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Effectiveness of Institutional Guarantees in the Allocation of Public Funds: A Comparative Legal Analysis of Governance and Political Structures in Iraq and Lebanon

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Abstract

Institutional guarantees are essential to ensuring that public funds are allocated and managed in accordance with the purposes established by law. This comparative legal study examines two distinct mechanisms for managing resource-related public revenues: the Regional Development Account in Iraq and the Lebanese Sovereign Wealth Fund. Although the Iraqi mechanism is embedded in annual budget legislation and the decentralized development framework, the Lebanese model is established by a dedicated statutory regime for the management and investment of future petroleum revenues. The study asks whether the effectiveness of these arrangements depends primarily on the constitutional and political structure of the state or, instead, on the quality of legal design, governance, transparency, institutional independence, and oversight. A comparative doctrinal and analytical method is used to examine constitutional provisions, budget and public-finance legislation, petroleum legislation, sovereign-wealth-fund rules, governance standards, transparency requirements, and selected international benchmarks, including the Santiago Principles and the Truman framework. The analysis shows that the Iraqi Regional Development Account is operational but remains closely dependent on annual budget appropria-

tions, volatile oil revenues, central transfers, implementation capacity, and political bargaining. Lebanon, by contrast, has adopted a comparatively specialized legal framework through Law No. 320 of 2023, but the practical operation of the Sovereign Wealth Fund remains contingent on the realization of petroleum revenues and on effective implementation of the statutory governance and transparency safeguards. The comparison indicates that neither federalism nor centralization by itself determines the quality of public-fund allocation. Institutional effectiveness depends more directly on legal clarity, stable funding rules, operational independence, transparent disclosure, effective audit and accountability, and protection against diversion of allocated funds from their legally defined purposes. The study concludes that both models require stronger institutional safeguards, although the nature of the required reforms differs because one mechanism is already embedded in recurrent public expenditure while the other is principally a forward-looking framework for future resource revenues.

Keywords: public funds, institutional guarantees, Regional Development Account, sovereign wealth fund, Iraq, Lebanon, governance, transparency, fiscal decentralization, petroleum revenues

1. INTRODUCTION

The allocation of public funds is not merely an accounting or budgetary operation. It is a legal process through which the state determines how public resources are earmarked, transferred, protected, spent, invested, and supervised. The effectiveness of an allocation mechanism therefore depends on more than the availability of revenues. It also depends on the legal status of the allocated funds, the stability of their funding source, the institutional body responsible for their management, the rules governing withdrawal or expenditure, the mechanisms of audit and accountability, and the extent to which political actors can redirect the funds away from the purposes for which they were established.

These issues are particularly important in states whose public finances are strongly influenced by natural-resource revenues. Resource income can expand the fiscal capacity of the state, but it can also expose public finance to price volatility, procyclical spending, weak long-term planning, and political competition over distribution. Iraq's fiscal system remains heavily dependent on oil revenues, a dependence that the International Monetary Fund has linked to fiscal volatility and the need for stronger institutional rules and buffers [1]. In this setting, the Regional Development Account represents a mechanism for directing budgetary resources toward governorate-level development priorities. Its legal and practical operation is connected to Iraq's federal constitutional structure, administrative decentralization, annual budget legislation, and the transfer of resources from the federal level to governorates [2–4].

Lebanon presents a different institutional setting. Rather than managing an established stream of petroleum income, Lebanon has developed a legal framework in anticipation of possible future revenues from offshore petroleum activities. The Offshore Petroleum Resources Law No. 132 of 2010 required petroleum revenues to be placed within a sovereign-fund framework, while Law No. 320 of 2023 formally established the Lebanese Sovereign Wealth Fund as a public institution with legal personality and administrative and financial independence [5, 6]. The Lebanese model therefore raises a different question: whether a comparatively detailed legal framework can provide credible safeguards before substantial revenues are available and before the Fund's investment and withdrawal mechanisms are tested in practice.

