscal parameters should be strengthened**, both in the Ministry of Finance, the Ministry of Planning, and at the level of line-ministries.

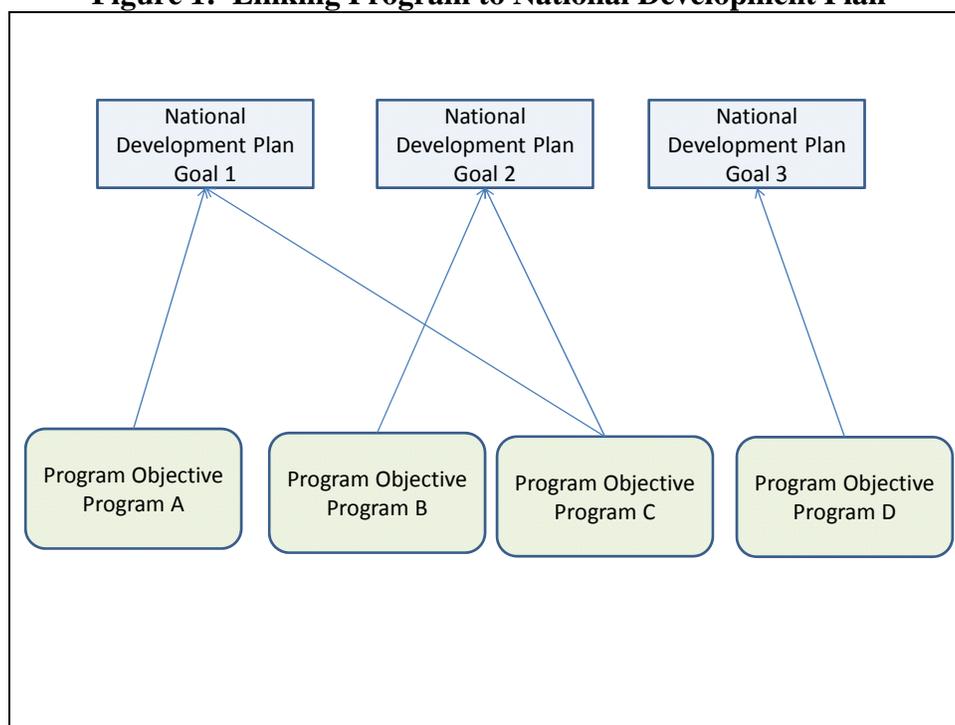
### III. ENHANCING MTBF FRAMEWORK AND LINKAGES TO THE NDP

**23. The introduction of a medium-term economic and fiscal framework in the Iraq budget process should be considered a significant achievement in itself.** However, the current Medium Term Fiscal Framework (MTFF) is perfunctory with imperfect linkages to the annual budget process (MTBF) and the medium term strategies and policies. During the different stages of budget preparation and its adoption by parliament, the focus is entirely on the upcoming fiscal year. The budget document(s) contain estimates for two outer years but they simply represent a mechanical extrapolation of the figures for the upcoming fiscal year and are not used in preparing the following years' budgets.

**24. The authorities should consider moving forward with a proper Medium Term Budget Framework (MTBF) as part of the budget preparation process for the government budget.** The focus should be on developing a matrix of key government objectives around which policy decisions can be made. The bottom up input into MTBF will come from line ministry participation in the process. This will require tightening line ministry expenditure linkages to the key primary government objectives.

**25. The National Development Plan specifies a small number of high-level outcomes ("goals"), organized into several "clusters", upon which the government is focused.** Program outcomes can be linked to the National Development Plan goals because program objectives are “intermediate” outcomes while National Development Plan goals are “higher-level” outcomes which result from the achievement of the intermediate outcomes. For example, achieving the outcome of a Secondary Education Program – children who are educated and ready to take their place either in the workforce or higher education – will directly contribute to the achievement of the National Development Plan goal of “promoting sustainable and broad growth”. This linkage is made explicit by requiring that each Program indicate the main National Development Plan goals to which it contributes, as illustrated in Figure 1, below.

**Figure 1: Linking Program to National Development Plan**



**26. The primary reason(s) for the restricted level of forward budgeting that currently exist in Iraq is that important prerequisites for the introduction of a full-fledged MTBF have not been met.** These include: the still unfinished reform agenda with respect to public financial management systems, accounting and reporting, the lack of sound medium-term macroeconomic forecasts to guide the preparation of realistic resource envelope projects; and the inconsistency between the (ambitious) model of forward budgeting as exemplified by the MTBF and the existing administrative capacity. The above challenges are not unique to GoI. These challenges are faced to varying degrees by other countries in the region. It might be useful to point out some relevant lessons from the implementation of the MTBF approach in the region (See Figure 2, below).

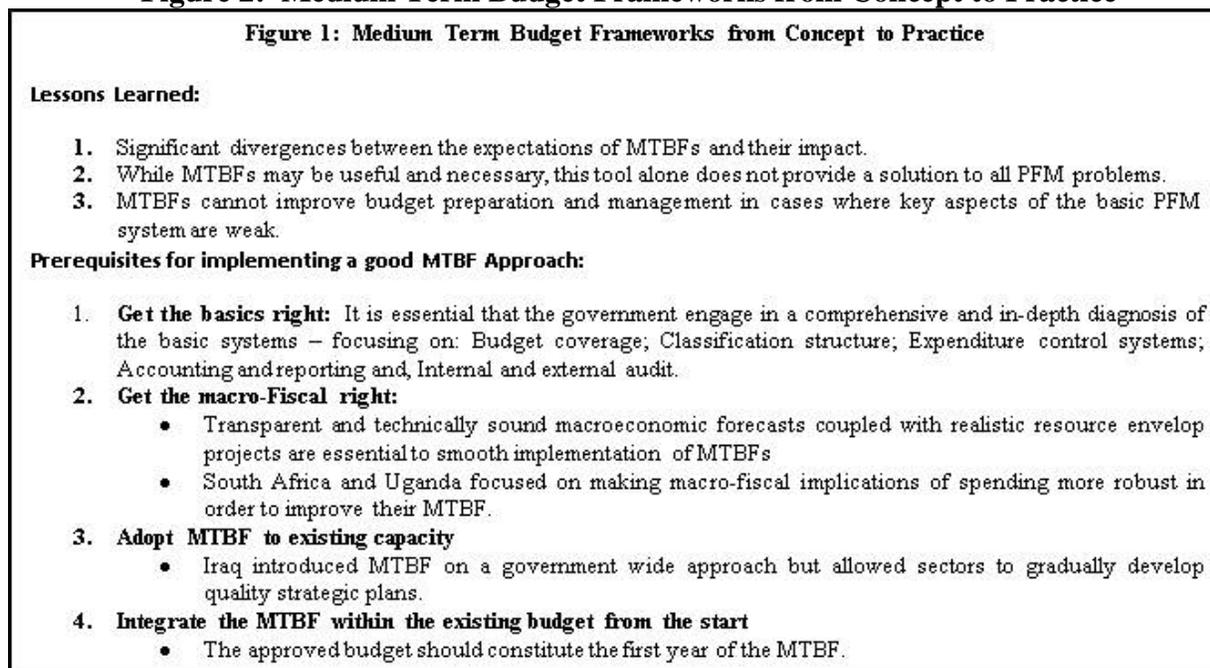
**27. A major question that needs to be addressed is how to revitalize the process of forward budgeting?** In the near term, the GoI should continue to focus on strengthening its public financial management systems and re-establishing the capacity for reliable macro-fiscal forecasts. A credible macro-economic and fiscal framework that is regularly reviewed and updated is essential to stimulating the effectiveness of any forward budgeting process.

**28. The decision about the design of the forward budgeting system need not include a highly sophisticated MTBF.** At the line ministry level, the forward budgeting framework must focus on priority sectors under the NDP and then gradually expand to cover all budget sectors. Expenditures should be presented by functional and economic classification<sup>2</sup> and organizational<sup>3</sup>

<sup>2</sup> See GFS 2001 Classification.

classification. The primary challenge for the implementation effective forward budgeting will be the quality of the sector program costings. Current costings are not standardized and the cost estimates do not appear to readily fit under the macro-fiscal framework.

**Figure 2: Medium Term Budget Frameworks from Concept to Practice**



Source: World Bank *Medium Term Expenditure Frameworks: From Concept to Practice* (2002)

### A. Recommendations

1. **The Iraqi MTBF should not only be a vehicle for the medium-term projection of expenditure, but also for the setting of performance targets which are intended to be linked to budget allocations.** As a full PB system is developed, the structure of the MTBF should be revised so as to align it with the programmatic structure of the budget.
2. **Strategic plans are also, as things stand at present, not linked to budgetary programs.** Sectoral and ministry/agency strategic plans are in the main not structured around the categories of services (outputs) which the entity delivers. Rather, they are structured primarily around “strategies” which do are in many cases about means (inputs and activities) rather than about results (outputs and the outcomes). Moreover, to the extent that the "strategies" which are the focus of strategic plans do focus on areas of service delivery, these areas of service delivery tend to be defined differently from the budgetary Program. Sectoral and ministry/agency strategic plans should be structured primarily around the same programs as used in the budget. This means that strategic plans would contain a section for each program explaining the planned strategy,

<sup>3</sup> See Classification of Functions of Government (CoFoG).



challenges, actions, performance indicators and targets for that program. These program presentations should constitute the main part of the strategic plan.

