

COALITION PROVISIONAL AUTHORITY ORDER NUMBER 95

FINANCIAL MANAGEMENT LAW AND PUBLIC DEBT LAW

Pursuant to my authority as Administrator of the Coalition Provisional Authority (CPA) and under the laws and usages of war, and consistent with relevant U.N. Security Council resolutions, including Resolutions 1483 and 1511(2003),

Having worked closely with the Governing Council to ensure that economic change occurs in a manner acceptable to the people of Iraq,

Acknowledging the Governing Council's desire to bring about significant change to the Iraqi economic system,

Determined to improve the conditions of life, and opportunities for all Iraqis and to fight unemployment with its associated deleterious effect on public security through stable financial markets,

Recognizing that Iraq needs laws concerning the issuance and payment of public debt to assist in financing the Government and to promote confidence in the country's economic system,

Further recognizing the CPA's obligation to provide for the effective administration of Iraq,

Recalling that U.N. Security Council Resolution 1483 (2003) called upon the CPA to promote economic reconstruction and the conditions for sustainable development,

Acting in a manner consistent with the Report of the Secretary General to the Security Council of July 17, 2003, concerning the need for the development of Iraq and the need to enact institutional and legal reforms to give it effect,

I hereby promulgate the following:

Section 1 Purpose

- 1) This Order promulgates the Financial Management Law, which establishes a comprehensive framework for the conduct of fiscal and budgetary policy in line with international best practices, by setting a structured process for

the formulation of the federal budget and a number of reporting requirements aimed at increasing the accountability and transparency of the budgeting process.

- 2) This Order promulgates the Public Debt Law, which authorizes the Ministry of Finance to issue and pay debt securities guaranteed by the Government, and establishes certain related authorities and duties, for the purposes of financing Government operations and promoting a stable Iraqi economy.

Section 2 Financial Management Law

The Financial Management Law attached to this Order as Annex A shall have the full force and effect of law.

Section 3 Public Debt Law

The Public Debt Law attached to this Order as Annex B shall have the full force and effect of law.

Section 4 General Provisions

- 1) Prior to the transfer of governance authority to the Iraqi Interim Government in accordance with Article (2)(B)(1) of the Law of the Administration for the State of Iraq for the Transitional Period, the powers and responsibilities assigned to the Prime Minister and Council of Ministers by the Financial Management Law and the Public Debt Law shall be exercised by the Administrator.
- 2) Until such time as the Iraqi Interim Government assumes full governance authority in accordance with Article (2)(B)(1) of the Law of the Administration for the State of Iraq for the Transitional Period, the Ministry of Finance is prohibited from issuing new debt securities if the issuance of such securities would increase the total level of Iraq's public debt, including obligations to the Central Bank, beyond the current level of such debt.

- 3) Notwithstanding any provision of the Financial Management Law to the contrary, spending units shall submit requests for allocation of funds for the budget for fiscal year 2005 to the Ministry of Finance not later than 15 June 2004.

Section 5 Inconsistent Legislation

Any provision of Iraqi law that was enacted prior to the effective date of this Order, Annex A, or Annex B is hereby suspended to the extent of such inconsistency.

Section 6 Entry into Force

This Order shall enter into force on the date of signature

A handwritten signature in black ink that reads "L. Paul Bremer". To the right of the signature is the date "6/14/04".

L. Paul Bremer, Administrator
Coalition Provisional Authority

ANNEX A

IRAQ

FINANCIAL MANAGEMENT LAW OF 2004

Section 1 Purpose

This Law shall regulate the arrangements governing the preparation, adoption, recording, management, execution, and reporting of the federal budget of Iraq and related issues including public borrowing and guarantees, internal control, accounting, and auditing. The principles of transparency, comprehensiveness, and unity shall be of fundamental importance in the preparation and execution of the federal budget of Iraq, and in related issues.

The principle of transparency requires that budget information be classified according to accepted international standards and presented in a way that facilitates policy analysis and promotes accountability.

The principle of comprehensiveness requires that the budget cover all government agencies and institutions undertaking government operations, so that the budget presents a consolidated and complete view of these operations and is voted on, as a whole, by the body vested with national legislative authority.

The principle of *unity* requires that all government resources be directed to a common pool to be allocated and used for public expenditure according to the priorities of the government.

Section 2 Definitions for the Purposes of this Law

- 1) “*Budget appropriation*” is the legal authorization given to the government to spend public money over the fiscal year for specified purposes.
- 2) “*Authorized person*” is a person delegated authority in writing by the Minister of Finance to manage public money.
- 3) “*Borrowings*” are funds received in return for a legally binding agreement to repay.
- 4) “*Budget*” is a financial program based on annual estimates of government cash receipts and payments, transfers, and transactions in kind.
- 5) “*Budget executor*” is an authorized person, or person delegated authority by the budget executor, responsible for the execution of the budget.
- 6) “*Capital expenditures*” are the use of funds to acquire or upgrade capital assets, such as buildings, structures, machinery, and equipment, and financial assets.

- 7) “*Cash payments*” are any monetary transactions resulting in a reduction in the balance of a bank account or cash balance.
- 8) “*Chart of accounts*” is a structured list of accounting codes used to classify and record budget revenue and expenditure transactions.
- 9) “*Commitment*” is an undertaking to make an expenditure following the conclusion of a binding agreement that will result in a payment.
- 10) “*Contingency reserves*” are funds allocated to the Ministry of Finance in the annual budget law or supplementary budget laws for the purpose of making expenditures that are urgent and unforeseen at the time of passage of the annual budget law.
- 11) “*Council of Ministers*” is the Council of Ministers described in the Law of Administration for the State of Iraq for the Transitional Period (the “Transitional Administration Law” or “TAL”).
- 12) “*Current expenditures*” are expenditures which are not capital expenditures, such as salaries, supplies, services, and fuel.
- 13) “*Economic classification*” is a systematic arrangement of budget revenue and expenditure items by type for the purposes of financial statistical reporting and analysis.
- 14) “*Financial assets*” include foreign or domestic cash, deposits, loans, bonds, financial derivatives, accounts receivable, other types of claims, monetary gold, special drawing rights (SDRs), treasury bills, and shares.
- 15) “*Fiscal year*” is the general government’s accounting period, which begins on January 1st and ends on December 31st.
- 16) “*Federal budget*” is the estimate of the total annual receipts and payments as approved by the Federal Government.
- 17) “*Federal government*” is the Iraqi Interim Government, the Iraqi Transitional Government, or the Government to be elected pursuant to a permanent constitution, as set forth in Article 61 of the Law of Administration for the State of Iraq for the Transitional Period (the “Transitional Administration Law” or “TAL”).
- 18) “*Federal government bank account*” is a bank account for the receipt, payment, or transfer of public money belonging to the federal government.
- 19) “*Functional classification system*” means the array of budget authority, expenditures, and other budget data according to the major purpose served—for example, agriculture, national defense, and transportation.

