**Validation of Iraq**

Draft Validation Report

Adam Smith International Independent Validator

10 August 2017

**1. EXECUTIVE SUMMARY**

The Government of Iraq initially committed to implement the EITI in July 2007 and publicly announced its commitment to work with all stakeholder groups at the 4th EITI Global Conference in Doha, Qatar, in February 2009. On 2 June 2016, the Board agreed that Iraq’s Validation under the 2016 EITI Standard would commence on 1 January 2017.

This draft validation report follows on from a quality assurance review of the International Secretariat’s initial assessment. The Validator agrees with the Secretariat’s preliminary assessment is that 22 of the requirements of the EITI Standard have not been fully addressed in Iraq. 15 of these are assessed as “inadequate progress”. However, the Validator also recommends that requirement 4.2 is downgraded to Satisfactory, and that requirement 4.4 is actually applicable in the case of Iraq, and scored as Inadequate progress.

**2. BACKGROUND**

Iraq’s oil production grew swiftly from first discoveries in 1927, developed by the precursors to today’s IOCs such as Anglo-Iranian, Shell, Mobil and Standard Oil of New Jersey. All major discoveries were around Shiite-majority southern Basra, [The Council believes that this expression reinforces the sectarian approach and must be omitted. The expression referring to sectarianism does not reflect reality since the discoveries and the contracts that Iraz has signed are historical and from different regions ranging from the north to the south.] including Rumaila in 1953 and West Qurna field in 1973 (US Energy Information Administration, 2016). While Iraq does not produce any metal commodities, its mining sector output consists of industrial minerals such as bentonite, cement, clay, gypsum, limestone, nitrogen and phosphate fertilizers, phosphate rock, salt, sand and gravel, silica sand, and sulphur. The Iraq Geological Survey (Geosurv-Iraq) has long promoted investment in 12 industrial mineral projects, including mining and processing plants for phosphates, sodium sulphate, alumina, calcium carbonate and others [Opinion of the Council: The majority of the deposits and quarries referred to are situated in unstable regions. For this reason, no advisory bids have been submitted for them. Therefore, this paragraph must be corrected] (US Geological Service, 2015). The Kurdistan Regional Government (KRG) has also issued a general mining vision on its website, albeit with little detail (KRG Ministry of Natural Resources, 2015).

Iraq’s five southern super-giant fields[[1]](#footnote-1) hold 80bn of the 91bn barrels reserves covered by production contract[[2]](#footnote-2) (Iraqi Economists, 2016). Northern Sunni-majority regions of Iraq (around Kirkuk, Mosul, and Khanaqin) are estimated to hold only 17% of proven national oil reserves, estimated at 143bn barrels at end-2015 (US Energy Information Administration, 2016). The Council believes that this expression reinforces the sectarian approach and must be omitted. The expression referring to sectarianism does not reflect reality since the discoveries and the contracts that Iraz has signed are historical and from different regions ranging from the north to the south.] Ranked fifth in the world, Iraq held 18% of the Middle East’s and 9% of the world’s oil reserves (US Energy Information Administration, 2016) (US Geological Service, 2015) (Hannam & Partners, 2015). The Rumaila and West Qurna fields together hold more proven oil reserves than the entire United States. All of Iraq’s production is onshore, with the majority at shallow depths of 10,000ft and some 30%-40% within the 2000-5000ft range, and Iraq boasts one of the world’s highest exploration success rates at 2/3, compared to a global average of 1/10 (US Energy Information Administration, 2016) (Hannam & Partners, 2015). Iraq holds the world’s 12th largest natural gas reserves at 112 tcf, three quarters of which are associated with oil in the south (Hannam & Partners, 2015). However, limited gas infrastructure has constrained gas-focused exploration and Iraq ranked as the world’s fourth-largest gas flaring country in 2014 (US Energy Information Administration, 2016).

The second-largest producer in OPEC, Iraq’s oil output rose some 58% to almost 4.1m barrels per day (bpd) between 2011 and 2015, some 3.7% of the world’s production (CME Group, 2016). Production reached a record high of 4.5m bpd in November 2015 (Global Risk Insights, 2015). Some 88% of this production came from southern oilfields, with the other 450,000 bpd produced from northern Iraq, primarily the Kurdistan Regional Government (KRG) (US Energy Information Administration, 2016). [The Council believes that the way in which this phrase (‘regional government’ and ‘Baghdad’) is used reinforces the national conflict. Baghdad is represented by the Federal Government, so this paragraph must be amended in such a way as not to reinforce the national conflict and the Federal Government must be referred to clearly in the report since it is the highest executive power in Iraq by virtue of the Iraqi constitution.] In Baghdad-administered Iraq, the industry is completely state-owned, with the oil marketing company SOMO selling crude to 40 [Comment from the Council: This number is wrong; it should be 42 as stated in the 2015 report] accredited international companies on behalf of four producing affiliate companies of the Ministry of Oil: South Oil Company, North Oil Company, Missan Oil Company and Midland Oil Company. Iraq’s oil industry is wholly government-owned, structured under Technical Service Contracts (TSCs) where operators are paid a fixed rate per barrel for production. International companies active in Iraq’s oil and gas sector include BP, China National Petroleum Corporation (CNPC), Shell, Petronas, Total, ExxonMobil, Petrochina, Lukoil, Eni, China National Offshore Oil Corporation and Japex. While the government had benefitted at times of high oil prices, the slump in global prices from mid-2014 has meant the government has struggled to cover companies’ investment costs, cumulating USD 10bn in debt in 2015 alone (Iraq Business News, 2016). [Comment from the Council: This information given in the report is derived from the news agency Iraqi Business News. This is an unofficial agency and therefore the number is untrustworthy. The Council therefore believes that this number should be omitted.] The eleven international TSCs that have been signed hold the promise of a total production of 11.86m barrels per day, which would make Iraq the largest oil producer in the world (Iraqi Economists, 2016). However, the government has lowered forecasts for oil production from 12m bpd to 6m bpd in 2020 as annual investment in the upstream oil industry has declined by roughly a third from 2014 to USD 13bn in 2015 (The Oxford Institute for Energy Studies , 2016). The International Energy Agency estimates Iraq has the potential to produce only around 7m bpd by 2040 (International Energy Agency, 2016). Iraq is overwhelmingly reliant on crude oil for 95% of exports, 93% of government revenues and 47% of GDP in 2014 (IMF, 2015). With a budgeted oil price average of USD 45 per barrel for 2016, the government’s donor-supported fiscal position has come under significant pressure (World Bank, 2016).