The comparison between Iraq and Lebanon is useful precisely because the two mechanisms are not identical. The Iraqi Regional Development Account is a budget-linked mechanism concerned primarily with territorial development expenditure and the distribution of public resources across governorates. The Lebanese Sovereign Wealth Fund is a statutory public institution intended to manage and invest petroleum revenues over a longer time horizon. Their legal forms, revenue sources, and immediate functions differ. Nevertheless, both mechanisms address a common public-law problem: how to ensure that revenues derived directly or indirectly from natural resources are allocated in accordance with legally defined objectives rather than absorbed into short-term political bargaining, recurrent fiscal pressure, or weakly supervised expenditure.

The central research problem is therefore not whether Iraq should adopt the Lebanese model or whether Lebanon should reproduce Iraq's development-account mechanism. Rather, it concerns the effectiveness of institutional guarantees surrounding public-fund allocation. The study asks: *to what extent do legal design, governance, transparency, institutional independence, and political structure affect the capacity of the Iraqi Regional Development Account and the Lebanese Sovereign Wealth Fund to protect allocated resources and direct them toward their statutory purposes?*

This question is important because institutional design can be undermined in two different ways. A legally allocated fund may lack stability if its resources fluctuate annually, if responsibilities are fragmented among multiple authorities, if implementation capacity is weak, or if political negotiations alter expenditure priorities. Conversely, a fund may possess a sophisticated statutory structure but remain practically inactive because the revenues on which it depends have not yet materialized. The distinction between *legal existence* and *operational effectiveness* is therefore central to the comparison.

The study gives particular attention to governance and transparency. Governance concerns the distribution of authority, independence of decision-making, accountability, oversight, and the legal relationship between the owner of public assets and the institution that manages them. The World Bank's classic formulation defines governance as the manner in which power is exercised in managing a country's economic and social resources for development [7]. In the context of sovereign wealth funds, the Santiago Principles further emphasize a clear legal framework, defined institutional responsibilities, operational independence, prudent investment, accountability, and public disclosure [8]. Transparency, in turn, concerns timely access to information on revenues, allocations, investment, expenditure, performance, and oversight. These principles are relevant to both models even though only the Lebanese mechanism is formally structured as a sovereign wealth fund.

The political structures of Iraq and Lebanon provide a second dimension of comparison. Iraq's Constitution establishes a federal system and grants governorates not incorporated into a region broad administrative and financial powers within a decentralized framework [2]. Lebanon, by contrast, remains institutionally centralized while operating within a political system characterized by power-sharing among sectarian and political groups. Existing research on postwar Lebanon has shown that sectarian considerations can influence the geographical allocation of public expenditure [9]. The relevant issue for this study is not to rank one political system against another, but to identify how the distribution of authority and the

structure of political decision-making can strengthen or weaken otherwise valid legal safeguards.

Accordingly, the study has four objectives. First, it reconstructs the constitutional, legislative, and institutional basis of the Iraqi Regional Development Account. Second, it examines the legal nature, funding structure, and operational readiness of the Lebanese Sovereign Wealth Fund. Third, it evaluates governance and transparency as institutional guarantees in both models, using relevant international standards where appropriate. Fourth, it analyzes how federalism, decentralization, centralization, and political power-sharing interact with the legal framework for allocating public resources.

The study argues that the effectiveness of public-fund allocation depends less on the formal distinction between federalism and centralization than on the quality of the institutions operating within those structures. Stable legal rules, clear competences, reliable funding mechanisms, independent management, transparent reporting, effective audit, and enforceable accountability are more decisive than constitutional form alone. The comparison therefore focuses on the relationship between legal norms and institutional capacity rather than treating political structure as a sufficient explanation of success or failure.

2. METHODOLOGY AND COMPARATIVE LEGAL FRAMEWORK

The research adopts a comparative doctrinal and analytical method. It examines constitutional provisions, legislation, official regulations, budgetary rules, institutional reports, and relevant academic literature concerning the allocation and management of public funds in Iraq and Lebanon. The Iraqi analysis focuses on the Constitution of 2005, legislation governing governorates not incorporated into a region, federal budget legislation, financial-management rules, and the institutional arrangements through which Regional Development Account allocations are planned and implemented. The Lebanese analysis focuses on the Offshore Petroleum Resources Law No. 132 of 2010, the petroleum tax regime, Law No. 320 of 2023 establishing the Lebanese Sovereign Wealth Fund, and legislation governing transparency in the petroleum sector.