- 20) “*General government*” comprises all government units primarily engaged in non-market operations, including the federal government, regional governments, governorates, municipal and local governments.
- 21) “*Government debt securities*” are debt securities issued by the Ministry of Finance, including debt securities lawfully issued prior to the effective date of the Public Debt Law promulgated in 2004.
- 22) “*Governorates’ budgets*” are the estimates of annual receipts and payments of the governorates.
- 23) “*Governorate Councils*” are the Governorate Councils described in Section 2 of CPA Order Number 71, Local Governmental Powers (the “Local Governmental Powers Law”).
- 24) “*Line items*” are the payments specifically itemized in the budget law.
- 25) “*In kind*” means a transfer or exchange in which payment takes the form of tangible property, intangible property, or services rather than cash.
- 26) “*Liability*” is a present obligation arising from past events, the settlement of which is expected to result in a future payment in cash or in kind.
- 27) “*Outlay*” means a payment to liquidate an obligation other than borrowing.
- 28) “*Payment arrears*” arise when a payment is not made by its due-for-payment date.
- 29) “*Petroleum*” means hydrocarbons, including, but not limited to, crude oil, natural gas, and natural gas liquids and refined petroleum products.
- 30) “*Petroleum revenue account*” means the Development Fund for Iraq (DFI) account as described in United Nations Security Council Resolution 1483 (2003) or any successor account to the DFI.
- 31) “*Public money*” means cash and bank deposits within the custody and control of the federal government.
- 32) “*Public corporations*” are -
 - (1) State companies, as defined in Law Number 22 of 1997 on State Companies; and
 - (2) any other juridical person or unit that is owned or controlled by the federal government, and produces goods or services for the market and, in the case of a unit which is not a juridical person, functions independently and is capable of maintaining separate accounting.
- 33) “*Special budgetary funds*” are special funds whose sources, uses, and purposes are established by law.

- 34) “*Spending units*” are the ministries of the federal government and the administrative bodies of the federal and regional governments, governorates, and municipal and local governments, to which funding is allocated in the annual budget law.
- 35) “*Reallocate*,” in relation to a budget appropriation, means to move budgetary resources from one budget account, unit, or line item to another.
- 36) “*Transfers*” are the provision of goods and services, assets (including financial assets), or labor that do not require the recipient to provide a good, service, payment, or payment-in-kind in return.
- 37) “*Treasury Consolidated Account*” is a system managed by the Ministry of Finance for consolidating the balances of the cash accounts of the federal government for the purpose of efficient cash management.
- 38) “*Treasury general ledger*” is a system, based on double entry principles, of accounting for, executing, and reporting the budget.
- 39) “*Treasury Single Account*” is a bank account, or a set of linked bank accounts, of the government through which all government receipts and payments are channeled. It is controlled by the Ministry of Finance and is maintained at the Central Bank.
- 40) “*Government*” is the public authorities and agencies of Iraq, which are entities established through political processes, and that exercise legislative, judicial or executive authority within the territory of Iraq. Government does not include public corporations.
- 41) “*Government debt*” consists of all liabilities of the government that require payment or payments of interest and/or principal by the borrower to the lender at a date or dates in the future.
- 42) “*Petroleum revenue*” is petroleum export revenue, non-tax revenue earned from the sale of petroleum to domestic buyers (collectively, petroleum non-tax revenue), and tax revenue levied on petroleum (petroleum tax revenue).
- 43) “*Petroleum export revenue*” is non-tax revenue earned from the sale of petroleum to foreign buyers.
- 44) “*Publicly available*” means that information is available for ready access by any member of the public. This includes, but is not limited to, publication in the *Official Gazette*, on an unrestricted website, or in widely available public newspapers.

Section 3

Exercise and Delegation of Authority

- 1) The Minister of Finance may issue regulations, instructions, guidelines or directions as necessary to give effect to and implement this Law.
- 2) The Minister of Finance may delegate to officials within the Ministry of Finance who are authorized persons those authorities that are conferred upon him under this Order, except the authority to waive the right of the federal government to collect amounts owing, to submit the draft annual federal budget to the Council of Ministers, and to sign borrowing and guarantee contracts of the federal government.

Section 4

General Provisions

- 1) The budget is adopted for the fiscal year and shall be valid during the year for which it is passed. Unspent appropriations will lapse at the end of the fiscal year for which they have been approved, except to the extent that goods and services have been validly ordered and received.
- 2) The draft annual budget law will be determined by the Council of Ministers and will be submitted by the Minister of Finance by October 10th to the body vested with national legislative authority for approval or adjustment pursuant to Article 33(C) of the TAL.
- 3) Pursuant to Article 25 of the TAL, the federal government has exclusive competence in drawing up the federal budget of Iraq. The Governorate Council, pursuant to Section 2 of the Local Governmental Powers Law, possesses the limited amendment authority to amend the budget plan of a ministry with regard to a specific project. Individual governorates' budgets for the fiscal year shall be passed by the Governorate Councils. Individual regions' budgets for the fiscal year shall be passed by the regional governments.
- 4) The annual federal budget shall comprise:
 - a) the receipts and payments in cash or in kind of all government ministries, organizations, and agencies of the federal government; and
 - b) transfers, including to regional governments, governorates, and municipal and local governments, including special budgetary funds.
- 5) The source of all receipts shall be specifically identified in the budget. All payments for the budget year and commitments for future years shall be disclosed in the budget, and the nature and duration of these commitments shall be limited as specified in the annual budget laws.
- 6) The difference between receipts (excluding borrowings) and payments (excluding repayments of debt principal) is the budget surplus (if positive) or the budget deficit (if negative).