Northern oil production has been plagued by political frictions between the KRG and insurgency linked to the Islamic State in Iraq and the Levant (ISIL). [Comment from the Council: The phrasing here suggests that ISIL is a political organisation that has political differences with the KRG. This is implicitly linked with the Federal Government, which contradicts the reality, which is that ISIL is a terrorist organisation according to international and local norms. Therefore, this paragraph must be omitted.] While the Ministry of Oil has insisted that all contracts be signed by the national government and oil marketed through the State Oil Marketing Organization (SOMO), KRG passed its own hydrocarbons law in 2007 pending national legislation and has awarded over 40 production-sharing contracts (PSCs) to oil companies including IOCs such as Chevron, ExxonMobil and Total (The Oxford Institute for Energy Studies, 2016; Crisis Group, 2012). As tensions between Baghdad and the KRG grew in 2014, when Prime Minister Nouri al-Maliki ceased statutory subnational transfers to the KRG of 17% [Comment by the Council: The expression ‘subnational transfers’ in the paragraph reflects the unilateral point of view of the side represented by the KRG, whereas the procedures that were followed in this respect have legal considerations and are the result of the infringement of the contents of the Draft Iraqi Budget Law and the terms of the agreement signed relating to budgets.] of the national budget [Typing error in the Arabic: It should not be ‘muwazana’ but ‘mizaniyya’. Please correct this wherever it occurs in the two reports.] (NRGI, 2016), a December 2014 deal to resume subnational transfers in exchange for marketing a share of KRG oil through SOMO quickly collapsed (US Energy Information Administration, 2016). By 2016, the KRG was estimated to have accumulated as much as USD 25bn in debt owed to local and foreign firms, in part through pre-payment oil contracts (The Oxford Institute for Energy Studies , 2016). [Comment by the Council: The report repeatedly refers to ‘Baghdad and the KRG’ (Kurdistan Regional Government) rather than referring to the ‘Federal Government and the KRG’, which is the correct expression. Please amend this wherever it occurs in the two reports. In addition, the report refers to the ‘Federal Government’ rather than ‘Baghdad’ with reference to the expression ‘Federal Executive Side’].

Iraq’s formal oil export figures typically only include seaborne exports from the southern terminals exporting Basra crude, which accounted for 85% of total oil exports in 2015. [Comment by the Council: Something is missing here; It needs to be added that 15% are exported from the Port of Ceyhan.] In addition to the Basra and Khor al-Amaya ports operating below capacity, four single-point moorings buoyed offshore Basra were installed in 2015 and a fifth in 2016. Most of the country’s major pipelines are in the North and remain non-operational. Following the closure of the main Iraq-Turkey pipeline in March 2014, northern exports rely on two KRG-built pipelines to Ceyhan. [Comment by the Council: While the export pipeline from Kirkuk to Ceyhan was constructed in 1977 by the Federal Ministry of Oil, and was expanded in 1987 to carry 1660 thousand barrels per day, and consists of two pipelines. The first has a diameter of 40 inches and the second of 46 inches. Pumping through these pipelines stopped in February 2014 as a result of the terrorist attacks that the pipelines suffered. The KRG extended a pipe connection to link its territory with the section of pipeline situated in Turkish territory. It was therefore agreed to pump oil from Kirkuk through the, connection made by the KRG to the afore-mentioned pipeline belonging to the Federal Ministry of Oil. This therefore needs to be rephrased since the KRG does not own a pipeline to Turkey.] While Asia continued to account for over half of Iraq’s total oil exports in 2015, exports to the largest non-Asian importer, the US, declined some 70% from 2001 to 229,000 bpd in 2015 (US Energy Information Administration, 2016). Iraq operates 12 domestic refineries, of which three are large-scale, with total nameplate capacity of 1m bpd (Iraqi Ministry of Oil, Fossil Fuel Resources, 2010). Following ISIL attacks on the Baiji refinery in June 2014 however, total domestic refining capacity declined to around 600,000 bpd (US Energy Information Administration, 2016). However, given that refineries produce more heavy fuel oil than required domestically, Iraq imports an average of 100,000 bpd of lighter petroleum products. Four new refineries with combined capacity of 800,000 are planned to open after 2018 to alleviate this dependence on imports (US Energy Information Administration, 2016).

Regulatory reform in the oil and gas sector has long been mooted, although progress has been slow. First proposed in 2007, a draft Hydrocarbons Law proposed the creation of an oil and gas council to oversee the sector, a national oil company (NOC) and arrangements for profit-sharing through an Oil Revenue Fund and a Future Fund (US Geological Service, 2015). There have also been proposals to convert the current system of TSCs, where the government contracts oil companies to produce oil at an agreed rate, to PSCs, where government and companies share costs and profits according to an agreed split (Iraqi Economists, 2016). As of end-2016, the draft law remains stalled due to political disagreements over issues such as oil revenue sharing (Export.gov, 2016). Iraq is ranked 38/100 in the Natural Resource Governance Institute’s 2017 Resource Governance Index, a “weak” score that placed Iraq 61st of 89 countries (NRGI, 2017). The country was ranked 161 of 168 countries in Transparency International’s 2015 Corruption Perception Index (Transparency International, 2015), 161 of 189 countries in the World Bank’s 2016 Doing Business ranking (World Bank, 2016) and 3 of 100 in the International Budget Partnership’s 2016 Open Budget Index (International Budget Partnership, 2016). A USD 5.34bn three-year stand-by agreement reached with the IMF in May 2016 is contingent on reform of state-owned banks and the clearing of government accumulated arrears to foreign oil companies in payment for production costs (IMF, 2016). [Comment by the Council: The Council is of the opinion that the criteria used to calculate these categories do not correspond with Iraqi reality. We are also of the opinion that this paragraph is irrelevant to the verification process and should be omitted.]

In line with the Validation Guide, the International Secretariat carried out the first phase of validation—initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the “Initial Assessment”). Adam Smith International (ASI) was appointed as the independent Validator to evaluate whether the Secretariat’s work was carried out in accordance with the Validation Guide. ASI’s principal responsibilities as Validator are to review and amend the Initial Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

1. **Work Performed by the Independent Validator**

The Secretariat’s Initial Assessment was transmitted to ASI on 16th July, 2017. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and the Civil Society Protocol; (3) Detailed review and comments by the Financial Specialist of Requirements 4, 5 and 6; (4) Consolidation of reviews and the production of this draft Validation Report, sent to the International Secretariat on the 10th August 2017.

