

Board decision on the second Validation of Iraq

Decision reference: 2019-56/BM-45

Table of contents

The Board's decision	3
Background	3
Scorecard	6
Corrective actions	9
News	11

The Board's decision

The Board came to the following decision:

The EITI Board agrees that Iraq has partly addressed the corrective actions from the country's first Validation. Consequently, Iraq has made meaningful progress overall with implementing the EITI Standard, with considerable improvements across several individual requirements.

The Board recognises Iraq's efforts to use the EITI as the key source for disclosing data on the oil and gas sector and bolster its international standing. Iraq has used the EITI to disclose information previously kept closed, ranging from data on oilfields and property rights to the financial statements of state-owned enterprises in the oil and gas sector. Iraq's EITI implementation is also recognised as having generated a number of reforms, from pioneering transparency in the sale of the government's crude oil exports to ongoing efforts to develop a license register. The Board recognises Iraq's efforts to strengthen government and industry engagement in EITI implementation. Given Iraq's adapted implementation request related to Iraqi Kurdistan for the 2016-2018 EITI Reports, the Board did not take account of weaknesses in coverage of Iraqi Kurdistan in its assessment of Iraq's progress in implementing the EITI Standard.

The Board nonetheless encourages Iraq to further enhance public disclosures, particularly related to SOEs' financial relations with government, and ensuring comprehensive disclosure of payments, including social expenditures, and provision of agreed quality assurances by all material companies. Iraq is urged to use EITI implementation as an instrument to support reforms, including improving the performance of international oil companies and SOEs to ensure that extractives revenues benefit Iraq's citizens. The Board encourages Iraq to use its EITI implementation to drive a more transparent and accountable management of its extractive industries. The Board welcomes Iraq's ongoing efforts to consider opportunities for improving government and company disclosures through transparency at source, through government and company systems, and encourages Iraq to strengthen its use of EITI data to support the country's vibrant public debate. Iraq should link these systematic disclosure efforts more closely to broader public finance management reforms that are ongoing.

The Board has determined that Iraq will have 18 months, i.e. **until 16 April 2021**, before a third Validation to carry out corrective actions regarding industry engagement (1.2), MSG oversight (1.4), workplan (1.5), state participation (2.6), comprehensiveness (4.1), transactions related to state-owned enterprises (4.5), level of disaggregation (4.7), data quality (4.9), social expenditures (6.1), public debate (7.1), discrepancies and recommendations from EITI Reports (7.3), outcomes and impact of EITI implementation (7.4). Failure to achieve satisfactory progress in the third Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, Iraq's MSG may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

Background

Iraq was admitted as an EITI Candidate in January 2010. The first Validation of Iraq commenced on 1 January 2017. On 26 October 2018, the EITI Board found that Iraq had made meaningful progress in implementing the 2016 EITI Standard. Twenty-two corrective actions were established by the EITI

Board, pertaining to the following requirements:

1. Government engagement (Requirement 1.1)
2. Industry engagement (Requirement 1.2)
3. MSG oversight (Requirement 1.4)
4. Workplan (Requirement 1.5)
5. Legal framework and fiscal regime (Requirement 2.1)
6. License allocations (Requirement 2.2)
7. License registers (Requirement 2.3)
8. Contract disclosure (Requirement 2.4)
9. State participation (Requirement 2.6)
10. Production data (Requirement 3.2)
11. Comprehensiveness (Requirement 4.1)
12. Transactions related to state-owned enterprises (Requirement 4.5)
13. Direct subnational payments (Requirement 4.6)
14. Level of disaggregation (Requirement 4.7)
15. Data quality (Requirement 4.9)
16. Distribution of extractive industry revenues (Requirement 5.1)
17. Subnational transfers (Requirement 5.2)
18. Social expenditures (Requirement 6.1)
19. Economic contribution (Requirement 6.3)
20. Public debate (Requirement 7.1)
21. Discrepancies and recommendations from EITI Reports (Requirement 7.3)
22. Outcomes and impact of EITI implementation (Requirement 7.4).