The comparison is functional rather than purely formal. The two mechanisms differ in legal form and immediate purpose, so the study does not assume that identical rules should apply to both. Instead, each model is evaluated against common institutional questions: What is the legal basis of the allocation? Who owns the underlying public resources? Which institution manages the funds? How stable is the funding source? What restrictions govern expenditure, withdrawal, or investment? Which bodies exercise oversight? What information must be disclosed? To what extent can political or fiscal pressures alter the original purpose of the allocation?

Governance and transparency are used as the principal evaluative criteria. For the Lebanese sovereign-fund model, the Santiago Principles provide an internationally recognized benchmark for legal structure, institutional independence, investment governance, accountability, and disclosure [8]. The Truman sovereign-wealth-fund framework is also used as an analytical reference for assessing structure, governance, accountability, and transparency [10]. These standards are not mechanically imposed on the Iraqi Regional Development Account, which is not a sovereign wealth fund. Instead, their underlying principles—clarity of responsibility, accountability, disclosure, and protection against politically motivated diversion—are used where they are functionally relevant.

The study also distinguishes between three forms of effectiveness. *Legal effectiveness* concerns whether the legislative framework clearly establishes rights, duties, competences, and restrictions. *Institutional effectiveness* concerns whether the responsible bodies have sufficient independence, administrative capacity, coordination, and oversight to implement those rules. *Operational effectiveness* concerns whether funds are actually available, allocated, spent or invested, monitored, and evaluated in accordance with the law. This distinction is particularly important because the Iraqi mechanism is operational but institutionally unstable, whereas the Lebanese fund has a more specialized statutory structure but has not yet been tested through the management of substantial petroleum revenues.

The analysis does not attempt to measure causal effects econometrically, nor does it claim that the two cases are economically equivalent. The purpose is legal and institutional comparison: to identify how different constitutional and administrative settings shape the safeguards surrounding public resources and to determine which design features appear most important for preserving the intended purpose of allocated funds.

A further methodological consideration concerns the different evidentiary status of the sources. Constitutional and statutory provisions establish formal legal authority, but they do not by themselves demonstrate effective implementation. Official institutional reports provide evidence of administrative practice, but they may emphasize the perspective of the issuing body. Academic studies can identify implementation gaps and political-economy problems, but they may address different time periods or institutional settings. The study therefore avoids treating one category of source as conclusive. Legal rules are compared with implementation-oriented reports and scholarly analyses wherever possible.

The comparison also recognizes a temporal asymmetry between the cases. Iraq's Regional Development Account has operated within the fiscal system for many years, which makes it possible to discuss recurring problems of appropriation, transfer, project implementation, and oversight. Lebanon's Sovereign Wealth Fund, by contrast, is a recently established institution whose governing legislation can be analyzed in detail but whose long-term investment practice is not yet

available for evaluation. Accordingly, the Iraqi case permits stronger conclusions about operational constraints, whereas the Lebanese case supports primarily an assessment of legal preparedness and institutional design.

Finally, the study uses the terms *allocation*, *management*, and *investment* distinctly. Allocation refers to the legal earmarking or assignment of public resources to a purpose or institution. Management concerns the administrative handling, supervision, and control of those resources. Investment refers specifically to the placement of financial assets with the objective of preserving or increasing value. This distinction prevents the Regional Development Account, which finances development expenditure, from being treated as though it were functionally identical to a sovereign wealth fund.