1. **Comments on the Limitations of the Validation**

The Validator carefully reviewed the Secretariat’s Initial Assessment. One issue has been identified, in relation to domestic crude sales with regard to 4.1 Comprehensive disclosure of taxes and revenues.”

Having read International Secretariat’s comment to a specific query raised on this issue and having reviewed the EITI Source Book 2005, it is recommended that this matter is thoroughly discussed within the International Secretariat to establish a clear internal practice and protocol as to how to treat all downstream, midstream and upstream activities considering the new EITI Standard 2016 for EITI country reporting and EITI Validation process. This is because hydrocarbon activities are not necessarily always vertically established within a certain company or legal entity so they can be taxable all together within a certain legislation. These activities could be organised in separate formal legal entities and therefore be subject to tax and non-tax payments to the government and generate separate revenues for the State.

1. **Comments on the International Secretariat’s Initial Assessment**

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. The data collection took place across three phases. Firstly, a desk review of the available documentation relating to the country’s compliance with the EITI Standard, including but not limited to:

* The EITI work plan and other planning documents such as budgets and communication plans;
* The multi-stakeholder group’s Terms of Reference, and minutes from multi-stakeholder group meetings;
* EITI Reports, and supplementary information such as summary reports and scoping studies;
* Communication materials;
* Annual progress reports; and
* Any other information of relevance to Validation.

Secondly, a country visit, which took place from the 1st – 9th April, 2017. All meetings took place in Baghdad, Iraq. The secretariat met with the multi-stakeholder group and its members, the IA and other key stakeholders, including stakeholder groups that are represented on, but not directly participating in, the multi-stakeholder group.

Finally, the International Secretariat prepared a report making an initial assessment of progress against requirements in accordance with the Validation Guide. The initial assessment did not include an overall assessment of compliance. The report was submitted to the Validator, with the National Coordinator (NC) also receiving a copy.

**2. GENERAL COMMENTS**

* **Progress in EITI Implementation**

Most oil and gas regulatory frameworks are based on a model whereby licenses are issued to private companies to develop extractives deposits who make payments to government, either in cash or in kind. Except for in the Kurdish Regional Government (KRG), this is not the structure of the sector in Iraq. Rather, the vast majority of transactions in Iraq’s oil and gas sector are intra-SOE and government transfers, revenues from the sale of the government’s oil to international buyers and, perhaps counterintuitively, government payments to companies. This has implications for how the EITI is implemented in Iraq.

With the exception of the KRG, oil in Iraq is extracted under so-called Technical Service Contracts (TSCs). Under TSCs, also known as Risk Service Contracts, a consortium of private companies is paid a fixed fee per barrel of oil produced above a certain threshold (remuneration fee) and is reimbursed for its expenses in producing the oil (cost recovery). These government payments to companies can be received in cash or in-kind by the vertically-integrated oil and gas company contractors, who always elect to lift their payments for remuneration fees and cost recovery in kind, rather than in cash. There are thus only three types of company payments to government in Baghdad-controlled Iraq:[[3]](#footnote-3)

* The government deducts corporate income tax (35% of remuneration fees) from remuneration fees to companies. As these are paid in kind, so too is the income tax received as crude oil. [Comment by the Council: The oil company allocations, including the estimated remuneration fees, are part of the federal oil budget according to the federal budget. Therefore, when the remuneration fees due from companies are calculated, SOMO is notified of the total value of the remuneration fees due from each company. SOMO will calculate 65% of these dues as the final amount due from the companies. This is because, by virtue of the oil license contracts, deserving companies have the right to use the remuneration fees either as cash or to buy the quantities of crude oil due to them in accordance with SOMO’s pricing mechanisms. The remaining 35% is the value of the taxes due from these companies. SOMO will notify the Ministry of Oil, and from there the Ministry of Finance, to deduct this in cash. It will be deducted from the Ministry of Oil’s budget to become revenue for the Ministry of Finance.] This amount is then sold by the State Oil Marketing Company (SOMO) along with the rest of the government’s oil).
* Companies are also required to pay a signature bonus in cash upon signature of a Technical Service Contract.
* Finally, international oil buyers pay for the crude oil they buy from SOMO.

These are the only three types of payments to government that are strictly covered by Requirement 4.1 of the EITI Standard. While 5% of all oil sales proceeds should have been earmarked for the UN Compensation Fund in 2015, repeated budget [Typing error in Arabic; it should be ‘muwazana’.]crises have prompted the delay of the final payment to the fund to 2017.

The Iraqi Kurdistan region has provided a key challenge for EITI implementation. The Kurdistan Regional Government (KRG) passed its own Oil and Gas Law in 2007 and has awarded 56 conventional Production Sharing Contracts (PSCs) since then. Iraqi Kurdistan’s oil and gas industry is dominated by a handful of players, with four companies accounting for over 98% of oil and gas production in the KRG-controlled areas in 2015 (Atlantic Council, 2016). After attempts to engage the KRG in the EITI’s reporting process failed, Iraq requested and was granted adapted implementation by the EITI Board to exclude the region from the EITI’s reporting requirements for the 2012 EITI Report. None of the subsequent IEITI Reports were successful in securing the KRG’s participation, nor was a new request for adapted implementation presented to the Board. [Comment by the Council: A request for adapted implementation was presented for 2014 and 2015 as per the attachment. This phrase should therefore be omitted.] Furthermore, while Iraq’s initial adapted implementation request in 2014 did not preclude the Federal Government from conducting outreach to companies operating in the KRG, there is no evidence that the Independent Administrator (IA), the MSG or the national secretariat have engaged with any of the four main companies operating in Iraqi Kurdistan to secure their participation in EITI reporting. [The Council is of the opinion that communication with the KRG should be via the Ministry of Natural Resources, which has refused to cooperate, according to National Secretariat Letter No 85 of 12/7/2016 requesting the facilitation of the mission of KPMG (attached). This sentence should therefore be omitted.]

