



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 1)

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I. Introduction

Fiscal transparency is a vital requirement for effective fiscal policymaking. Budgets, including their underlying fiscal forecasts, must provide a clear statement of the government's budgetary objectives and policy intentions. Credible budgets also require comprehensive, timely, and reliable data about the evolution of public finances, which enables sound financial projections.

Box 1: What kind of data benefits fiscal policymaking?

Fiscal transparency ideally involves ensuring that published fiscal reports:

- ✚ Cover a wider range of public sector institutions;
- ✚ Capture a broad range of direct and contingent assets and liabilities;
- ✚ Take a rigorous approach to fiscal forecasting and risk analysis; and
- ✚ Present actual and forecast fiscal data on a consistent basis.

Fiscal accountability concerns the accountability of the [government](#) and its civil servants to the country's citizens and public institutions. Accountability is ensured when actionable data

disclosed through fiscal transparency measures is utilized effectively by public oversight institutions in terms of either sanctions or non-sanctions-based approaches. The enforcement of fiscal accountability is normally vested with a country's legislative bodies, such as the Iraqi Council of Representatives, the Parliament of the Kurdistan Region of Iraq, and the National Assembly of Afghanistan.

The Extractive Industries Transparency Initiative (EITI) is a global standard for enhancing transparency and accountability in the governance of oil, gas and mineral resources (that is, the extractive industries). It requires periodic public disclosures of information about a country's extractive industries. This includes sector data, such as legal and regulatory information, details about licenses and contracts, data on beneficial owners of operations, production figures, as well as economic and social contributions of companies. EITI also requires disclosure of financial data relating to extractive industries, such as reconciled figures of company payments and government revenues; revenue allocations and transfers; data on sector exports; and quantitative information about the contribution of the sector to the economy. Analyses of data disclosed through EITI, especially in countries dependent upon extractive industries, often enables the identification and delivery of key measures to strengthen fiscal accountability.

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II. Why EITI?

The extractives industries sector, when governed well, can be an engine of economic growth and sustainable development. When proven geological reserves are reinforced by appropriate systems, informed and transparent decision-making, and efficient institutions, the sector can significantly boost medium-term economic growth, foreign direct investment, governmental revenues, and inclusive benefit-sharing. This is especially true in resource-dependent economies, or in small-sized economies with significant untapped geological resource potential. The sector can also be leveraged to enable economic diversification over the long-term.

However, when mismanaged, the sector may become a fertile ground for rent-seeking and corruption. The adverse environmental, social, economic and political consequences associated with such scenarios have been well documented in the literature on the *resource curse*. This refers to how, under certain circumstances, countries with an abundance of extractive resources, often have lower economic growth, weaker public institutions, and worse development outcomes than countries without such resources.

The nature of this sector has significant implications for FCV countries. It can either provide a fillip to peace-building efforts or fuel conflicts; either way, it is of paramount importance that the efficient, transparent, and accountable governance of the sector be ensured.

Transparency and accountability in sector governance is a basic and essential requirement to leverage the extractives sector as an engine of economic growth in FCV settings. Enabling this involves two vital steps: (i) obtaining and/or publishing relevant and actionable data regarding sector governance (*transparency*); and (ii) using the data to support responsible, efficient, and informed sector governance (*accountability*).

Though several mechanisms exist to facilitate transparent data disclosures, EITI has become the preeminent transparency initiative in the sector. This note presents two case studies on how data

disclosed through EITI has been effectively leveraged to support transparent and accountable fiscal governance in Afghanistan and Iraq.

III. The Country Cases: Afghanistan and Iraq

The two FCV countries offer contrasting scenarios in terms of the potential and role of the sector in their respective national contexts.

Afghanistan is an International Development Association (IDA) country with a small-sized economy, largely dependent on external aid funding. Extractive industries' development in Afghanistan is still at a nascent stage. As disclosed in the latest EITI Report on Afghanistan, the extractives sector in 2016 accounted for around 4 percent of government revenues and 5.5 percent of exports. These contributions were mainly led by the production and sale of coal. However, there is significant potential in metals such as copper and lithium, which will be required for low-carbon future. A potential large-scale copper mine in *Mes Aynak*, the development of which is currently under negotiation, can potentially be a turning point for the country.

In terms of the country's national context, the most useful contribution of the sector lies in its potential to boost governmental revenues in the medium-term through greenfield projects, thereby reducing the country's reliance on foreign aid. Currently, the civilian expenditure budget of the Government is financed to the extent of about 51 per cent by development partners. This is thus a clear case for Afghanistan to sustainably, transparently and accountably harness its extractive resources for national development. The medium-term nature of the sector's returns also lends itself to potentially contributing to peace-building strategies.

Iraq is an International Bank for Reconstruction and Development (IBRD) country economically dependent on its oil and gas sector. Iraq's most recent EITI Report, disclosing data for the year 2016, revealed that the sector accounted for more than 99 percent of export values, 96 percent of

governmental revenues, and almost 30 percent of gross domestic product (GDP). These figures are representative of the country's extractive resource revenues – despite the fact that 2016 witnessed the lowest average oil prices in more than a decade. Indeed, these figures remained more or less in the same range over the past decade, exposing the national economy to the volatility of the commodity price cycle and a weakening of fiscal resilience. The sector's ideal contribution to Iraq would be toward increasing the country's economic growth and investment, increasing revenues, anchoring infrastructural development, and facilitating inclusive revenue-sharing. Simultaneously, measures would also have to be taken to protect the economy from external shocks associated with the sector.

Both Afghanistan and Iraq are EITI implementing countries. In providing technical assistance in addressing corrective actions for improved EITI implementation, two important links were observed: (i) at times, administrative reforms were required to facilitate effective data collection, warehousing, and disclosures, and (ii) the data collected could be used for improved administrative and developmental outcomes.

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