#### IV. MOVING TOWARDS A PERFORMANCE PERSPECTIVE IN BUDGET MANAGEMENT

**29. In order for the Iraqi Government to facilitate prioritization between relevant political objectives increase the cost efficiency of the public administration and to enhance the quality of the goods and services produced by publicly financed bodies, a gradual transition to performance oriented budgeting and management should be adopted.** Applied in the right way, such a reform would have the potential of significantly improving the effectiveness, efficiency and quality of the Iraqi public sector. At the same time, it should be pointed out that experience from countries that have moved from a traditional input-oriented system of expenditure management to a performance-oriented budget system clearly shows that this is a process that takes time, requires a firm, unambiguous and wide-support – not least from the political level – and calls for substantial intellectual and monetary resources to succeed. Furthermore, a prudent and well-informed approach is necessary to avoid the numerous risks that are associated with such fundamental restructuring of the way the government administration is budgeted and managed. In addition, the strengthening of Iraq’s MTBF and budget process is an essential requirement for successful implementation of performance budgeting.

**30. Given the current situation in Iraq’s PFM system, a suitable first step would be to introduce program budgeting, through which government activities-and their associated expenditure – could be categorized according to the intended outcome.** This classification should as far as possible take into account the organizational structure of the government administration, through which the programs will be implemented. An identification of relevant programs is a precondition for any subsequent steps to introduce more advanced performance oriented budgeting and management techniques. Following the introduction of a program budget structure – founded in prevailing Iraqi conditions – objectives and results requirements for identified programs and sub-programs should be formulated. Responsible line ministries should then be made accountable for achieving these performance requirements. Once a system for communicating, monitoring and evaluating performance-related aspects of the government administration is operational, a natural step would be a gradual reduction of the central level’s input control, represented by the line-item structure of the budget. Naturally, a precondition for reducing a firm and detailed control of line-item spending is the capacity for assuming financial responsibilities in agencies.

##### A. Why Program Classification?

**31. The fundamental objective of a program classification of government activities is to bring clarity on what the policies pursued by the government are, how the activities of the administration support intended goals, and how expenditure is divided between policy objectives.** By identifying clear and unambiguous government programs, reflecting desired outcomes, rather than the administrative structure or the division of expenditures between cost-



categories, policy making bodies are in a better position to make conscious and rational prioritizations. Furthermore, a program classification is a precondition for expressing the expectation that the government has on the administration in terms of performance, and thereby creating incentives for a focus on results. Finally, an increased focus on results, expressed by the program classification, will most likely enhance the quality of the goods and services delivered by the administration.

**32. Programs should reflect the current policies of the government.** Although there are a number of valuable guidelines on how to sequence an introduction of a program structure and how to categorize government activities in a clear and consistent manner, each country has to adapt the program classification to its own conditions and requirements. Since a program classification should facilitate policy prioritizations, it is important to point out that programs should neither be static nor a permanent division of the government sector. Some stability in the classification is necessary in order to make comparisons and meaningful prioritizations. In the medium term however, there must be some flexibility to adapt to the development of the organizational structure of the government administration, or to new policy directions of the government.

## **B. Identification of Relevant Programs**

**33. The first step, both logically and chronologically, in the introduction of a program classification of the Iraqi government administration, is to identify programs.** These should be relevant to the Government's policies and practically possible to implement in the existing administrative structure. The formulation of a program, with objectives and expected results, that is meaningful for an assessment and discussion on the overall priorities of the government, will by necessity have to be wide. Too many, or too detailed, programs obscure the process of drawing up the main directions of the Government.

**34. In order for line-ministries to transform the programs' objectives into concrete actions, it is necessary to break programs into sub-programs of greater level of detail.** This is done in a cascading tree-structure of programs with several layers of the program classification. The tension that exists between the two perspectives (i.e., high level policies and operational considerations) needs to be appreciated when developing a balanced classification of government programs.

**35. In identifying overall programs, the aim should be to keep the number relatively limited.** It is however, not possible to prescribe neither a minimum nor a maximum level of programs, since this depends on a number of factors that are unique to each country. Too few programs, however, risk becoming irrelevant since they do not force the government and Parliament to enter into the necessary priority discussions. Conversely, with too many programs, the prioritization discussions will not be fruitful since there will be too many details to consider in the process of allocating resources. In addition to this, small programs, where there is little room to make reallocations within the program should be avoided.

**36. It is therefore necessary to make a more detailed division of the program**



**classification structure into subprograms and possibly even activities and sub-activities.** The purpose of making a more detailed division is two-fold. First of all, it may be relevant from the aggregated level's point of view to further specify programs to indicate the priorities that are made. From this perspective, it is desirable that not only programs but also sub-programs are comparable in terms of size and rationale for the classification.

**37. A second perspective is the need to translate the wide programs into more operational and specific instructions to lower levels of the government administration.** Sub-programs should indicate what is expected of line-ministries. Since, at this level, it is absolutely crucial to take into account the practical considerations of the operative level of the government administration, there has to be some method of involving line-ministries in the process of identifying subprograms. In this process, the Ministry of Finance should defend the central level's perspective and need for uniformity and comparability of subprograms. The Ministry of Finance should not, however, dictate the structure of the subprograms.

**38. Some adjustments in the division of functions and responsibilities between departments is going to be necessary in order to ensure a relevant and logical program structure; the reorganizations with ministries should however be kept to a minimum.** Any introduction of a performance oriented approach to public sector management will involve substantial changes in the administration. In order to create acceptance rather than opposition to a new approach to budgeting, it is desirable to soften the impact while achieving noticeable results, rather than to radically challenge every aspect of the existing system. A starting point for any program classification will therefore by necessity have to be the existing organizational structure of the government sector.

**39. One important issue is whether or not programs should be allowed to stretch over several ministries.** In many cases, it is logical to define a program to which numerous bodies contribute. Programs that cover several ministries call for advanced instruments for identifying results and how these results contribute to overall objectives. Such instruments take time to develop. The recommendation therefore is that discrepancies between the ministerial structure and the program structure be avoided as far as possible in the initial stages, and that programs stretching over several ministries are well motivated exceptions. In most cases, therefore, one ministry will be responsible for several programs, while only a few programs may be shared between ministries. In the longer run, the design of programs should not be restricted by the organizational structure.

**40. Within ministerial programs, (i.e., at the level of sub-programs) it is equally important to recognize the necessity of coordination and accountability** A minimum requirement is that subprograms are unique to departments. The relationship between departments and programs/sub-programs, is an issue that could be addressed in the following manner:

- An operationally simple way of defining program structure would be to match programs with departments. In this model, each department would be responsible for one or several programs. However, this approach implies compromises in



terms of relevance and logic of program structure, unless substantial changes are made in the organizational structure of the ministries.

- A second solution is that programs are defined in such a way that they stretch over several departments. Sub-programs are however uniquely defined for each department, and two departments should not be responsible for the same subprogram. Thus, heads of departments are responsible and accountable for the operations and results, as defined by sub-programs, but are not explicitly held accountable for the achievement at the level of programs.

**41. In general, the structure of programs and sub-programs should to some extent, be guided by accountability issues.** However, there should also be an internal logic to the programs, which facilitates management and operative decision-making.

### C. Attributing Costs to Programs

**42. The aim of a program classification should be that programs cover all publicly financed operations.** Consequently, all activities in the budgeting phase and all transactions in the execution phase of the budget process should be classified according to a program structure. Only by a comprehensive and comparable attribution of all transactions to programs will it be possible to compare and prioritize between different policy' objectives and assess the cost of government programs against actual outcomes.

**43. Such an ambitious objective may not be possible to immediately achieve. In a traditionally managed public administration, there is generally a separation of administrative functions and operative, service delivering units.** It may not be practically feasible to allocate these administrative functions to a program. A number of cost categories, for example, for the top-management of the organization, for office premises shared by all sub-units responsible for delivering components in various programs, staff training not directly attributable to a specific program and shared functions such as security cannot directly or easily be attributed to individual programs. The complexity of assigning such costs to a program is equally valid in the budgeting phase as in the execution phase-when transactions are registered in the accounts.

**44. Most countries, during their transitional period, solved the difficulties in allocating all indirect overhead costs to programs by institutionalizing a separate program for the administration.** All direct expenditure related to identified programs are classified by a pure program structure. Expenditure not easily attributed to programs is then classified to what could be called a residual program. Although it is sometimes argued that a separate program for administration could be relevant and even a desirable classification to track and provide incentives for more efficient public sector management, it should be seen as a second-best option that can be used temporarily before full allocation of all activities can be classified according to a well-defined program.

**45. In the case of Iraq, it is preferable to launch the introduction of program budgeting with a separate program for administration, which covers the cost of the ministerial**



**management, general administration such as the Accounting Office, and some support services shared by the whole ministry.** Within programs, a corresponding sub-program is created, which includes the personnel and general overhead costs of the implementing department. In both instances, it is important to limit the extent of the administrative program and sub-program. If too many indirect costs are attributed to administration, the actual cost of programs and sub-programs are distorted, and it is difficult to prioritize between programs and evaluate the cost of outputs and outcomes. In order to avoid this, the Ministry of Finance should provide clear guidelines on what kind of costs can be attributed to administrative programs and subprograms.

**46. Programs should include both the recurrent and capital budget.** The issue of full cost allocation is not only an issue of over-head costs or personnel cost. It is also important to allocate capital costs to programs. In order to be able to compare programs against each other, and in order to evaluate the outputs of programs against the cost for producing these results, all costs, current or capital should be classified according to the program classification. Programs should include subprograms for the recurrent and the development budget respectively.