7) Receipts consist of:

- a) Tax revenues:
 - 1. Petroleum tax revenues;
 - 2. Non-petroleum tax revenues;
- b) Non-tax revenues:
 - 1. Petroleum non-tax revenues;
 - 2. Non-petroleum non-tax revenues;
 - 1) Social security contributions;
 - 2) External grants;
 - 3) Others;
- c) Domestic and external borrowing;
- d) Repayment of government lending;
- e) Proceeds from asset transfers;
- f) Transfers of surplus profits from the Central Bank of Iraq in accordance with the relevant provisions of the Central Bank Law;
- g) Transfers from public corporations;
- h) Transfers from regional governments, governorates, and municipal and local governments, including special budgetary funds.

8) Payments consist of:

- a) Current expenditures, including for salaries and other allowances, outlays for goods and services, current transfers, including pensions and social security payments, that are paid in cash or have been issued in kind, interest payments and transfers in kind;
- b) Capital expenditures for purchase of fixed assets, inventories, intangible assets, financial assets, capital transfers that are paid in cash or have been issued in kind, and grants;
- c) Gross lending;
- d) Repayment of external and domestic debt;
- e) Other payments in accordance with the laws of the federal government;

- f) Transfers to the Central Bank of Iraq in accordance with the relevant provisions of the Central Bank Law;
 - g) Transfers to public corporations;
 - h) Transfers to regional governments, governorates, and municipal and local governments, including special budgetary funds.
- 9) A Treasury Consolidated Account shall be established and maintained within the Ministry of Finance. Subject to the transition provisions in Section 15, all receipts shall be credited to the Treasury Consolidated Account and paid into the Treasury Single Account, and all payments shall be debited to the Treasury Consolidated Account and withdrawn from the Treasury Single Account. All federal budget receipts, commitments, expenditures, and other payment transactions shall be entered into the Treasury's General Ledger.
- 10) The Minister of Finance shall issue orders to open bank accounts and such accounts must have a title that includes the words "federal government." An authorized person may dispose of federal government money only in accordance with this law and with regulations properly promulgated by the Minister of Finance. An authorized person must not misapply, improperly dispose of, or improperly use federal government money in contravention of this Law. Violations of this Law are subject to applicable administrative and criminal penalties under the legislation of Iraq, including Article 2(g) of Law Number 7 of 1958, Wastage of Natural Resources and Squandering of Public Assets and Funds, and applicable provisions of Law Number 111 of 1969, as amended, including provisions relating to bribery by public officials, embezzlement by public officials, and officials who overstep the bounds of their duty.
- 11) Subject to the monetary limits established by the Council of Ministers, the Minister of Finance may waive the right of the federal government to collect an amount owing, postpone the time of payment, or allow payment by installment only under the conditions and procedures provided by law.
- 12) The Minister of Finance shall report each and every such written-off sum or postponement to the Council of Ministers with the explanation for the write-off. This report shall be submitted quarterly with a final summary report to be submitted with the annual final accounts of the federal budget. These reports will be made publicly available.
- 13) The annual federal budget shall stipulate the use of the budget surplus or the means of financing the budget deficit.
- 14) The budget deficit shall be financed by cash balances of the federal government, short-term borrowings, domestic and external loans, or by the issuance of government debt securities. Short-term borrowings may be used for the purpose of ensuring liquidity during a period no longer than six months.

- 15) The annual federal budget shall be accompanied by documents that shall state the objectives and operating rules for fiscal policy, including constraints on borrowing and federal government debt, in accordance with the principles stated in Section 1 and with the provisions in Section 6(1) of this law and following Section 7(1), and will report on progress against these objectives.

Section 5

Management of Petroleum Revenues

- 1) All proceeds from the sale of petroleum or otherwise derived from current and prospective petroleum extraction, including from the federal government's production shares and royalties, and from the amount paid in respect of a right to explore for petroleum resources, and any amount derived from the investment of amounts in the petroleum revenue account, shall accrue to the budget. Except as provided in paragraph 2 of this section, below, or as may otherwise be required by applicable United Nations Security Council Resolutions (UNSCRs), the receipts from the export of petroleum shall be deposited into the Development Fund for Iraq (DFI) account to be held in the name of the Central Bank of Iraq, or a successor account to the DFI, hereafter generically referred to as the petroleum revenue account, and reflected accordingly as receipts and transfers to and from the budget.
- 2) Pursuant to United Nations Security Council Resolution 1483 (2003), and subsequent related UNSCRs, five percent (or such other percentage as may be determined by the United Nations Security Council or jointly by the internationally recognized, representative government of Iraq and the Governing Council of the United Nations Compensation Commission in accordance with UNSCR 1483) of the receipts from the export of petroleum shall be transferred to the Compensation Fund established in accordance with UNSCR 687 (1991) and subsequent relevant UNSCRs and the balance of receipts from the export of petroleum shall be deposited into the petroleum revenue account. These transfers to the Compensation Fund will be shown in the budget.
- 3) Disbursements from the petroleum revenue account shall be restricted to disbursements necessary to finance the budget, which shall include adequate provision for the government's obligations under any relevant UNSCRs or international law.
- 4) In the event that a successor account to the original DFI is established or the original DFI is continued beyond the date of the transfer of governance authority to the Iraqi Interim Government, the following will apply:
 - a) Operational responsibility for the petroleum revenue account will be with the Minister of Finance, reporting to the Council of Ministers, which shall take advice from the Governor of the Central Bank and such other individuals as the Council may deem appropriate. The Council, in its discretion, may delegate responsibility for oversight of the operation of the petroleum revenue account to a committee, which shall be composed of such individuals as the Council may determine, and shall include, as a minimum, the Minister of Finance, the Minister of Oil and the Governor of the Central Bank in an advisory capacity.

