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ISSUE BRIEF

GONE WITH THE MUHASASA: IRAQ'S STATIC BUDGET PROCESS, AND THE LOSS OF FINANCIAL CONTROL

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Introduction

The collapse of oil prices in the wake of the COVID-19 pandemic was a baptism of fire for the current Iraqi government in its May 2020 debut.[1] Oil sales for the prior month were less than half of the country's most pressing expenses, such as payments for salaries and pensions—themselves equal to about 60 percent of an inflexible current expenditure item. The new Iraqi minister of finance, Ali Allawi, elaborated on these challenges in his first television interview, and noted that he expected Iraq to have had fiscal buffers of around 10 trillion (trn) Iraqi dinars (IQD) instead of the IQD 2.5 trn in late May.[2]

These, however, are only part of the overall fiscal buffers. The government is not fully cognizant of all of its fiscal buffers, much in the same way that it is not fully cognizant of all of its cash balances.[3] Following the recovery of oil prices in 2017, subsequent to the first Organization of Petroleum Exporting Countries (OPEC) Plus[4] accord in late 2016,[5] these fiscal buffers should have been about IQD 8.2 trn[6] by the end of May 2020. This would have been the result of a surplus of IQD 20.9 trn by end of 2018, followed by deficits in 2019, and for the first five months in 2020.

The Atlantic Council's Iraq Initiative provides transatlantic and regional policy makers with unique perspectives and analysis on the ongoing challenges and opportunities facing Iraq as the country tries to build an inclusive political system, attract economic investment, and encourage a vibrant civil society.

1 "New Iraq Prime Minister after Five Months of Deadlock," BBC News, May 7, 2020, https://www.bbc.com/news/world-middle-east-52571220.

2 Iraqi Media Network, مقابلة خاصة مع كريم حمادي / ضيف الحلقة /د. علي عبد الامير علاوي - وزير المالية- يوم ٢٢ مايس/ايار ٢٠٢٠ , *YouTube*, 1:11:20, May 22, 2020, https://www.youtube.com/watch?v=T3nkZnZqyFg&t=24s.

3 Ahmed Tabaqchali, "The Accounts That Didn't Bark: Iraq's Hidden State Balances," *London School of Economics Middle East Centre,* July 16, 2020, https://blogs.lse.ac.uk/mec/2020/07/16/the-accounts-that-didnt-bark-iraqs-hidden-state-balances/.

4 OPEC Plus, commonly written as OPEC + is the alliance of OPEC and ten major oil non-OPEC producers led by Russia. Further details at Investopedia, accessed October 24, 2020, https://www.investopedia.com/ask/answers/060415/how-much-influence-does-opec-have-global-price-oil.asp.

5 Vladimir Soldatkin, Rania El Gamal, and Alex Lawler, "OPEC, Non-OPEC Agree First Global Oil Pact since 2001," *Reuters*, December 10, 2016, https://www.reuters.com/article/us-opec-meeting-idUSKBN13Z0J8.

6 The IQD 8.2 trn figure is based on commitment-based accounting but would-be IQD 21.3 trn in cash-based accounting standard. Similarly, the surplus of IQD 20.9 trn is a commitment-based surplus but is IQD 27.2 trn in cash-based accounting standards (see later sections in this piece and footnotes for a full explanation of these).

The disconnect between estimated[7] and known fiscal buffers stems from the inefficiencies inherent in a paper-based budget process—from planning to execution and monitoring. Iraq has continued to use this outdated structure because it lacks a public financial management (PFM) system. At the heart of a PFM is an automated information management system known as an integrated financial management information system (IFMIS). An IFMIS would electronically link all government units, and automates core budget execution functions. This in turn enables the creation of a dynamic and transparent budget process from start to finish.

The financial crisis precipitated by the economic disruptions in the wake of the COVID-19 pandemic exposed the vulnerabilities of this paper-based budget process in managing the state's high and inflexible expenditures in an environment of its sharply diminishing revenues, and thus Iraq needs to urgently implement an IFMIS within a wider implementation of a PFM. However, the need for this implementation as recognized by the government's reform program known as the "White Paper[8]"; faces the same structural impediments that incentivized the country's ethno-sectarian parties to accept and participate in the post-2003 political order through power and resource-sharing- which is enabled and perpetuated by the static budget process.