#### **D. Instruments for Enhancing Performance**

**47. Parallel to the development of a program structure, the Iraqi Government needs to continue the development of performance enhancing instruments for executive line ministries, and establish a more explicit link to resource allocation.** A division of the budget into programs is a first step to an increased focus on performance in the budget process and public sector management. Budget allocation according to programs is not sufficient to ensure that operative managers are accountable for results. In order to further strengthen the requirements on the results produced in the administration, it is advisable to develop instruments through which the Government is able to formulate and communicate its expectations on the performance of line-ministries, together with clearly formulated tools for accountability. Consequently, the reporting requirements must be clearly specified and the principles and procedures for evaluating senior management, with an overall responsibility for the implementation of programs, should be developed.

**48. A short narrative section on objectives and expected results could be introduced in conjunctions with ministry budget estimates in the near-term.** With the introduction of program budgeting, such information is essential. One of the main deficiencies of a line-item budget is that there are no immediate links between the allocation of expenditure in the budget and performance related aspects of the administration's delivery of goods and services to the public. In order to clarify this connection, many countries have found that it is meaningful to complement the quantitative information of resource allocation in the budget with a qualitative narrative on how these resources are to be used, and how they are expected to contribute to the Government's policy objectives. In some cases, this information is short, consisting merely of a few lines for each major category in the budget. In other countries, the narrative makes up the larger portion of the budget document. The inclusion of objectives and expected results for the government administration in the budget document becomes a logical extension of the

introduction of a program classification. This should be followed by gradually bringing in performance information into the budget year submissions.

### E. Recommendations

1. **Introduce a program classification structure** as described above.
2. **The ongoing work on strategic planning for line ministries should be linked to moves toward program/performance budgeting.**
3. **Strengthen instruments for performance management, with the objective of achieving a better coordination between policy priorities and resource allocation and enhancing accountability for results.**

### V. Introducing Program Budgeting in Iraq

**49. The introduction of program budgeting is an ambitious and laborious reform that requires a well-structured and prudent approach.** Such a fundamental change in the way the government sector is planned, budgeted, managed, and controlled will, by necessity, affect virtually all aspects of the administration. In order to maximize the chance of success, it is important to have a clear view of shortcomings in the current MTBF budget process, which need to be addressed, the objectives and expected benefits that will result from the introduction of a program budget, a thorough analysis of how functions, roles and responsibilities of different actors in the administration will be affected, the preconditions that have to be fulfilled before the reforms are initiated and a clear implementation path of the reforms.

**50. A well-informed and logically structured reform agenda can eliminate difficulties in the transition from an input-based to an output based budgeting system.** The authorities must also be attentive to how the administration receives the reforms, and be prepared to revise the agenda, and possibly postpone some phases in order to ensure that all preconditions are met. **The preconditions would clearly include strengthening of the MTBF and current budget process as explained in earlier sections.**

#### A. Road Map for Introducing Program Budgeting In Iraq

**51. The road map presented in this section gives an overview of how the introduction of program budgeting can be structured.** The road map is separated into five principle stages: i) initiation; ii) pilot-budgets and budget process development; iii) evaluation and review of reform agenda; iv) a phased introduction; and, v) full implementation.

**52. The introduction of program budgeting in the Iraq administration would stretch, at a minimum, between three and seven years, but work on developing a program classification, and making essential changes in the budget process that will be required to complete the public financial reform should be initiated without delay.** In order to ensure continuous and consistent progress, well-anchored in the Iraqi government administration, it is highly



recommended that the CommSec Budget Reform Working Group play a very proactive role to spear-head the development of these reforms.

### **Stage 1: Pilot Ministry Selection and Concept Note**

**53. As indicated in the previous sections, it is necessary to develop a program structure that is consistent with the organizational structure of the government sector before any subsequent steps can be taken.** In this section, we provide an example of a ‘draft’ program structure for the Ministry of Health. However, in brief, it is recommended that a Working Group be established at relevant (3-5 Pilot) ministries to guide the program budget process. As indicated in the draft program structure in this chapter, it is advisable to introduce a two-level program classification in order to facilitate implementation. In the longer run, however, it may be appropriate to have a more complex program structure. This should be kept in mind, and there should be a future possibility to introduce a third level structure.

**54. Parallel to the development of a program structure for the 3-5 pilot ministries this concept paper regarding the objectives of the reform should be discussed, reviewed and adopted.** Alongside the pilot program budgeting work, the CommSec Budget Reform Working Group should provide a clear guidance concept note on the objectives of the overall reform and give a clear indication of the changes in the organizational structure that may result, the necessary re-training of civil servants, the required legal framework, the capacity of the IFMIS, the effects on the budget preparation process and modifications of the budget documents that are considered necessary for a successful implementation. TARABOT has provided an indicative time table for these reforms, but the CommSec Budget Reform Working Group should prepare a more detailed time table. The CommSec Budget Reform Working Group Concept note should be circulated to all line ministries for comment. After the revisions motivated by the line-ministries remarks, the paper should be presented to the Cabinet. Following the Cabinet’s approval, the concept paper should be submitted to the Parliament.

### **Stage 2: Pilot Budgets and Budget Process Development**

**55. For the fiscal year 2013/2014, program budgets for the 3-5 pilot ministries should be developed and presented to MoF and CommSec.** The purpose of this exercise is to test the program structure and uncover any difficulties that may arise when the new approach to budgeting is introduced. The responsibility of preparing the pilot program budgets should rest with the respective line ministry, but receive guidance from the Working Group. Furthermore, the preparation of program budgets should be closely monitored, analysed and documented. The results should be reported back to the Cabinet and Parliament. **While running the pilot program budgeting exercise, the Working Group should review the process in light of any difficulties. Any necessary changes in the budget preparation and documentation process should be analysed and implemented.**

### **Stage 3: Evaluation and Review of Reform Agenda**

**56. Based on the experience of designing a program classification for the pilot ministries,**



**and the conclusions from preparing their program budgets, the Working Group should assess the prevailing conditions for introducing program budgeting.** The review process should include development of concept notes on necessary civil service reform, IFMIS, organizational structure, legal and regulatory development, and reporting requirements. If considered necessary, the CommSec Budget Group should propose a review, with the possible postponement of subsequent stages, of the plan for introducing program budgeting.

#### **Stage 4: Phased Introduction over Three-to-Five Years**

**57. The pilot ministry evaluation and review should be followed by a project aimed at structuring the whole government sector in programs.** This should culminate with the preparation of the budget for 2015/2016 for 8 to 10 ministries in program terms. The identification of programs for the whole government sector is inevitably going to require a substantial effort and significant resources. Movement to whole of government program budgeting should be phased in after the 2015/2016 period.

**58. Before the preparation of program budgets can begin, it is vital that the necessary changes to the budget preparation process be made.** All instructions given to the line ministries participating in the preparation of program budgets must be updated to ensure consistency with the new approach to budgeting and planning. Any legislative obstacles to program budget preparation that have been uncovered during the previous year(s) should be removed. The necessary information and re-training of staff should be well under way. The functionality of the IFMIS, and its ability to support a program classification must be ensured.

**59. The task of preparing program budgets for line ministries should be conducted by the respective line ministries, assisted by a team of specialists from the Ministry of Finance, with clear instructions on how programs and sub-programs should be structured in order for the allocation of budget resources to programs to function smoothly.** The preparation of program budgets should be guided by a Program Budget Manual, released by the CommSec Budget Group. Throughout the entire pilot and phase-in approach, a large scale information and training campaign aimed at the whole of government sector should be undertaken. Only with the support and commitment of the civil servants in charge of preparing and executing the budget can the introduction of program budgeting succeed.

#### **Stage 5: Full Implementation**

**60. With the completion of Stage 4, all ministries, for both the development and recurrent budgets, have been transferred to program budgets.** The fifth stage is marked by the further development of the program structure, with the possible reduction in the economic classification in the budget estimates as the capacity for assuming responsibility for planning and budgeting in line ministries is enhanced.



## **B. Proposed Program Structure and Budget Formats**

### **1. Program Structure**

**61. It is essential to take an objective approach when defining programs and sub-programs and not just equate sub-programs with departments because it is easier to do so.** For accountability purposes it is important to link each sub-program to a particular division or department. In the proposed structure this may not always be possible, and several departments may be linked to only one-subprogram. In order to obtain a unique link between sub-programs and departments, it may be necessary to make some changes to the organizational structure of the ministry. However, the ministries should not attempt to completely reorganize their structure, since this would not be disruptive and not feasible in the short-run.

### **2. Budget Format**

**62. The introduction of program budgeting requires a change to the budget format of the budget submissions submitted to Parliament.** The aim of program budgeting is to enable the allocation of resources to particular policy objectives of government. Therefore, when Parliamentarians are scrutinizing the budget, they should have some idea of how budgetary allocations are related to the Government's policy objectives. This information should be included in the budget documentation so that they are better able to assess whether resources are allocated to priority areas.

**63. A new budget format is proposed which will include the aims and objectives of the ministry, allocations according to programs and sub-programs and some service delivery indicators.** The proposed format begins by stating the mission of the respective ministry as well as describing the strategic overview and key policy developments taking place within the ministry, how they intend to implement them and the possible expenditure implications of these policies. This will be followed by a summary table of expenditure estimates by program and by economic classification for the ministry as a whole. The economic classification has been restricted to three broad categories within recurrent expenditure and one category within capital.