3. THE REGIONAL DEVELOPMENT ACCOUNT IN IRAQ: LEGAL AND INSTITUTIONAL FRAMEWORK

The Iraqi Regional Development Account is a mechanism for directing part of federal public resources toward territorially defined development expenditure. Unlike an autonomous sovereign wealth fund, it does not operate as a legally separate investment institution. Its allocations are embedded in the federal budgetary and development-planning process and are intended to finance reconstruction, infrastructure, and development projects at the governorate level. This institutional form reflects the broader constitutional commitment to federalism and administrative decentralization, but it also exposes the account to the annual budget cycle, fluctuations in oil-dependent revenue, intergovernmental coordination problems, and variations in local implementation capacity.

The account is therefore best understood as a legally earmarked component of public expenditure rather than as a permanently capitalized fund. Its effectiveness depends on the interaction of constitutional rules, annual appropriations, federal financial management, development planning, procurement, local administrative powers, and oversight. A legally valid allocation may still fail to produce development outcomes if funds are delayed, if project selection is weak, if responsibilities overlap, or if monitoring is insufficient.

3.1. LEGAL NATURE AND BUDGETARY BASIS

The Regional Development Account has developed through budget legislation rather than through one comprehensive statute devoted exclusively to its establishment, governance, and operation. The Federal General Budget Law for 2019 and the Emergency Support for Food Security and Development Law No. 2 of 2022 are examples of legislation through which regional-development allocations have been made and regulated [3, 4]. This legislative technique gives the mechanism a clear public-budget character: allocations exist because the legislature authorizes them within broader fiscal legislation, and their practical size depends on the resources available in the relevant fiscal period.

This approach has advantages because it connects local development allocations with national fiscal planning and allows appropriations to respond to changing public needs. At the same time, it creates institutional instability because the scale and timing of allocations may change from one budget cycle to another. Misconi's analysis of Iraq's capital budget and Regional Development Fund already identified implementation capacity as a central problem, demonstrating that the legal availability of capital allocations does not itself guarantee timely or effective project execution [11]. The distinction between *appropriation* and *implementation* is therefore fundamental to any evaluation of the account.

The account also reflects a form of territorial earmarking. Public resources are not simply placed in the general pool of expenditure; they are associated with development objectives and with geographically defined beneficiaries. This gives the allocation a protective legal purpose. However, because the mechanism lacks a single autonomous organic law comparable to the Lebanese Sovereign Wealth Fund Law, its institutional identity is distributed across the Constitution, budget laws, decentralization legislation, planning rules, financial-management legislation, and procurement instructions. That fragmentation can weaken clarity concerning the precise legal status of the account, the durability of its funding, and the division of responsibility among institutions.

3.2. CONSTITUTIONAL AND LEGISLATIVE FOUNDATIONS

The constitutional basis of the Regional Development Account is closely connected to Iraq's federal and decentralized system. Article 1 of the Constitution of 2005 establishes Iraq as a federal, independent, and fully sovereign state with a republican, representative, parliamentary, and democratic system [2]. Article 116 provides that the federal system consists of the capital, regions, decentralized governorates, and local administrations, while Articles 117 and 118 address the recognition and formation of regions. These provisions establish the constitutional architecture within which financial and administrative competences are distributed.

Article 114 identifies shared competences between federal and regional authorities. More directly relevant to governorate-level development, Article 122(2) grants governorates not incorporated into a region broad administrative and financial powers so that they can manage their affairs in accordance with decentralized administration [2]. The constitutional framework therefore supports the proposition that subnational authorities require not only administrative

responsibilities but also financial resources that allow them to perform those responsibilities.

Nevertheless, Iraqi federalism has generated continuing debate over the distribution of competences, resources, and responsibilities between federal, regional, and governorate institutions. Saleh's analysis of federalism under the 2005 Constitution identifies ambiguities in the relationship between different levels of government and in the distribution of powers and resources [12]. These ambiguities are relevant to regional-development allocations because unclear responsibility can complicate project planning, approval, financing, supervision, and accountability.