A Static, Paper-Based Budget

The public sector's oversized role in the economy—as the largest formal employer, and through its direct and indirect control of the largest economic activities—is manifested in the federal budget. As such the federal budget, from the planning stage to its execution, sets the tone for the economy by transmuting government spending into economic activities.

The static budget process for each year begins in the prior year. In June,[9] a fiscal policy circular is issued by the minister of finance, in consultation with the minister of planning, and based on the fiscal priorities established by the council of ministers (CoM). After taking inputs from the government's budget entities[10], this policy circular evolves into a budget proposal that is submitted to parliament in early October. For about two to three months, parliament scrutinizes the budget proposal, reviewing and amending proposed expenditures, revenue projections, and choices of funding the resultant deficit, if any. Finally, a final budget is approved and enacted into law.

Subsequently, budget entities receive monthly cash allotments from the Iraqi Ministry of Finance (MoF) in accordance with their approved budgeted expenditures. If a budget is a delayed—which happens often—or fails to materialize such as in 2014 and 2020, these entities receive monthly payments equal to one-twelfth of the prior year's appropriations (known as the one-twelfth rule). Budget entities are then responsible for managing their spending and submission of their monthly transactions to the MoF, which then prepares and releases monthly aggregate government revenues and expenditures.

The inconstancies of the budget process start with the inclusion of the Ministry of Planning (MoP), a relic of the old command economy that has only survived this long because of its responsibility for the investment budget. The MoP uses an accounting and budgeting framework that is inconsistent with that used by the MoF. Additionally, the government uses cash-based accounting standards, while SOEs use accrual accounting standards.[11] These inconsistencies are then exacerbated further by the use of different classification systems for budgeting and accounting.

Inconsistencies, compounded by capacity constraints, significant delays in reporting budget execution data, gaps in cash reconciliations, and the reliance on paper-based systems, mean that analyzing reported budget execution figures, and comparing them against budgeted

7 As estimated from published Ministry of Finance budget execution reports at its website. http://www.mof.gov.iq/obs/ar/Pages/obsDocuments.aspx

8 "The White Paper for Economic Reforms: vision and key objectives," Government of Iraq, October 22nd, 2020. Arabic : The Arabic version has a link to the document, the original in Arabic https://gds.gov.iq/ar/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/ English: https://gds.gov.iq/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/. An unofficial English translation of the original. "White Paper" Arabic document is available on the "Iraqi Economists Network" site at http://iraqieconomists.net/en/2020/10/19/iraq-white-paper-complete-english-translation/ (last accessed December 11th, 2020.

9 This formal timeline is based on section 6 of the Financial Management and Public Debt Law 95 of 2004, but the groundwork for the budget process is set by the Budget Priorities Statement, whose lead-up starts in February.

10 Budget entities refers to: line ministries, their sub-units, other administration units of the central government, public institutions, and public corporations or state-owned enterprises (SOE's), etc.

11 The main difference between the two is that revenues and/or expenditures in cash accounting standards are recognized when cash is received, and/or payments in cash are made, while they are recognized when commitments for them are made or are due/occur irrespective of when cash transactions are made by accrual-based accounting standards in line with international standards. This complicates accounting for multi-year or multi-stage expenditures, as cash accounting is made at the payment stage and not at the commitment stage. This is especially relevant for capital projects, which involve multiple payments at different stages in the project.

amounts, is at best fraught with uncertainties and issues of data integrity.

Ultimately, these figures are analyzed by an International Monetary Fund (IMF) team of economists as part of its article IV consultation with the Iraqi authorities.[12] Following these consultations, and after updating them using the government's un-accounted for commitments and arrears,[13] the IMF publishes budget figures for past years, estimates for the current year, and projections for future years in its Iraq country reports.

An Evolving Surplus in Action

The recovery of oil prices and the conclusion of the fight against the Islamic State of Iraq and al-Sham (ISIS), removed the most severe pressures on Iraq's government finances, thereby allowing a significant budget surplus to begin to take shape throughout 2018. However, estimating the size of this surplus is complicated given the different accounting standards used and the time lag in reconciling the different standards. This can be seen in the interplay between the MoF's cash-based accounting standards and the IMF's adjustments to these accounts (see footnote 13) for the 2017 and 2018 budget figures in the table below.

