FOR INFORMATION

FO/DIS/21/20

January 27, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Iraq—Technical Assistance Report—Guarantees and Extra Budgetary Funds Management**

Board Action:	Executive Directors' **information**
Publication:	Yes, after Wednesday, February 3, 2021
Questions:	Mr. Rame, FAD (ext. 38584)

TECHNICAL ASSISTANCE REPORT

IRAQ

GUARANTEES AND EXTRA-BUDGETARY FUNDS MANAGEMENT

SEPTEMBER 2020

PREPARED BY

Xavier Rame, Fritz Bachmair, and Tomas Magnusson

METAC

MEMBERS

Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, West Bank and Gaza, Yemen

PARTNERS

Germany, Netherlands, Switzerland, European Commission, France

DISCLAIMER

The contents of this report constitute technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Iraq (the "TA recipient") in response to their request for technical assistance. This report (in whole or in part) or summaries thereof may be disclosed by the IMF to IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the TA recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of METAC, unless the TA recipient specifically objects to such disclosure (see Operational Guidelines for the Dissemination of Technical Assistance Information). Publication or Disclosure of this report (in whole or in part) or summaries thereof to parties outside the IMF other than agencies or instrumentalities of the TA recipient, World Bank staff, other technical assistance providers and donors with legitimate interest, including members of the Steering Committee of METAC, shall require the explicit consent of the TA recipient and the IMF's Fiscal Affairs Department.

MEMBERS

Afghanistan

Algeria

Djibouti

Egypt

Iraq

Jordan

Lebanon

Libya

Morocco

Sudan

Syria

Tunisia

West Bank and Gaza

Yemen

PARTNERS

Germany

Netherlands

Switzerland

European Commission

France

CONTENTS

Glossary

EBF	Extra-Budgetary Fund
FAD	Fiscal Affairs Department
GDP	Gross Domestic Product
GE	General Electric
GFML	General Financial Management Law
GFSM	Government financial statistics manual
IMF	International Monetary Fund
IPP	Independent Power Producers
IPSAS	International Public Sector Accounting Standards
ISIS	Islamic State of Iraq and Syria,
METAC	Middle East Regional Technical Assistance Center
MoF	Ministry of Finance
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
SOE	State-Owned Enterprise
USD	United States Dollar

PREFACE

In response to a request from the Iraqi authorities, a mission from the Middle East Regional Technical Assistance Center (METAC) met with an Iraqi Delegation in Amman, Jordan, during June 27-30, 2019 to support the strengthening of capacities and institutional arrangements to manage guarantees and extra-budgetary funds (EBFs). It aimed to (i) assess the current situation, (ii) identify gaps with good practices, and (iii) agree on a set of actions to improve control and monitoring of guarantees and EBFs.

The Iraqi delegation included Salahuddin Hamid Juaatta Al-Hadeethi, Director General of Debt Department, Milad Zeyad Abdulmawla Al-Mawla, Budget Department, Mazin Mahdi Mohammed Ali Albo Ghaloom, Budget Department, Suad Jebur Hassan Al-Sudani, Director of Internal Debt at Public Debt Department, Sanaa Jalal Khattab Al-Doori, Deputy Director Accounting Department, Fatima Abdulhussein Abbass, Expert Accounting Department.

The METAC team comprised Messrs. Xavier Rame, Advisor, Fritz Bachmair and Tomas Magnusson, Experts. Mr. Kareem Ismail, IMF resident Representative for Iraq, contributed to the discussions.

EXECUTIVE SUMMARY

Iraq is substantially exposed to fiscal risks related to guarantees issued by the State, with a stock of guarantees related to foreign currency service payments and debt of USD 21.7 billion at end-June 2017 and a stock of domestic guarantees that remains to be fully assessed. In 2017, the Council of Ministers approved a set of procedures to tighten controls on the approval of State guarantees. Nevertheless, misreporting cases highlight the need to further strengthen capacities and institutional arrangements to effectively identify and monitor the fiscal implications of guarantees, including in the context of EBFs' operations.

Three areas have been identified by the mission as short-term priorities to strengthen the management of guarantees:

- Ascertaining the existing stock of guarantees
- Defining a policy framework regulating the issuance of new guarantees
- Improving the transparency of guarantees and limiting their usage as a mean to finance extrabudgetary expenditure.

The exposure of Iraq to fiscal risks resulting from the guarantees needs to be fully assessed. Various government entities and individuals have issued various types of guarantees in the past 15 years. Some data and information on outstanding guarantees exist, but they are not systematically aggregated and are unlikely to be exhaustive, especially the domestic. The understanding of the specific risks from guarantees seems to be limited. To ascertain the government's exposure to risks from guarantees, a comprehensive guarantees registry should be developed. All relevant stakeholders should be required to provide information on guarantees and corresponding claims to the Ministry of Finance. The Government needs to develop capacity and dedicate time and resources to understand the risks it is taking when guaranteeing certain transactions. Dedicated staff at the Ministry of Finance should develop the required capacity over time. The legal status of all guarantees should be clarified and guarantees with no legal basis voided.

To further strengthen controls on the issuance of new guarantees, a policy framework should be developed. The new framework for issuing government guarantees, resulting from the General Financial Management Law (GFML), approved by the Council of Representatives in May 2019, is sound in respect of transparency and involvement of both the legislature and the executive branch of government in the process. Nevertheless, a policy framework regulating under what conditions a guarantee could be issued has not been defined yet. This framework should include: mandatory risk assessment before a guarantee can be issued, minimum requirement of the beneficiary to be supported by a loan guarantee, affirmation of the authority of the Minister of Finance to issue guarantees, rules related to the duration of a guarantee, and risk-sharing mechanisms with the lender.

Capacity to assess fiscal implications of guarantees should be developed in a pragmatic manner. Risks are not assessed before new guarantees are issued or to monitor the evolution of risks of the existing ones and capacity to undertake such analysis is low. Nevertheless, new guarantee proposals should be assessed before issuance to understand their fiscal implications. Initially, the risk assessment may be simple, using expert judgement and only a few criteria to arrive at a ranking of risks. Over time, the risk assessment should be based on a standardized methodology, implemented by dedicated staff at the Ministry of Finance. Insights from the risk assessment can be used to design risk mitigation measures.

Measures to mitigate risks arising from guarantees should be developed. Guarantee limits have been set in the budget law in recent years, but they have not been adhered to. The Government does not systematically use any risk mitigation measures. As foreseen by the GFML, future budget laws should set limits for all guarantees and the limit should be adhered to. The Government should explore measures to improve its ability to recover payments made for materialized guarantees and include in formal guarantee agreements obligations on guarantee beneficiaries aimed at mitigating risks. These obligations should include the reimbursement of payments made by Government but also reporting requirements vis-à-vis the Government to allow for regular monitoring of guarantees

The GFML should contribute to a better integration of guarantees within the overall budget management. In some instances, guarantees have been used to overcome budget and financing constraints and are similar to extrabudgetary expenditure. Called guarantees are treated as financing operation. The GFML includes provisions aimed at improving the integration of guarantees within the budget. To ensure transparency and effectiveness of the budget choices, the issuance of guarantees should be fully integrated into the budget, as foreseen by the GFML. Adequate provisions should be included in the budget for ensuring the State's ability to make payments as and when a guarantee is called. The budget documentation should provide enhanced disclosure on guarantees.

Information related to guarantees remains very limited, impairing any active management of related fiscal risks. The GFML introduces improved disclosure requirements and foresees that the Ministry of finance will be responsible for the recording of guarantees. The effective implementation of the GFML should improve the information on guarantees but will require an overhaul of the recording and monitoring procedures. The legal mandate to the Ministry of Finance to ensure the centralization of information on guarantees should be complemented by the authority to require detailed information from all parties to the guarantees. To support risk monitoring, reporting, and management, the guarantees registry needs to be maintained and updated regularly.

Discussions related to extrabudgetary funds (EBFs) highlighted the need to undertake their systematic identification and classification, based on international standards. Identifying and monitoring the EBFs should improve the soundness of fiscal analysis and fiscal policy formulation but also accountability. In addition, improved disclosure on EBFs should support enhanced budget transparency.

The report proposes a detailed work program to strengthen the management of guarantees. The IMF stands ready to support its implementation in the limit of its available resource.

