



### EITI AS AN INSTRUMENT OF FISCAL TRANSPARENCY AND ACCOUNTABILITY IN CONTEXTS OF FRAGILITY AND VIOLENCE (FCV):

#### A COMPARATIVE CASE STUDY OF AFGHANISTAN AND IRAQ (PART 2)

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#### A. Afghanistan: Data Systematization for Development

Efforts in Afghanistan have sought to enable systematized data disclosures and simplify data collection efforts, given security concerns that often restrict movement and coordination. In this context, the following governance enhancements are being supported:

- *The new draft mining regulations* seek to empower the use of data for improved governance and fiscal accountability.<sup>2</sup> In an innovative approach, technical support was provided to embed and regularize some of the data disclosures required under the EITI standard into the draft mining regulations, which are also vital for good sector governance. The improved availability and accessibility of sector data adds credibility to fiscal transparency, and enables fiscal accountability as follows:
  - Data quality is enhanced through availability of relevant, disaggregated data. Consolidation and cross-verification of data sets are also possible within and between various departments of the government.

- Data timeliness is improved by requiring time-bound reporting of data. This empowers the Government to take more efficient and informed administrative decisions.
- Systematized data collection and disclosures are facilitated through the maintenance of a publicly accessible digital mining cadaster, a mineral license register, a register of beneficial owners, and other such systems.

- *Digitized systems* of the Ministry of Mines and Petroleum (MoMP) now increase fiscal transparency and accountability. Informed by vital data, collected and disclosed for improved transparency and accountability, the MoMP's internal Mineral Cadaster Administration System (MCAS), and Non-Tax Revenue System (NTRS) capture license and non-tax revenue information in a real-time, disaggregated, and automated manner. An online *Transparency Portal*<sup>3</sup>, which draws from these internal systems, automatically discloses federal licenses, license coordinates, issue dates, ownership details, and disaggregated non-tax revenues. Regarding confidential data under Afghan law, this data is automatically aggregated prior to disclosure via the transparency portal. Crucial data is also manually uploaded to the MoMP's website, such as

<sup>1</sup> The authors work in the World Bank's Governance Global Practice.

<sup>2</sup> The regulations have been finalized and await formal adoption by the Ministry of Mines and Petroleum (MoMP), Government of Afghanistan.

<sup>3</sup> See: <https://afghanistan.revenue.gov.af/dashboards>; and <https://momp.gov.af/> (tab on 'transparency')

data on mineral production, and provincial licenses and contracts.

**Box 2: How did digitized systems help improve fiscal transparency and accountability in Afghanistan?**

- ✦ Non-tax mineral revenue administration has been enhanced at the MoMP by providing readily available and accessible information regarding revenues collected and mineral production.
- ✦ Monitoring of mining operations has been enhanced by empowering the MoMP with readily available data on license coordinates and attendant details.
- ✦ Investor and civil society organization (CSO) confidence in sector governance has increased following transparent data disclosures in formats that enable further end-user verification and analysis.
- ✦ Crucial mining tax laws were enabled. Addressing data gaps in the MoMP's digitized systems enabled the 'ring-fencing' of Corporate Income Taxes (CIT) on a per-mining license basis, as required by the laws of Afghanistan. The move, to be implemented from the next tax reporting year, is expected to increase tax revenues from the sector.

**B. Iraq: Providing Baseline Data for Broader Reforms**

Efforts are being made in Iraq to facilitate reliable data disclosures in the oil and gas sector. Such disclosures would enable improved stakeholder engagement and provide a baseline for analyses and sector reforms. The following governance enhancements are being supported:

- *Greater clarity regarding the legal framework has been facilitated.* In the absence of a unified law governing the oil and gas sector in Iraq, it is governed by multiple regulations and

frameworks. In this context, the most recent EITI report has provided clarity to stakeholders about vital aspects of sector governance, such as data regarding licensing, revenue-sharing and allocation mechanisms, revenues collected, the roles and functions of various state-owned enterprises (SoEs), and the relationship of these SoEs with the governmental ministries. The EITI quality assurance mechanisms have added veracity to the data disclosed, which is now available in a consolidated manner for stakeholder use.

- *Citizen engagement has been enhanced, and conflict-mitigation has been supported.* Given the importance of the sector in Iraq's economy, the role of data disclosed through EITI in enhancing citizen confidence in sector governance cannot be understated. During violent protests in Basra over concerns regarding oil revenue distribution in April 2018, the data disclosed through EITI served as a ready source of information for public engagement. Data from EITI Reports were publicized through local radio stations, and served as proof to address popular misconceptions, especially regarding employment levels of Iraqis in the oil and gas sector.