The variance between the two standards is most notable in the expenditures for 2017 and 2018. The IQD 1.7 trn cash-accounting surplus by the end of 2017 turned into a commitment-basis deficit of IQD 3.7 trn once expenditures were accounted for at the commitment stage and not when actual payments were made, and when arrears are accounted for. Similarly, the IQD 25.5 trn cash-accounting surplus by the end of 2018 became an IQD 20.9 trn commitment-basis accounting surplus. Eventually, the two-year accumulated cash-accounting surplus of IQD 27.2 trn became a commitment-basis accounting surplus of IQD 17.2 trn.[14]

Additionally, there seems to be no continuity between one budget and another when it comes to carrying over past surpluses. For instance, the IQD 25.5 trn cash-accounting surplus by the end of 2018, does not seem to carry over, at least not fully or directly, into the 2019 budget law as a financing option for that year's projected deficit. Instead, the part of the surplus that remains in the treasury at the time of the budget's passing, i.e., in the MoF accounts as carried over funds,[15] is taken into account as the surplus.[16] The budget process's calendar, starting in June 2018, would have precluded a knowledge of this surplus at the time of preparation. However, the extent of the surplus and the much-higher-than-projected oil prices should have been obvious during the two months that it was

12 "About the IMF: Work: Surveillance," International Monetary Fund, last accessed on October 24, 2020. https://www.imf.org/external/about/econsurv.htm.

13 The government's cash-based accounting does not report commitments made or arears accumulated until actual cash payments are made, however, this does not present a correct picture of the budget in any given year. The World Bank notes that while most governments follow cash-based accounting, many use it in conjunction with commitment-basis accounting for budgetary control purposes. This means that expected expenditures are entered into the accounting system as commitments. In the case of Iraq, the IMF starts with the Iraqi authorities' cash-based accounting figures and adjusts them by taking into account the government's commitments and arrears accumulation in a specific year, and its repayment of past arrears, to arrive at a more complete picture for any given year. In this paper the phrase "commitment-basis accounting" will be used to refer to these adjustments. Moreover, for Iraq the figures are even more complicated in that any accounting made for budget execution report needs to take into account the figures for the Kurdistan Region of Iraq's (KRI) payments which are made in some years but not others, even though they are enacted into every budget law.

14 In time, cumulative cash-based accounting surpluses and deficits should converge towards accumulated commitment-basis accounting surpluses and deficits. This can be seen in the hypothetical case of a two-year budget cycle. Assuming equal current expenditures of IQD z in each year, and a capital expenditure of IQD x that was embarked on in year one, but actual payments would happen in equal installments over two years. In addition, revenues for each year were IQD y. In commitment-basis accounting all expenditure would be recorded in year one for a total of IQD z + IQD x, while in cash-based accounting they would be recorded as IQD z + IQD x/2. The result would be a lower surplus (or higher deficit) in year one for commitment-basis accounting than for cash-based accounting. In year two, commitment basis expenditures would be IQD z, while in cash-based accounting they would IQD z + IQD x/2, and the surplus/deficit would be the reverse of year one. Cumulative expenditures for both years would be IQD 2z + x, and so the cumulative surplus/deficit would be the same in both accounting standards, i.e., converge. This is true also for arrears, which initially are recorded in commitment-basis accounting , but in cash-based only when paid but not when occur. However, this does not seem to happen when comparing MoF figures versus those of the IMF for 2015-2018 budgets or for earlier periods for that matter. This could imply that the MoF does not update prior year's revenues/expenditures when are they are actually received or made in later years, as well as not updating new arrears accumulated or prior ones paid, which confirms the difficulties of reconciliation that are made earlier in the piece. IMF data is taken from country reports 17/251 and 19/248, while Iraqi data are from Iraqi Ministry of Finance, last accessed October 24, 2020, http://www.mof.gov.iq/obs/ar/Pages/obsDocuments.aspx