GUARANTEES MANAGEMENT

A. Introduction

1. **Iraq is substantially exposed to fiscal risks related to guarantees issued by the State.** In 2016, in the context of the shocks resulting from the conflict with the Islamic State of Iraq and Syria (ISIS) and the drop of oil prices, the government started to expand significantly the issuance of guarantees, mostly to support investment in the electricity sector, but also military purchases, direct lending by state-owned banks to private sector infrastructure and agriculture projects, and the repair of the Mosul dam. Moreover, during 2009-2011, guarantees have been issued by various authorities and the Ministry of Finance has limited information on them and the related fiscal risks.

2. **In 2017, the Debt Directorate of the Ministry of Finance completed a survey of guarantees issued by the central government.** At end-June 2017, the stock of guarantees related to foreign currency service payments and debt amounted to USD 21.7 billion (12 percent of GDP)—USD 19.4 billion for service payments to independent power producers (IPPs) by State-owned electricity companies and $2.3 billion for debt.

3. **In 2017, the Council of Ministers approved a set of procedures to tighten controls on the approval of State guarantees.** Key measures included a formal assessment process of guarantee requests by the executive and improved disclosure of new guarantees within the annual budget law.

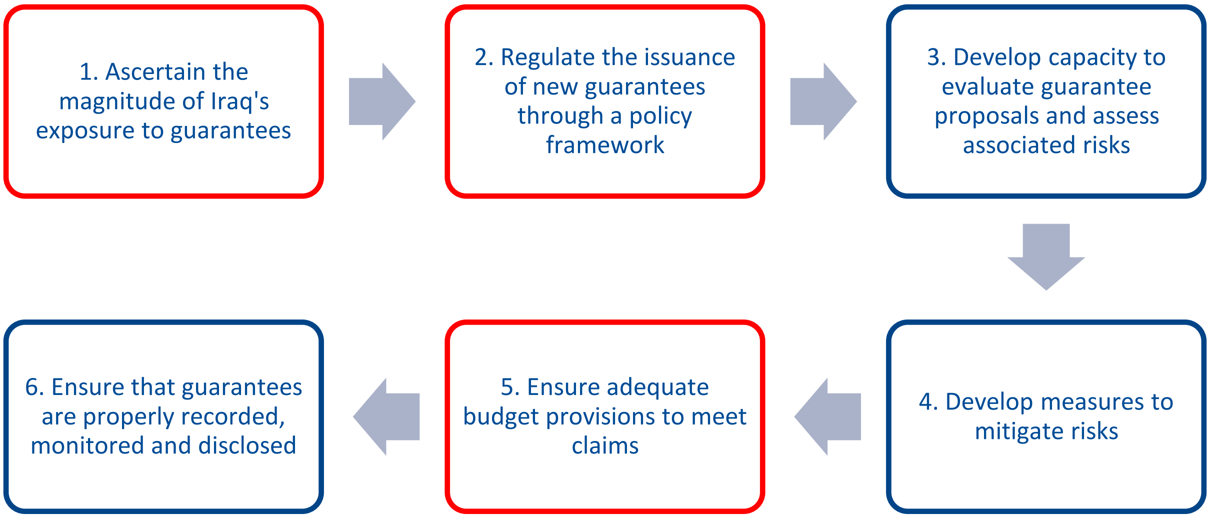
4. **Nevertheless, misreporting cases highlight the need to further strengthen capacities and institutional arrangements to effectively identify and monitor the fiscal implications of guarantees, including in the context of EBFs' operations.** The State guarantee on a debt of 1.4 percent of GDP contracted by the National Investment Committee (NIC) 2013 and 2016 for a housing project in the city of Bismayah was not included in gross public debt at end-December 2016. In addition, the authorities recently identified (i) five additional guarantees representing 0.8 percent of GDP that were not disclosed previously and (ii) the approval of a guarantee that did not follow the 2017 procedures. After the end of the war with ISIS, there is strong pressure from line ministries for the issuance of guarantees to circumvent the budgetary constraints.

5. **Among the six key areas to strengthen the management of guarantees, three have been identified by the mission as short-term priorities (cf. Figure 1):**

- Ascertaining the magnitude of Iraq's exposure to guarantees requires gathering relevant data and developing a guarantee registry;
- Defining a policy framework regulating the issuance of new guarantees should clarify the objectives of guarantees and protect the interest of the State when it enters into guarantees agreement;

- Ensuring adequate budget provisions to meet claims should improve the transparency of guarantees and limit their usage as a mean to finance extrabudgetary expenditure.

Figure 1. Proposed Approach to Strengthen the Management of Guarantees



Source: Mission

B. Ascertain the Magnitude of Iraq's Exposure to Guarantees

Situation

6. **Various government entities and individuals have issued various types of guarantees in the past 15 years.** Guarantees issued include loan guarantees to State-Owned Enterprises (SOEs), extrabudgetary funds (EBFs) such as the Housing Fund and borrowing of project companies; guarantees of power purchase agreements (PPAs) between independent power producers and state-owned electricity companies; and guarantees on letters of credit. Guarantees have been issued under domestic law to Iraqi beneficiaries (domestic guarantees) and under British law to foreign investors (foreign guarantees). Historically, guarantee issuance has not been centralized and various officials from the Ministry of Finance, the Minister of Finance, and the Council of Minister have issued them.

7. **Some data and information on outstanding guarantees exist, but they are not systematically aggregated and are unlikely to be exhaustive.** The Public Debt Office has aggregated information on foreign guarantees.[1] Information on domestic guarantees is dispersed. Despite prolonged efforts, the Public Debt Office has not been successful analyzing the exposure from domestic guarantees. The Public Debt Office has previously focused on loan

[1] The Director General of the Public Debt Office has shared a list of foreign guarantees (called sovereign guarantees by Iraqi officials) with the mission team. The translation to English was available after the completion of the mission and is included in annex 2 of this report.

guarantees to SOEs and project companies, and to some extent guarantees resulting from PPAs. Awareness of other guarantees is limited.

8. **The understanding of the specific risks embedded in guarantees may be limited.** The Ministry of Finance has not analyzed existing guarantee agreements in detail. Moreover, some guarantees have apparently been issued without clearly stated terms (e.g. not limiting the maximum amount guaranteed or the duration of the guarantee). The authorities' understanding of the structures of guarantee agreements may also be limited (e.g. authorities suggested that a guarantee was issued to benefit General Electric (GE) as the borrower).[2]

Analysis

9. **To ascertain the government's exposure to risks from guarantees, a comprehensive guarantees registry should be developed by the Ministry of Finance.** A guarantees registry should capture all relevant information related to basic guarantee characteristics (e.g. type of guarantee, beneficiary, duration, etc.), risk exposure (e.g. amount authorized, amount outstanding, risk factors that may trigger guarantees, etc.), and the performance of the guarantee (e.g. payments made by government). Annex 1 presents a template discussed with authorities during the mission. To provide a holistic overview of risk exposure, the guarantees registry should include all types of guarantees issued by the Government, not only loan guarantees (e.g. domestic and foreign; to all types of beneficiaries such as SOEs, foreign investors, and EBFs; and types of risks guaranteed such as debt payment, termination of projects, payment for electricity, etc.).

10. **All relevant stakeholders should be required to provide information on guarantees and corresponding claims to the Ministry of Finance.** To be comprehensive and up to date, the Ministry of Finance will have to engage with relevant stakeholders (e.g. line ministries, subnational governments, EBFs, SOEs, banks, and the Central Bank) to collect information, particularly on legacy guarantees issued before entering into force of the Council of Ministers Decision No. 203 of 2017. The Ministry of Finance should also consider mechanisms to ensure information on outstanding guarantees and claims from materialized guarantees are reported in due time (e.g. by requiring reporting within a specific period to uphold their legitimacy).

11. **To understand the specific guarantees, capacity needs to be developed at the Ministry of Finance, supported by third parties.** Guarantee arrangements can be complex, particularly in the context of project finance and public private partnerships. Investors typically dedicate significant resources in structuring risk sharing agreements. As their counterparty, the Government needs to develop capacity and dedicate time and resources to understand the risks it is taking when guaranteeing certain transactions. Dedicated staff at the Ministry of Finance

[2] Given's GE's creditworthiness is significantly above that of the Government of Iraq, this is unlikely. Rather, GE may be a project sponsor and the borrower a legally separate project company. Further analysis by the mission team has not yet been possible due to the unavailability of a guarantee agreement in English.

should develop the required capacity over time.[3] To support capacity building and assess risks of existing guarantee arrangements, the Government could require expert advice from third parties.