- b) Disbursements from the petroleum revenue account require the authorizing signature of at least two authorized persons, one of whom is an official in the offices supporting the Prime Minister or Council of Ministers and reporting to the Prime Minister and the other a permanent employee of the Ministry of Finance, designated by the Prime Minister and the Minister of Finance, respectively. The persons to whom authority has been delegated may not delegate to another person.
 - c) Any positive balance in the petroleum revenue account may be invested by the Minister of Finance with the written consent of the Council of Ministers or the committee mentioned in section 5(4)(a) of this law. Any amount so invested shall at all times remain the property of the Government of Iraq. No contract or agreement that purports to encumber the assets of the petroleum revenue account shall be enforceable, and the assets shall continue to enjoy all privileges and immunities to the extent provided by UNSCR 1483, or as otherwise decided by the UN Security Council.
 - d) The activities of the petroleum revenue account shall be subject to external audit conducted under the oversight of the Board of Supreme Audit, which shall act in accordance with Law Number 6 of 1990 as amended by CPA Order Number 77 (CPA/ORD/18 April 2004/77), except as otherwise provided by relevant UN Security Council Resolution.
- 5) The Minister of Finance shall make publicly available details of the petroleum revenue account; including opening and closing balance, underlying assets, and summary of movements, within three weeks of the end of each month. The Minister of Finance will authorize a quarterly review of the investment position, and by the end of the month following the end of each quarter submit a report on the results of the review to the Council of Ministers or the committee mentioned in section 5(4)(a) of this law. The final report for each year will detail each investment and enumerate the changes in the portfolio over the year and will be made publicly available.

Section 6 **Budget Preparation**

- 1) The preparation of the federal budget shall be based on the projections of economic development, the pursuit of macroeconomic stability, economic policy, and applicable laws and regulations, and shall be prepared with due regard to the desirability of ensuring the sustainability of Iraq's fiscal position, minimizing fluctuations in government spending, and achieving efficient revenue collection. In particular, the preparation of the federal budget will be based upon prudent and conservative forecasts for petroleum prices, petroleum production, and tax and customs revenue. The projections shall be prepared by the Ministry of Finance in consultation with the Central Bank and other Ministries in their respective areas of expertise.

- 2) During the month of May of each year, the Minister of Finance, shall issue a report on the priorities for fiscal policy for the next fiscal year, including the proposed total limit on spending and the limits for each individual spending unit, and submit it to the Council of Ministers for approval, together with the Final Accounts of the Federal Budget as submitted to the Board of Supreme Audit according to section 11(6) of this law, and an update on progress in execution of the budget in the current fiscal year. The Minister of Finance shall consult with the Minister of Planning and Development Cooperation on priorities, estimates of total funding, and procedures for preparing the capital spending plan and current budgetary implications of capital expenditures, including those to be implemented or financed by external sources.
- 3) In the month of June of each year, the Minister of Finance, in consultation with the Minister of Planning and Development Cooperation, and based on the priorities for fiscal policy established by the Council of Ministers, shall issue a circular setting guidelines and objectives of fiscal policy for spending units for the preparation of their budgets. The circular shall include key economic parameters, based on the macroeconomic framework referred to in Section 7(1), the procedures and timetable for budget preparation, as well as total levels of expenditure for each spending unit. This will serve as the basis for the spending unit to prepare its budget request.
- 4) In the month of July of each year, spending units will submit requests, including the information prescribed below, to the Minister of Finance for the allocation of funds. Copies of requests for the capital portion of the budget will also be submitted to the Ministry of Planning and Development Cooperation. Each request shall include:
 - a) The expenditure estimates for the budget year as prescribed in the economic and functional classification systems determined by the Minister of Finance in accordance with international accounting standards, including the value of outstanding commitments for the current or prior year;
 - b) Consistent with the guidelines issued by the Minister of Finance, the expenditure estimates for the year following the budget year (the “upcoming fiscal year”) and to the extent permissible given conditions prevailing in Iraq, for the two fiscal years following the upcoming fiscal year as prescribed in the economic and functional classification system determined by the Minister of Finance, in accordance with international accounting standards;
 - c) Estimates of personnel requirements for which budgetary funds are required;
 - d) Estimates of the requirements for other operating costs;
 - e) Multi-year commitments or multi-year payments, along with separately prepared capital expenditures; and
 - f) Estimates of receipts from the core activities of spending units.

- g) Estimates of the proportion of expenditures that would be due in foreign currency.
- 5) The Minister of Finance may determine more specific requirements for the content and format of the request.
- 6) The Minister of Finance, in consultation with the Minister of Planning and Development Cooperation shall, on the basis of the estimates of revenue and submitted budget proposals for the allocation of budget funds, and in the light of discussions with proposing Ministers, determine estimated payments for spending units for the budget, as well as any amounts to be included in the contingency reserve.
- 7) In the event of an irreconcilable disagreement during discussions on the draft annual federal budget between the Minister of Finance and the Ministers responsible for spending units, the Minister of Finance will note the disagreement and explain his proposed solution in his submission of the draft annual federal budget. In determining the proposed solution, the Ministry of Finance may consult with the Ministry of Planning and Development Cooperation regarding the prioritization of capital expenditures. The Council of Ministers may, within the agreed aggregate limit, adjust appropriations in accordance with their collective priorities. Any increase in the aggregate spending limit must be based on a proposal submitted by the Minister of Finance and approved by the Council of Ministers.
- 8) In the month of September of each year, the Minister of Finance shall prepare the draft annual federal budget and submit it to the Council of Ministers for approval. The Minister of Finance shall submit the budget by October 10th to the body vested with the national legislative authority for approval.

