

Iraq

Technical Assistance in Fiscal Year 2018

Financial Supervision (June 23-29, February 5-9)

During FY18, METAC continued to assist the Central Bank of Iraq (CBI) in aligning their prudential regulations with BCBS guidelines, taking into accounts the needs and priorities of the Iraqi banking sector.

The first mission drafted four regulations on (i) licensing criteria, which focuses on the assessment of the ownership structure and governance of a bank, including by conducting fit and proper test for board of director members, senior management and branch managers; (ii) market risk management requiring banks to adopt appropriate market risk management policies and processes, with risk limits consistent with individual banks' risk appetite and profile; (iii) operational risk management, which considers individual banks' risk appetite and risk profile, and requires them to implement policies and procedures approved by the board of directors; and (iv) IRBB, which defines the criteria for classifying financial instruments in the banking book or in trading book, and the boundary between them. The latter also requires banks to implement an appropriate interest rate risk strategy, policies and procedures approved by the bank board of directors to identify, measure, monitor, and report material sources of interest rate risk.

The second mission discussed with the CBI four draft prudential regulations on Licensing and Change of Control Requirements; Market Risk Management; Operational Risk Management; and IRBB that were drafted with METAC's assistance in June 2017, and prepared them to oversee the implementation of these regulations and train other CBI supervisors in that regard. The mission also reviewed the comments provided by operating banks in Iraq on other draft prudential regulations that have been circulated to them by the CBI for comments.



*National Training on the Implementation of the Developed Regulations, Lebanon
February 5-9, 2018*

Public Financial Management (July 18-20, February 28 – March 2, March 6-9)

The Iraqi economy has been severely affected by the collapse in oil prices and the conflict with the Islamic State of Iraq and Syria (ISIS), which resulted in higher fiscal deficit and accumulation of payment arrears. Since 2017, with the support of FAD and METAC, the authorities have taken measures to clear the stock of payment arrears and strengthen monitoring of commitments .

FAD and METAC have supported the design of templates and procedures to improve the budgetary and financial reporting on the key stages of the expenditure process and building a commitment control system. As the authorities are implementing these recommendations in their internal procedures, METAC organized a seminar in July 2017 to further develop capacities within the MoF, MoP, and Bureau of Supreme Audit in response to the authorities' request. Building on recent IMF research, the relevance to the specific context of Iraq of good practices and international experiences on commitment control was extensively discussed. METAC's PFM Advisor also advised on ways to address operational and practical issues related to the implementation of the new mechanisms, including change management challenges.



*National Workshop on Strengthening
Commitment Control, Lebanon
July 18-20, 2017*

In February-March 2018, a joint FAD-METAC mission worked with representatives of the MoF, line ministries, Federal Board of Supreme Audit, the Central Bank, and State banks to take stock of the progress made, explore remaining challenges, and define an action to build a more resilient budget execution process and prevent the resurgence of payment arrears.

Facing cash constraints resulting from the collapse of oil prices and the cost of the conflict with the Islamic State of Iraq and Syria (ISIS), Iraq has embarked on a set of reforms aiming at improving the efficiency of its cash management. In March 2018, a joint FAD-METAC mission worked with representatives of the MoF, line ministries, Central Bank, and State banks to strengthen the institutional arrangements related to cash management and further develop a phased approach to implement a TSA. METAC will work in the coming months with the recently created Cash Management Unit to further develop its capacity to forecast cash and effectively inform financial management and budget execution choices.

Revenue Administration (January 8-12, April 29-May 3)

METAC provided an off-site TA mission to the General Commission for Taxes (GCT) in Iraq. The mission reviewed and discussed GCT's latest plans regarding the modernization of the IT and the status of automation across the core tax business processes. It advocated for a high-level set of functional requirements that the IT-system should support to deliver the services required by an effective tax administration, and advised on how to design and implement an IT strategic plan covering short- and long-term needs. The mission also provided guidance on how to set a project management structure for the implementation of the new IT system and how to manage the transition to the new system.

METAC also provided further support to the GCT on the establishment and functioning of a modern LTO. The mission outlined the requirements for the establishment and functioning of a modern LTO that would administer all national-level taxes and focus on high yield activity. It reviewed progress against the time-bound action plan for the establishment of the LTO, and supported the GCT in designing the criteria to select large taxpayers, and developing a methodology to identify them. It also continued earlier assistance on the implementation of an integrated organizational structure, which is accepted internationally as good practice in large taxpayer administration. The mission shared international good practice on: (i) the adoption



*Mission on Budget Execution and Commitment
Control, Lebanon
February 28-March 2, 2018*

of a risk management approach to improve taxpayers' compliance, and (ii) the introduction of filing and payment compliance indicators.

Statistics (August 27-31, April 29 – May 9)

An off-site mission assisted the Iraqi Central Organization of Statistics and IT in improving the source data and compilation framework, and integrating the product balances into the core national accounts compilation system. The mission focused on: (i) applying a standard format for all type of goods and services, allowing compilation in quantity and value terms, and specifying the valuation elements from basic to purchaser prices; and (ii) expanding the scope of the product balances by including some important products and activities as well as market and non-market services.

In cooperation with STA, METAC also provided assistance on ESS through an off-site mission. The mission supported the authorities' efforts in improving the quality of the BoP statistics, with particular focus on the treatment of production sharing agreements between the Government and foreign-owned oil extraction companies, arrears, and recording of foreign direct investment in kind. To refine further the records related to the oil sector activity, in addition to BoP compilers from the CBI, key representatives from the Ministry of Oil participated in the mission.