



COALITION PROVISIONAL AUTHORITY
BAGHDAD

Shuster

ACTION MEMO

January 27, 2004

FOR: THE ADMINISTRATOR
FROM: Rodney Bent, Director, Office of Management and Budget
SUBJECT: 2004 Budget Review and 2005 Budget Timetable

This Memo proposes for your decision the approach to be taken to setting out the Coalition's guidance to the incoming transitional administration on Iraq's financial situation and mid-term budgetary prospects.

The approach proposed is to develop a paper by the end of May based on a mid-term review of the 2004 Budget with updates for policy and parameter changes since the budget was formulated, extending out to 2005 and 2006. This would be supplemented by data drawn from the programs of donor funded capital investment now being developed by Ministries and the Iraqi Strategic Review Board. The first of these is due to be completed next month and will cover projects planned to start in 2004. The first stage of developing the program for 2005 and later years is scheduled for completion in May. These programs will be based on estimates of the donor funding expected to be available over this period. The paper would set out the parameters on which the 2005 Budget will be framed when it goes through the normal budget process in the second half of the year. The title *Iraq Fiscal Status and Prospects - June 2004* gives the flavor of the sort of document in mind.

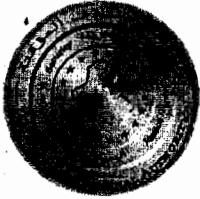
This would be preferable to developing a full 2005 Budget by end May 2004 to be passed to the transitional administration when it comes to office. Such a draft Budget would raise a number of concerns. These include:

- the expectation is that the 2005 Budget will integrate the capital investment program with recurrent operations, as the 2004 Budget did, and would also take into full account the off-budget activities carried out under the US Supplemental program and by other donors. It is doubtful this can be done properly in the time available;
- developing formal budget proposals in the limited time available would put considerable pressure on Senior Advisers, who are already under pressure in the run down to the transition;
- a budget prepared in this way may lack credibility and a feeling of ownership by the Iraqi Ministries which are important factors in successful budget execution;
- the incoming administration may be skeptical of, and disinclined to accept, a budget prepared immediately before it came to office and outside the normal budget cycle. This might result in a second budget process in the later part of the year that would further strain Ministries.

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RECOMMENDATION: That a paper to be entitled *Iraq Fiscal Status and Prospects - June 2004* be developed for presentation to the transitional Iraq Administration when it comes to office. This will be based on a mid-year review of the 2004 Budget and capital investment programs now being formulated by the ISRB. The paper will propose the parameters on which the 2005 Budget should be formulated.

Approve: _____ Disapprove: _____ Approve with modification: _____

COORDINATION

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