Iraq has also faced the challenge of extending EITI reporting to its state-dominated mining sector (primarily construction and quarrying materials), from which the government derives far less than 0.1% of revenues according to stakeholder estimates. While the MSG has consistently decided to include the general mining sector in the scope of its EITI reporting, basic scoping on company payments to government in the sector has yet to be comprehensively undertaken. The structure of Kurdistan’s mining sector is equally unclear from IEITI Reports. Iraq’s state-dominated mining structure appears akin to the oil and gas sector, implying that the MSG would need to either reconcile sales of the government’s minerals or exclude the sector from reconciliation through meaningful materiality decisions. [It is the opinion of the Council that mining should be excluded from the reconciliation in view of its relative importance by virtue of Council Decision No. 40 of 05/10/2016.

Mainstreaming disclosures required by the EITI Standard will in many cases be the most efficient way of implementing corrective actions from this Validation. Websites of the Ministry of Finance, the Board of Supreme Audit [Translation Mistake: The correct translation is ‘ ديوان الرقابة المالية الاتحادي’. Please correct it wherever it occurs in the two reports.] SOMO and other government entities could provide timelier data on budget execution, oil and gas revenues, petrodollar allocations and transfers, corporate income tax (CIT) and signature bonus income as well as other documents such as audited public accounts. Leveraging current reforms of the management of SOEs, the EITI could work with the Ministry of Oil and the nine upstream SOEs and SOMO to disclose SOE holdings, intra-SOE transactions, loans and guarantees as well as quasi-fiscal expenditures. In the state-dominated oil and gas industry in Iraq, untangling the transactions between SOEs and the government in line with Requirements 2.6 and 4.5 of the Standard is particularly complex. Meanwhile weaknesses in the management of oil and gas licenses, contract renegotiations and beneficial ownership could best be addressed through reforms in the line ministry, the Ministry of Oil. It is worth noting that these approaches would have a wider impact beyond helping Iraq comply with the EITI Standard and could, for example, help demonstrate progress against the IMF’s standby agreement with Iraq.

* **Impact of EITI Implementation**

Despite significant practical and logistical challenges for EITI implementation in Iraq, the small number of large companies operating in upstream oil and gas and buying oil from SOMO means that the number of reporting entities is known, and manageable. Despite significant political challenges, the scope for EITI reporting in Iraqi Kurdistan is also relatively clear, with arguably only four oil-producing companies making material payments to the KRG. Meanwhile revenues from the mining sector are arguably not material. There is clear scope for Iraq to achieve satisfactory progress across all requirements of the EITI Standard by making challenging yet key decisions about scoping, materiality and data reliability.

.**The Independent Validator’s Assessment of Compliance**

*Figure 1 – Validator’s assessment*

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **EITI Requirements** | | | | | **LEVEL OF PROGRESS** | | | | |
|  | |  |  |  | No | Inadequate | Meaningful | Satisfactory | Beyond |
| **Categories** | **Requirements** | | | |  |  |  |  |  |  |
| **MSG oversight** | Government engagement (#1.1) | | | |  |  |  |  |  |
| Industry engagement (#1.2) | | | |  |  |  |  |  |
| Civil society engagement (#1.3) | | | |  |  |  |  |  |
| MSG governance (#1.4) | | | |  |  |  |  |  |
| Work plan (#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) | | | |  |  |  |  |  |
| **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) | | | |  |  |  |  |  |

|  |  |
| --- | --- |
| *Legend to the assessment card* | |
|  |  |
|  | The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled. |
|  | The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled. |
|  | The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled. |
|  | The country is compliant with the EITI requirement. |
|  | The country has gone beyond the requirement. |
|  | 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. |

**3. DETAILED FINDINGS**

This section highlights areas where the Validator disagrees with the findings of the Initial Assessment or requires further clarification.

**4.2 In Kind Revenues**

Page 94 of the Iraq Validation initial assessment states:

“The total value of crude oil exported according to SOMO is provided (2015 IEITI Report, Section 6.3.3, pp.121-122), alongside the value of “fines charged against sales invoices” and total value of “collections deposited in the collection of oil sales account”. Figures are also provided for the total value of crude oil lifted as well as for “total revenue” (USD 50,932,301,000), calculated “by subtracting total crude oil lifted from transferred amount by the Central Bank of Iraq and by adding receipts deposited in the collection account.” It is unclear why the value of total crude oil lifted (USD 13,585,852,000) is lower than the value of total crude oil exported according to SOMO (USD 35,457,722,000).” [Comment by the Council: There is a remark that indicates that there are differences in the data mentioned in the report. The Council considers that a mistake has been made in the Validation Report in calculating these figures. By referring back to Table No. 129 (in English), where exports are calculated as follows: 35447722000 – 80508000 – 2024192000 + 8000, the result is 37336449000. When the amounts paid to companies as dues for 2015 are added (13585852000), the total gross amount is 50932301000.

“Discrepancies: The 2015 IEITI Report identifies material discrepancies (USD 3,403,942,449) in the reconciliation of payments from 35 of the 42 oil buying companies, not including the three buying companies that did not report (2015 IEITI Report, pp.64-66). While the materiality of these discrepancies is not assessed, it can be calculated as 9.11% of crude oil sales disclosed by SOMO. Discrepancies were identified for 35 of the 39 reporting oil buying companies. However, there is a net variation of USD 331.13m between the value of aggregate discrepancies provided and the value of the cumulated individual discrepancies for each company, a low figure given the netting out of discrepancies in the reconciliation at a company level.  The reasons for discrepancies are provided for each company (2015 IEITI Report, pp.67-72), which relate primarily to differences between accrual accounting of buying companies and cash accounting of SOMO. It is notable that the discrepancies for each individual company were netted out (i.e. deducting negative from positive discrepancies), thereby under-valuating the value of discrepancies for each company.” [The Council tried every means to obtain data for those companies. It pushed SOMO to send more than one letter to those companies for them to send the data to KPMG, without achieving any result. Therefore, there was a unilateral notification in the report, from SOMO. N.B. The number, date, and collection point for each cargo is listed.

The initial assessment concludes there is a “Beyond” level of progress. But, considering the comments stated above, would it be more adjusted to conclude it shows “Meaningful progress” and with additional information provided relative to cargo-by-cargo reconciliation and additional information on the sales process for 2015, upgrade it to “Satisfactory progress”.