15 The Arabic phrase used "الرصيد المدور في حساب وزارة المالية" which roughly testates to "carried over funds in the account of the Ministry of Finance"

16 The reference to carried over funds in the treasury, i.e., the MoF deposits at year end or at the time of approving the budget, as the surplus can be seen in the Facebook post of the prior Prime Minister, Adil Abdul Mahdi, on October 13 in which he stated that IQD 7.8 trn (the same amount cited as MoF deposits) was carried over into the 2019 budget from the 2018 budget. Moreover, the prior PM stated that his government's budget has more than tripled by year end the amounts that it inherited from its predecessor. Adil Abd Al-Mahdi, "…نحو فهم أفضل للواقع" https://www.facebook.com/233558516708696/posts/3669531496444697/?d=n (last accessed on November 16th, 2020) However, there is an inconsistency between the numbers cited in the Facebook post and those as reported by the Central Bank of Iraq (CBI), which showed MoF's deposits of IQD 20.3 trn by end of 2018, and IQD 8.3 trn by year end 2019 (see footnote below for more details on the MoF accounts).

All figures in IQD trn	Revenues				Expenditures					Surplus/Deficit		
	Total Revenues	Oil Export Revenues	Non-Oil Revenues	Oil Export Sales (MoO)	Total Expenditures	Current Expenditures	Investment Spending	Oil Investment Spending	Non-Oil Investment Spending	Budget	Cash Accounting	Article IV Consultation
2017 Budget Law	79.0	68.0	11.1		100.7	75.2	25.5	13.8	11.7	-21.7		
2017 MoF Cash Accounting	77.2	65.4	11.8	70.5	75.5	59.0	16.5	12.5	4.0		1.7	
2017 Article IV Consultation	76.3	65.2	11.1		80.0	60.9	19.1	12.6	6.5			-3.7
2018 Budget Law	91.6	77.2	14.5		104.2	79.5	24.7	13.5	11.2	-12.5		
2018 MoF Cash Accounting	106.5	96.1	10.4	99.3	80.9	67.1	13.9	10.5	3.3		25.5	
2018 Article IV Consultation	105.6	96.1	9.5		84.7	70.6	14.1	10.5	3.6			20.9
2019 Budget Law	105.6	93.7	11.8		133.1	100.1	33.0	14.7	18.3	-27.5		
2019 MoF Cash Accounting	107.6	99.5	8.1	92.8	111.7	87.3	24.4	19.0	5.4		-4.2	
2019 Est												-6.2
2020 01-05 (5/12th of 2019)	44.0	39.1	4.9		55.5	41.7	13.8	6.1	7.6	-11.5		
2020 01-05 MoF Cash Accounting	25.6	24.1	1.5	21.0	27.5	27.2	0.3	0.0	0.2		-1.8	
2020 01-05 Est												-2.8
Accumulated Surplus/Deficit										**-73.2**	**21.3**	**8.2**

Sources: IMF, Ministry of Oil (MoO), MoF, and budget laws. An estimate made by doubling the MoF’s cash deficit for 2019 is used in lieu of that from an article IV consultation, which has not been made yet, and the same estimate is made for 2020 up to May. MoE reports oil export sales made each month, but actual payments are made at different times which accounts for the difference between reported oil sales and oil revenues received.

scrutinized by parliament. Assuming that the usual two- to three-month lag in published MoF budget execution reports held during the period of the budget’s scrutiny, the cash-accounting surplus of IQD 19.2 trn by the end of September should have been known by December. This surplus, if carried fully into the 2019 budget, could have contributed to financing the projected deficit of IQD 27.5 trn for the 2019’s expansionary budget that was passed into law in February 2019, with the balance to be financed by borrowing IQD 8.3 trn. Instead, the budget law proposed financing the deficit by a combination of borrowing IQD 14.6 trn, and utilizing the MoF’s deposits, or carried over funds, of IQD 7.8 trn and IQD 5.1 trn that is either to be borrowed from the state’s Pension Fund’s deposits or by utilizing the MoF’s other carried over funds.[17]