Section 7 **Budget Law**

- 1) In preparing the draft annual budget law the following shall be taken into account, disclosed to the body vested with national legislative authority, and made publicly available in the documents accompanying the budget law:
 - a) A statement of the objectives and operating rules for fiscal policy in accordance with the principles stated in this law, and an explanation of how these objectives relate to provisions in the annual budget law.
 - b) A comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget, including the assumptions for oil prices and oil production. To the extent permissible given conditions prevailing in Iraq, the macroeconomic framework shall cover the budget year and the subsequent three years;
 - c) New policies being introduced in the annual budget and their quantified fiscal impact;

- d) Major fiscal risks, quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments, including financial restructuring;
- 2) The draft annual budget law shall include:
- a) The estimation of receipts in cash and in kind in accordance with economic classification;
 - b) The estimation of payments in cash and in kind in accordance with economic, organizational, and functional classifications;
 - c) The use of any surplus, and the financing of any deficit;
 - d) The contingency reserve, which shall be no greater than 5% of the non-interest expenditures of the federal budget;
 - e) Clear specification of the rules for authorization of expenditure and limits to expenditure. Limits on borrowing, issuance of government debt securities, change in stocks of government debt securities, and guarantees consistent with the Public Debt Law, and the authority granted to the Minister of Finance to buy, redeem, or refund outstanding government debt securities;
- and the draft budget law shall be accompanied by a report on the economic and financial situation, including the assumptions, methods, and outcomes of the economic projections on the basis of which the draft annual Federal budget law is established, including actual revenues, expenditures, balance and total debt of the general government for the past two years.
- 3) The body having national legislative authority has the right to reallocate proposed spending and to reduce the total amounts in the federal budget. It also has the right to propose an increase in the overall amount of expenditures to the Council of Ministers if necessary, and provide notice of this proposal to the Minister of Finance. The Minister of Finance will make a nonbinding recommendation to the Council of Ministers with respect to this proposal.
 - 4) If the federal budget is not approved by the body vested with national legislative authority by December 31st, the Minister of Finance will, on a monthly basis, approve funds for spending units up to 1/12 (one twelfth) of appropriations of the previous fiscal year until a budget is approved. The funds so provided for can be used only for liquidation of existing commitments, salaries, pensions, social security payments, and debt service.
 - 5) The annual federal budget may be amended through a supplementary budget only on the basis of a significant and unexpected change in economic circumstances or national priorities. The supplementary budget must be determined by the Council of Ministers on recommendation

of the Minister of Finance and approved by the body vested with national legislative authority. Should the Minister of Finance conclude that a supplementary budget is required, he shall make appropriate recommendations, including on proposed total receipts and payments, to the Council of Ministers. The Minister of Finance shall, within eight weeks after recommending that the Council of Ministers adopt a supplementary budget, submit details of the draft supplementary budget to the Council of Ministers for approval. The Council of Ministers shall approve such recommendations, with any appropriate modifications, within two weeks of receiving them. The draft supplementary budget, as approved by the Council of Ministers, shall be submitted to the body vested with national legislative authority within one week of such approval. The Minister of Finance shall issue regulations and guidelines for the procedures to be followed in preparing the supplementary budget.

- 6) The revenues and expenditures of special budgetary funds are to be reflected in the annual budget law.
- 7) The approved federal annual and supplementary budgets shall be published in the *Official Gazette* and made publicly available in other media, as appropriate.

Section 8 **Public Corporations**

- 1) Each public corporation shall prepare its budget proposal, and after approval by its directors and the competent minister, submit it to the Minister of Finance for review and final approval. The budget should, among other things, show budgeted revenues, expenses, profits or loss, capital expenditure, cash flows, borrowings, grants, transfers, contingent liabilities including guarantees, and balance sheet. Any amendments to the budget shall also be submitted to the Minister for Finance for review and approval. The Minister of Finance shall respect the operational independence of public corporations.
- 2) The budgets of public corporations are not incorporated into the federal government budget and are not incorporated into the budgets of any other level of government.
- 3) Public corporations shall submit by August 31st estimates of total loans and short-term borrowings to be raised in the forthcoming fiscal year for approval by the Minister of Finance. Public corporations will report monthly to the Minister of Finance on the amount of loans and short term borrowings raised. Guarantees given by the federal government in respect of public corporations borrowings shall be in accordance with law, and shall be disclosed in the final accounts of the federal government.
- 4) All public corporations shall submit their monthly accounts to the competent ministry 10 days following the end of each month. All public corporations shall submit semi-annual accounts to the Minister of Finance no later than July 15th. Each public company shall submit its audited final accounts to the Minister of Finance no later than March 31st of the year following the fiscal year ended. The final accounts shall include balance sheet, profit and loss statement, cash flow statement, and notes to the final accounts covering, among other things,

accounting policies, revenues and expenses, assets and liabilities including borrowings, commitments, and contingent liabilities. The final accounts shall be prepared in accordance with international standards and shall be audited by an independent auditor.

Section 9

Budget Execution

- 1) The Minister of Finance is responsible for the execution of the federal budget.
- 2) No payments will be made from the Treasury Consolidated Account except under an appropriation made in the annual budget or supplementary budget law, under a standing appropriation of another Law, or to make an investment in terms of Section 5(4)(c) of this Law.
- 3) Spending units will use the funds determined in the federal budget in accordance with a spending plan that has been approved by the Minister of Finance.
- 4) Spending units may not commit to making expenditures that exceed the amounts allocated to them, unless otherwise provided by the budget law.
- 5) Budget executors are responsible for ensuring that allocated funds within their spending units are used for lawful purposes.
- 6) Appropriations for contingency reserve funds may be used for payments that are urgent and that were unforeseen at the time the annual budget law was passed, if approved by the Council of Ministers and the Minister of Finance. The Minister of Finance shall propose the criteria for using reserve funds for approval by the Council of Ministers. All expenditures from the reserve will be reported to the body vested with national legislative authority.
- 7) In accordance with regulations prescribed by the Minister of Finance, the spending units, governorates, and special budgetary funds shall submit reports on realized receipts and executed payments to the Minister of Finance within 30 days following the end of each month. By the 15th of the subsequent month, the Ministry of Finance shall compile a consolidated report on realized receipts and executed payments on the basis of the reports submitted, and make it publicly available in the *Official Gazette* and other media, as appropriate.
- 8) The Ministry of Finance can authorize the responsible Minister or Ministers, subject to the provision below, to reallocate the approved budget appropriations from one spending unit to another up to a limit of five per cent of the amount approved by the annual or supplementary budget law for the spending unit that is to have its appropriation reduced. The following restrictions apply:
 - a) No funds can be reallocated between a current expenditure of one spending unit and the capital expenditures of another or between transfer payments of one spending unit

and other items, including salaries, goods, and services or capital expenditures, of another.