The Board asked Iraq to address these corrective actions to be assessed in the second Validation. Iraq has undertaken a number of activities to address the corrective actions:

- The Iraq EITI MSG held 11 meetings in 2018, on 29 January, 7 March, 7 May, 4 June, 2 July, 7 August, 3 September, 8 October, 15 November, 11 December and 20 December.
- On 7 January 2018, the MSG established a committee to engage with the Kurdistan Regional Government. An official letter proposing an EITI visit to Iraqi Kurdistan was sent on 26 February 2018, with no response.
- On 13 March 2018, Iraq EITI held a workshop in Basra on crude oil marketing and EITI implementation for government entities, state-owned enterprises (SOEs) and civil society.
- On 28 March 2018, Iraq EITI held a capacity-building workshop for civil society on use of EITI data.
- On 1 April 2018, Iraq EITI held a workshop for government entities on systematic disclosures of EITI data at the Ministry of Oil.
- On 4 June 2018, the civil society constituency held a workshop at the Cultural Centre in

Baghdad to clarify MSG member nominations procedures and proceed with the election of new CSO MSG members to the MSG. The MSG had previously established a committee to oversee civil society MSG member nominations, on 7 May 2018.








- On 1-3 July 2018, the MSG held a capacity-building workshop in Dubai for its MSG members to discuss progress on corrective actions from Validation and strengthening capacities for effective oversight of EITI implementation.
- Ernst & Young (EY) was selected as the IA for the 2016 and 2017 EITI Reports based on a government procurement process overseen by the MSG in line with the World Bank's cost- and quality-based procedures (QCBS), with the contract signed on 16 July 2018.
- The MSG updated and published its 2018-2019 Iraq EITI work plan in September 2018.
- The MSG approved and published a study on the legal framework for the mining, oil and gas sectors in September 2018.
- On 1-2 October 2018, the MSG held a workshop on corrective actions from the first Validation, supported by the EITI International Secretariat.
- Iraq EITI National Coordinator Alaa Mohie El-Deen met with Deputy Prime Minister and the Minister of Oil Thamer Al-Ghadhban on 13 December 2018.
- The MSG approved and published the 2016 IEITI Report on 28 December 2018.
- On 4 December 2018, the Iraq EITI website published a link to a Ministry of Oil webpage with information on the process for awarding Technical Service Contracts (TSCs) through licensing round, including bid criteria.
- Iraq submitted a request to the EITI Board for adapted implementation related to reporting in Iraqi Kurdistan for its 2016-2018 EITI Reports on 18 December 2018, having discussed the draft request since September 2018.
- Deputy Prime Minister and the Minister of Oil Thamer Al-Ghadhban called for Iraq EITI to monitor all of SOMO's monthly oil-pricing meetings during his tenure on 26 December 2018.
- The MSG approved and published Iraq's 2018 annual progress report (APR) in January 2019.
- The 2016 EITI Report was formally launched at a press conference chaired by Deputy Prime Minister and Minister of Oil Thamer Al-Ghadhban on 5 February 2019.








- On 13-16 March 2019, Iraq EITI led by National Coordinator Alaa Mohie El-Deen held a capacity-building workshop with 17 journalists and CSOs on EITI related issues.
- On 18 March 2019, the secretariat of the Council of Ministers issued a Diwani (Order) assigning Deputy Prime Minister and Minister of Oil Thamer Al-Ghadhban as chair of the Iraq EITI MSG and reassigning Alaa Mohie El-Deen as Executive Manager.
- On 25 March 2019, Deputy Prime Minister and Minister of Oil Thamer Al-Ghadhban chaired a symposium of representatives of International Oil Companies (IOCs), National Oil Companies (NOCs) to discuss key issues of EITI implementation such as systematic disclosures and contract disclosure.
- The Board approved Iraq's request for adapted implementation for its 2016-2018 EITI Reports in relation to coverage of Iraqi Kurdistan on 15 April 2019.
- The MSG approved and published an addendum to the 2016 EITI Report on 20 April 2019.
- In April 2019, following direction from the MSG at its 8 April 2019 meeting, all 17 oil and gas SOEs published their financial statements for 2016 (and in some cases subsequent years) and their statements and certificates of establishment.