Structural Shortcomings

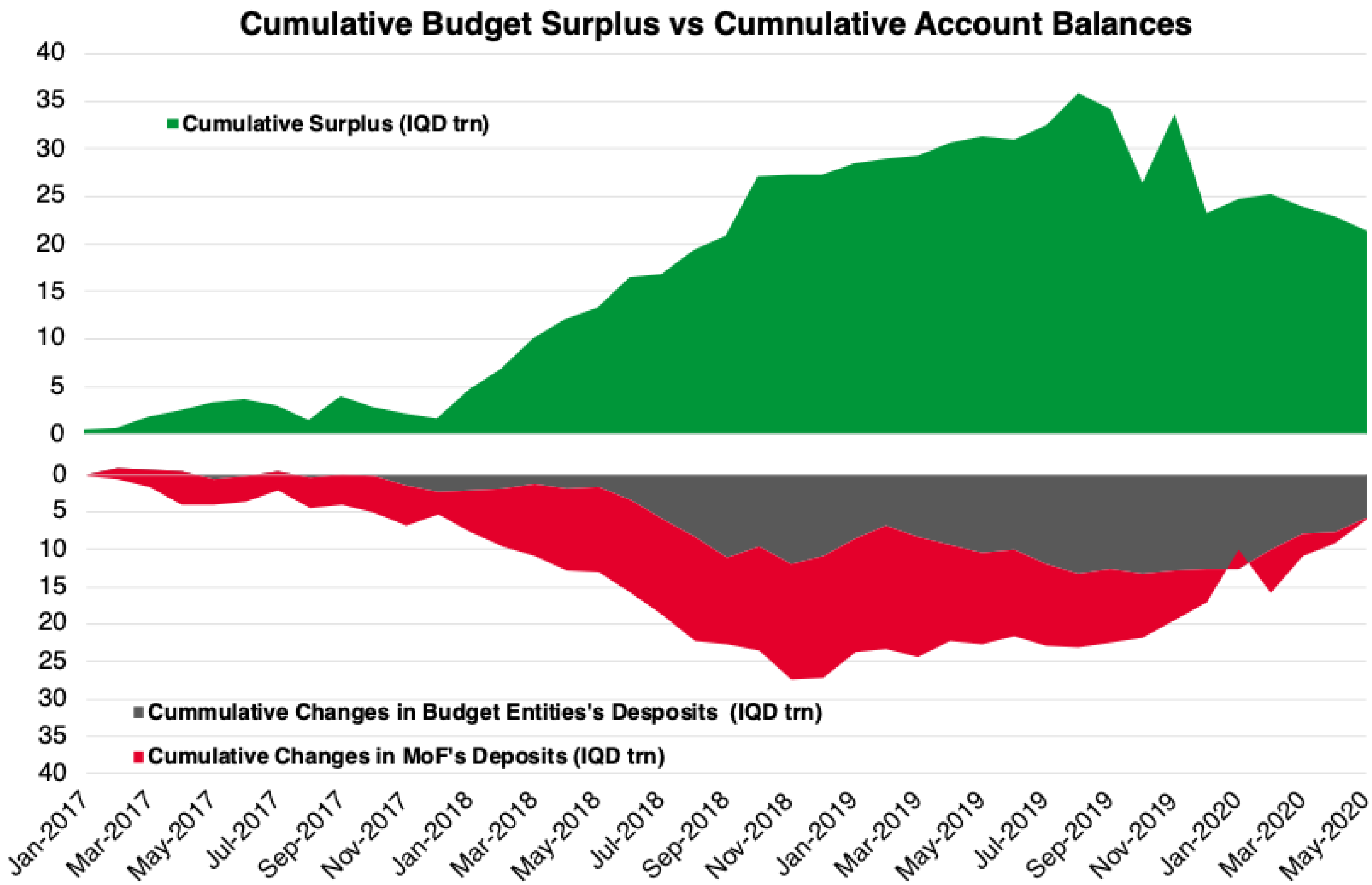
The 2018 budget surplus was primarily a function of a combination of much higher realized Iraqi oil price of $65.66 per barrel than the initially budgeted for price of $46.00 per barrel, and much lower total expenditures of IQD 80.9 trn[18] than the budgeted figures of IQD 104.2 trn.[19]

The lack of a modern PFM, particularly the lack of an IFMIS and a Treasury Single Account (TSA), meant that the 2018 growing surplus, from underspending and higher-than-planned revenues, did not fully translate into actual cash surpluses at the MoF’s bank accounts. Instead, the cash surplus resulting from underspending stayed in the bank accounts of budget entities, while the cash surplus resulting from higher-than-planned revenues stayed in the MoF’ bank accounts. This dynamic can be seen in the chart below that tracks the cumulative budget surplus versus the cumulative increases and decreases in bank balances of the MoF and budget entities from the start of 2017 to the end of May 2020.