**64. An indicative example for a Ministry of Health is illustrated below.**

**Figure 3: Example Health Summary of Expenditure Estimates**

| Program (Iraqi Dinar)  | Preliminary Outcome | Estimates Year 1 | Projected Estimate Year + 1 | Project Estimate Year + 2 |
|--|---------------------|------------------|-----------------------------|---------------------------|
| <b>Summary by Program</b>  |                     |                  |                             |                           |
| 1. General Administrative support<br>2. Preventive and Promotive Health<br>3. Curative Health<br>4. Health Training and Research<br>5. Procurement, Distribution and Supplies                              |                     |                  |                             |                           |
| <b>Total</b>   |                     |                  |                             |                           |
| <b>Economic Classification: Summary by Economic Classification</b>   |                     |                  |                             |                           |
| <b>Recurrent Expenditure</b><br>1. Compensation of Employee<br>2. Use of Goods and Services<br>3. Grants and Transfers<br><br><b>Capital Expenditure</b><br><br><b>Acquisition of Non-Financial Assets</b> |                     |                  |                             |                           |
| <b>Total</b>   |                     |                  |                             |                           |

**65. Following this summary table, a more detailed table show the allocations to each sub-program is given.** This table includes the allocation to sub-programs, which department is responsible for the program, and the economic classification by sub-program. The table begins by stating the program and its objective. It thus becomes possible to identify how sub-programs are funded in order to achieve the objective of the program. It also clearly identifies which department is responsible for the delivery of the outputs of each sub-program as well as giving the economic classification of expenditure within each sub-program.

**Figure 4: Expenditure Estimates by Sub-Program**

| Objective: Strengthen Health Promotion and Service Delivery through the introduction and implementation of the Iraq Essential Health Program. |            |                  |                             |                           |
|---|------------|------------------|-----------------------------|---------------------------|
| Iraqi (dinars)  | Department | Estimates Year 1 | Projected Estimate Year + 1 | Project Estimate Year + 2 |
| <b>Sub-Program</b>  |            |                  |                             |                           |
| <b>1. Policy, Planning and Administration</b>   |            |                  |                             |                           |
| Recurrent Expenditure   |            |                  |                             |                           |
| Compensation of Employees   |            |                  |                             |                           |
| Use of goods and services   |            |                  |                             |                           |
| Grants and transfers  |            |                  |                             |                           |
| Capital Expenditure   |            |                  |                             |                           |
| Acquisition of non-financial assets   |            |                  |                             |                           |
| <b>Total</b>  |            |                  |                             |                           |
| <b>2. National Aids and Disease Control</b>   |            |                  |                             |                           |
| Recurrent Expenditure   |            |                  |                             |                           |
| Compensation of Employees   |            |                  |                             |                           |
| Use of goods and services   |            |                  |                             |                           |
| Grants and transfers  |            |                  |                             |                           |
| Capital Expenditure   |            |                  |                             |                           |
| Acquisition of non-financial assets   |            |                  |                             |                           |
| <b>Total</b>  |            |                  |                             |                           |

**66.** In order to fully understand what the objectives and functions of each sub-program are and how they link to the program objectives, Figure 4 (from above) will be followed by a narrative description of sub-programs, activities, and projects. This section will provide a detailed description of each subprogram which will include the main activities and projects that fall within these sub-programs. It should also include some discussion of accomplishments or targets that have been achieved.

**67.** The narrative section will be closely linked with Figure 5 describing the sub-program objectives, targets and actual delivery performance. An example for a selection of subprograms for the “Preventive and Promotive Health” program is indicated below.

**Figure 5: Objectives and Selected Key Performance Indicators by Subprogram**

| Subprogram                             | Objective   | Key Performance Indicators and Targets                  | Actual Performance |
|--|---|---|--------------------|
| 1. Policy, Planning and Administration | Improve Coordination of health polices, strategies and programs |   |                    |
| 2. National Aids and Disease Control   | Improve care of HIV patients and reduce the spread of HIV       | No of Medical Complications related to HIV/Aids Reduced |                    |
| 3. National Leprosy and TB Control     | Reduce the number of TB and Leprosy cases                       | % TB Case detection rate                                |                    |

**68. Figure 5 introduces an element of performance to the budget documentation.** Initially, only a selected number of performance indicators should be included. These should be easy to measure adding little additional costs to the Ministry for collecting and verifying the information. Most of these indicators are already in use forming part of the strategic planning documents and various Public Expenditure Reviews. The purpose of including them in the budget documentation is to begin to assess what services are being delivered for the funding allocated to each particular sub-program.

**69. The format should be followed for both the recurrent and the development budget estimates.** The only difference being the replacement of the term sub-programs in the recurrent format to the term projects in the development format. Thus both the recurrent and development budgets will have the same program structure but will differ at the level of sub-program where the recurrent budget will have sub-programs and the development budget will have projects (Figure 6).

**Figure 6: Expenditure Estimates by Sub-Program**

| <b>Objective: Strengthen Health Promotion and Service Delivery through the introduction and implementation of the Iraq Essential Health Program.</b>   |                   |                         |                          |                          |
|--|-------------------|-------------------------|--------------------------|--------------------------|
| <b>Sub-Programs and Projects (Iraqi Dinars)</b>  | <b>Department</b> | <b>Estimates Year 1</b> | <b>Estimate Year + 1</b> | <b>Estimate Year + 2</b> |
| <b>National Aids and Disease Control</b><br>Recurrent Expenditure<br>Compensation of Employees<br>Use of goods and services<br>Grants and transfers<br>Capital Expenditure<br>Acquisition of non-financial assets<br><br><b>Individual Projects</b><br>Recurrent Expenditure<br>Compensation of Employees<br>Use of goods and services<br>Grants and transfers<br>Capital Expenditure<br>Acquisition of non-financial assets |                   |                         |                          |                          |
| <b>Total</b>   |                   |                         |                          |                          |

### C. Recommendations

- 1. CommSec Budget Committee should develop a concept paper according to the principles outlined in the previous chapter for a phased introduction of program budgeting to be presented to the Cabinet and Parliament.**
- 2. Government of Iraq should establish a pilot program for 3-5 ministries to develop and prepare indicative program budget structures.**
- 3. The CommSec Budget Committee should review and provide advice as to how to harmonize the current budget calendar in the budget preparation and execution process with the requirements required by the introduction of program budgeting.**

### VI. Classification Structure and Chart of Accounts

**70. A comprehensive budget classification is vital for policy formulation, allocation of resources among sectors, compliance with legislative authorizations, accountability and performance analysis.**



## A. Introduction of a Program Classification Structure

**71. The chart of accounts (CoA) is used to classify all accounting transactions in the financial management system and is used to control the budget and allocations, provide management information to all management levels within the government sector whilst facilitating the financial reporting process.** All accounting transactions must be coded in accordance with the CoA to ensure that the information is accurately recorded in the accounting system. A comprehensive budget classification is vital for policy formulation, allocation of resources and compliance with legislative authorizations. Budgeted expenditures are generally classified according to:

1. Function – classification according to broad purposes;
2. Administrative/organization – classification according to ministries and departments;
3. Economic type – classification for budgetary compliance controls and internal management; and,
4. Program – for policy formulation and performance accountability.

**72. Additional classifications include fund source, geographic location and beneficiary of transfers. As would be seen from the above, budget classification in Iraq focuses on organization and line-items, though in addition, the expenditure data is mapped to a functional classification based on the CoFoG classification.**

## B. Program Classification and Budget Codes

**73. To implement a program budgeting system, it is necessary to include an effective program classification into the current budget classification.** As such, each line ministry should work with MoF to develop a program classification that is appropriate to the overall policies of the government and the policy goals of the ministry. The program classification should be designed to capture the financial information that is needed to construct meaningful reports consistent with the selected accounting basis and to make good financial decisions. In order to decide what to include in a chart of accounts, MoF must consider each of the following questions:

- What reports do you want to prepare?
- What financial decisions, evaluations and assessments do you need to make on a regular basis?
- What level of detail do you require?
- What is your capacity for tracking financial information?

**74. The best way to design a program budget chart of account is to first consider the**



reports that the ministry would like to prepare to satisfy international financial reporting requirements (IPSAS) and help you with internal management assessment and decision-making. MoF can then determine which categories to include in their required reporting structure. It is also necessary to develop a coding plan and assign codes to the programs and subprograms. The program code structure could be constructed with a 5 character code: i) the individual programs across ministries might be given a three character code (001-999); and, ii) sub-programs/projects a two character code (01-99). The program classification could even provide a third level, namely activities/sub-projects, with a two character code which could be projects would be influenced by their design and number.

### C. Recommendations

1. **Carry out an initial review of more detailed program classification principles and make any appropriate modifications to the current system.**
2. **For consolidation of information at the program level, it is necessary that the program code be unique across the government, while the sub-programs** could be in serial order under each program as these are aggregated at the program level. The full code for a program and subprogram would be unique, since it would be a composite code that includes the particular unique code of the program in a given ministry.
3. **Since program budget is still to be introduced, the program/sub-program segment is proposed to be used for CoFoG classification by mapping.** With the implementation of program budget, this segment should be used for programs and sub-programs (with a five digit code as explained earlier). In the design of the chart of accounts, this segment could build room for the use of activity with a two digit code in the future.
4. **For Iraq's CoFoG classification, a separate segment is not required.** The use of a bridge table between the program classification and the functional classification is considered as a good practice to ensure the consistency between the two classifications.