12. **The validity of all guarantees should be clarified and voidance of guarantees with no legal or contractual basis should be pursued.** Following the collection of information on all guarantees and their analysis (paragraphs 10 and 11), the Government should clarify which guarantees are still valid and act to void or dispute guarantees without legal or contractual basis.[4]

Recommendations

13. **Recommendation 1.** Develop, complete, and maintain a comprehensive registry of government guarantees. (General Director Debt Management; January 2020)

14. **Recommendation 2.** Require all relevant stakeholders to report to Ministry of Finance on existing guarantees and corresponding claims. (General Director Debt Management; September 2019)

15. **Recommendation 3.** Clarify the validity of guarantees and dispute or pursue the voidance of guarantees with no legal or contractual basis. (General Director Debt Management; March 2020)

C. Regulate the Issuance of New Guarantees Through a Policy Framework

Situation

16. **The new framework for issuing government guarantees is sound in respect of transparency and involvement of both the legislature and the executive branch of government in the process.** According to the new GFML, approved by the Council of Representatives in May 2019, all guarantees to be issued during a fiscal year must be listed in the budget proposal and approved by the Council of Representatives. Within these limits, only the Minister of Finance, after approval by the Prime Minister, may issue those guarantees and sign the guarantee contracts. The Minister of Finance may collect fees from the beneficiaries of guarantees, and if so, the fees shall be set according to the credit risk level. The Ministry of Finance shall keep records of the guarantees, which include "*guarantees of loans and debts, letters of credit, counter-guarantees, credit commitments, and other contingent credit facilities*"[5].

[3] Skills include an understanding of the financial terms of guaranteed transactions such as loans; a legal understanding of guarantee agreements; an understanding of the sectors in which guarantee beneficiaries are operating; and English language.

[4] Anecdotally, guarantees issued with a maturity of 2 years have been claimed by creditors only much later (up to 10 years). The validity of such claims needs to be assessed carefully.

[5] Article 39 of the General Financial Management Law

17. **Nevertheless, a policy framework regulating under what conditions a guarantee could be issued has not been defined yet.** This policy framework should preferably include the allowed purposes for which guarantees can be issued, minimum requirements on the economic and financial standing of the beneficiaries to be supported by guarantees, requirement to assess the risk, obligations by the beneficiary to reimburse the government for any payments under the guarantee, and obligations by the lender towards the guarantor (the government). This policy framework should also regulate in more detail the process for issuing, recording and monitoring the guarantees, and the role of the Public Debt Department of the Ministry of Finance in this process.

Analysis

18. **A requirement to always assess the risk before a guarantee can be issued should be at the forefront of the policy framework.** Currently, no risk assessment is required before the issuance of a guarantee, nor as part of reports on outstanding guarantees. Risk assessment of guarantees is key to avoid future budget shocks, determine the guarantee fee to be paid by the beneficiary, and better understand the fiscal risk in general.

19. **There are no minimum requirements for the beneficiary of loan guarantee.** The mission team was informed that some beneficiaries had a weak economic and financial standing at the outset, which made it very likely that the beneficiary will default and therefore the government would be called to make the payments under the loan. Moreover, possibilities for recovery under the subrogation and indemnity rights against the beneficiary will also be negligible. In some cases, new guarantees have been issued to support beneficiaries that still owed the government large sums for payments under old guarantees that had been called.

20. **The framework should clearly affirm the sole authority of the Minister of Finance to issue guarantees.** The procedures for issuing guarantees that was introduced in 2017 by the Council of Minister's Decision No. 168 were not always followed. To assure a strict adherence to the new framework, the new regulation should include a paragraph stating that the government shall not be bound by the terms of any guarantee issued in respect of any obligation otherwise than by or under the authority of the Minister of Finance.

21. **The duration of a guarantee should be clearly defined.** Examples given to the mission team included cases when the guaranteed loan had been rolled over without the approval of the Ministry of Finance. Because of unclear wording of the guarantee, it was uncertain whether the guarantee covered the new loan or not. To avoid this confusion, each guarantee to be issued should include an explicit end date.

22. **In case of loan guarantees, risk-sharing should be developed to both limit the exposure of the government and assist in its risk assessment.** It is relatively common to guarantee only a part of the underlying loan, e.g. 80 percent of the loan amount. The advantages of this policy are that the risk is shared between the government and the lender, and thus limits the exposure of the government. Another advantage is that the government will be informed

how the market assesses the credit risk, provided that the lender effectively bears its part of the risk, and any losses are sustained proportionally and in the same way by the lender and the government.

Recommendations

23. **Recommendation 4.** Draft a Regulation on Federal Government Guarantee Issuances and Guarantee Management, to be approved and issued by the Council of Ministers (General Director Debt Management, May 2020).

24. **Recommendation 5.** Consider the following to be included in this Regulation General Director Debt Management, December 2019 for the initial draft of the regulation):

a. Guarantees only to be used to promote economic development, including development of disadvantaged regions, promotion of small and medium enterprises, and correction of market failure where creditworthy borrowers may not have access to credit markets. Another allowed purpose would be to strengthen the security of Iraq;

b. Requirement to assess the risks of planned guarantees before they are issued, to frequently monitor the risk level of outstanding guarantees, and to charge the beneficiaries annual guarantee fees to be set according to the credit risk level;

c. The guarantee agreement to include a clear commitment by the beneficiary to reimburse the government for all payments under the guarantee, an authorization given by the beneficiary to the Government to make a direct transfer from any bank account of the beneficiary to the Government when collecting its recourse claim, undertaking by the lender to immediately inform the Ministry of Finance of any delays by the borrower in servicing the loan, and no right of the lender to accelerate repayment of the loan without the approval of the Ministry;

d. Clarification that under no circumstances shall letters of intent, letters of comfort or similar letters, or approval by the government of any borrowing to be undertaken by another entity, be considered a government guarantee or any other form of legal undertaking of the government;

e. In case of any doubt (which need to be checked by an Iraqi legal expert), clarification that only the Minister of Finance is mandated, with the approval of the Prime Minister, to issue guarantees within the limits set in the annual federal budget law;

f. All reports on outstanding government guarantees to be prepared and delivered according to the General Financial Management Act must include a risk assessment of those guarantees;

g. All new guarantees that are not issued in accordance with the legal framework for issuing federal government guarantees render them null and void;

h. Clarify to whom the Minister of Finance can delegate his/her power to issue guarantees and sign the guarantee contracts;

i. Clarify that the guarantor (Ministry of Finance) must check and approve the financial terms of the loan agreement;

j. All guarantees must include end dates;

k. As a rule, only partial loan guarantees to cover not more than 80 percent of the loan shall be issued, with possible exceptions clearly defined[6];

l. No new guarantees shall be issued to entities in financial difficulty (to be defined), and to an entity that has not reimbursed the federal government for old guarantees that were called; and

m. Transitional provisions, e.g. due to needed capacity building, the requirement to assess the credit risks in loan guarantees can probably not come into force before January 1, 2021.

D. Develop Capacity to Evaluate Guarantee Proposals and Assess Associated Risks

Situation

25. **Risks are not assessed before new guarantees are issued or to monitor the evolution of risks of the existing ones.** Authorities' perspective on the likelihood of guarantees materializing is based on an intuitive judgement informed by past events. The likelihood of SOEs failing to repay guaranteed debt is viewed at 100 percent.[7] For guarantees to foreign investors,

[6] Due to the current political and economic situation of Iraq, such a mechanism may not be enforceable in the short term. The recommendation should be considered as medium-term objective.

[7] The failure of an SOE to repay guaranteed debt, however, does not necessarily lead to guarantees being called. Authorities suggest that public banks (particularly Rafidain and Rasheed) lending to SOEs have in the past claimed recourse from the government with significant delays only. Recently, public banks have brought forward old claims against the government for materialized guarantees due to the Central Banks pressure on banks to clean up their balance sheets (and hence either write down non-performing assets or claim recourse from the government in the case of guaranteed loans).

the likelihood of guarantees materializing is perceived to be lower, but no explicit assessment has been made.