Iraq's second Validation commenced on 25 April 2019. The Secretariat assessed the progress made in addressing the twenty-two corrective actions established by the EITI Board. **The EITI International Secretariat's assessment is that Iraq has fully addressed ten of the twenty-two corrective actions, with significant improvements on the twelve outstanding requirements.** The draft assessment was sent to the Multi-Stakeholder Group (MSG) in English on 24 May 2019 and in Arabic on 7 June 2019. Following MSG comments received on 10 July 2019, the assessment was finalised for consideration by the EITI Board.

Scorecard

EITI Requirements		Level of Progress					Direction of Progress
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond	
MSG oversight	Government engagement (#1.1)				█		→
	Industry engagement (#1.2)			█			→
	Civil society engagement (#1.3)				█		
	MSG governance (#1.4)			█			→
	Workplan (#1.5)			█			=
Licenses and contracts	Legal framework (#2.1)				█		→
	License allocations (#2.2)				█		→
	License register (#2.3)				█		→
	Policy on contract disclosure (#2.4)				█		→
	Beneficial ownership (#2.5)	█	█	█	█	█	
	State participation (#2.6)			█			→
Monitoring production	Exploration data (#3.1)				█		
	Production data (#3.2)				█		→
	Export data (#3.3)				█		
Revenue collection	Comprehensiveness (#4.1)			█			→
	In-kind revenues (#4.2)					█	
	Barter agreements (#4.3)	█	█	█	█	█	
	Transportation revenues (#4.4)	█	█	█	█	█	
	SOE transactions (#4.5)			█			→
	Direct subnational payments (#4.6)	█	█	█	█	█	→
	Disaggregation (#4.7)			█			
	Data timeliness (#4.8)				█		
	Data quality (#4.9)			█			→
Revenue allocation	Distribution of revenues (#5.1)				█		→
	Subnational transfers (#5.2)				█		→
	Revenue management and expenditures (#5.3)	█	█	█	█	█	

EITI Requirements		Level of Progress					Direction of Progress
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond	
Socio-economic contribution	Mandatory social expenditures (#6.1) 						→
	SOE quasi-fiscal expenditures (#6.2) 						
	Economic contribution (#6.3) 						→
Outcomes and impact	Public debate (#7.1) 						=
	Data accessibility (#7.2) 						
	Follow up on recommendations (#7.3) 						=
	Outcomes and impact of implementation (#7.4) 						→
Overall Progress							→

-  **No progress.** All or nearly all aspects of the requirement remain outstanding and the broader objective of the requirement is not fulfilled.
-  **Inadequate progress.** Significant aspects of the requirement have not been implemented and the broader objective of the requirement is far from fulfilled.
-  **Meaningful progress.** Significant aspects of the requirement have been implemented and the broader objective of the requirement is being fulfilled.
-  **Satisfactory progress.** All aspects of the requirement have been implemented and the broader objective of the requirement has been fulfilled.
-  **Beyond.** The country has gone beyond the requirements.
-  This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
-  The MSG has demonstrated that this requirement is not applicable in the country.

Direction of progress

- = No change in performance since the last Validation.
- ← The country is performing worse than in the last Validation.
- The country is performing better than in the last Validation.