**Figure 7: Sequencing Program Budget Reforms**

|  | 2013 Q1                         | 2013 Q2 | 2013 Q3  | 2013 Q4   | 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 |
|--|---------------------------------|---------|--|---|---------|---------|---------|---------|
| <b>Development of Ministry Strategies and Medium Term Budget Development</b>     |                                 |         |  |   |         |         |         |         |
| Review and Modify Strategic Planning Framework                                   |                                 | X       | X<br>Strategic Planning Framework Recommendations Completed/Submitted    |   |         |         |         |         |
| Assist in Revising Pilot Ministry Strategic Planning Framework (Where Necessary) |                                 |         | X  | X<br>(3-5 Line ministry strategies reviewed and modified) |         |         |         |         |
| Review and Modify Current Medium Term Budget Framework Process                   | X<br>Draft MTBF Manual Complete | X       | X  | X<br>(3-5 Line Ministry Processes Reviewed and Modified)  |         |         |         |         |
| Assist in Revising Medium Term Budgeting Formats and Calendar (Where Necessary)  | X                               | X       | X<br>Budget Formats Reviewed/ Suggestions for Revised Calendar Presented |   |         |         |         |         |
| Pilot Ministry Training on Developing an Effective Medium Term Budget            | X                               | X       | X  | X   |         |         |         |         |
| Indicative MTBF Produced for Selected Ministries                                 | X                               | X       | X  | X<br>Indicative MTBF structures                           |         |         |         |         |



|  | 2013 Q1 | 2013 Q2                              | 2013 Q3  | 2013 Q4  | 2014 H1                                     | 2014 H2 | 2015 H1 | 2015 H2 |
|--|---------|--------------------------------------|--|--|---|---------|---------|---------|
|  |         |                                      |  | produced for<br>3-5 ministries                                       |   |         |         |         |
| <b>Development of Program Budget Structures</b>  |         |                                      |  |  |   |         |         |         |
| Stage 1: Pilot Ministry Selection and Concept Note   | X       | X<br>(3-5 Pilot Ministries Selected) |  |  |   |         |         |         |
| Stage 2: Pilot Budgets and Budget Process Development  |         | X                                    | X  | X<br>(3-5 Ministries Indicative Program Budget Structures developed) |   |         |         |         |
| Stage 3: Evaluation and Review of Reform Agenda  |         |                                      |  | X  | X<br>Evaluation and Review of Reform Agenda |         |         |         |
| Stage 4: Phased Introduction   |         |                                      |  |  |   |         |         |         |
| Stage 5: Full Implementation   |         |                                      |  |  |   |         |         |         |
| <b>Budget Classification and Chart of Accounts</b>   |         |                                      |  |  |   |         |         |         |
| Initial Review Budget Classification Structure with Respect to Introduction of Performance Budgeting | X       | X                                    | X<br>Review of Chart of Account Structure Complete           |  |   |         |         |         |
| Concept Note /Recommendations to Budget Classification Structure                                     |         |                                      | X<br>Concept Note / Recommendations on Budget Classification |  |   |         |         |         |



|   | 2013 Q1 | 2013 Q2 | 2013 Q3   | 2013 Q4 | 2014 H1  | 2014 H2 | 2015 H1 | 2015 H2 |
|---|---------|---------|---|---------|--|---------|---------|---------|
|   |         |         | Structure Complete                                      |         |  |         |         |         |
| Implementation of Revised Coding Block Structure  |         |         |   |         |  |         |         |         |
| <b>Improving Fiscal Reporting and IFMIS</b>   |         |         |   |         |  |         |         |         |
| Review IFMIS Schedule with MOF  | X       | X       |   |         |  |         |         |         |
| Fiscal Reporting Framework and Program Budgeting Reporting Frameworks Reviewed/Discussed with MOF |         |         | X   | X       | X<br>Reporting Framework and PB Reporting Structure Presented to MOF |         |         |         |
| Roll-out IFMIS/Coordinated with MOF   |         |         |   |         |  |         |         |         |
| <b>Legal Framework for Public Financial Management</b>  |         |         |   |         |  |         |         |         |
| Review Current Public Financial Management Legal Infrastructure                                   | X       | X       | X<br>Review of Legal Infrastructure Framework Completed |         |  |         |         |         |
| Produce Concept Note Regarding Gaps/ Next Steps   |         |         | X<br>Concept Note on Gaps Completed                     |         |  |         |         |         |
| CommSec Development of Revised Public Financial Management Act                                    |         |         | X   | X       |  |         |         |         |

## VII. IMPROVING FISCAL REPORTING AND IMPLEMENTATION OF IFMIS

**75. The Ministry of Finance is currently re-engaging with Freebalance (Canada) to reintroduce an Integrated Financial Management System (IFMIS).** As such, this analysis will only deal with IFMIS in the context of program budgeting. The relevant authorities are rightly concerned about the fact that the success of most of its public financial reform agenda are, to a large extent, dependent on the timely and successful implementation of the IFMIS project. It is imperative that CommSEC/MoF clearly, and continuously, articulate to the IFMIS project that the Government of Iraq is moving towards results based budget performance. As such, any future IFMIS design and reporting should take this under consideration.

## VIII. LEGAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

### A. Overview Current Legal Framework

**76. Iraq's legal framework for public financial management has many features that facilitate sound PFM practice.** The main law regulating the PFM system in Iraq is the Constitution (2005) and CPA 95 (2005). TARABOT's PFM teams' general observations, specifically of CPA 95, include the following:

1. **Ministry of Finance (Treasury):** The discussion of the functions of the Ministry of Finance (Treasury) should be clarified with respect to the custodianship of real and financial assets.
2. **Roles and Responsibilities (Accounting/Budget) Officers:** The current legislation should be revised to confer broader responsibilities to accounting officers and accounting authorities (governing bodies of government entities), including establishment and operation of basic financial management system (including internal controls). These sections should consider the following headings:
  - General responsibilities of accounting officers
  - Budgetary control responsibilities
  - Reporting responsibilities
  - Responsibilities for assets and liabilities transferred to a public entity or another level of government
  - Responsibilities in relation to budget reallocation and virements
  - Responsibilities in relation to revenue and debtor management.
3. **Reporting of Accounting/Budget Officers should include the following:** i) This must specify the timetable and financial statements that should be prepared by the Accounting Officers; ii) These financial statements should comply with



IPSAS accounting standards; iii) There should be a stipulation in the financial statements produced, prepared and submitted by the accounting officers should contain/accompany an annual report of non-financial performance information; the calendar should be stipulated.

4. **Principles of Public Finance** - The guiding principles, as outlined under the current legislation, speak to annual budgets rather than multi-year budgets or program budgets (which are multi-year in nature). Any future revisions in the Budget Law/Public Financial Management Act should be future proofed to include multi-year budgets.
5. **Fiscal Responsibility Principles** - There needs to be greater clarity on the definition of subnational government revenues. Do these revenues include national transfers, development grants, equalization grants etc.?
6. **Reallocation of Government Funds – Any public financial management act (Budget Law)** should include provisions that no transfer of funds between item control totals within a given program may be made without the approval of MoF, which may subject to certain constraints approve such transfers. There are two types of item transfers within programs which Treasury should not be authorized by the Parliament to approve. The first of these is transfers *to* personnel expenses from any other item control total. The second is transfers *away from* capital expenditure to any other item control total. The ban on transfers to personnel expenses means that each ministry must respect absolutely the upper limit imposed by the Parliament on personnel expenses in the budget estimates. The reason for this is that hiring additional staff usually creates expenditure obligations not only in the financial year when those staff are hired, but in future financial years. Maintaining control of expenditure therefore requires firm control of staffing decisions. This firm control will continue to be supported by the requirement of Public Service Commission approval of ministry staffing levels. The ban on transfers away from capital expenditure is designed to prevent ministries from inappropriately sacrificing capital expenditure, which builds assets and infrastructure for the future, in order to increase current expenditure. It may be prudent to allow for a Cabinet Secretary to authorize reallocations outside these limits in extraordinary situations.
7. **Contingencies Fund** Contingencies Fund should be viewed as an unassigned budget category that can be accessed under urgent and unforeseen circumstances, whereby the mechanism for releasing the contingencies fund is through budget reallocation. This should be clearly designated in any future public financial management legislation.
8. **Supplementary Appropriations for National Government** - The current provision allows for approval of expenditure that has not been appropriated



subject to several conditions. We would recommend that this state that it is inappropriate to spend without any budget appropriations.

9. **National Government Reporting:** The law should: i) Make clear reference to International Public Sector Accounting Standards; ii) Specifically list responsibilities of the Inspector /Accountant General in relation to producing consolidated statements and setting standards; and, iii) Should stipulate a formal oversight report adoption by Parliament regarding annual financial statements.

**77. As is evidenced from above, CPA95 has very limited coverage of the key areas of government financial management.** The Act covers the budget formulation and execution processes, but there are significant gaps. The supporting regulations for the proper carrying out of the intent and provisions need to be improved.

**78. The existing framework does not completely address the issue of fiscal sustainability and does not codify the healthy budget practices that are gradually evolving over the past few years.** Key reforms are largely not covered including: i) the adoption of medium term budgeting; ii) the budget execution process particularly the development of internal controls and audit, and development of an Integrated Financial Management System (IFMIS) for budget and accounting processes; and, iii) the enhancement of transparency including the current practice of publishing effective quarterly fiscal data.