**4.4 Transportation Revenues**

Page 97 of the Iraq Validation initial assessment states:

“The 2015 IEITI Report states that there were no transportation revenues in 2015 (2015 IEITI Report, Section 4.4, p.109). However, it lists six SOEs operating in the transportation, distribution and marketing  of oil and gas (2015 IEITI Report, Section 2.1.2, p.34). All crude oil and natural gas flows passing through transportation SOEs (e.g. OPC and OPDC) appears to involve inter-SOE transactions. Yet the 2015 IEITI Report does not reconcile intra-SOE physical crude flows, but rather attempts at reconciling net revenues from the final sale of refined oil products on the local market, between figures from MoF and OPDC (2015 IEITI Report, Section 4.1.2, p.91). It is unclear from the 2015 IEITI Report whether other SOEs in the oil and gas transportation sector, such as the OPC, pay any dividends to the MoF.”

The initial assessment concludes this requirement is “not applicable to Iraq”. But as mentioned above there is information that could indicate the contrary particularly when the initial assessment later recommended: [Comment by the Council: Iraq did not receive any transport revenues from crude oil and gas because no pipelines from other countries passed through its territory. There were only operating budgets for companies owned by the state, which transport oil and gas domestically. A remark was made in the 2015 report that the Council will take responsibility for adding contextual information through the mechanisms of these companies in 2016 TORs.]

“To strengthen implementation, the MSG is strongly encouraged to review the balance sheets of the six SOEs engaged in transportation, distribution and marketing of oil and gas to assess the materiality of any potential revenues to government (i.e. transfers to the MoF/DFI) from the transportation of crude oil or natural gas.” [The Council took the decision on this in accordance with 2016 TORs.]

In addition, the Iraq Progress EITI Report 2016 in the table “4. Assessment of Performance Against EITI Requirements”, requirement 4.4 “Payment of Transportation” in reference to progress states:

“Not applicable. But IEITI will add contextual data about the mechanism of obtaining revenues of transportation of oil pipelines companies and add contextual data about the payments that SOMO pay for passing the Iraqi oil to Jihan port as cost.” [The Council supports these sound words and it recorded as much in 2016 TORS.]

We recommend grading this requirement as “Inadequate progress” [The Council believes that the evaluation should be raised to ‘satisfactory’ because it is in accordance with what is recorded in the plan and the report.], particularly given that transportation activities are mentioned many times in the Iraq EITI 2015 Report and Initial Assessment Report.

**4. RECOMMENDATIONS**

While the following report includes recommendations for specific improvements the MSG may wish to consider implementing, the following is a list of strategic recommendations that could help Iraq make even greater use of the EITI as an instrument to support reforms.

* In line with Requirement 1.2, the MSG should develop a plan to engage more actively with the industry constituency, for instance through the Iraq Oil Company Forum. To galvanise industry’s attention, the MSG should ensure extensive consultations with industry are undertaken to ensure EITI implementation objectives are consistent with priorities of the industry constituency. [The Council worked to define a new mechanism. It succeeded in attracting four candidates from the companies. The Council chose three of them (BP, Luke Oil and Petronas. Exxon Mobile was excluded.) For the following reasons, the Stakeholder Council considers that the evaluation relating to this criterion is unjust and requests that it be amended to Satisfactory Progress:
  1. The definition of companies operating in Iraq is broader than the definition the International Initiative referred to. There are two types of company operating in extractive industries. These are:
     1. National Companies.
     2. Foreign Companies.

This categorisation is indicated in Diwani Order No. 12/2010 relating to the formation of the Initiative in Iraq for the companies to be represented in the Stakeholder Council. For this reason, there were four companies who faithfully attended: Shell, South Oil, North Oil and Missan Oil.

* 1. Company participation was not confined to their representation on the Council. This is reflected through the broader participation of the Stakeholders in Initiative reports. More than 50 companies submitted data and information in the annual reports of the Initiative.
  2. The Council sought to broaden and modernise the participation of foreign and national companies in the Council. This was achieved through:
     1. Ministerial Order No. 15330 dated 16/04/2017 (copy attached)
     2. Foreign companies were invited by sending an email to all the 94 companies operating in Iraq and purchasing Iraqi oil and gas. Four representatives from four companies were nominated and the Council voted to choose three companies (BP, Luke Oil and Petronas.
  3. On p.8, the Valuation Report indicated the following with regard to mining:]

The mining sector in Iraq, which is controlled by the State, is similar to the oil and gas sector. This means that the Stakeholder Council must either reconcile the government’s mineral purchases or exclude the mining sector from the reconciliation through the reports relating to relative importance.

[However, in Session No. 40, on 05/10/2016, the Stakeholder Council excluded mining from relative importance. Thus, the companies operating in mining were not included in the reconciliation. This reflects the fact that the Stakeholder Council implemented this paragraph previously, which excludes from the report the aspects of weakness relating to the failure to include mining data.

* The amended implementation request was sent on 21 September to the International Board, with KBMG’s letter attached, which meant that the report did not include companies operating in the region of Kurdistan.]
* In line with Requirement 1.3, to strengthen implementation, civil society members of the MSG may wish to consider formalising and strengthening their mechanisms for canvassing the broader constituency on key EITI documents, in order to broaden public oversight of EITI reporting and implementation. Basic improvements in MSG governance such as the use of Arabic as the working language should encourage more active civil society participation (*see Requirement 1.4*). [The Council decided to use Arabic for all Initiative correspondence in Session No. 43 on 06/04/2017.]
* In line with Requirement 1.4, to strengthen implementation, the MSG should update its internal governance rules to cover all provisions of Requirement 1.4, develop a language policy that is conducive to achieving the goals of implementation in Iraq and publish procedures for nominating and changing MSG representatives, including the duration of mandates. The MSG should revisit its internal decision-making procedures to ensure statutory MSG rules are in line with current practice and treat each of the constituencies as equal. The MSG should also clarify whether there is a practice of per diems for attending EITI meetings or other payments to MSG members, consider keeping public attendance records and consider posting MSG minutes online.

[For these reasons, the Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Meaningful Progress’.

1. The Council devoted numerous discussions to the membership of members. For instance: Session 28 on 04/06/2014, Session 29 on 01/09/2014, and Session 30 on 10/11/2014.
2. The Council sought to enrich discussion in its sessions, including Session No. 41 on 19/12/2016, where it updated the Rules of Procedure in such a way as to define a mechanism for choosing members and their terms of office, and mechanisms for taking decisions, which covers all the provisions required in 4.1.
3. In accordance with government instructions, the Council decreed a system for paying allowances for attendance at Stakeholder Council meetings.
4. On the basis of the Council Decision in Session 41 on 19/12/2016, attendance is recorded and meeting minutes are prepared and posted on the Initiative Site and the social media page.]