26. **The capacity for analyzing guarantee proposals is low.** Not only do staff at the Ministry of Finance lack capacity to understand risks incurred in existing guarantee agreements as discussed in section I.B., but capacity to analyze proposals for new guarantees is also absent. Staff have not been accustomed to or trained in undertaking forward-looking risk assessments offering insights into the likelihood of risks materializing over the lifetime of proposed guarantees.

27. **The current practice of the guarantee committee established by the Council of Ministers Decision No. 168 of 2017 has been to recommend guarantee issuance based on high-level views.** Sub-section 3 of article II of the decision requires the committee to "*Establish and submit a list of priorities for sovereign guarantees to the Prime Minister for approval and subsequent submission to the Council of Ministers for ratification*." The committee has complied with this requirement in preparation of budget laws for 2018 and 2019. The practices have been to decline requests for the issuance of domestic guarantees but to support the issuance of guarantees to foreign investors financing projects. This practice has been based on the general view that guarantees should not be used to support spending of SOEs (particularly recurrent spending) on the one hand and that attracting foreign investment is important for the Iraqi economy on the other.

Analysis

28. **New guarantee proposals should be assessed before issuance to understand the fiscal risks and implications of new guarantees.** Guarantees often commit governments to potential obligations for long periods of time (often linked to the underlying transaction being guaranteed which may be up to 30 years or even longer). Once issued, governments' ability to mitigate risks becomes more limited. Before issuance is when governments' have the most significant ability to mitigate risks, either by deciding not to issue guarantees or by designing risk mitigation measures in guarantee agreements (see section I.C.). Sound risk assessment helps governments make more informed decisions about which risks to underwrite and how to mitigate them.

29. **Over time, the risk assessment should be based on a standardized methodology.** Initially, the risk assessment may be simple. Risks may be assessed using expert judgement and only a few criteria to arrive at a ranking of risks (such as low, moderate, and high risk). As staff gain experience, a risk assessment methodology may be developed. A credit rating methodology may be appropriate.[8] The methodology should be codified in a methodology paper to improve sustainability and comparability, and to reduce subjectivity in risk assessments.

[8] Several other governments have developed credit rating methodologies when assessing risks from government guarantees, including Ghana, Indonesia, South Africa, Uganda, and others.

30. **To undertake a sound risk assessment, capacity of dedicated staff at the Ministry of Finance needs to be built.** Complementary to capacity building required for maintaining a guarantee registry and understanding risk exposure (discussed in paragraph 12), dedicated staff need to develop capacity to assess the likelihood of risks materializing. Such assessment requires not only the ability to understand the specific risks incurred in a guarantee but also to make a forward-looking assessment of the ability and willingness of the guarantee beneficiary to honor its obligations (and hence the likelihood of the government having to step in to meet the guarantee beneficiary's obligations). Staff will require on-the-job and formal training in various areas, including accounting, corporate finance, the legal implications of guarantee contracts, risk management, and sector knowledge.

31. **Insights from the risk assessment can be used to design various risk mitigation measures.** To contribute to sound public finances, risk assessments need to be used to mitigate risks. For example, the Government may use the outcome of risk assessments to set eligibility criteria for new guarantees (as in Turkey where entities rated below a certain level are ineligible for benefitting from new guarantees); set risk-based guarantee fees (as in Colombia, the Philippines, Sweden, and Thailand); determine partial guarantee coverage (as in Turkey where higher-risk entities receive a lower guarantee coverage); provision for potential losses in the budget (as in the USA); determining contributions to a guarantee reserve fund (as in Colombia, Sweden, and Turkey); etc.

Recommendations

32. **Recommendation 6.** Assess the fiscal risks and implications of new guarantees before they are issued. (General Director Debt Management; June 2021)

33. **Recommendation 7.** Build capacity and develop a standardized methodology for risk assessment. (General Director Debt Management; December 2020)

34. **Recommendation 8.** Use insights from risk assessment to design risk mitigation measures. (General Director Debt Management; June 2021)

E. Develop Measures to Mitigate Risks

Situation

35. **Guarantee limits have been set in the budget law in recent years, but they have not been adhered to.** The 2019 budget law includes three guarantees to foreign investors. Also, the 2018 budget law specified individual guarantees. Budget laws set exposure limits for each individual guarantee. However, budget laws have not included reference to any domestic

guarantees.[9] Domestic guarantees have been issued beyond guarantees specified in budget laws and have been authorized by the Ministry of Finance (and various individuals on behalf of the Ministry) or the Council of Ministers.

36. **According to the 2019 GFML, the Minister of Finance may charge guarantee fees, but no fees have been charged yet.** The law provides that "[t]*he minister of finance may collect fees from the beneficiaries of guarantees. The fees shall be set according to the credit risk level."* Until now, authorities have refrained from charging guarantee fees to SOEs due to their weak financial situation, and from charging fees to foreign lenders/investors due to the assumption that guarantee fees will add to project costs and hence may make investment less likely. In the absence of the capacity to assess risks from guarantees (discussed in section I.D.), it is unclear how the Government could set fees "[…] *according to the credit risk level*".

37. **The Government does not systematically use any other risk mitigation measures.** Risk mitigation measures used in other countries but not in Iraq include guarantee reserve funds, collateral, deductibles, partial guarantees and others. Authorities suggested that for some guarantees the maximum amount guaranteed and the duration of guarantees is not specified. When guarantees materialize, the Government has no process in place to attempt to recover payments made.

Analysis

38. **Future budget laws should set limits for all guarantees and the limit should be adhered to.** The 2019 GFML does not distinguish between domestic and foreign guarantees. Both types of guarantees create fiscal risks and may be treated similarly. However, it does not include all types of government guarantees.[10] In addition to the guarantees covered in the GFML the Government has issued other guarantees, including those related to PPAs. As all types of guarantees create contingent liabilities and fiscal risks, limits should be set comprehensively.

39. **The Government should explore measures to improve its ability to recover payments made for materialized guarantees.** Recovering payments made can help mitigate the fiscal costs of guarantees and reduce moral hazard by the guarantee beneficiary. Governments around the world have found it difficult to recover payments made, particularly if

[9] This seems in violation of the Council of Ministers Decision No. 168 of 2017 requires *"[t]he list of guarantees approved by the Council of Ministers shall be added to the draft Federal Budget Law of the Republic of Iraq for the coming year, in a manner that is consistent with the sustainability of public debt and in accordance with the government's fiscal policy*." The Council of Ministers Decision, however, refers to "sovereign guarantees" which are interpreted by authorities to pertain to guarantees issued to foreign investors only. Going forward, Article 39 of the GFML 2019 clearly requires that "[t]*he minister of finance may, with the approval of the prime minister, issue guarantees within the limits established in the general federal budget law*."

[10] Article 39 of the law states that "[t]he guarantees mentioned in subparagraph (a) of this paragraph shall include guarantees of loans and debts, letters of credit, counter-guarantees, credit commitments, and other contingent credit facilities."

guarantee beneficiaries have been public sector entities. Based on successful experiences in other countries, the Government may consider declaring entities with outstanding arrears to Government ineligible for future government support (including guarantees); deducting claims from transfers to guarantee beneficiaries (e.g. reducing recurrent subsidies to SOEs or subnational governments by the amount owed to Government); liquidating collateral if available; and entering into a restructuring agreement with the guarantee beneficiary.

40. **The Government's guarantee policy should clearly define risk mitigation measures.** To reduce ambiguity and the excessive use of exemptions, the regulation for new guarantee issuance recommended in section I.C. can define in detail how risk mitigation measures are to be used for new guarantees. For example, the regulation can specify the Government's guarantee fee policy.

41. **Obligations on guarantee beneficiaries aimed at mitigating risks should be included in formal guarantee agreements.** To support enforceability, risk mitigation measures defined in government regulation are to be specified in individual guarantee agreements, particularly if guarantees are issued under foreign jurisdictions. Obligations on guarantee beneficiaries should include the repayment of payments made by Government as discussed above, but also reporting requirements vis-à-vis the Government to allow for regular monitoring of guarantees.