- b) Spending units may, with the approval of the Minister of Finance, reallocate their approved funds between line items by up to 5% of the total amount of funds approved provided that no funds can be reallocated from capital to current expenditures or between transfer payments and other current expenditures, including salaries, goods and services. Virement from salaries or current spending to capital spending of up to 5% may be permitted with the approval of the Minister of Finance.
 - c) A report of these transfers shall be prepared by Ministry of Finance and submitted on a quarterly basis to the body vested with national legislative authority. A copy of such report will be forwarded to the Minister of Planning and Development Cooperation.
- 9) Funds approved for spending units may be used only until the December 31st of the fiscal year, except to the extent that goods and services have been validly ordered and received. Receipts received after the end of a fiscal year will be recorded as receipts of the next fiscal year budget.

Section 10 **Borrowings and Guarantees**

- 1) Federal government debt may be in the form of domestic and foreign loans, short-term borrowings, and securities issues. The issue and redemption of securities shall be managed by the Central Bank of Iraq as the agent for the federal government. The Ministry of Finance and the Central Bank shall share information on government cash and borrowing needs and current monetary conditions in order to ensure effective coordination of monetary and budgetary policy.
- 2) Governorates and regional governments may, upon notification to the Minister of Finance, raise funds through borrowings, and issue loan guarantees subject to the debt limit set in the annual budget law, and to the specific debt limit set for each entity under the apportionment approved by the Council of Ministers on a recommendation of the Minister of Finance. Regional governments and governorates shall submit by August 31st estimates of total outstanding borrowings, and borrowings to be raised in the forthcoming fiscal year for review and for approval by the Minister of Finance. Regional governments and governorates will report to the Minister of Finance monthly on the amount of outstanding borrowings raised and loan guarantees issued.
- 3) The Ministry of Finance shall submit to the Council of Ministers for approval with the draft annual budget law, the financial plan on loans, short-term borrowing, and the issuing of guarantees by the federal government, governorates regional governments. In addition, the Ministry will submit to the Council of Ministers a report any time that the plan must be changed. Such changes must remain within the limits set by the budget. The Ministry of

Finance shall have the right, upon notification to the affected governorate or regional government, to adjust the timing of the issuance of governorate or regional government debt approved in the plan on the basis of macroeconomic and debt policy considerations.

- 4) The annual budget law shall determine the terms, conditions, and the limit on the annual increase in the total existing federal government, regional government and governorate and public corporation debt, and shall establish the total amount of guarantees to be issued by the federal government, regional governments, governorates, and public corporations.
- 5) The federal government shall set limits for guarantees issued by regional governments and governorates, but shall not guarantee them, unless explicitly provided in law.
- 6) The Minister of Finance shall sign the borrowing and guarantee contracts of the federal government, and shall enter into a contract with the Central Bank for services required in implementing all decisions on issues of securities.
- 7) The Minister of Finance shall maintain a record of all federal government debt. The authorized body within the regional governments and governorates shall maintain a record of existing regional government and governorate debt, loans granted, short-term borrowings, and issued guarantees, and shall provide the Ministry of Finance with an updated record of this information within 30 days of the end of each month.
- 8) The Minister of Finance shall prepare a consolidated report on all government debt within 90 days of the end of each fiscal year and shall make this report available to the public.

Section 11 Internal Control and Accounting

- 1) Budget executors shall be responsible for the accounting and internal control of transactions related to receipts, commitments, and payments of spending units and sub-units falling within their jurisdiction.
- 2) The Minister of Finance shall, on behalf of the federal government, have responsibility for the accounting, internal control, borrowing, and debt transactions associated with the budget.
- 3) The Minister of Finance shall prescribe internal control arrangements, accounting procedures and standards, submission of reports on the usage of budget funds, and the manner of recording receipts, payments, and commitments.
- 4) The Minister of Finance may issue special orders to spending units, governorates, municipal and local governments, and other budget entities for their submission of financial reports and shall prescribe the submission of the Final Accounts of spending units, including regional governments, governorates, municipal and local governments, and other budget entities.

- 5) The Minister of Finance shall submit to the body vested with national legislative authority by May 31st and November 30th, quarterly reports on the execution of budget revenue, expenditures, and financing for the quarters ending March 31st and September 30th, respectively. This report will include the execution of budget revenue, expenditures and financing of the federal budget. The Minister of Finance shall also submit to the body vested with national legislative authority by August 31st of each year a mid-year report on execution of budget revenue, expenditures, and financing for the half year ending June 30th. This report will include detailed information on the execution of budget revenue, expenditures and financing of the budget.
- 6) The Minister of Finance shall, by April 15th of the succeeding year, prepare the annual final accounts of the federal budget, including special budgetary funds, and submit it to the Board of Supreme Audit. The Board of Supreme Audit will provide an audit report on the final accounts by June 15th. The Council of Ministers will submit final accounts and the related audit report to the body vested with national legislative authority by June 30th.
- 7) The final accounts of the federal budget must be in accordance with the content and classifications of the budget and international accounting standards, and shall include the following:
 - a) An external audit report from the Board of Supreme Audit in accordance with the Board of Supreme Audit Law, as amended, and its established procedures;
 - b) The initial and final balance of the Treasury Consolidated Account and a summary of movements for the year;
 - c) A report on differences between budgeted and executed receipts and payments and on the financing of any deficit or the use of any surplus;
 - d) A report of all federal government borrowings for the year, and the total debt outstanding, including any payment arrears;
 - e) A report of spending from the budget contingency reserves;
 - f) A report on federal government guarantees issued during the fiscal year;
 - g) The Minister of Finance shall prepare a report of all borrowings by regional governments and governorates;
 - h) Outstanding amounts on capital contracts;
 - i) Retentions due on contracts;
 - j) Letters of credit entered into for which funds have been placed but for which goods have not been received;

- k) The Minister of Finance shall prepare a report on all guarantees by regional governments and governorates.
- 8) Following approval of the final accounts of the annual federal budget by the body vested with national legislative authority, the final account shall be published in the *Official Gazette* and made publicly available.