* In line with Requirement 1.5, MSG members should in the future consult with stakeholders from all constituencies and ensure that national priorities are adequately reflected in the work plan in order to continue building on the recent efforts to bring the work plan in line with the EITI’s requirements

[For these reasons, the Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Meaningful Progress’.

1. After the workshop held in the Mansour Melia Hotel in October 2016, which included in its proceedings a discussion of the Action Plan, the members of the Stakeholder Council sought on 19/10/2016 to discuss an Action Plan for wider circles like civil society organisations represented in the Iraqi Transparency Alliance with the participation of PWYP and NRG.
2. Company representatives submitted their opinions about the priorities of the Action Plan in accordance with their discussions with the bodies that they represent.
3. The representatives of the government on the Council presented their opinions on the Action Plan.

On the basis of the above, the Action Plan for 2017-2018 was prepared, discussed and ratified in Session No. 41 on 19/12/2016.]

* In line with Requirement 2.1, the MSG should ensure that future IEITI Reports provide descriptions of the main laws and fiscal terms related to the mining, oil and gas sectors, including an overview of the roles of the main government entities involved in overseeing the sectors and of recent or ongoing reforms. The MSG could consider using the IEITI website as a repository of the regularly-updated information on fiscal terms and the legal environment for the mining, oil and gas industry.
* [For these reasons, the Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Meaningful Progress’.
* The articles of the Constitution relevant to the extraction industries were mentioned.
* The laws relevant to the management of the oil and gas industries were mentioned.
* The laws relevant to the management of the mining industry were mentioned.
* The laws relevant to the management of the oil, gas and mining industries in the region of Kurdistan were mentioned.
* The financial regulations of the Federal Ministries of Oil and Industry were mentioned in the 2015 Report.
* A number of the instructions and regulations in force in the oil and gas industries were mentioned.
* In ToR of the 2016 Report, the Stakeholders’ Council ratified the addition of details about the above-mentioned legislation.]
* In line with Requirement 2.2, the MSG should ensure that future IEITI Reports clearly define the number of licenses (including Technical Service Contracts) awarded and transferred in the year(s) under review in both mining and oil and gas, describe the actual process and highlight any non-trivial deviations in practice. The MSG should clarify the technical and financial criteria (and their weightings) used for assessing allocations and transfers of licenses and equity in TSC consortia, both for any discretionary oil and gas contracts (including in the KRG) and for mining license awards and transfers. The MSG may also wish to comment on the efficiency of the current contract allocation and transfer system as a means of clarifying procedures and curbing non-trivial deviations. [Incorrect expression – translation mistake.

For these reasons, the Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’.

* In the report, it was mentioned that there were no new licenses for mining, oil and gas.
* The technical and financial criteria used in evaluating the companies were mentioned in the 2013 report. In the 2015 report, more details were indicated. Please refer to the Reports link.]
* The MSG should ensure that future IEITI Reports provide all information covered under Requirement 2.3 for all licenses held by material companies (including both oil and gas and mining) or provide a link to where such license information is available to the public. The MSG may also wish to work with the MoO and MIM to disclose license information for all material companies through a publicly-accessible cadastral system and provide free access to such a register online.

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

* No licensing contracts were signed in 2015. The data about licensing contracts that was recorded was for contracts that had been signed in previous years. It included dates when the contracts were signed and all the details relating to the updating of the production information for 2015.]
* In line with Requirement 2.4, the MSG should work with government representatives to clarify the Federal Government’s policy on contract disclosure and document any instances of contract disclosure either through future IEITI Reports or through other channels such as the IEITI website. The MSG is also encouraged to undertake a detailed review of which PSCs have been published by the KRG, with a view to clarifying the practice of contract disclosure in the KRG.

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

* The Ministry of Oil published a model contract for the first and second rounds on the Ministry’s website. The relevant bodies were also supplied with copies of the contracts signed in Arabic and English.]
* In line with Requirement 2.5, the MSG should clarify the government’s policy on beneficial ownership disclosure in future IEITI Reports and provide the legal ownership of all material companies. The MSG may wish to consider how reporting of transfers of equity in TSC consortia and mining licenses under Requirement 2.2 may help support work on beneficial ownership disclosure.
* [A road map was ratified to disclose all the details necessary for the process of disclosure, including also the State’s disclosure policy represented in the laws represented in the laws on the true owner of the benefit, who can benefit from it during the process of opening.
* The 2017-2018 Action Plan contained activities on the ownership of benefit relating to laws and government directives relating to disclosure.
* ToR 2016 contained the organisation of a draft disclosure table relating to ownership of benefit. It will be distributed to companies to fill in as an initial trial of the disclosure process.]
* The MSG should ensure that all aspects of Requirement 2.6 are adequately addressed during the scoping for future IEITI Reports. It should clearly establish its definition of SOEs to delineate the SOEs within the scope of EITI reporting. The MSG should include a comprehensive list of SOEs and their subsidiaries in the next IEITI Report, clarifying the financial relations in practice between SOEs and government as well as any loans and loan guarantees from the government or SOEs to upstream mining, oil and gas companies. The MSG may wish to work closely with MoO and the NOCs to shape the structure of routine disclosures as a means of publishing information required under the EITI Standard on a timelier basis.

[Within the 2016 ToR Report, the Stakeholder Council authorised the preparation of a study to define the extent of the Transparency Initiative in Iraq in accordance with the requirements.]

* In line with Requirement 3.2, the MSG should ensure that future IEITI Reports disclose the production volumes and values for all every extractives commodity produced, including crude oil, natural gas and every mineral produced. To continue improving under Requirement 3.1, the MSG may wish to expand its coverage of the mining sector by including more specific updates on current production, primarily in quarrying.

[The evaluation must be ‘Beyond’. This is because Iraq has published detailed export data in terms of shipments and companies.