The Law of Governorates Not Incorporated into a Region No. 21 of 2008, as amended, provides an important statutory foundation for administrative decentralization and local governance [13]. It recognizes local legislative and administrative functions and gives governorate councils powers intended to enable them to manage local affairs without contradicting the Constitution or federal law. Academic analysis has also emphasized the financial dimension of local autonomy and the importance of adequate fiscal powers for governorates to exercise the responsibilities assigned to them [14].

Budget legislation gives these constitutional principles practical financial effect. Regional-development allocations first appeared in the post-2003 budgetary framework and have continued through successive fiscal arrangements. Their scale is influenced by Iraq's overall fiscal position, which in turn is highly sensitive to oil revenues. The Ministry of Planning plays a central role in investment planning and the coordination of development programs [15, 16]. The Ministry of Planning Law No. 19 of 2009 and the Instructions for the Implementation of Government Contracts No. 2 of 2014 also form part of the legal environment governing the preparation, approval, contracting, and implementation of development projects [17, 18].

The result is a multilayered legal framework rather than a single-fund statute. Constitutional decentralization provides the general basis; the governorates law allocates local responsibilities; budget laws determine available appropriations; planning rules structure project selection and investment programming; and procurement rules govern implementation. The effectiveness of the Regional Development Account depends on whether these layers operate coherently.

The constitutional design also reveals why financial decentralization is more complex than a simple transfer of money. Articles 116–122 create different categories of territorial authority, but the ability of governorates to perform development functions depends on the relationship between legal competence and fiscal capacity. A governorate can possess administrative authority yet remain practically dependent on the federal budget if it lacks autonomous revenue sufficient to finance capital projects. This dependence gives federal budget legislation a decisive role in determining the practical scope of decentralization.

Law No. 21 of 2008, as amended, attempts to translate constitutional decentralization into an institutional framework for governorates not incorporated into a region. It provides local councils and executives with functions relevant to service delivery, planning, and administration [13]. The law therefore supports local participation in development, but it does not eliminate the role of federal ministries or the Ministry of Planning. The resulting system is one of shared implementation rather than complete local fiscal autonomy.

This shared structure creates a recurring coordination problem. Federal institutions may control the release of funds, technical standards, or sectoral policy, while governorates identify priorities and supervise local implementation. If the legal boundaries between these roles are unclear, delays can arise at several stages: project approval, technical review, procurement, contract execution, payment certification, and final acceptance. The problem is therefore institutional as much as financial.

The role of the Ministry of Planning is especially important because investment expenditure requires more than legislative appropriation. Projects must be incorporated into planning frameworks, evaluated technically, assigned budget codes, and monitored during implementation [16, 17]. Procurement rules add another layer by establishing the procedures through which public contracts are awarded and implemented [18]. These controls are necessary for legality and value for money, but excessive procedural fragmentation can also delay execution if responsibilities are not coordinated.

A stable Regional Development Account therefore requires more than a recurring line in the budget. Its legal architecture should identify the relationship among budget authorization, planning approval, local prioritization, procurement, payment, and audit. A clear chain of responsibility would make it easier to determine which institution is accountable when funds remain unspent or projects are delayed. In this respect, legal clarity can improve not only compliance but also administrative efficiency.

3.3. IMPLEMENTATION REQUIREMENTS AND ALLOCATION CRITERIA

Effective implementation requires a clear division of roles between federal and local authorities. Central institutions are responsible for national fiscal policy, overall development priorities, the legal appropriation of funds, and general standards for public investment. Local authorities, by contrast, are better positioned to identify specific service deficiencies, infrastructure gaps, and geographically differentiated development needs. The Ministry of Planning's regional and local development functions, together with the decentralization framework, reflect this division of responsibilities [13, 16].

A functional allocation system therefore requires coordination rather than simple transfer. Governorates need sufficient

information, technical capacity, and planning authority to convert identified needs into implementable projects. Federal institutions need reliable criteria for assessing plans, allocating resources, and monitoring results. Without coordination, decentralization can lead either to excessive central control, which weakens local responsiveness, or to fragmented local spending without adequate national standards.