Commencing with 2019, the annual Citizen's Budget of Iraq, which is publicly disseminated, also has a chapter that presents the main findings of the most recent EITI report. While the citizen's budget shares details and plans on a forward-looking basis, Iraq's EITI reports provide an evidence-based 'look-back' at past performance of the oil and gas sector. This interlinkage between budget projections and past performance in Iraq's most vital sector will further inform Iraqi citizens about governance performance.

- *Ongoing enhancements to Public Financial Management (PFM) systems are being supported.* The Iraqi Ministry of Finance is undertaking efforts to move from paper-based financial recording to a digitized PFM

system<sup>4</sup>. As a complement to this effort, a PFM transparency sub-portal is being developed within the Ministry, which will publicly display non-confidential financial data in an automated manner. Given that the oil and gas sector accounts for the greatest proportion of Iraq’s financial data, good-practice EITI data disclosure standards will be embedded into the transparency sub-portal.

**Box 3: Fiscal Transparency in Iraqi SoEs: The Next Big Target**

- ✦ SoEs are vital actors in the oil and gas sector. All oil and gas sales and distribution fall under the purview of SoEs. They are also the major players in oil and gas extraction.
- ✦ Oil and gas SoEs retain a significant portion of their earnings, which amounts to a very large portion of governmental revenues. In 2016, these SoEs transferred 45 percent of their net-profits to the Ministry of Finance, while retaining 33 percent of their net profits for themselves and the Ministry of Oil.
- ✦ Enabling fiscal transparency and accountability in these SoEs is therefore crucial for broader good governance in the country. Ongoing linkages are being explored with EITI to enable the publication of audited financial statements using International Financial Reporting Standards (IFRS) standards by pilot SoEs.

**I. Challenges Facing FCV Countries**

Based on the activities undertaken in Afghanistan and Iraq in using EITI and data systems for improved fiscal transparency and

accountability, the following challenges are identified as common to the FCV context:

- Sequencing of improved data use vis-à-vis broader governmental reforms is a challenge. Legislative and regulatory reforms are often required before the creation of data systems, data collection, and data reporting. However, sometimes improvements in data are required in order to inform meaningful legislative and regulatory reforms. The sequencing of reforms depends upon the level of baseline data available and is different for each country. Identifying the right sequence is vital toward ensuring meaningful output delivery.
- The scope of data use is influenced by wider governance reforms. Efforts at improving data collection, reporting, and systematization are best accompanied by wider administrative and institutional reforms. Where such reforms are ongoing, the leveraging of data, including through EITI, can add tremendous value. Data can be used to accelerate reforms, improve administrative efficiency, and inform governance decisions. However, in the absence of such reforms, only limited improvements can be made. The value added of the systems would necessarily be limited, and the existing data gaps would likely to remain.
- Large initial investments are required for creating automated data systems in the short term. This will only make sense where there is governmental buy-in/ownership for sector development or when overall fiscal accountability exists. Institutional capacity will also need to be built for operating such systems, and for using the data to make better informed governance decisions. In this context, policymakers must perceive the sector as a strategic priority in need of reform. However, in the longer term, these investments will significantly reduce the costs of data reporting initiatives, such as EITI. Importantly, it will also enable

<sup>4</sup> See the WB “*Modernization of Public Financial Management Systems*” Project (P151375) and WB-EU “*Strengthening Public Financial Management*

*Oversight and Accountability Institutions in Iraq*” Project (P170704).

enhanced revenue collection and management.

- Software compatibility is a vital factor for creating interlinked data systems. The feasibility of information technology (IT)--based linkages is as important as the data disclosed. Sometimes, various systems cannot be interlinked due to software incompatibility and thus the lack of interoperability. Therefore, feasibility studies will be required to compare the benefits of data integration and automation vis-à-vis the expected costs of interlinking the various data systems. As far as possible, it is also important to ensure that open data software is used to empower the host ministry to undertake any necessary changes to the software in the future.

## **II. Future Focus Areas: Afghanistan and Iraq**

When it comes to using EITI or other data systems for improved fiscal transparency and accountability, the priority steps for the future in both case study countries are closely linked to their respective priorities:

- *In Afghanistan*, the priority is to boost investor confidence, increase governmental revenues, and counter illicit revenue flows. As such, it will be crucial to link the internal systems of the country's tax administration (SIGTAS), customs and export administration system (ACYCUDA), and the existing MoMP systems (MCAS and NTRS) to compare extractive production with relevant data such as exports, tax revenues, non-tax revenues, and so on.
- *In Iraq*, the priority is to expand the umbrella of fiscal transparency and accountability to critical sectors and other areas of government intervention, which account for very significant revenue flows. Thus, it will be crucial to support financial reporting by major oil and gas SoEs using the IFRS standards and facilitating their audit by the Federal Board of Supreme Audit.

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