Corrective actions

The Validation Committee recommends that the Board agrees the following corrective actions to be undertaken by Iraq. Progress in addressing these corrective actions will be assessed in a third Validation commencing on **16 April 2021**:

1. In accordance with Requirement 1.2, the industry constituency should ensure that it is fully, actively and effectively engaged in all aspects of EITI implementation, beyond submission of data. Industry is encouraged to refine its constituency action plan to ensure that it provides robust guidelines for structuring the constituency's engagement in EITI implementation and to move forward with efforts to systematically disclose information required under the EITI Standard through their systems.
2. In accordance with Requirement 1.4, Iraq should ensure that any non-trivial deviations from the MSG's ToR in practice are adequately codified, including a clear procedure for appointing proxies in the event that a MSG member is not available.
3. In accordance with Requirement 1.5, Iraq should ensure that the annual IEITI work plan is the product of consultations with the broader government, industry and civil society constituencies, includes individually costed activities with clear sources of funding for each, and includes plans for follow-up on recommendations from Validation and EITI reporting. Iraq may wish to publish more regular updates of its work plan execution to reflect consistent monitoring of implementation and support Iraq's efforts to reach out to prospective donors to support specific activities.
4. In accordance with Requirement 2.6.a, Iraq should ensure that an explanation of the financial relations between material state-owned enterprises (SOEs) and the government in practice during the year under review is publicly-accessible. In accordance with Requirement 2.6.b, Iraq should ensure that a description of any loans or loan guarantees provided by the government to any mining, oil and gas companies is publicly-accessible. To strengthen implementation, Iraq is encouraged to consider means of disclosing this information through routine government and SOE disclosure systems, as well as the scope for using EITI implementation as an annual diagnostic of SOE financial relations with the state in practice.
5. In accordance with Requirement 4.1, Iraq should ensure that future EITI reconciliations include the IA's clear assessment of the materiality of payments from each non-reporting company, to support an assessment of whether omissions could have affected the comprehensiveness of the reconciliation of payments and revenues (*see Requirement 4.9*). The MSG should document the options considered and the rationale for establishing the materiality definitions and thresholds. Iraq is encouraged to strengthen its efforts to ensure that all companies making material payments to government duly submit their EITI reporting templates.
6. In accordance with Requirement 4.5, Iraq should ensure that all material company payments

to SOEs, whether in cash or in kind, and all material SOE transfers to and from government are comprehensively disclosed and reconciled. To strengthen implementation, given the importance of SOEs in the oil and gas sector, Iraq is encouraged to ensure that a clear mapping of all transactions involving extractives SOEs is publicly available.

7. In accordance with Requirement 4.7, Iraq should ensure that all reconciled financial data, including cost recovery and remuneration fee, is disaggregated by company, revenue stream and government entity. Iraq may wish to consider the extent to which it can make progress in implementing project-level EITI reporting of sector-specific levies and taxes ahead of the deadline for all EITI Reports covering fiscal periods ending on or after 31 December 2018, agreed by the EITI Board at its 36th meeting in Bogotá.
8. In accordance with Requirement 4.9, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. In accordance with Requirement 4.9.b.iii and the standard Terms of Reference for the Independent Administrator agreed by the EITI Board, the MSG and Independent Administrator should:
 - a. ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.
 - b. ensure that the Independent Administrator provides an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided, alongside the Independent Administrator's clear assessment of comprehensiveness and reliability of the (financial) data presented.
9. In accordance with Requirement 6.1, Iraq should ensure that reporting of mandatory social expenditures be disaggregated by type of payment and beneficiary, clarifying the name and function of any non-government (third-party) beneficiaries and whether expenditures were provided in cash or in kind.
10. In accordance with Requirement 7.1, Iraq should ensure that EITI data is actively promoted, publicly accessible and contributes to public debate. Iraq should consider developing a communications strategy that looks beyond building brand recognition to addressing the national priorities identified in the work plan. Iraq is encouraged to engage with a broader group of relevant stakeholders in its EITI dissemination and outreach, including parliamentarians, academia, the media and host communities. Iraq should also agree a clear policy on the access, release and reuse of EITI data.

11. In accordance with Requirement 7.3, Iraq should implement a mechanism for consistent follow-up on recommendations from past EITI reporting and Validation. Iraq should also consistently make efforts to identify, investigate and address the causes of any discrepancies and weaknesses of the EITI process after publication of EITI Reports. The MSG is also encouraged to take a more proactive role in formulating its own recommendations as part of EITI reporting.
12. In accordance with Requirement 7.4, Iraq should ensure that all stakeholders are given an opportunity to provide input to the annual progress report and that their views are adequately reflected. Iraq should also ensure that the next annual progress report includes a narrative account of efforts to strengthen the impact of EITI implementation on natural resource governance.