## **B. Proposed Directions for Strengthening Public Financial Management Legislation**

**79. The following sections provide a brief discussion of the some proposed legislation changes for revising the current public financial management legislative environment. Table 2 below, provides a snapshot of proposed recommendations.** Keeping in view classical and modern principles for sound budget management, the existing public financial management legislation could be strengthened in a number of areas to fill the existing vacuum. These areas could be strengthened as identified below:

### **1. Budget Preparation and Approval**

**80. This includes medium-term focus of the budgetary process with a detailed and binding medium-term framework endorsed by the legislature.** Any future public financial management act should address key issues in this area, and include: i) an improved budget timetable, so that the budget is adopted earlier, preferably before the budget year begins; ii) major milestones for budget appropriation and approval – date of submission of medium term outlook, draft budget estimates, and approval of budget estimates; iii) clarifying the rights of the Ministry of Finance, the Ministry of Planning and other bodies during the budget process; iv) the development of a program budget structure and ensuing performance information; and v) the form purpose and structure of appropriations, joint consideration of recurrent and development budgets and rules for virements. As regards, to autonomous agencies that receive budgetary



funds which may finance part of their activities from their own revenues, any public financial management legislation should require that their financial and non-financial activities be reported to Parliament. Similarly for extra budgetary funds (EBFs) and Semi-autonomous government agencies, the law needs to provide a strong framework for the establishment, management, accounting use and reporting of these funds.

## **2. Budget Execution**

**81. This includes:** i) clearly defining the responsibilities and accountabilities of the Ministry of Finance and line ministries for budgetary management; ii) authority of the Ministry of Finance to manage government cash balances and the establishment of a treasury single account (TSA); iii) budget reporting within the year and account standard setting procedure; and, iv) the reporting of off-budget activities and guarantees and other contingent liabilities.

## **3. Fiscal Rules for Stability**

**82. For sustained macro-economic stability, some countries have developed fiscal rules relating to government deficits, total expenditures, public debt or other fiscal aggregates.** In this area, a common question is which fiscal rules, if any, should be included in the law. The fiscal rules could be quantitative or qualitative. Some countries have written quantitative fiscal rules into legislation, in an effort to force the government to reduce deficits and or debt.

## **4. Transparency**

**83. The important aspects of fiscal transparency include:** i) the extent of state involvement in commercial activity and clarity in the status of government agencies; ii) the reporting of government functions that are performed off-budget by public enterprises in a non-transparent way; and, iii) the reporting of explicit contingent liabilities to Parliament. Another important aspect of transparency is the public availability of financial and non-financial budget information in a consistent and timely manner. The publication of fiscal data should be mandatory and an obligation of the government, within specified timeframes and modalities.

## **5. Accountability**

**84. The accountability could be built around the following principles:** i) the executive gives an account to the legislature of how it meets its responsibilities; ii) within the executive, the accountability of budget managers is clearly defined, and, iii) an independent external audit body reports at least annually to the legislature. The accountability of the executive could be strengthened by prescribing fuller reporting of fiscal policy strategies and intentions, as well as financial and non-financial outcomes. Budget managers in some countries are bound by contract to ensure efficient delivery of public services. The external audit office



should continue to be independent from the executive and required to serve the needs of Parliament. Finally, there is a need to ensure full-compliance by prescribing a set of penalties and sanctions for financial misconduct and non-compliance.

## 6. Appropriations and Expenditure Controls

**85. The move to full Program budgeting will require changes to the appropriation and budget execution control system, which will no doubt require legislative changes. The current appropriation and control system focuses on "line-items".** The current appropriation arrangement differs from the predominant arrangement under Program Budgeting, where legal appropriation is in most countries only at the program level. In other words, under PB ministries and agencies are normally free to transfer funds between organizational units -- and between sub-programs -- within the same program without the need for approval from the ministry of finance. Expressed differently, under program budgeting, appropriations to internal organizational units within ministries essentially disappear and the allocation of program budgets between internal organizational units is left for the ministries themselves to manage.

**86. The move to full program budgeting in Iraq should therefore include a shift from appropriation control focused on sub votes to control focused on Program.** In respect to "items" appropriations in the recurrent budget presently tend to be composed of twenty or more allocations to quite detailed items such as:

- Fuels, Oils, Lubricants
- Communication and Information
- Educational Materials, Supplies and Services
- Hospitality Supplies and Services

**87. Performance budgeting is opposed to his type of detailed control over the item composition of expenditure.** The performance budgeting focus is on the results delivered by agencies, not on the way on which they deliver those results. Performance budgeting calls for ministries, and managers within those ministries, to be given greater freedom to choose the best mix of inputs with which to efficiently and effectively deliver services. The corollary of this is increased accountability for the results delivered.

**88. For this reason, performance budgeting has typically been accompanied by extensive reduction of item budget controls.** In advanced countries, line item controls are in some cases reduced essentially to three: personnel expenditure, other current and minor capital expenditure, and capital expenditure. However, the actual extent and rapidity of this decontrol should take into account the circumstance(s) of the country concerned. In many countries it is usually not desirable to proceed immediately to rapid item decontrol. It will often make sense to retain control over some sensitive items (e.g. travel, consultancy, and perhaps utilities). Nevertheless, reducing the very detailed traditional item controls is an essential part of a full program



budgeting system. The move to full program budgeting in Iraq should therefore be accompanied by the gradual reduction of appropriation controls at the item level.

### C. Recommendations

1. **The gaps in the current publication financial legislation indicate there is an urgent need to review and enhance public financial management legislation.** The process of revising or replacing the current public finance legal framework could also entail a comprehensive review and strengthening of the entire legal framework and practices on financial management in line with international best practices.
2. **Appropriations and Budget Execution Arrangements:** Iraq provides for the key features of a traditional (pre-program budget) appropriation system, with expenditure within each program being appropriated and controlled according to quite detailed input types and internal organizational units. Under a best practice program budget system the system would be changed to appropriation and control by Program without the presence in the budget of appropriations for internal organizational unit, and with significantly less detailed item appropriations. The Government of Iraq should be informed as to possible changes that may be required to the financial regulations and accounting manual.
3. Table 2 below provides a relatively comprehensive list of suggestions for future public financial management reform.



**Table 2: Public Financial Management Budget Law Recommendations**

| Area                                    | Recommendations  |
|---|--|
| <b>Macro-Economic and Fiscal Policy</b> | <p><b>1.1</b> PFM Act to contain fiscal principles including fiscal policy, fiscal objectives, targets to guide annual budget</p> <p><b>1.2</b> PFM Act to include fiscal rules limiting debt (e.g., total debt as a percentage of GDP)</p> <p><b>1.3</b> PFM Act to include debt ceiling applied to each level of government (e.g, % internally generated funds and transfers)</p> <p><b>1.4</b> PFM Act to include power to set numerical fiscal rules by regulation</p> <p><b>1.5</b> PFM Act to define minimum contents Budget Policy Statement (BPS) (Fiscal – Strategy Document)</p> <p><b>1.6</b> Subnational governments to be involved in MTBF, Annual Division and Allocation of Revenue Bill, Integrated PFM Act and regulations / instructions issued.</p> <p><b>1.7</b> PFM Act should define Parliament role development/approval of BPS</p> <p><b>1.8</b> PFM Act should establish requirements for reporting requirements (for monthly, quarterly, other reports)</p> <p><b>1.9</b> PFM Act should establish requirements for pre-election report (e.g. include macroeconomic / fiscal forecasts /as full report against BPS).</p> <p><b>1.10</b> PFM Act to establish publication requirements for all documents (e.g, timing and form)</p> <p><b>1.11</b> PFM Act to include set of sanctions to deal with breaches of fiscal responsibility provisions (e.g, automatic sanctions)</p> |
| <b>Budget Preparation and Execution</b> | <p><b>2.1</b> PFM Act to empower Ministry of Finance to prescribe the manner of budget preparation, execution, performance reporting, and in-year reporting requirements for National, Subnational and other government entities.</p> <p><b>2.2</b> PFM Act to designate Ministry of Finance with authority to develop/ issue instructions regarding unified classifications to be applied across the general government in the preparation, execution, and accounting of the budget</p> <p><b>2.3</b> PFM Act to provide virement rules: no virement between ministries; some virement between programs; some virement between broad economic categories.</p> <p><b>2.4</b> PFM Act to include provision for carryover with strict rules and procedures</p>   |



| Area   | Recommendations  |
|--|--|
| <b>Treasury and Cash Management</b>  | 2.5 PFM Act to provide that preparation/approval / execution of a supplementary budget governed by same principles and rules applicable to the approval and execution of the annual budget   |
|  | 2.6 PFM Act to provide for Contingencies Fund (unforeseeable, unabsorbable, unavoidable)   |
|  | 2.7 PFM Act to provide procedures to report to Controller of Budget and Parliament on Contingencies Fund   |
|  | 3.1 PFM Act to reflect budget execution controls, cash management responsibilities, and the financial control responsibilities of the Ministry of Finance (Treasury).  |
|  | 3.2 PFM Act to prescribe treasury single account (TSA) approach for all government banking arrangements. PFM Act to prescribe a Subnational Government (TSA) approach from onset (to be defined in Treasury issued regulations)  |
| <b>Borrowing Guarantees and Management</b>   | 3.3 PFM Act to require treasury to provide regulations on: the collection, management, and reporting of non-tax revenues on a gross basis; (donor funds reflected in the budget if applicable), in the in-year reports, and in the accounts; and the collection, processing, and reporting of earmarked taxes. |
|  | 4.1 PFM Act to provide relevant provisions governing the principles, control and oversight of public debt and debt management.   |
|  | 4.2 PFM Act to include clear definitions of the concepts of ‘borrowing’ and ‘guarantees.’  |
|  | 4.3 PFM Act to include provisions strengthening Treasury’s authority to oversee and control borrowing & guarantees.  |
|  | 4.4 PFM Act to include provisions/rules for borrowing by Subnational Governments and State-owned operations; rules regarding government guarantees to be specified; and, rules regarding borrowing by public agencies and funds should be established.   |
|  | 4.5 PFM Act to provide for combining g loan guarantees with all other sources of contingent liabilities to assist more effective fiscal risk management.   |
|  | 4.6 PFM Act to establish basis for implementing fiscal rules on public debt and guarantees under which, parliament should set annual limits (cap)(e.g, including by sub-national governments and SOEs).  |
|  | 4.7 PFM Act should provide that the Treasury is the only body allowed to contract debt in foreign currency.  |
| 4.8 PFM Act should provide for: strengthening Treasury’s access to bank account data (balances and |  |