Recommendations

42. **Recommendation 9.** Set binding limits for all guarantees in future budget laws and establish the necessary mechanisms to enforce them. (Director Budget; November 2019)

43. **Recommendation 10.** Define risk mitigation measures in the Government's guarantee policy (e.g. recovery of payments made, guarantee fees, time and value limits, etc.). (General Director Debt Management; May 2020)

44. **Recommendation 11**. Include obligations on guarantee beneficiaries aimed at mitigating risks in guarantee agreements. (General Director Debt Management; June 2020)

F. Ensure Adequate Budget Provisions to Meet Claims

Situation

45. **In some instances, guarantees have been used to overcome budget and financing constraints and are similar to extrabudgetary expenditure.** Domestic guarantees have been issued to support the financing of investment and recurring expenditure, including wage bill, of SOEs. In addition, there were no expectations these SOEs would be able to comply with the reimbursement schedule of the guaranteed loans as they were not generating enough cash flows. These loans were mostly provided by public banking sector. In general, in case of default, guarantees were not called by the public banks and are still part of their balance sheets. In this context, public banks conducted quasi-fiscal activities by funding SOEs operations. Direct

subsidies or capital injection would have been more transparent and less risky in most of the examples of domestic guarantees discussed during the mission.

46. **Called guarantees are treated as financing operation.** When a guarantee is called, the State's payments do not appear in the budget. They are considered as an advance that might be reimbursed, even though the likelihood of any reimbursement seems very low with due regards to the financial position of public corporations outside the oil sector. As a result, these payments are not reported as budget expenditure, limiting the transparency of the budget implementation. No systematic assessment of the stock of advances have been undertaken. The GFML will have a direct impact on this practice as its article 17 provides that *"[…] advance payments made by a spending unit in a specific fiscal year must be settled during the same fiscal year. Otherwise, the settlement of such payments shall require allocations from the budget of the following fiscal year*". Nevertheless, the regularization of the existing stock of advances may require a multi-year approach with due regards to the limited budget space.

47. **The GFML includes provisions aimed at improving the integration of guarantees within the budget.** At this juncture, guarantees for which a payment is certain next year are not included in the budget. Art 39.3.b of the GFML provides that "*The general federal budget shall include provisions to cover the realization of the guarantees* […]" but regulations to implement this principle are not yet defined. In addition, the GFML foresees that a global contingency line (max 5percent) to cover unforeseen or urgent expenditure shall be included in the budget[11] to "*cover contingency or unexpected expenditures incurred after the general federal government budget law is legislated*", which might be used to cover unexpected guarantee calls.

Analysis

48. **To ensure transparency and effectiveness of the budget choices, the issuance of guarantees should be fully integrated into the budget, as foreseen by the GFML.** Government policies and activities are financed through a limited set of resource. In this context, decisions about cash spending and guarantees should be made jointly as a part of a comprehensive budget. Guarantees should be an explicit budget choice rather than be used to circumvent budget controls or create short-lived budgetary space.

49. **Adequate provisions should be included in the budget for ensuring the State's ability to make payments as and when a guarantee is called.** Payments expected during the budget year from call of guarantees should be estimated during the budget preparation process and appropriated through the annual budget. These appropriations should be included in a specific budget line (e.g. "Guarantees Called"). In a context of limited capacity, a simple mechanism could be set up to define the amount to be provisioned:

[11] Article 8.2.d of GFML: "*The contingency reserve for the fiscal year for unexpected contingencies that arise after the general federal budget law is issued. The contingency reserve must not exceed 5 percent of total estimated current and investment expenditures allocated in the general federal budget*."

- 100 percent of the expected disbursement for guarantees known to be triggered,
- 100 percent of the expected disbursement, as a precaution, or the estimated probability of being called when the probability is above 50 percent but not certain,
- When the probability is below 50 percent, the global contingency line of the budget should cover the risk.

50. **The budget documentation should provide enhanced disclosure on guarantees**. Budget documents should provide (i) details on the existing guarantees for information, (ii) details on new guarantees to be issued during the budget year for approval by Parliament, (iii) the list of guarantees expected to be called, and (iv) the explanation of the methodology for setting appropriations related to guarantees. In addition, to ensure fiscal transparency, the information related to guarantees should be published in accordance with the practices defined by the IMF's Fiscal Transparency Code (see table 1).

Table 1. Iraq: Level of Practices for Guarantees Disclosure in the Budget Documents

Principle: The government's guarantee exposure is regularly disclosed and authorized by law.

Basic Practice	Good Practice	Advance Practice
All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and their probability of being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.

Source: Fiscal Transparency Code, IMF (2014)

Recommendations

51. **Recommendation 12.** When there is no expectation that a called guarantee will be reimbursed to the State, it shall not be presented as a financing transaction but as an expenditure and be included in the budget (General Director Debt Management, September 2019).

52. **Recommendation 13.** Called guarantees that are known to trigger disbursements during the next year should be included in a specific budget line for 100 percent of the expected disbursement (General Director Debt Management, September 2019)

53. **Recommendation 14.** Guarantees for which the risk of being called is assessed to be above 50 percent should be provisioned in a specific budget line, with the amount to be provisioned equivalent to the expected probability (e.g. 75 percent) or to 100 percent (as a precaution) (General Director Debt Management, September 2019).

G. Record, Monitor, and Disclose the Guarantees

Situation

54. **Information related to guarantees remains very limited, impairing any active management of related fiscal risks.** As discussed in Section B, no registry centralizing the information on guarantees granted by the State of Iraq is yet available and rules should be set to ensure that such a registry, once established, would remain exhaustive and up to date. Basic disclosures required by the Fiscal Transparency Code are not achieved as an exhaustive list of government guarantees, their beneficiaries, and the gross exposure created by them are not published at least annually. No information is available regarding the performance of guarantees until they are triggered, limiting *de facto* any proactive management of fiscal risks. No institutional arrangements have been set up yet to monitor the performance of guarantees.

55. **The GFML introduces improved disclosure requirements.** At the start of September of each year, a budget statement should be prepared and will include "*A list of all guarantees issued by the federal government*"[12]. Moreover, this statement should also include "*the fiscal risks facing fiscal policy in the coming period*". In addition, the federal financial statements shall be submitted to the Board of Supreme Audit by the end of April of the year following the end of the fiscal year and include "*a report on guarantees issued by the federal government during the fiscal year*" and "*a report submitted by the minister of finance on all loans and guarantees issued by the region, governorates not organized in a region, and governorate councils*".

56. **The GFML also foresees that the Ministry of finance will be responsible for the recording of guarantees**. Article 43 of the GFML requires the Ministry of finance to "*keep a record of the debts and guarantees of the federal government*". It also requires all public sector institutional units to keep track of the guarantees granted to them and report to the Ministry of Finance monthly[13].

Analysis

57. **The effective implementation of the GFML should improve the information on guarantees but will require an overhaul of the recording and monitoring procedures.** While the law defines general requirements, it should be complemented by detailed accounting

[12] Cf. Article 8 of the GFML

[13] Article 43.2 of the GFML: "*The region, governorates not organized in a region, and public companies shall keep a record of their debts and the domestic loans, short-term loans, and guarantees granted to them. The updated record with this information shall be submitted to the MOF at the end of each month*."

policies and procedures to ensure proper recording and reporting on guarantees. The contents of the various reports and statements must be defined. International standards, such as the IMF's Fiscal transparency Code, the 2014 GFSM, or the International Public Sector Accounting Standards (IPSAS) provide useful guidance in this regard.

58. **The legal mandate to the Ministry of Finance to ensure the centralization of information on guarantees should be complemented by the authority to require detailed information from all parties to the guarantees.** A procedure should be defined to ensure that all relevant information is transmitted to the ministry of finance to record the guarantees, update the information on a regular basis, and monitor related risks. As access to information is often challenging once the guarantee has been granted, reporting requirements could be included in the guarantee contract and be made mandatory by the guarantee policy framework.

59. **To support risk monitoring, reporting, and management, the registry needs to be maintained and updated regularly.** Staff at the Public Debt Office with adequate capacity should be dedicated to managing the registry. New guarantees should be recorded when issued and information on existing guarantees updated at least every 6 months (e.g. including the amount outstanding, the performance of the guarantee beneficiary, and any potential changes in guarantee agreement or the underlying transaction guaranteed). To manage the key person risk, at least two staff should have the required capacity to fulfill these tasks.