Section 12

Ministry of Finance Functions

- 1) The Ministry of Finance shall be responsible for, but is not limited to, conducting the following treasury functions:
 - a) Executing all cash and non-cash payments on the basis of documentation and data supplied manually or electronically by spending units, in accordance with this Law;
 - b) Maintaining the Treasury general ledger and subsidiary accounts;
 - c) Processing budget allocations to spending units;
 - d) Preparing the federal government's final accounts;
 - e) Ensuring that no budget executor can exceed his annual appropriation;
 - f) Developing and managing the federal government's accounting and financial information system;
 - g) Providing regular financial reports as required;
 - h) Supporting analysis and improvements to the federal government's financial systems;
 - i) Making payments from the current and permanent reserves;
 - i) Managing the cash balances of the Treasury Consolidated Account and the investment of the federal government's surplus cash balances;
 - j) Managing the recording of domestic and external debt;
 - k) Managing the recording of international grants, assistance, and loans;
 - l) Preparing government accounting and financial management standards, regulations, and related legislation;

- m) Managing the opening, recording, and reconciliation of government bank accounts; and
 - n) Managing the operations of the Regional Treasury Offices.
- 2) The Ministry of Finance shall be responsible for, but is not limited to, the following budget formulation functions:
- a) Managing the process of budget preparation, planning and development, including the preparation of macroeconomic and other economic advice;
 - b) Proposing guidelines for the preparation, planning, execution, revision, and evaluation of budgets;
 - c) Preparing the annual budget law, any supplementary budget laws, and making them publicly available;
 - d) Monitoring receipts and execution of payments, including petroleum revenues;
 - e) Preparing cash flow forecasts;
 - f) Providing advice to the Council of Ministers on requests by spending units for the reallocation of appropriations and implementing decisions on reallocations;
 - g) Making payments from the current and permanent reserves.
 - h) Providing advisory support on budgetary issues to all spending units; and
 - i) Preparing reports on budget preparation and budget execution for international economic organizations.
 - j) Preparing regulations, instructions, guidelines and directions under this Law and on amendments to this Law.

Section 13 Internal Audit

- 1) The Minister of Finance shall prescribe the manner and procedures by which Ministries, spending units, and public corporations will undertake internal audits, and is responsible for ensuring that the internal audit process is conducted in accordance with these rules and procedures.
- 2) Internal Audit performance consists of the following:

- a) Providing regular assessments of the adequacy and effectiveness of the Ministries' decision-making processes, minimization of risk, and internal control;
- b) Reporting significant internal control issues and improving the control processes and information system in order to minimize risk in the decision-making process;
- c) Reviewing the efficiency and effectiveness of the use of existing services, and proposing more efficient ways of providing these services;
- d) Liaising with the external audit agency; and
- e) Providing periodically information on the status of the execution of the annual audit plan.

Section 14 **External Audit**

- 1) The federal budget and any supplementary budget shall be subject to annual audits by the Board of Supreme Audit, according to the law.
- 2) In order to facilitate this audit, the Minister of Finance shall make available to the Board of Supreme Audit:
 - a) The approved federal budget and any supplementary budgets, and any accompanying documents;
 - b) The reported results of all internal audits;
 - c) The quarterly and annual reports on loans, borrowings, guarantees, and debt;
 - d) Final accounts of public corporations and the results of all audits;
 - e) Documents discussed by the Council of Ministers its role of oversight of operations for any successor to the DFI, or by any committee delegated with this role according to section 5(4) of this Law, as well as the results of any internal audits; and
 - f) Any other documents, information and explanation requested by the Board of Supreme Audit in connection with the performance of its audit functions.

Section 15

Transitional Arrangements

- 1) To the extent that this Law is inconsistent with existing laws, the provisions of this Law shall prevail.
- 2) Regulations implementing this Law shall be approved within 12 months from the day of enactment of this Law. Until these regulations are approved, existing regulations shall continue to apply, to the extent consistent with this Law.
- 3) In transitioning to the Treasury Single Account, the Minister of Finance is hereby authorized to close the accounts of the federal government Budget Accounts opened at the Central Bank or in any other banks. Resources remaining in Federal Budget user accounts are to be transferred to the Treasury Single Account and reflected in the Treasury Consolidated Account. Until the closure of the existing bank accounts is completed and the Treasury Single Account is fully established, the Minister of Finance is authorized to operate the existing bank accounts on a zero-balance basis under which balances of these accounts will be transferred to the Treasury Single Account on a daily basis. Should circumstances make daily transfers impracticable, the Minister of Finance shall institute transfers as frequently as practicable.
- 4) Law Number 107 of 1985 on Consolidated Government Budget (as amended by Law Number 48 of 1990), and Law Number 20 of 1940 on General Accounting Principles shall not have effect for the fiscal year 2005 and subsequent years.
- 5) The Minister of Finance is authorized to promulgate rules that will facilitate accurate financial reporting during the period in which Iraq is undergoing the transition to international accounting standards (“interim standards”). These interim standards shall apply only for the fiscal year with respect to which they are promulgated. Reports prepared for these periods that are otherwise required to comply with international accounting standards may comply with either the interim standards or international accounting standards.
- 6) Unless otherwise provided by relevant UNSCR and the Transitional Administration Law, including its Annex, prior to the establishment of a national legislature, the Council of Ministers shall serve as the final approval authority for the federal budget, subject to the approval of the Presidency. During such period, if the federal budget is not approved by the Presidency and the Council of Ministers, the Minister of Finance will, on a monthly basis, approve funds for spending units up to 1/12th one twelfth of appropriations of the previous fiscal year until the budget is approved.
- 7) To the extent that the relevant UNSCR and the Transitional Administration Law, including its Annex, attributes executive power to a body or person different than the Council of Ministers, powers and responsibilities delegated to the Council of Ministers by this Law shall be delegated instead to the executive body or person so identified in the relevant UNSCR or the Transitional Administration Law.

- 8) Upon the transfer of governmental authority to the Iraqi Interim Government, the Program Review Board established pursuant to Coalition Provisional Authority Regulation Number 3 (CPA/REG/18 June 2003/3) shall cease to perform budgetary functions for Iraq and shall dissolve.

Section 16 Entry into Force

This Law shall enter into force on the same date that the Order authorizing this law enters into force. It shall apply to the budget of the fiscal year 2005 and subsequent years, and additionally, following the transfer of governance authority to the Iraqi Interim Government, shall apply to any supplementary budgets for fiscal year 2004.