* Information about the export of gas and minerals produced is recorded in the 2016 ToR.
* It is recorded in the 2016 ToR with the knowledge that Iraq took an exception from the Board for the region of Kurdistan.]
* In line with Requirement 4.1, the MSG should consider undertaking a comprehensive scoping study to consider options for defining materiality thresholds ahead of agreeing the ToR for its next EITI Report. The MSG should ensure that all material revenue flows (in both petroleum and mining) listed under Requirement 4.1.b are included in the scope of reconciliation and that the materiality threshold for selecting companies ensures that all payments that could affect the comprehensiveness of EITI reporting be included in the scope of reconciliation. The list of material companies should also clearly be defined. The MSG is invited to consider whether setting a quantitative materiality threshold for selecting companies would ensure these aims are met. The MSG should ensure that Iraq’s next IEITI Report includes the IA’s assessment of the materiality of omissions, its statement on the comprehensiveness of the IEITI Report and that full unilateral government disclosure of material revenues from non-material companies is included.
* [During the 2016 ToR, the Council ratified the carrying out of a comprehensive exploratory study to define the relative importance according to the criterion in addition to the independent management body giving an evaluation of the relative importance of the inflow of revenues. The report included government disclosure.]
* To continuing making progress under Requirement 4.2, the MSG is encouraged to consider publishing the reconciled oil sales data disaggregated by cargo (and associated information) it already collects. The MSG may also wish to use SOMO’s regular online disclosures as a means of embedding EITI reporting of oil sales within routine government systems. The MSG could consider joining the EITI targeted effort on commodity trading to provide a framework for ensuring that disclosures of the state’s sales of its in-kind revenues are in line with international best practice.

[We support the current evaluation and reject the proposal to lower it. We are seeking to strengthen implementation. The Production Bank of the Ministries of Oil and Industry and the marketing company SOMO will be recorded in the report.]

* While there is no evidence of barters or infrastructure agreements in the KRG, the MSG is encouraged to examine all of the published KRG PSCs to assess the potential for infrastructure provisions or barter components of these PSCs in line with Requirement 4.3.
* [The Stakeholder Council will seek to study the division of production contracts of the government of the region of Kurdistan and will record what can be implemented under this criterion in the next report.]
* In line with Requirement 4.4, the MSG is strongly encouraged to review the financial statements of the six SOEs engaged in transportation, distribution and marketing of oil and gas to assess the materiality of any potential revenues to government, through transfers to the MoF.

[We support the idea that Requirement 4.4 not in fact be implemented in the case of Iraq.

* The Stakeholder Council will take this into consideration through a study of relative importance and evaluate the results to see whether or not they should be applied.]
* In line with Requirement 4.5, the MSG should clarify the scope of transactions between SOEs and other government agencies as well as between SOEs and companies in the mining, oil and gas sector. Drawing upon the MSG’s definition of SOEs under Requirement 2.6, the MSG should ensure future IEITI Reports disclose the disaggregated value of such financial transactions for the year under review. Given the lack of clarity surrounding financial relations between oil and gas SOEs and the government, the MSG is encouraged to consider whether reconciliation of such financial transactions (both statutory and ad hoc) would further the broader objective of transparency in transactions between SOEs and government.

[The Stakeholder Council will seek to review the detailed budgets of these companies with regard to the financial information and to see whether there are revenues that have been transferred to the Treasury and to subject them to reconciliation according to relative importance.]

* The MSG should secure the KRG's active participation in scoping and shaping Iraqi EITI disclosures of direct subnational payments under Requirement 4.6. The MSG is encouraged to consider whether working with the MoO and the KRG to establish its own regional-level structure for EITI implementation could ensure more efficient coverage of subnational direct payments. The KRG’s EITI MSG could publish its own reports, which could then be included in the national IEITI Reports.

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

* Although the International Initiative approved the Stakeholder Council’s request to resort to the amended implementation relating to the region of Kurdistan, KPMG was charged with submitting a Template report for 2015 to the Ministry of Natural Resources in the region and through it to the companies operating in the region. However, the Ministry of Natural Resources refused to cooperate or to receive the Template from KPMG. It confirmed this in a letter to the National Secretariat to which they attached the Council’s request which was sent to the International Initiative.
* The National Initiative implemented workshops in the region of Kurdistan (Erbil, Sulaymaniya) aimed at a number of regional parliamentarians, ministers, senior civil servants, provincial councils, local governments, academics and civil society organisations to create awareness of the importance of the region participating in the Initiative and to create pressure on the regional government to participate in the Initiative. Joint committees have sprung from these workshops to follow up this matter. They are still working to implement this.

In its meeting No. 44 on 17/05/2017, the Stakeholder Council ratified the implementation of joint meetings with relevant government bodies in the government of the region of Kurdistan to insure their participation.]

* In line with Requirement 4.7, the MSG should ensure that all reconciled financial data is disaggregated by company, revenue stream and government entity. The MSG is also encouraged to agree a definition of project to ensure consistency in its project-level reporting.
* [The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:
* Companies were categorised according to field to enable the Iraqi citizen to find out the amount of taxes obtained from companies for each field.]
* To further strengthen implementation of Requirement 4.8, the MSG may wish to work with the General Commission on Taxes, the General Customs Authority, SOMO, the Ministry of Oil, the Ministry of Finance, the Central Bank of Iraq and the Iraqi Board of Supreme Audit to assess the potential for mainstreaming key EITI disclosures and ensuring even timelier publication of EITI information.

[We support the evaluation and are seeking to continue to improve.]

* In line with Requirement 4.9, the MSG should ensure that a review of actual auditing practices by reporting companies and government entities be conducted before agreeing procedures to ensure the reliability of EITI information. The MSG should also ensure that the ToR for the IA is in line with the standard ToR approved by the EITI Board and that its agreement on any deviations from the ToR in the final EITI Reports be properly documented. The MSG should also ensure that the IA include an assessment of whether the payments and revenues disclosed in the EITI Reports were subject to credible, independent audit, applying international auditing standards as well as a description of follow-up on past EITI recommendations.
* [The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:
* There was continual follow-up by the Stakeholder Council through reviewing the progress reports and submitting recommendations continually to ensure high quality data.
* The Council ensured the credibility and quality of the data by checking the means by which the data was extracted, which are the official email addresses of the entities included in the disclosure process.
* In addition to this, the Council reviewed the official letters the National Secretariat received from the entities included in the disclosure, through which it identified the people officially empowered to submit this data, and including the email address through which the data arrives.
* The credibility of the data was strengthened by the members of the Stakeholder Council (the representatives of the Contract and Licensing Department, SOMO and the national companies by sending a letter by email signed by the chairmen of these bodies to the bodies included in the disclosure.)
* In line with Requirement 5.1, the MSG should work with the IA in preparing the next IEITI Report to clearly trace any mining, oil and gas revenues that are not recorded in the national budget and clearly explain the allocation of any off-budget revenues. To further strengthen implementation under Requirement 5.3, the MSG could consider tracking more comprehensively the spending of extractive industry revenues earmarked for specific purposes. This form of annual diagnostic of public financial management would be of particular relevance to the IMF’s standby agreement with Iraq.[[4]](#footnote-4)

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

The oil and gas revenues are recorded at 100% in the budget (95% DFI and 5% compensation) apart from the region of Kurdistan where the compensation is recorded as an expense in the budget.