Recommendations

60. **Recommendation 15.** Define standardized report on guarantees to disclose all government guarantees, their beneficiaries, and the gross exposure created by them in the budget statement and the federal financial statements (Task Team, June 2020)

- Identify the variation of the outstanding stock of each guarantee over the last three years
- Identify the called guarantees and the amount actually paid
- Identify the amounts to be reimbursed to the State and their variation over the last three years

61. **Recommendation 16.** Update the guarantee registry when a new guarantee is issued (General Director Debt Management)

62. **Recommendation 17.** Undertake a systematic review of the registry at least every six months to ensure its accuracy (General Director Debt Management)

63. **Recommendation 18.** Over the medium term, build capacity to monitor the guarantees stock and identify related fiscal risks (General Director Debt Management)

EXTRA BUDGETARY FUNDS MANAGEMENT

64. **The mission briefed the delegation on key concepts and challenges related to the management of EBFs**. While the term EBFs covers various arrangements (see Box 1), the mission focused those whose financial transactions (i) represent activities of the central government sector and (ii) are not included in the annual State budget law. The mission stressed that while these EBFs can provide potential economic benefits and coexist with the budget in many countries, they need to be firmly controlled to ensure they do not undermine the credibility and coherence of the budget or increase fiscal risks.

Box 1. Typology of Extrabudgetary Funds

Although the term "extrabudgetary fund" seems self-explanatory, in practice it refers to a diverse and often complex set of arrangements. Introducing a meaningful definition and typology is helpful in clarifying the concept of EBFs and distinguishing their many different varieties.

Extrabudgetary transactions are the broadest concept and include all revenues, expenditures and financing transactions that are excluded from the budget.

Extrabudgetary accounts are the bank arrangements into which extrabudgetary revenues and expenditures are paid, and from which disbursements are made.

Extrabudgetary entities (or units) are organizations that are engaged in extrabudgetary transactions, have their own bank accounts and financial management procedures, and in some cases have a legal status that is independent of government ministries and departments.

Source: Managing Extrabudgetary Funds, Richard Allen, in The International Handbook of Public Financial Management, 2016

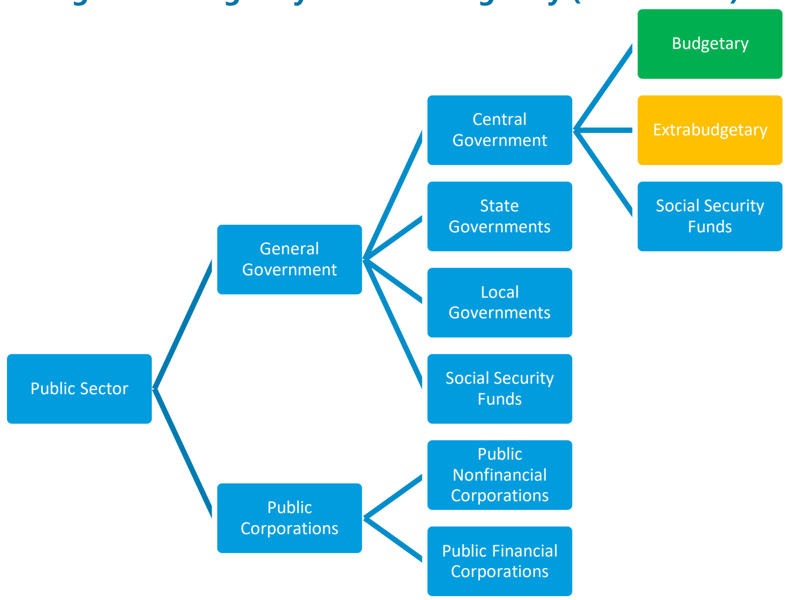
65. **The discussions highlighted the need to undertake a systematic identification and classification of EBFs, based on international standards.** A consistent classification of EBFs is important to ensure comprehensiveness of fiscal data and sound definition of fiscal targets. Nevertheless, no survey has been undertaken to classify the existing entities in accordance with the GFSM 2014. Such a survey would allow to focus on the economic characteristics of the entities rather than their legal form. Based on the discussions held during the mission, it is likely that some entities that are public corporations under the Iraqi law would be classified as EBFs under the GFSM 2014 definition, in addition to the few examples provided during the mission. Three key characteristics are used to define EBFs:

- They are government entities with a separate legal identity and substantial autonomy, including discretion over the volume and composition of their expenditures and a direct source of revenue, such as earmarked taxes;

- They are most often established to carry out specific functions (e.g., road construction or nonmarket production of health or education services);

- They satisfy the criteria to be an institutional unit.[14]

Figure 2. Budgetary vs. Extrabudgetary (GFSM 2014)



Source: GFSM 2014

66. **A few examples of entities that may be classified as EBFs have been discussed during the mission.** A typology based on the objectives of the EBFs was proposed to the Iraqi delegation to support the identification of potential EBFs. The list presented in table 2 is just illustrative and not exhaustive.

67. **Identifying and monitoring the EBFs should improve the soundness of fiscal analysis and fiscal policy formulation but also accountability**. As EBFs tend to be insulated from the regular budget process, limited information is available regarding their activities and the implications of those activities for the public finance. on the activities of EBFs. As a result, the assessment of the overall macroeconomic and fiscal position is distorted, especially for critical aspects such as (i) the size of the central government sector, (ii) its contribution to aggregate demand, investment and saving, and (iii) the tax pressure. Moreover, the EBFs could lead to the dilution of accountability and control as they tend to be subject to ad hoc financial management procedures and centralization of their fiscal data for reporting purpose could be challenging. In this context, a comprehensive list of EBFs should be prepared and classified in line with the concepts set out in the GFSM 2014 framework. Once data on EBFs becomes more reliable, it should be consolidated with other financial information generated by the government for the purposes of fiscal analysis and the presentation of information in fiscal reports.

[14] The GFSM 2014 defines an institutional unit as "*an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities*".

Table 2. Iraq: Examples of Potential EBFs in Iraq

Type of EBF	Potential EBF
Special-purpose funds	Newly established social security fund for private sector employees (contributions collected from employers and employee to a smaller degree and government contributions); extends loans to individuals (e.g. unemployed); large
	Pension fund for public sector employees (contributions = 10% salary deductions, 15% from budget); large
	Pension fund for war victims (= Martyr Fund)
	Higher education fund (contributions = fees collected at universities (e.g. adult education programs; fees for certificate issuance); funds operational costs of universities; small
	Environment (revenues =earmarked environmental taxes + fines for violation of standards (e.g. at slaughterhouses)); managed by Ministry of Health and Environment
	Police fund (small)
Development funds	Social development fund (law not yet ratified by gov't); financed with USD 300 million loan from World Bank (IDA); to support social programs to poor and vulnerable populations; working in 3 governorates;
	[until 2003] Development Fund
	"Refato" fund to reconstruct damaged areas affected by terrorism; funded with budget allocations -> not large amounts; loans contracted by government from WB at USD 750m, KfW at EUR 500m; fund has no borrowing authority; fund coordinates activities;
	Housing Fund; lends to citizens; partially financed by Ministry of Finance primarily and loans by Central Bank guarantee by MoF at 2% interest rate; charges 3-4% interest rates to borrowers; also borrows from commercial banks; Fund faces problems in servicing loans of Central Bank (maturity mismatch; CB lends for 5 yrs, Fund lends at 15 yrs); Central Bank loan is still in the grace period so gov't guarantee has not yet been called; MoF does not know about asset quality of Fund's loan portfolio; Fund's risk mitigation: either mortgage or credit default insurance (policies sold by 3 public insurance companies)
	Fund for the support of small farmers; doesn't seem to be functional; initially at Ministry of Agriculture then brought to MoF and Agriculture Bank (a public bank); [information available to mission limited]
Investment funds	None but a SWF is being considered (would have to be established in revenue-sharing law or oil law)
Contingent (reserve) funds	None. Only contingency reserve in budget
Stabilization funds	None
Sinking funds	Has been discussed for repayment of FX loans to IFIs and redemption of Eurobond but not implemented yet
Miscellaneous extrabudgetary accounts, including secret funds	None identified

68. **Improved disclosure on EBFs should support enhanced budget transparency**. The budget documents should provide information on the fiscal activities of the whole of the central government, including EBFs to ensure that stakeholders have a more complete picture of the fiscal operations. Including EBFs in the budget documentation could involve presenting information on their revenues, expenditures, assets, and liabilities for the information of the legislature, rather than including the expenditure of these entities in the appropriation bill for approval by the legislature. This approach would be consistent with the good practice as defined by the IMF's fiscal Transparency Code[15]. In addition, common requirements should be established for the classification of expenditure and revenue, accounting and reporting, internal control, and external audit, using either the budget system itself or comparable parallel procedures. The mission also encouraged the delegation to consider using the EBFs typology as a framework for collecting data on the main characteristics of their EBFs and reporting this information within the budget documents.