ANNEX B

IRAQ

PUBLIC DEBT LAW

Section I Definitions

For the purposes of this law, the terms below are defined as follows:

“*Bank*” means a bank as defined under the Banking Law.

“*Government*” means the entity exercising temporary governmental authority in Iraq on the date this law enters into force and then the transitional Iraqi administration upon the transfer to it of full governmental authority and the recognition of the sovereignty of that administration by the CPA, and then the internationally recognized representative government of Iraq once it assumes the responsibilities of such authority.

“*Government Debt Security*” means a debt security issued by the Ministry of Finance, including debt securities lawfully issued prior to the effective date of this Law. The term “debt security” shall have the same meaning assigned to it in the Banking Law.

“*Minister*” means the Minister of Finance acting in an official capacity.

“*Official Publication*” means the *Official Gazette* or such other general publication of wide circulation as specified by the Council of Ministers or its delegatee.

“*Owner*” means the person registered as the owner of a Government Debt Security on the books of the government securities registrar.

Section II Authorities and Duties Pertaining to the Issuance of Government Debt Securities

1. The Minister shall have authority to issue Government Debt Securities as an obligation guaranteed by the Government only in amounts reasonably necessary for expenditures authorized by law and in amounts necessary to buy, redeem, or refund outstanding Government Debt Securities.
2. The issue and redemption of Government Debt Securities shall be managed by the Central Bank of Iraq as the agent for the Government.

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3. The Minister shall have authority to set the terms and conditions for Government Debt Securities before they are issued, such as:

- (a) the date of maturity;
 - (b) the offering price and interest rate;
 - (c) the method of computing the interest rate;
 - (d) the dates for paying principal and interest;
 - (e) whether a debt security is to be issued on an interest-bearing basis, a discount basis, or an interest-bearing and discount basis;
 - (f) the form of the security;
 - (g) the currency in which the debt is issued; and
 - (h) any other condition not prohibited by law.
4. The Minister shall have authority to determine how it will offer Government Debt Securities for sale, such as by competitive auction and by subscription.
5. The Minister shall have authority to offer Government Debt Securities for sale to any person.
6. The Minister shall deposit without delay all proceeds from the sale of Government Debt Securities into the public treasury or an authorized depository.

Section III Authorities and Duties Pertaining to Outstanding Debt Securities

- 1. The Minister shall have authority to buy, redeem, or refund Government Debt Securities in accordance with their terms and conditions using public funds.
- 2. The Minister shall have authority to give relief to owners of lost, defaced, or destroyed Government Debt Securities in accordance with regulations issued by the Minister.

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3. The Minister shall pay principal and interest in legal tender when due, or earlier in his discretion, in accordance with the terms and conditions of the Government Debt Security.
4. The Minister shall have a permanent and indefinite appropriation of public funds for the purpose of buying, redeeming, or refunding Government Debt Securities and for the purpose of paying interest on those securities.

Section IV Authorities Pertaining to Fiscal Agents and Depositaries

1. The Minister shall have authority to engage the Central Bank of Iraq, and any other Bank, as a fiscal agent for the purpose of carrying out any function authorized by this Law.
2. The Minister shall have authority to designate Banks that are eligible to act as depositaries for any part of the proceeds from the issuance of Government Debt Securities. The Minister shall have authority to prescribe conditions for the deposit of public money, including the interest rate on amounts deposited.
3. The Minister shall have authority to transfer public money in a depositary's possession to the public treasury, and to transfer public money between depositaries.
4. The Minister shall have the authority to require his fiscal agent and depositaries to provide him with any information about their activities under this Law.

Section V Administrative Authorities and Duties

1. The Minister shall have authority to issue regulations, prescribe policies, and issue announcements for the purpose of implementing this Law and carrying out the Minister's functions under this Law.
2. The Minister shall have authority to delegate his duties and functions under this Law, except the power to delegate, to any person within the Ministry of Finance.
3. The Minister shall publish all regulations issued under this Law in the Official Publication.
4. Prior to any sale, the Minister shall list the terms and conditions applying to a Government Debt Security in a regulation or an offering announcement. An offering announcement shall be publicized in a manner that ensures wide circulation among potential buyers.

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5. If the Minister proposes to issue a regulation pursuant to this Law, he shall publish a draft of the proposed regulation in the Official Publication. Along with the proposed regulation, the Minister shall publish an explanation of the regulation and provide at least thirty days after publication for the public to submit comments. The Minister shall consider all comments received. If the Minister determines that a final regulation is appropriate, the Minister shall issue the regulation accompanied by a general description of the comments and his response to those comments. The Minister may issue a final regulation without publishing a draft or considering public comment if the Minister determines that the delay involved would be a serious threat to the interests of the financial system or hinder the effective conduct of monetary policy. In such an event, the Minister shall publish an explanation of his decision to depart from the procedures in this paragraph in the Official Publication.

6. The Minister shall maintain a system of books and records

- (a) describing all issued Government Debt Securities;
- (b) identifying the dates when outstanding obligations come due; and
- (c) stating all amounts of principal and interest paid on Government debt securities.

7. The Minister shall make all its books and records pertaining to Government Debt Securities available for inspection upon request by the Prime Minister and Council of Ministers or its delegatee.

8. On or before the end of the fiscal year, the Minister shall submit a report to the Prime Minister and Council of Ministers on the public debt activities of the Ministry of Finance. The report shall include, at a minimum:

- (a) A table showing the public debt from all outstanding Government Debt Securities as of the date of the report, the interest cost for that debt in the current year, and the projected interest cost for government debt over the next five fiscal years, taking into account projections for the budget.
- (b) A table showing the maturity distribution of the public debt from all Government Debt Securities outstanding as of the date of the report.
- (c) An explanation of the overall financing strategy used in determining the distribution of maturities and interest rates for Government Debt Securities issued during the current fiscal year.

ANNEX B

Section VI Final Provisions

1. Any provision of Iraqi law that was enacted prior to the effective date of this Law and that is inconsistent with this Law is hereby superseded.
2. This Law shall enter into force on the same date that the Order authorizing this Law enters into force.