News

Iraq: From plugging gaps to building accountability

Iraq has made meaningful progress in implementing the EITI with significant improvements in transparency of state-owned enterprises, oilfield data and petrodollar allocations. Opportunities exist to translate this emerging transparency into evidence-based debate and policy making.

The EITI Board decided today that [Iraq has made meaningful progress](#) in implementing the EITI Standard. Validation, the EITI's quality assurance process, found that Iraq's performance in implementing EITI Requirements has improved markedly since the country's first Validation in 2017. Iraq's suspension as a result of poor results in its first Validation has now been lifted, a development that reflects a substantial rate of progress over the last two years.

"Iraq's implementation of the EITI Standard is now disclosing some USD 45bn in crude oil sales annually," said Chair of the EITI Board Helen Clark. "The challenge now is for Iraq to strengthen multi-stakeholder oversight of its extractive industries and to use this emerging transparency to enhance accountability in the governance of its natural resources."

Breaking ground in data disclosures

The Board recognised Iraq's progress, through the EITI, in disclosing information that was previously inaccessible to stakeholders, ranging from data on oilfields and petroleum property rights to publishing the financial statements of oil and gas state-owned enterprises. Iraq's most recent EITI reporting also provides a diagnostic of the efficacy of government oversight of the extractives, including in identifying arrears of undisbursed subnational transfers of 'petrodollar' allocations. Validation has acknowledged these tangible gains in the transparency of Iraq's oil and gas sector, building on [a series of first-ever disclosures](#).

"The results of this second Validation reflect our concerted efforts to open up the management of Iraq's oil and gas industry through regular and comprehensive disclosures," said Iraq's Deputy Prime Minister and Minister of Oil Thamer Al-Ghadhban. "We want to use the EITI not only to frame

our systematic disclosures of oil and gas data but more importantly to support an evidence-based debate on our reforms.”

From transparency to accountability

Yet this emerging transparency has not been matched by commensurate efforts to ensure the data contributes to public debate and decision-making. Systematically disclosing data required by the EITI Standard would enable Iraq to focus on using EITI data to improve accountability in the governance of the oil and gas sector. The Board encouraged Iraq to integrate its systematic disclosures of EITI data to ongoing public finance management reforms, such as the World Bank and European Union’s [modernisation of Public Financial Management systems project](#). The Board also urged Iraq to strengthen its multi-stakeholder oversight of the extractives to ensure more active contributions from companies and civil society to the government’s management of the extractive industries, including through the Multi-Stakeholder Group overseeing EITI implementation.

The decision by the EITI Board gives Iraq 18 months to address 12 gaps in its implementation of the EITI Standard before a third Validation on 17 April 2021. Iraq submitted an adapted implementation request for its 2016-2018 EITI Reports, and the Board did not therefore take account of weaknesses in coverage of Iraqi Kurdistan in its assessment of Iraq’s progress in implementing the EITI Standard.

Notes to Editors

About Validation

The EITI holds all implementing countries to the same global standard. During the Validation process - the EITI’s quality assurance mechanism - each implementing country is evaluated on their degree of progress in implementing the EITI Standard.

Validations are intended to provide all stakeholders with an impartial assessment of whether EITI implementation in a country is in line with the provisions of the EITI Standard. The Validation report, in addition, seeks to identify the impact of the EITI in the country being validated, the implementation of activities encouraged by the EITI Standard, lessons learnt in EITI implementation, as well as any concerns stakeholders have expressed and recommendations for future implementation of the EITI. The outcome of a Validation report is an overall assessment of Satisfactory, Meaningful, or Inadequate progress.

More information about the Validation procedure can be found [on EITI’s Overview of Validation page](#).