17 This financing combination is taken from the budget financing table on pages 5-6 from the 2019 Budget Law. However, the figures are not consistent with Central Bank of Iraq (CBI) data on the MoF’s accounts that are held with it, and which were deposits of IQD 15.4 trn by September 2018 that grew to IQD 20.3 trn by year end. Note: The MoF main accounts are held with the CBI, referred to here as the treasury accounts. Moreover, additional holding bank accounts held with the three main state banks (Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq) and operated by the General Commission of Taxes and the General Commission of Customs. Collected taxes and customs are transferred by the end of every month to the treasury accounts.

18 The MoF’s cash-accounting figures are used here to ensure consistency with actual cash flows and deposits. Sources: The 2018 budget law, MoO, MoF, and author’s estimates. http://www.mof.gov.iq/obs/_layouts/obsServices/DownloadObs.aspx?SourceUrl=%2fobs%2fObsDocuments%2fEnacted+Budget+Folder+-+%2المعتمدة+الموازنة+مجلدfFederal+Budget+Law+2019.pdf https://oil.gov.iq http://www.mof.gov.iq/obs/ar/Pages/obsDocuments.aspx

19 An additional factor in the difference between budgeted figures and budget execution reports is that budgeted figures assumes that the Kurdistan Region of Iraq (KRI) contributes to the budget’s oil revenues through the transfer of 250,000 bbl./d to the State Oil Marketing Organization (SOMO) in return for its share of the federal budget. In practices the oil is not transferred and the government only pays the salaries portion of the KRI’s share, this happened in 2018, 2019 and 2020.



Source: MoF, and CB. The CBI data is based on those submitted by all banks in the country, while the cumulative surplus refers to the cash-accounting based surplus that is based on MoF data which, in the case of this chart, is consistent with cash flows as reflected in bank accounts.

The overall trends seen in the chart, within the limitations of the data,[20] broadly support the above assertion. They show that cumulative increases in the budget surplus (as recorded by the MoF), led to increased deposit balances (as reported by the CBI). However, as the cumulative surplus (in green) slowed and then decreased, this was reflected in declines in the cash balances of the MoF (in red), but not in those of the budget entities (in dark grey).[21]

On the other hand, if both actual revenues and expenditures for 2018 were in line with budgeted figures, then the deficit would have been funded by government borrowing as initially planned in 2018's budget. Interestingly, had revenues been less than planned, expenditures would have been financed by the MoF first from its available cash balances, then through borrowing. If borrowing was not possible or was delayed, then budget entities would

20 The data comes from two separate sources: The cumulative budget surplus comes from the MoF reports as discussed in this piece. While the cumulative changes in deposits come from the CBI, which gets them from state banks (mostly Rafidain Bank, Rasheed Bank and The Trade Bank of Iraq) who, like all banks, regularly submit to the CBI data on deposits and credits by customer classification. Given the outdated systems used by Rafidain and Rasheed, the data is likely to be incomplete or replicated or comes with considerable delays. Also, changes in deposits reflect a mixture of events such as cash received from MoF, cash made for expenditures, or payments of individual debts by budget entities and hence cumulative changes would not equal cumulative budget surpluses. Moreover, the possibility of double counting of deposits is high given the limitations cited earlier. The main takeaway is not necessarily that the amounts for accumulated surplus changes and accumulated deposit changes would match, month for month, or even in totals, but that the trends seen in each are consistent, which is something the chart clearly shows.

