**Iraq | Transparency Snapshot**

Iraq, a nation of 32 million people, holds the fourth largest proven oil reserves in the world, estimated to exceed 115 billion barrels. While Iraq enjoyed a period of relative prosperity and peace in the 1950s and 1960s, mismanagement, a series of wars and human rights abuses denied the public any lasting benefit from these resources. Today, despite its oil reserves, Iraq suffers severe shortages of fuel and energy.

Systematic abuse of the country's vast resources began during the 1980s, followed by decades of authoritarian rule, war and international sanctions. The collapse of the state in the aftermath of the 2003 invasion, and the resulting security and legitimacy vacuum, exacerbated corruption problems in the government.  
   
The Iraqi government took an important step to improve transparency when it announced its intention to implement the Extractive Industries Transparency Initiative (EITI). In February 2010, the EITI board recognized Iraq's candidacy, and Iraq has until February 2012 to complete the process.

Despite continued conflict and instability, Iraq generated over $51.4 billion in oil revenues in 2010. In the first months of 2011, Iraq generated $37 billion in oil revenues, putting it on track to exceed 2010 levels. Oil revenues account for over 75 percent of GDP and 95 percent of government revenue. In 2010, output stood at more than 2.4 bbl/day, with exports of 1.8 bbl/day, a decline from previous post-war years. A decline in exports and the unsteady global economy may contribute to lower growth rates, and Iraq's economy is expected to grow by less than one percent in 2011.

Iraq is at a major point of transition, particularly for the oil industry. To maintain exports and fund the government, significant investment in the oil infrastructure is required. Iraq's domestic energy strategy also includes increased production of natural gas. In June 2011 contracts were negotiated with Royal Dutch Shell and the China National Petroleum Company to process the country's vast gas resources. Members of parliament and the prime minister are currently pushing for legislation to reinstate the Iraqi National Oil Company. The measure is included in a comprehensive hydrocarbons law, which was approved by the cabinet in August 2011 after years of delay but has faced major challenges in the Council of Representatives.

Laws are in place to tackle corruption and increase transparency, but they have been implemented slowly and unevenly. Lawmakers have demonstrated willingness to take on the issue, but the troubled past coupled with political instability and the lack of security make implementation less certain.

**Revenue Transparency**

Iraq depends on oil revenues to support most state expenditures. Increased oil prices have compensated for lower exports in recent years. For budgeting purposes, oil prices are projected at $76.50/bbl as of mid-2011, a conservative estimate. Revenue from oil peaked in 2008 at $63 billion. Iraqi leaders expect the volume of exports to increase in the short term, as operation begins on recently-awarded contracts. However, significant investments in infrastructure and security are necessary to optimize output and increase revenue. The continuing problem of smuggling poses an additional challenge to revenue transparency and revenue management.

The size and use of oil revenues was a jealously guarded secret during Iraq's years of authoritarian rule. The oil sector was nationalized in the 1960s-1970s, and the Iraqi National Oil Company (INOC) was responsible for managing oil production. Iraq was a founding member of OPEC in 1960. The INOC was abolished in 1987, and the Ministry of Oil took over responsibility for this sector.

Current legislation aims to reinstate the INOC, but is highly contested, with Prime Minister Nouri al-Maliki in favor and the oil minister opposed on the grounds that such legislation would duplicate many of the ministry's efforts. The proposed hydrocarbon law also includes a revenue sharing mechanism based on population by province, which has caused tension with Kurdish legislators. The draft law also envisions a central collection account for oil revenues, and the Kurdistan Regional Government (KRG) has raised objections over which party would control the account and how revenues would flow into it. The central government would like the account to be under the control of the Ministry of Finance, which oversees the national budget. The KRG wants the account to be controlled by an independent committee which would give the region a veto over its disposition.

High oil prices helped motivate the parties to reach a resolution in January 2011, so that Kurdistan could begin to export oil. This agreement was negotiated in secret and many details are unknown, but it includes an independent auditing mechanism to ensure equity in the distribution of revenue.

Since the U.S.-led invasion of Iraq in 2003, all revenue generated from the export of petroleum, petroleum products and natural gas has been deposited in the Development Fund for Iraq (DFI) created under a UN Security Council Resolution in May 2003. The DFI account is held by the Central Bank of Iraq at the Federal Reserve Bank of New York. Until July 2011, the DFI was managed by International Advisory Monitoring Board for Iraq (IAMB). (The IAMB took over responsibilityfrom the Coalition Provisional Authority, which was disbanded 28 June 2004.) As of 1 July 2011, the Iraqi-led Commission of Financial Experts controls the DFI.

Arrangements in UN resolutions allow for relatively accurate tracking of oil revenues coming into the DFI. Since the DFI was created, audits have been regularly published on the [IAMB website](http://www.iamb.info/). The Commission of Financial Exerts is expected to continue to contract similar audits to the international audit firm of Ernst & Young LLP.

The DFI provided Iraq's treasury with certain immunities from legal claims, particularly war reparations. These immunities were originally set to expire in 2008, but were extended until June 2011--the transition point for the DFI from international to Iraqi control. The Iraqi government will hold funds in two accounts, with 95 percent in the DFI successor and 5 percent set aside to pay reparations to Kuwait, based on UN Resolution 1956 of December 2010. With the lapse of immunity, possible legal claims from Kuwait and other countries could put significant pressure on income from oil revenues.