| Area                                      | Recommendations  |
|---|--|
| <b>Accounting and Audit</b>               | <p>flows) for projects; strengthen regular and timely reporting projects; and, establish a framework to agree on specific arrangements for donors who have multiple projects.</p> <p><b>5.1</b> PFM Act should provide guidelines to establishing international accepted accounting standards to be reported by all Government Entities.</p> <p><b>5.2</b> PFM Act should stipulate roles, responsibilities for Internal Auditing and financial reporting, External Auditing by Inspector General, and special provisional reporting.</p> <p><b>5.3</b> PFM Act should stipulate additional role for value for money audits.</p>   |
| <b>Intergovernmental Fiscal Relations</b> | <p><b>6.1</b> PFM Act to specify appropriate assignment of roles and responsibilities for subnational government as well as national government.</p> <p><b>6.2</b> PFM Act to include subnational governments in the entities covered by the comprehensive public financial management requirements.</p> <p><b>6.3</b> PFM Act to establish requirements relating to the process for determining the funding for subnational governments including alignment of subnational government and national budget calendars.</p> <p><b>6.4</b> PFM Act to set out requirements relating to the disbursement of funding to subnational governments including the criteria to be applied for disrupting disbursements.</p> <p><b>6.5</b> PFM Act should establish requirements relating to the role of Ministry of Finance (Treasury) in collecting, consolidating, dispersing, and publishing subnational government level financial and non-financial performance information.</p> <p><b>6.6</b> PFM Act should establish requirements for annual budgets and appropriations for subnational governments including: Plans and budget documents; strategy and compliance with fiscal responsibility requirements; Form of appropriations and requirements relating to the Appropriation Bill; Key dates and actions for the budget cycle; Consultation requirements; and, power for Ministry of Finance (Treasury) to issue instructions relating to these documents and processes.</p> <p><b>6.7</b> PFM Act should include accountability mechanisms for subnational government performance (e.g. performance specification, agreements, reporting, monitoring, review, and rights to follow up on performance issues).</p> <p><b>6.8</b> PFM Act to include criteria for issuing guarantees for subnational government debt; and, right of Ministry of Finance to obtain information relating to the financial viability of the subnational</p> |



| Area   | Recommendations  |
|--|--|
| <p><b>Agencies, Funds and Enterprises</b></p>      | <p>government.</p> <p><b>7.1</b> PFM Act to contain definitions, differentiation and criteria for agencies, funds, enterprises.</p> <p><b>7.2</b> PFM Act to specify what PFM rules apply to agencies, funds and enterprises.</p> <p><b>7.3</b> PFM Act to prescribe specific reporting obligations of entities to be reflected in the budget documents, fiscal reports and annual accounts.</p> <p><b>7.4</b> PFM Act to establish a clear and comprehensive framework governing entity financing arrangements.</p> <p><b>7.5</b> PFM Act to specify circumstances that sub-national government’s right to establish and terminate entities.</p> <p><b>7.6</b> PFM Act to specify provisions regarding PFM standards applicable to these agencies and funds consistent with the standards applicable to the government.</p> <p><b>7.7</b> PFM Act to prescribe rules governing the fiscal relations of the government with enterprises.</p> <p><b>7.8</b> PFM Act to include roles and responsibilities of the MoF in monitoring State Owned Enterprises (SOEs’) transactions and operations for potential contingent liabilities.</p> <p><b>7.9</b> PFM Act to consider specific rules for oversight and monitoring of other government’s investments (e.g. Public, Private, Partnership (PPP)).</p> |
| <p><b>Sanctions, Transitional Arrangements</b></p> | <p><b>8.1</b> Design a new sanctions regime, with its corresponding enforcement mechanisms, to be included in the Integrated PFM Act.</p> <p><b>8.2</b> Sanctions regime in PFM Act should be comprehensive applicable to all public officials and entities for of all levels of government (including subnational government structures).</p> <p><b>8.3</b> Sanctions regime to be included in PFM Act should contain, at a minimum, the following elements: specific description of the types of actions or omissions that will be considered misconducts, infringements; clear and specific description of the types of sanctions that will apply; personal and institutional sanctions; and, Administrative, disciplinary, civil and criminal sanctions.</p> <p><b>8.4</b> PFM act should provide for the person(s) or entity(ies) that will be charged with the responsibility of enforcing the sanctions regime under the PFM Act.</p> <p><b>8.5</b> PFM Act should provide that the person or entity responsible for enforcement shall select clear and prominent cases of noncompliance or contravention and publicize them, stressing the action or</p>   |



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**Area**

**Recommendations**

- 
- omission that triggered the application of the procedures under this regime and the corresponding sanction that was applied.
- 8.6** PFM Act should provide that the sanctions regime include as a criminal offence the failure by a public officer to report to the relevant authority the existence of a contravention or infringement of the law, when that public officer has knowledge of such actions.
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## APPENDIX A: SAMPLE NOTE TO LINE MINISTRIES EXPLAINING PERFORMANCE BUDGETING

**The following memorandum has been prepared at the request of the Budget Department (MoF) for the purpose of briefing line ministries on the nature, objectives, and broad implementation steps involved in the development of a system of Medium Term Budget Framework and program budgeting in Iraq.**

### **Nature and Objectives of Program Budgeting**

**Program budgeting is the planning, authorization and execution of expenditure in terms of programs.** Programs group together expenditure on specific public policy purposes, such as environmental conservation or higher education. The classification of expenditure in terms of programs turns the budget into an instrument for explicit choices about expenditure priorities such as how much to spend on preventative health vs. treatment health; and how much on tertiary education vs. primary education.

**Program budgeting involves not only planning, but also approving and executing the budget in programmatic terms.** This means that the Parliament votes budget allocations to programs, and the government should then (with minor qualifications) not spend more on each Program than the parliament has allocated to it. So under the Government of Iraq Program budgeting system, when it is fully developed:

- **Budget allocations to entities** will take the form primarily of allocations of amounts of money to each program. Item allocations will still be present, but to a significantly lesser degree (see below);
- **Ministries will structure their budget requests around programs**, and bilateral negotiations between entities and MoF will focus in significant measure on the amount of money to be allocated to each program; and,
- **Budget implementation will be monitored and controlled on the basis of programs.**

### **Why Program Budgeting?**

**Improving expenditure prioritization is a primary objective of program budgeting.** Expenditure prioritization refers to the allocation of funds to the sectors and programs which are most effective in meeting social needs. In this manner, program budgeting facilitates the closing linking of the budget to the National Development Plan.

**A well-designed program budgeting system also improves the effectiveness and efficiency of expenditure by putting additional pressure to perform on ministries and agencies.** Under program budgeting, each ministry's budget request to MoF has to be accompanied by information on the performance of the ministry's programs (indicators and evaluation findings), as well as – where appropriate – performance targets for the future. The knowledge that its budget request will be considered by the government and, perhaps, the parliament in the light of its performance should then put increased pressure on the ministry to improve its performance.

**Program budgets are very different from traditional budgets, in which funds are allocated to each spending ministry not by objective but instead primarily by “item”.** Items are allocations of funds to types of inputs such as salaries, supplies and capital expenditure. The problem with a budget based on line items is that it indicates next to nothing about the policy objectives of the expenditure concerned.

### **Line Item Controls under Program Budgeting to Be Reduced**

**A line-item budget is unsatisfactory as an instrument for expenditure prioritization.** Program budgeting calls for the substantial reduction of item controls over how spending ministries use their budgets. This is because Program budgeting – and Program budgeting more generally – call for greater freedom at the ministry level in the choice of the inputs used to deliver services in return for greater accountability for the results which ministries deliver to the community. This does not mean that budget allocations to items entirely disappear under Program budgeting. Nor does it change the fact that expenditure is still *accounted for* -- recorded in the accounting system -- in the same item detail as it has always been recorded.

### **Program Classification of Expenditure**

**To facilitate improved expenditure prioritization, programs need to be defined in such a way as to capture the choices about spending priorities which are made at the government-wide level** (i.e. by presidents, cabinets, ministers and ministries of finance), and by the spending ministries themselves. To capture such choices, programs are, first and foremost, categories of expenditure directed at achieving a common outcome. For example, a nature conservation Program covers expenditure on a range of interventions such as the enforcement of laws banning the hunting of native species, marketing campaigns designed to raise public awareness of the importance of protecting the natural environment, actions to prevent the destruction of natural environments which endangered species depend upon, and the “culling” of feral species (e.g. cats, introduced fish etc.) which may threaten native species. What all these interventions have in common is that they all aim to preserve native fauna and flora – which is an outcome.

**Under Program budgeting, programs are normally also broken into constituent "sub-programs",** which represent more detailed categories of outputs. The parliamentary authorization is in most countries only at the Program level. Only in a minority of countries does parliamentary appropriation of the budget take place at sub-program level. In Iraq, it is appropriate that the usual approach of appropriation at the Program level is followed. In this case, Parliament will be informed in the budget documents of the proposed allocation of programs at the sub-program level. However, it is for MoF and the Government of Iraq more generally to decide whether they would like appropriations to be at the Program or sub-Program level.