21 An inevitable consequence of the regular delay in approving a budget, or in the case of no budget, means that the accounts of the MoF and budget entities would both decline to meet expenditures in the first two to three months of any year as the one-twelfth rule might not sufficiently cover planned expenditures. This was continued further in 2020 following the fall in oil prices in March as the state's income did not cover its expenditures which forced more reliance on deposits to meet expenditures.

resort to accumulating arrears that are eventually covered by the MoF borrowing or by future budgets.

The combination of these elements results in direct and indirect losses to the state. The direct losses stem from the failure to benefit from interest income on consolidated positive cash balances in the case of a surplus and utilizing it fully for the next year's budget, and from unnecessary interest expenses in the case of a deficit. The indirect losses, arising from the resultant mismanagement and misallocation of resources, are far more substantial. This is due to the economic significance of the budget, as a result of the dominance of the public sector through the state's direct and indirect control of the largest economic activities. The overall losses are masked and overlooked during periods of high oil revenues, but become evident during periods of low oil revenues[22] and cannot be ignored.

Déjà Vu

Sharply increasing expenditures as a result of the ISIS conflict and the collapse of oil revenues in 2014-2017 made the need for a modern PFM critical. As part of its support to the government's reform program, the World Bank agreed to lead a project to implement a modern PFM for a cost of $40.5 million.[23] The project, started in 2016, involved a number of milestones, including a TSA in operational use by 2020, and a roll-out of an IFMIS by mid-2020. The only visible achievement since then has been the General Financial Management Law, adopted by parliament in May 2019. That legislation is yet to be fully implemented or acted upon.

However, the implementation of the TSA[24] and IFMIS never reached the next phase, and by early 2020 was pushed into late 2021. This echoes a much earlier attempt when an IFMIS was planned early post-2003, as part of a budgetary capacity building program during the rule of the Coalition Provisional Authority (CPA). Then the US Agency for International Development (USAID) contracted out the development of an IFMIS, but the project came to an end in 2009 as the system failed to achieve its objectives, and was neither fully implemented nor accepted by the MoF.[25] The ambitious plan, then and in 2016, was to automate the preparation, implementation, and monitoring of the budget process—thereby replacing the then-inefficient paper and pen-based system that remained in use until the present time with only a token adoption of information technology.

A Feature and not a Bug

On the surface, foreign contractor failures or shortcomings, bureaucratic pushback, technical challenges, and capacity limitations to implementing a modern PFM were then, and continue to be, a significant obstacle. This is especially true in light of the damage to the country's institutional infrastructure continuously and persistently sustained over the last four decades of conflict.

However, the more likely reasons for the country's persistent financial problems lurk beneath the surface. These are likely to be the incentives for the country's ethno-sectarian parties, to continue their acceptance of, and participation in the post-2003 political order, characterized by Mushasasa Ta'ifia or sectarian apportion.[26] Against this backdrop, a static and obscure budget processes gives each budget entity nearly full autonomy over its finances, which are funded by the state, but a dynamic budget would remove much of this autonomy. As a consequence, the appointments of ministers, senior civil servants, and the special grades within the Mushasasa Ta'ifia's structure allowed for the division of the state's resources among these ethno-sectarian parties participating in successive inclusive governments, in proportion to the seats won by each in parliamentary elections. The shortcoming of the static budget process through power and resource-sharing might have prompted confidence-building and a tenuous peace between these ethno-sectarian parties. However, instead of leading to an institutional democracy, it has solidified the control of these resources and the entrenchment of vested interests to the determinant of the country.

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22 These are compounded by the budget's structural imbalances as discussed in recent works by the author. Ahmed Tabaqchali, "Between a Rock and a Hard Place: Iraq's Political Class Dilemma Between Budget Realities and Protestor Demands," *London School of Economics Middle East Centre*, March 11, 2020, https://blogs.lse.ac.uk/mec/2020/03/11/between-a-rock-and-a-hard-place-iraqs-political-class-dilemma-between-budget-realties-and-protestor-demands/; Ahmed Tabaqchali, "Will COVID-19 Mark the Endgame for Iraq's Mushasasa Ta'ifia?" *Arab Reform Initiative*, April 24, 2020, https://www.arab-reform.net/publication/will-covid-19-mark-the-endgame-for-iraqs-mushasasa-taifia/.