Recommendations

69. **Recommendation 19.** Prepare comprehensive list of EBFs classified in accordance with the concepts set out in the GFSM 2014 framework

70. **Recommendation 20.** Disclose in the budget documentation EBF's revenues, expenditures, assets, and liabilities for the information of the legislature

[15] Fiscal Transparency Code - Principle 2.1.1. Budget Unity – Good Practice: Budget documentation incorporates all gross revenues, expenditures, and financing by central government ministries, agencies, and extrabudgetary funds.

PROPOSED ROAD MAP FOR GUARANTEES MANAGEMENT

Category	Task	Responsibility	Accomplished by	Corresponding milestone	TA support
Ascertain guarantee exposure	Adopt template of guarantee registry (related to Recommendation 1)	General Director Debt Management	September 2019		No
	Collect information (including relevant documentation) about guarantees available in debt office (Recommendation 1)	General Director Debt Management	September 2019		No
	Analyze 1-2 sample guarantee contracts to understand specific risks borne by government (Recommendation 1)	General Director Debt Management	October 2019		Yes
	Populate guarantee registry with some (around 5) guarantees and review format of registry (Recommendation 1)	General Director Debt Management	October 2019		Yes
	Collect information about all guarantees from various stakeholders (ministries, SOEs, central bank, banks, agencies, EBFs etc.) (Recommendation 2)	General Director Debt Management	November 2019	All stakeholders have been requested to provide information about guarantees under their purview by September 2019	No
	Analyze in detail all guarantee contracts to understand government's risks (Recommendations 1 and 3)	Task team	January 2020		Yes
	Populate guarantee registry with all guarantees (Recommendation 1)	General Director Debt Management	December 2019	Guarantee registry fully populated by end of 2019	No
	Validate information in guarantee registry and clarify open issues (Recommendation 1)	Task team	January 2020		Yes
	Assign responsibility to officer(s) to maintain and update registry (Recommendation 1)	General Director Debt Management	January 2020		No

Category	Task	Responsibility	Accomplished by	Corresponding milestone	TA support
	Clarify legal status of existing guarantees (Recommendation 3)	General Director Debt Management	March 2020	Guarantees with questionable legal status identified by March 2020	Yes
Regulate new issuance	Prepare a draft Regulation on Government Guarantee Issuances, based on the new General Financial Management Law that was approved by Parliament in May 2019 (Recommendation 4).	General Director Debt Management	December 2019		Yes
	Draft outline of key provisions of guarantee contract (Recommendation 5)	General Director Debt Management	March 2020		Yes
	Submit the draft regulation to key stakeholders for comments (related to Recommendation 4)	General Director Debt Management	January 2020		No
	Consider the comments received, and prepare a final draft (related to Recommendation 4)	General Director Debt Management	March 2020		Yes
	Submit the final draft to the Cabinet for approval (related to Recommendation 4)	General Director Debt Management	April 2020	The Regulation is submitted	No
	Cabinet approves the draft Regulation (related to Recommendation 4)	General Director Debt Management	May 2020		No
Ensure adequate budgeting	Define the budgetary treatment of called guarantees (Recommendation 12 to 14)	Accounting, Budget, and Audit Bureau	September 2019		No
	Identify called guarantees that are known to trigger disbursements in 2020 (Recommendation 13)	General Director Debt Management	September 2019		No
	Identify guarantees for which the risk of being called is assessed to be above 50% but below 100% in 2020 (Recommendation 14)	General Director Debt Management	September 2019		No
	Provisions guarantees in the draft 2020 budget (Recommendation 14)	Budget	September 2019	The 2020 budget includes a provision for guarantees	No

Category	Task	Responsibility	Accomplished by	Corresponding milestone	TA support
	Include in the draft 2020 budget a list of guarantees issued by the federal government (Recommendation 15)	Debt, Budget	September 2019		No
Ensure proper recording, monitoring, and disclosure	Insert in the budget execution report the list of all government guarantees, their beneficiaries, and the gross exposure created by them (Recommendation 15)	Debt, Accounting, Budget	June 2020	The 2019 budget execution report includes an annex on guarantees	No
	Develop standardized periodic reports on guarantees and a schedule of publication (Recommendation 15)	Task Team	June 2020		Yes
Develop risk mitigation measures	Set overall limit on all guarantees in budget law and adhered to it (Recommendation 9)	Director Budget	November 2019	No guarantees have been issued in 2020 beyond authorization in budget law	No
	Specify obligations of guarantee beneficiaries to government (e.g. reporting requirements, repayment of materialized guarantees) in templates for guarantee agreements for new guarantees (Recommendation 11)	General Director Debt Management	March 2020		Yes
	Take measures to support government in recovering materialized guarantees and include them in guarantee agreements and regulation (Recommendations 5, 10 and 11)	Accounting	June 2020	Guarantee agreement signed between government and guarantee beneficiary with obligations on beneficiary	No
	Specify time and value limits in guarantee agreements (Recommendations 5 and 10)	General Director Debt Management	June 2020		No
	Set a guarantee fee policy (Recommendations and 10)	General Director Debt Management	April 2020		No
Evaluate guarantee proposals and risks	Assign officers with assessing new guarantee proposals (Recommendation 7)	General Director Debt Management	December 2019		No
	Build capacity of assigned officers to assess guarantee proposals (Recommendation 7)	General Director Debt Management	December 2020		Yes

Category	Task	Responsibility	Accomplished by	Corresponding milestone	TA support
	Submit simple risk assessment for new guarantees to guarantee committee established under Council of Ministers Decision No. 168 of 2017 (Recommendation 6)	General Director Debt Management	December 2020		No
	Develop methodology to systematically assess guarantee proposals and to monitor evolution of risks of existing guarantees (Recommendation 6)	General Director Debt Management	June 2021	Methodology paper to codify risk assessment methodology submitted for approval by June 2021	Yes
	Submit risk assessment reports based on approved methodology to guarantee committee (Recommendation 6)	General Director Debt Management	November 2021	New guarantee requests are evaluated taking into account risk assessment report by November 2021	No
	Set up a policy on how risk assessment will be used in designing risk mitigation measures (e.g. risk-based guarantee fees, budgeting, reserve fund, etc.) (Recommendation 8)	General Director Debt Management	June 2021		Yes

Annex I. Proposed Template of the Guarantees Registry

	Guarantee Characteristics								Risk exposure					Performance and risk mitigation				
Index	**Guarantee Scope**	**Guarantee beneficiary (guaranteed entity)**	**Counterparty of guarantee beneficiary (recipient of payment if guarantee materializes)**	**Date of issuance**	**Date of Expiration**	**Issuing authority and individual signing guarantee**	**Governing law of guarantees**	**Legal basis under which guarantee has been issued**	**Guaranteed amount authorized**	**Guaranteed amount outstanding**	**Risk factors that drive materialization of guarantee**	**Terms of guaranteed transaction**	**Risk assessment**	**Performance of guarantee**	**Revenues received by government**	**Payments made by government**	**Risk mitigation measures in place**	**Budget provision for risk materialization for current fiscal year**
1																		
2																		
3																		
4																		