### **Program Performance Indicators and Objectives**

**Program budgeting clearly requires not only *budgeting* in terms of Program, but also the systematic use of Program performance information.** Only through the development of good program performance information does it become possible to compare the budgetary cost of each Program with the results which the Program delivers to the community. The introduction of Program budgeting therefore needs to be closely linked to overall monitoring and evaluation system development.

**This means that program budgeting requires the systematic development of performance indicators for each program and/or sub-program.** Consistent with the

expenditure prioritization objective, these Program performance indicators should as far as possible measure Program outcomes and outputs. The development of Program performance indicators like this is something which takes considerable time.

### **Program Budget Documentation**

**A fully developed program budgeting system usually involves the provision to parliament and the public of *program statements* as part of the budget information documents which accompany the annual budget legislation.** The overall purposes of these program statements is to provide information on the objectives and results achieved by the programs for which funding is being requested in the budget. Program statements typically include the following type of information for each Program:

- Title and objectives,
- List of the main outputs (services) which comprise the program,
- A brief narrative outline of program strategy, challenges and key new initiatives,
- Key program performance indicators,
- Program performance targets (if applicable),
- Program expenditure estimates, preferably with medium-term projections,
- A breakdown of program expenditure by broad categories of economic classification (staff, capital etc), for information purposes.

**This type of information helps the Parliament -- and the government -- to make budgetary decisions in the light of performance implications.** One way of presenting this material is for each ministry to prepare a document containing all of its program statements to be made available to parliament as an Annex to the budget documents.

### **Item Controls**

**In traditional government budgets the item allocation is quite detailed, including separate appropriations for items such as office stationary supplies, books, internal training, external training etc.** Spending ministries are then unable, without central approval, to shift money between these categories during the year. In practice, some flexibility is created by systems which permit some transfers between item categories. However, not only is the scale of such transfers typically greatly limited, but the process of reviewing and determining transfer applications can involve a great deal of unproductive work for MoF.

**Program budgeting is opposed to his type of detailed control over the item composition of expenditure.** The Program budgeting focus is on the results delivered by agencies, not on the way on which they deliver those results. Program budgeting calls for ministries and managers within those ministries to be given greater freedom to choose the best mix of inputs with which to effectively deliver services. The counterpart of this is increased accountability for the results delivered.

**Figure 1: Sequencing Program Budget Reforms**

|   |  | 2013 Q1   | 2013 Q2   | 2013 Q3  | 2013 Q4  | Output / and<br>or Outcome   | 2014 H1 | 2014<br>H2 | 2015<br>H1 | 2015<br>H2 |
|---|--|---|---|--|--|--|---------|------------|------------|------------|
| <b>A.</b>   | <b>KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>                                  |   |   |  |  |  |         |            |            |            |
|   | <b>Budget Classification and Chart of Accounts</b>   |   |   |  |  |  |         |            |            |            |
| <b>PEFA (2008)</b><br>Performance Indicator (PI)-5<br>Classification of the Budget (C)        | Initial Review Budget Classification Structure with Respect to Introduction of Performance Budgeting | Draft Budget Review   | Presentation(s) Chart of Accounts and Budget Classification   | Presentation(s) Chart of Accounts and Budget Classification  | Revise Budget Classification Draft                                   | Memorandum on Budget Classification Structure Completed / Submitted to MOF                   |         |            |            |            |
|   | Implementation of Revised Coding Block Structure   |   |   |  |  |  | TBD     | TBD        | TBD        | TBD        |
|   | <b>Accounting Modalities</b>   |   |   |  |  |  |         |            |            |            |
|   | Review of current cash basis accounting structure (gap analysis)                                     | Review IPSAS Guidelines and Map Versus Current Status in Iraq | Review IPSAS Guidelines and Map Versus Current Status in Iraq | Presentation of a) Gap Analysis of Current Gap Basis Accounting; B) Roadmap for Developing Accrual (Modified Accrual basis accounting) | Draft Roadmap on Cash Versus Accrual Accounting                      | Roadmap and Recommendations on Cash Basis Accounting (Strategy of Future Accrual Accounting) |         |            |            |            |
|   | <b>Training</b>  |   | Design of GFS/CoFoG and IPSAS Cash Basis Training Modules     | MOF - Training in GFS/CoFOG and IPSAS Cash Basis Accounting  | Pilot ministry training in GFS/CoFOG and IPSAS Cash Basis Accounting | 3-5 Ministries Trained on GFS/CoFOG and IPSAS Cash Basis Accounting                          |         |            |            |            |
| <b>B.</b>   | <b>Budget Cycle</b>  |   |   |  |  |  |         |            |            |            |
|   | <b>B (i) Policy Based Budgeting</b>  |   |   |  |  |  |         |            |            |            |
| <b>PEFA (2008)</b><br>PI-11<br>Orderliness and Participation in the Annual Budget Process (C) | Assist in Revising Pilot Ministry Strategic Planning Framework (Where Necessary)                     | Review pilot ministry strategies                              | Provide recommendations for pilot ministry strategies         | Revised ministry strategies presented  |  | 3-5 Line ministry strategies reviewed /modified  |         |            |            |            |
|   | <b>Multi-year perspective in fiscal planning, expenditure policy and budgeting</b>                   |   |   |  |  |  |         |            |            |            |
|   | Review / modify current  | Review  | Arabic/Englis   |  | X  |  |         |            |            |            |

|   |   | 2013 Q1  | 2013 Q2   | 2013 Q3   | 2013 Q4   | Output / and or Outcome   | 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 |
|---|---|--|---|---|---|---|---------|---------|---------|---------|
| PI – 12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (D +) | medium term budget framework process  | current medium term framework; Draft MTBF Manual           | h manual completed; Introductory training 3-5 pilot ministries (2 provinces)                        |   | (3-5 Line Ministry Processes Reviewed and Modified)   |   |         |         |         |         |
|   | Pilot Ministry Training on Developing an Effective Medium Term Budget   |  | 3-5 Ministries / Provinces selected; Introductory Training  | Intermediate training for 3-5 ministries/ provinces   | Hands-on assistance to develop 3-5 Indicative (High-level) ministerial MTBFs  | 3-5 Indicative (High-level) ministerial MTBF's completed  |         |         |         |         |
|   | Review, Provide Recommendations, and Revise Medium Term Budgeting Formats and Calendar (Where Necessary)  | Review budget calendar and formats for Medium Term Budgets |   | Draft Recommendations presented to MOF/ComSec   | Revise Recommendations based on ComSec/MOF review   | Budget Formats Reviewed/ Suggestions for Revised Calendar Presented   |         |         |         |         |
| <b>Development of Program Budget Structures</b>   |   |  |   |   |   |   |         |         |         |         |
|   | Stage 1: Pilot Ministry Selection and Concept Note  | Survey MoF and Proposed Pilot Line Ministries              | Survey Recommendations Presented; 3-5 Pilot Ministries Selected                                     |   |   | Ministry Survey Complete; Pilot ministries selected   |         |         |         |         |
|   | Stage 2: Pilot Budgets and Budget Process Development<br>1) Development of Performance Indicators<br>2) Design of Indicative program budget structures<br>3) Development and mapping of |  | Introductory Training of Pilot Ministries and 2 Provinces on program performance budgeting concepts | Intermediate training of pilot ministries and 2 provinces on program performance budgeting concepts | Draft of indicative program budget structures and performance indicators for 3-5 ministries and 2 provinces; Current organizational | 3-5 Line Ministry indicative program structures submitted; 2 provincial program performance budgets submitted |         |         |         |         |



|  |   | 2013 Q1                         | 2013 Q2  | 2013 Q3  | 2013 Q4  | Output / and or Outcome                                   | 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 |
|--|---|---------------------------------|--|--|--|---|---------|---------|---------|---------|
| PI – 22<br>Timeliness and regularity of accounts reconciliation (C +)<br><br>PI- 23<br>Availability of information on resources received by service delivery units (D)<br><br>PI – 24 Quality and timeliness of in-year budget reports (D+)<br><br>PI-25 Quality and timeliness of annual financial statements (D +) |   |                                 |  |  |  |   |         |         |         |         |
|  | Development of Program budget reporting structures              |                                 | Design draft program performance budget reporting structures | Review draft program performance budget reporting structures with MOF/ComSec | Submit draft program performance budget reporting structure recommendations to MOF | Program Performance Budget Reporting structures submitted |         |         |         |         |
| <b>B(iv) External Scrutiny And Audit</b>   |   |                                 |  |  |  |   |         |         |         |         |
| <b>Legal Framework for Public Financial Management</b>   |   |                                 |  |  |  |   |         |         |         |         |
| <b>PEFA (2008)</b><br>PI-27<br>Legislative   | Review Current Public Financial Management Legal Infrastructure | Review current public financial |  | Review of Legal Infrastructure Framework                                     | Presentation on recommendations  | Roadmap and recommendations for                           |         |         |         |         |

|   |   | 2013 Q1                                   | 2013 Q2 | 2013 Q3                                  | 2013 Q4                  | Output / and or Outcome                          | 2014 H1 | 2014 H2 | 2015 H1 | 2015 H2 |
|---|---|---|---------|--|--------------------------|--|---------|---------|---------|---------|
| Scrutiny of the annual budget law (D)                         |   | management laws/regulation infrastructure |         | Completed, Draft submitted to ComSec/MOF | ons and road map forward | developing integrated budget framework completed |         |         |         |         |
| PI – 28<br>Legislative Scrutiny of external audit reports (D) | ComSec Development of Revised Public Financial Management Act |   |         |  |                          | TBD  | TBD     | TBD     | TBD     | TBD     |