The Stakeholder Council did not find any indication of the existence of oil, gas and mining revenues outside the budget.

Oil prices and production assumptions are contained in the public state budget. The report gives a link to the budget law and the 2015 report contains a detailed table explaining the oil prices estimated according to the budget, the actual oil prices and a comparison between estimated and actual production and exports, recorded as percentages.]

* In line with Requirement 5.2, the MSG should assess the materiality of subnational transfers and ensure that future IEITI Reports provide the specific formula for calculating subnational transfers linked to extractives revenues to individual governorates, disclose any material subnational transfers and any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity.
* [The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:
* The allocations for the region and the provincial allocations for the development of the region are set in the budget and the report provides them through a link to the budget. However, the actual payments of these allocations are not published because parliament has not agreed the final accounts to 31/12/2015.
* What are established in the report are the amounts actually paid in petrodollars according to what has been disclosed by the Ministry of Finance. This represents the total sum spent up to 2015 according to this. The rest of the petrodollar allocations have not been paid as a result of the cash shortage suffered by the Iraqi government as a result of military operations against the terrorist organisation ISIL.
* In the 2016 TOR Report, it is recorded that the report contains either a link or details of the amounts allocated and the amounts paid and a reconciliation of the amounts actually paid to the local governments with the Ministry of Finance in accordance with relative importance.]
* In line with Requirement 5.3, the MSG could consider working with relevant stakeholders including parliamentarians to ensure that future EITI Reports provide additional information on budgetary oil price and production assumptions as well as revenue forecasts.

[To strengthen implementation, the Stakeholder Council may look at doing more comprehensive follow-up of the spending of the revenues of the extraction industries allocated for specific purposes.]

* In line with Requirement 6.1, the MSG should clarify 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 of mandatory social expenditures. The MSG may also wish to consider the feasibility of reconciling mandatory social expenditures.
* [The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:
* The 2015 report contains detailed information about social expenditure in kind and in material, mentioning the bodies that are benefitting. The Council will seek to improve the details relating to this item in the 2016 report.]
* In line with Requirement 6.3, the MSG should ensure that future IEITI Reports provide the extractive industries, in oil and gas as well as mining in Iraq (including Kurdistan), share of GDP, government revenues, exports and employment in absolute and relative terms. It should also ensure that the location of all significant production is clearly delineated.

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

* The Report on the Ministry of Planning has been reviewed. It contains economic, financial and expenditure information about Iraq including the region of Kurdistan. Only social indicators relating to the provinces of region have not been recorded.]
* In line with Requirement 7.1, IEITI should ensure that future reports are comprehensible, actively promoted, publicly accessible and contribute to public debate. IETI should consider developing a communications strategy that looks beyond building brand recognition to addressing the national priorities identified in the work plan. IEITI should also agree a clear policy on the access, release and re-use of EITI data and make EITI Reports available in an open data format online.

[The Council will use an open data policy in publishing reports.

* The National Initiative has implemented a number of workshops, where it has dealt with mechanisms for the use of data and information for accountability and improving the management of the sector.]
* In line with Requirement 7.3, the MSG should consider how to act upon lessons learned in regards to the KRG and identify opportunities to increase engagement with stakeholders there. The MSG could also take a proactive role in formulating its own recommendations.

[The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:

* The National Initiative implemented workshops in the region of Kurdistan (Erbil, Sulaymaniya) aimed at a number of regional parliamentarians, ministers, senior civil servants, provincial councils, local governments, academics and civil society organisations to create awareness of the importance of the region participating in the Initiative and to create pressure on the regional government to participate in the Initiative. Joint committees have sprung from these workshops to follow up this matter. They are still working to implement this.

In its meeting No. 40 on 05/10/2016, the Stakeholder Council ratified the implementation of joint meetings with relevant government bodies in the government of the region of Kurdistan to insure their participation.

* In Session No. 44 on 17/05/2017, the Council ratified the activities … in the region of Kurdistan]
* In line with Requirement 7.4, the MSG should ensure that annual progress reports reflect activities in the year under review clearly and that progress against the work plan is clear. The MSG should also ensure that all stakeholders are given an opportunity to provide input to the annual progress report and that their views are adequately reflected. As secretariat staff participating in meetings makes up a large part of the annual progress report’s listed activities, the MSG may wish to consider what kind of activities the report should include. The MSG should also consider drafting and publishing annual progress reports in Arabic to improve the dialogue between stakeholders and ensure that there is a common understanding of the activities carried out by the MSG in the year under review.
* [The Stakeholder Council finds that the Evaluation relating to this criterion is unjust and requests that it be changed to ‘Satisfactory Progress’ for the following reasons:
* The 2015 and 2016 Annual Activity Reports contained the activities recorded in the Action Plan. They were ratified after discussion by the Stakeholder Council.
* The 2015 report was published in English, and all details of the 2016 report were discussed in the Council in Arabic. The National Secretariat worked to translate it into English on the basis of Stakeholder Council Decision No. 39 of 08/06/2016 regarding the 2015 report. It also contained members’ activities.
* In Session No. 44 of 17/05/2017, the Council ratified the use of Arabic in all correspondence of the Initiative, and then it would be translated into English and Kurdish.]

\*\*\*

1. Defined as holding reserves of over 5bn barrels of crude oil. [↑](#footnote-ref-1)
2. As of January 2016. [↑](#footnote-ref-2)
3. Unless otherwise stated, “Iraq” or “the Federal Government of Iraq” refers to the areas controlled by Baghdad and does not include the Kurdistan Regional Government (KRG). [↑](#footnote-ref-3)
4. <https://www.imf.org/external/country/irq/> [↑](#footnote-ref-4)