23 World Bank, "Modernization of Public Financial Management Systems Project," *The World Bank*, (Last accessed on October 25th, 2020) https://projects.worldbank.org/en/projects-operations/project-detail/P151357.

24 Tabaqchali, The Accounts that Didn't Bark.

25 Office of US Inspector General, "Audit of USAID/Iraq's Implementation of the Iraq Financial Information System," Report Number E-267-10-002-P, July 19, 2010, https://oig.usaid.gov/sites/default/files/2018-06/e-267-10-002-p.pdf; James D. Savage, "Iraq's Budget as a Source of Political Stability," *United States Institute of Peace*, March 2013, https://www.usip.org/sites/default/files/SR328-Iraqs%20Budget%20as%20a%20Source%20of%20Political%20Stability.pdf.

26 Toby Dodge, "Tracing the Rise of Sectarianism in Iraq after 2003," *London School of Economics Middle East Centre*, September 13, 2018, https://blogs.lse.ac.uk/mec/2018/09/13/tracing-the-rise-of-sectarianism-in-iraq-after-2003/.

A Financial Crisis and the Inevitability of an IFMIS

The new government's response to its baptism of fire brought by the financial crises in the wake of the COVID-19 pandemic is a plan to address the root causes of Iraq's vulnerability to external shocks. The plan, known as the White Paper,[27] aims to fix the fault lines of the economy and by extension the political system that fostered them. A key aspect of this is to enable the MoF to deal with the complexities of managing the budget in the current crises, through the introduction of a PFM system, by reviving and accelerating the long-stalled implementation of an IFMIS and a TSA. While the risk of repeating the past is high given Iraq's "repeat compulsion" tendencies,[28] the severity and likely prolonged duration of the current crisis leaves few options other than following through with this implementation.

Acknowledgements

The information in this report is based on publicly available information in websites, publications, presentations, and research reports as seen from the footnotes. Specifically, data on the accounts of the MoF, budget entities are taken from the CBI.[29] [30] State revenues and expenditures for 2017–20, and final budget laws are from MoF's website, while oil sales are taken from MoO's website.[31] [32] IMF's figures for 2017 & 2019 are taken from IMF country report 19/248.

The status of the implementation and development of a PFM, the budget's preparation, approval process, execution monitoring and reporting, accounting standards used, and other related items are taken from the World Bank's "Modernization of Public Financial Management Systems Project" in 2016, World Bank's 2017 assessment of Iraq's Public Financial Management, and IMF country reports 16/225, 16/379, 17/251, 19/248.[33] [34] The historic plan for a PFM is taken from "Iraq's Budget as a Source of Political Stability" by James Savage in 2013, and the Audit of USAID's IFMIS project.[35]

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All errors, omissions, and mistakes are the author's own.

27 Ahmed Tabaqchali, "The irrefutable logic of numbers and the inevitability of reform in Iraq," MENASource, Atlantic Council, November 2, 2020. https://www.atlanticcouncil.org/blogs/menasource/the-irrefutable-logic-of-numbers-and-the-inevitability-of-reform-in-iraq/

28 https://en.wikipedia.org/wiki/Repetition_compulsion These tendencies are addressed in prior articles by the author: Ahmed Tabaqchali, " A Review of Iraq's 2019 Budget Proposal," 1001 Iraqi Thoughts, November 18th, 2018. https://1001iraqithoughts.com/2018/11/18/a-review-of-iraqs-2019-budget-proposal/ Ahmed Tabaqchali, "Iraq's Investment Spending Deficit: An Analysis of Chronic Failures," The Institute of Regional and International Studies (IRIS), December 2018. https://auis.edu.krd/iris/latest-iris-publications/iraqs-investment-spending-deficit-analysis-chronic-failures Ahmed Tabaqchali, "Between a Rock and a Hard Place: Iraq's Political Class Dilemma Between Budget Realities and Protestor Demands," London School of Economics Middle East Centre, March 11, 2020, https://blogs.lse.ac.uk/mec/2020/03/11/between-a-rock-and-a-hard-place-iraqs-political-class-dilemma-between-budget-realties-and-protestor-demands/

29 "Economic and Statistics Data," Central Bank of Iraq, accessed on November 16, 2020, https://cbiraq.org/

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