Annex II. Information on Guarantees Provided by the Iraqi Delegation

A. Sovereign guarantees issued to the benefit of the Iraqi public companies

Guarantor		Beneficiary	Guarantee amount (IQD)	Remarks
1	Ministry of Finance	Rafidain Bank Rasheed Bank	9,046	Guarantees for the loans offered by Rafidain and Rasheed banks to the benefit of public State-owned companies in view of paying the salaries, pursuant to Council of Ministers Decisions No. (50) for the year 2011 and (409) for the year 2014
2	Ministry of Finance	Trade Bank of Iraq (TBI)	655	Loan guarantee of 600 million dollars to the benefit of the Ministry of Electricity since 2014, pursuant to Council of Ministers Decision No. 314 for the year 2014
3	Ministry of Finance	Central Bank of Iraq	3,000	Guarantee presented to the Central Bank to provide lending to private companies, knowing that what has been lent to date amounts to 2200 billion Dinar
4	Ministry of Finance	Rafidain Bank Rasheed Bank TBI	2,284	Guarantee of around 200 billion Dinar for the advances offered by the three banks to the benefit of the National Investment Commission
5	Ministry of Finance	Rasheed Bank	50	Guarantee to the benefit of the Ministry of Transportation for the preparation of designs for the construction of the Karbala Airport. Pursuant to Council of Ministers Decision No. 309 for the year 2009
6	Ministry of Finance	Rasheed Bank	85	Guarantee to the benefit of the Ministry of transportation for the preparation of designs for the construction of Al-Faw port, pursuant to Council of Ministers Decision No. 309 for the year 2009
7	Ministry of Finance	Rafidain Bank Rasheed Bank	92	Guarantee by equal shares from Rafidain and Rasheed banks for the housing loan, pursuant to Council of Ministers Decision No. 384 for the year 2012
8	Ministry of Finance	Rasheed Bank	200	Guarantee to the benefit of the Real Estate Bank for loans granted to citizens
9	Ministry of Finance	Rasheed Bank	3	Guarantee to the benefit of the Public company for Textile Industries to buy raw materials, pursuant to Council of Ministers Decision No. 67 for the year 2008
		Total	**15,415**	

B. Guarantees issued in USD in favor of the Ministry of Electricity's projects

Debt Guarantees

Guarantor		Beneficiary	Guarantee amount (USD)	Maturity date	Installment + interest	Remarks
1	Ministry of Finance	GE American company mpp1	366,359,016 $	30/9/2017 30/12/2017 30/3/2018 30/6/2018 30/9/2018 30/12/2018 30/3/2019 30/6/2019	45,794,876,99 45,794,876,99 45,794,876,99 45,794,876,99 45,794,876,99 45,794,876,99 45,794,876,99 45,794,876,99	Sovereign guarantee No. 924 issued on 5/5/2016 to ensure the settlement of the amount by the Ministry of Electricity in eight quarterly installments starting September 2017, upon completion of the maintenance works for power projects.
2	Ministry of Finance	GE American company mpp2	194,581,037 $	31/1/2018 30/4/2018 30/5/2018 30/7/2018 30/10/2018 30/1/2019 30/4/2019 30/7/2019 31/10/2019 31/1/2020	15,799,247,54 14,311,015,15 15,846,822,35 23,993,989,39 23,716,256,52 23,438,523,66 23,160,790,79 22,883,057,93 22,605,325,07 8,826,009,18	Sovereign guarantee No. 2466 issued on 28/12/2016 to ensure the settlement of the cost of maintenance and repair works for the projects of the Ministry of Electricity in eight quarterly installments starting March 2018; the guarantee amount was modified as per our letter No. 790 of 25/4/2018 to (194) million dollars.
3	Ministry of Finance	GE American company	15,039,383 $			Sovereign guarantee issued on 14/5/2017 to finance the importation of chemicals to operate power projects; the terms of the destination of the financing have not been agreed to date.
4	Ministry of Finance	GE American company Samawah & Dhi Qar	117,700,000 $	1/12/2019 1/6/2020	29,018,863 Samawah 29,018,863 Dhi Qar 29,748,869 Samawah 29,748,869 Dhi Qar	Sovereign guarantee No. 1064 issued on 14/5/2017 in favor of financing the project of the Samawah and Dhi Qar power plants.

	Guarantor	Beneficiary	Guarantee amount (USD)	Maturity date	Installment + interest	Remarks
5	Ministry of Finance	Habilitation of first and second units GE American company for the Khor Al Zubair plant	52,425,715 Euros	30/8/2018 30/11/2018 28/2/2019 30/5/2019 30/8/2019 30/11/2019 28/2/2020 30/5/2020	8,426,143,59 6,510,140,67 6,435,311,47 6,360,482,27 6,285,653,06 6,210,823,86 6,135,994,66 6,061,165,45	Sovereign guarantee No. 1062 issued on 14/5/2017 to ensure the financial liabilities for the habilitation of the Khor Al Zubair plant; the amount has been modified as per our letter No. 635 of 1/4/2018 to 52 million Euros
6	Ministry of Finance	GE American company Mullah Abdullah	101,200,000 $			Sovereign guarantee issued on 14/5/2017 to ensure the financial liabilities for the habilitation of the Mullah Abdullah plant, but has not done so far
7	Ministry of Finance Al Musayyib Plant	GE American company Al Musayyib Station	18,459,272 $	31/8/2018 30/10/2018 31/1/2019 30/4/2019 31/7/2019 30/10/2019 31/1/2020	5,259,116,23 2,265,894,94 2,239,547,33 2,213,199,71 2,186,852,10 2,160,504,48 2,134,156,66	Sovereign guarantee issued on 14/5/2017 to ensure the financial liabilities for the habilitation of Al Musayyib plant, equipment and installation of engines at Al Musayyib gas power plant / production of Al Furat Al Awsat (Central Euphrates)
8	Ministry of Finance	Qar company / Rmeileh gas power plant / Shatt El Basra gas power plant	2,250,000,000 $			Sovereign guarantee No. 181 issued on 27/1/2016 and No. 119 for a year on 14/12/2017
9	Ministry of Finance	Maysan for Energy	1,000,000,000 $			Guarantee issued as per Council of Ministers Decision No. 268 for the year 2018 to provide the Ministry of Electricity with 750 megawatts, Guarantee No. (1530) on 25/7/2018, Maysan Investment plant project

	Guarantor	Beneficiary	Guarantee amount (USD)	Maturity date	Installment + interest	Remarks
10	Ministry of Finance	Amarah company	200,000,000 $			Guarantee issued as per Council of Ministers Decision No. 268 for the year 2018; Guarantee No. (2609) on 23/12/2018, Amara Investment plant project / provision of (250) megawatts to the Ministry of Electricity
11	Ministry of Finance	Joud Energy Group	100,000,000 $			Sovereign guarantee issued on 15/5/2017 to ensure the liabilities of the Ministry of Electricity stemming from the provision of fuel by the said company to the Ministry of Electricity
12	Ministry of Finance	Legion contract with the Russian Armored brigade	559,263,435 $	1/6/2016 1/6/2020 1/6/2021	200,000,000 200,000,000 159,000,000	Sovereign guarantee of 559,263,435 issued on 29/11/2016 to ensure the liabilities of the Ministry of Defense towards the Russian party, and whose settlement begins on 1/6/2019 and ends on 1/6/2021; Guarantee No. (2255) on 29/11/2016
13	Ministry of Finance	STX South Korean company	125,000,000 $		With no interest	Financing, habilitating and operating of plants affiliated to the Ministry of Electricity: 450 megawatts in a month from the credit opening date, 765 megawatts in 4 months from the credit opening date. Guarantee No. 1809 on 20/8/2018, issued by the 2018 Budget Law, article 2 (the deficit), paragraph 17, and with the approval of the Prime Minister, upon our letter No. 1368 of 4/9/2018, knowing that the financing bank is Standard Chartered.

	Guarantor	Beneficiary	Guarantee amount (USD)	Maturity date	Installment + interest	Remarks
14	Ministry of Finance	Siemens German Company	105,215,897 Euros			Sovereign guarantee issued to finance the Rmeileh gas power plant and the Dawra / Rasheed gas power plant, with 48,410,482 Euros, Al Musayyib thermal plant and Kirkuk gas plant with 56,805,415 Euros, as per Council of Ministers Decision No. 165 for the year 2018; guarantee No. 2714 on 27/12/2017, knowing that the financing bank is Standard Chartered, with the guarantee of the German Export Guarantee Agency.
	Total		**7,924,160,997 US Dollars**			

Guarantees for Service Purchase

Guarantor	Beneficiary	Guarantee amount (USD)	Remarks
Ministry of Finance	Mass Group Holding	11,180,000,000	This guarantee was signed on 18/11/2015 as per Council of Ministers Decision No. 90 of 2014
Ministry of Finance	Shamara Holding group	11,180,000,000	This guarantee was signed on 9/7/2015 as per Council of Ministers Decision No. 90 of 2014
Ministry of Finance	Maysan Company	600,000,000	As per Council of Ministers Decision No. 268 of 2018, Guarantee No. (1530) on 25/7/2018
Ministry of Finance	Al Amarah Company	400,000,000	As per Council of Ministers Decision No. 268 of 2018, Guarantee No. (2609) on 23/12/2018
Total		**23,360,000,000**	