Most of Iraq's oil is exported via pipeline, and smugglers tap these pipelines at unsecured areas. A 2007 U.S. General Accounting Report cited smuggling as a factor in losses between $2 billion and $5 billion from 2003-2006, based on the discrepancies between output and consumption and export figures. But Iraq's oil ministry disputed the report's conclusion, and estimates may not be reliable due to lack of meters at either oilfields or export terminals. The IAMB noted concern over the slowed pace of meter installation and implementation in its May 2011 report. Implementation of the metering system would have a positive impact on transparency.

The continued media spotlight on Iraq and activism by Revenue Watch and other groups have enforced a degree of transparency for oil revenues that is unprecedented in the region. Iraq continues to struggle with corruption issues, though, and sits near the bottom Transparency International's 2010 Corruption Perceptions Index, with a ranking of 175 out of 178.

**Expenditure Transparency**

Iraq has taken several steps to improve expenditure transparency, particularly with regards to public financial management. Iraq signed its second Stand-By Arrangement (SBA) with the International Monetary Fund in late 2007, which provided $3.7 billion in budgetary support and macroeconomic stability to bolster Iraq in the transition period. Fulfillment of the first SBA in 2005 allowed for the reduction of more than 80 percent of Iraq's debt to Paris Club lenders, opening the way for similar write-downs from other countries and private creditors. China, along with other countries, also agreed to forgive significant percentages of Iraq's debt since 2009.

The nation's finance rules include formal transparency and public accountability standards which, if implemented properly, can increase transparency on the expenditure side. The Board of Supreme Audit reported in 2010 that accounting weaknesses could result in the misappropriation of government funds and inaccurate expenditure reporting. Reports from the same period showed Iraq had accumulated between $15 billion and $32.2 billion as of 2009, with the large discrepancy resulting from different reporting practices between the Ministry of Finance and the Central Bank. The Ministry of Finance has since audited the accounts of other ministries to return unused or idle funds to the treasury.

The latest IMF reports give Iraq good marks on progress meeting SBA benchmarks and increased transparency in the oil sector. But the IMF continues to raise concerns over continuing violence and corruption, as well as slow progress and uneven implementation of reforms.

To date, neither parliament nor the Ministry of Finance has demonstrated the capacity for proper oversight. Parliament has yet to receive an audit of public finances over the past three years. Revenue Watch is currently providing technical assistance to the Iraqi Parliament in the strengthening of MPs' oversight capacity of extractive industry revenues.

Under the terms of the SBA, Iraq has reduced large subsidy programs, nearly eliminating fuel subsidies which had cost as much as $4 billion per year. Iraq also reduced inflation, which reached an annual rate of 65 percent in 2006, dropping to 4.2 percent, as of 2010.

The greatest waste and abuse takes place within the line ministries, which oversee specific business sectors. Local governments receive a growing portion of the investment budget--$4 billion in 2008--but they are ill-equipped to spend their resources in an efficient and accountable manner.

**The Fight Against Corruption and the Road Ahead**

Iraq is at a major turning point in its efforts to stem corruption and increase transparency and good governance. International involvement in Iraq's security and governance decreased rapidly during 2011, and domestic institutions are assuming greater control over resource revenues. Parliament is debating the new hydrocarbon law, which would distribute oil revenue for more equitable development .

The legacy of corruption remains. Billions of dollars in Iraqi resources and U.S. aid remain missing. Mismanagement and lack of accountability have plagued both the U.S.-led coalition and the Iraqi authorities that succeeded them. Reports by Revenue Watch and our partners catalogue many of these abuses, as do reports from the U.S. Government Accounting Office and the Special Inspector General for Iraq Reconstruction (SIGIR). The U.S.-SIGIR continues to audit funds intended for Iraq reconstruction efforts.

The IMF and the World Bank have commended the government's efforts to tackle waste and abuse of public resources and to combat corruption. Iraq's government and its public recognize the mismanagement of public finances as an existential threat to the nation. Iraq joined the UN Convention against Corruption in 2008. The CPA also created an independent Commission on Public Integrity with wide-ranging powers to investigate anyone in government.

Parliament is actively seeking to improve budget oversight. As a part of the National Anti-Corruption Strategy, the Council of Representatives repealed a provision which had allowed ministers to block corruption investigations. This important legislation will give the Commission on Public Integrity and other agencies greater ability to investigate and combat corruption.

The Iraqi government took another important step in January 2010 when Prime Minister al-Maliki announced that the country would apply to become an EITI candidate country. In February 2010, the EITI board recognized Iraq as a candidate, establishing Iraq as a regional leader in its support for good governance of oil revenues. Iraq has until February 2012 to implement EITI standards and undergo validation to become EITI compliant. In June 2010, ExxonMobil, China National Petroleum Company and Royal Dutch Shell were elected to Iraq's EITI Stakeholders Council--an important step in the validation process. The EITI standard of government partnership with citizens will be a powerful tool in the struggle for national and regional stability.

RWI continues to support civil society involvement in the EITI process, and to assist Iraqi MPs and policymakers with the development of legal frameworks for the oil and gas industry. RWI's efforts have also focused on finding consensus in management and sharing of Iraq's hydrocarbon wealth.

<http://www.revenuewatch.org/countries/middle-east-and-north-africa/iraq/transparency-snapshot>