The distribution of regional-development allocations may take into account several criteria, including population size, poverty, deprivation, infrastructure deficits, damage, and other indicators of local need. Such criteria are important because a purely political or negotiated distribution can weaken the equity and developmental purpose of the account. Objective criteria should therefore be defined in advance, published, applied consistently, and supported by data that allow both decision-makers and the public to understand why one governorate receives a particular allocation.

Implementation also requires a project pipeline capable of absorbing allocated funds. A governorate may receive a legally approved allocation yet remain unable to spend it effectively if project design is incomplete, procurement is delayed, technical specifications are weak, contractors lack capacity, or supervisory institutions are unable to monitor implementation. The quality of public investment management is consequently as important as the initial allocation formula.

A further requirement is the establishment of a clear monitoring framework before projects are approved. Performance indicators should distinguish between financial execution and physical implementation. A project that has spent most of its allocation may still be incomplete, delayed, or technically deficient. Conversely, a project with temporarily low expenditure may be progressing according to schedule if major payments are contractually due at later milestones. Monitoring systems should therefore combine financial data with engineering progress, procurement status, contract amendments, and service-delivery indicators.

Allocation criteria should also be reviewed periodically. Population, poverty, deprivation, and infrastructure deficits change over time, and a formula based on outdated data can reproduce rather than reduce territorial inequality. Periodic review does not mean that the rules should change arbitrarily each year; rather, the law should specify when and how indicators are updated, which institution validates the underlying data, and how transitional adjustments are managed when new data materially alter the distribution.

Finally, local participation can strengthen legitimacy if it is connected to formal planning procedures. Governorates, municipalities, professional bodies, and affected communities can provide information about infrastructure needs that may not be visible in central datasets. Consultation should not replace technical appraisal, but it can improve project selection when combined with transparent eligibility criteria and published reasons for approval or rejection. In this way, decentralization becomes a structured contribution to development planning rather than a purely political claim over fiscal transfers.

3.4. OPERATIONAL, FISCAL, AND INSTITUTIONAL CONSTRAINTS

The Regional Development Account operates within a fiscal system exposed to considerable oil-price volatility. IMF analysis of Iraq has emphasized the country's dependence on oil revenues and the resulting procyclicality of public finance [1]. When oil revenues fall, development expenditure is particularly vulnerable because capital projects can be postponed more easily than salaries or other recurrent obligations. This means that a regional-development allocation may be legally recognized yet financially unstable.

Budget timing creates a second constraint. Delays in enacting or implementing the general budget can postpone transfers, procurement, and project execution. The Federal Financial Management Law No. 6 of 2019 seeks to strengthen financial discipline and transparency, but the effectiveness of these requirements depends on timely implementation and public reporting [19]. Repeated delays reduce the period available for execution and can encourage rushed contracting or the carryover of unfinished projects.

Administrative capacity is a third challenge. Weak project preparation, insufficient technical staff, inaccurate cost estimates, fragmented databases, procurement bottlenecks, and inadequate supervision can reduce the rate at which investment allocations are converted into completed infrastructure. Al-Musawi's study of Iraq's investment budget and other analyses of government contracting identify implementation weaknesses as persistent obstacles [20, 21]. Security disruption has also affected investment execution in some periods and regions.

Transparency and corruption risks constitute a fourth constraint. Iraq's financial legislation formally recognizes transparency obligations, and the Commission of Integrity publishes anti-corruption information and reports [19, 22]. Iraq also participates in the Extractive Industries Transparency Initiative, which creates a framework for disclosure concerning oil and gas revenues [23]. These measures are important, but transparency at the national revenue level does not automatically reveal how regional allocations are selected, transferred, contracted, spent, and evaluated. Effective transparency requires project-level information, not merely aggregate budget figures.

External financing may create additional conditions. IMF lending and other forms of international financial support can require policy reforms, fiscal reporting, or performance benchmarks [24]. Such conditions are not inherently obstacles; they

can support fiscal discipline and institutional reform. However, where implementation capacity is weak, new requirements can add administrative complexity. The decisive question is whether external conditions are integrated into a coherent domestic public-investment framework.

Political bargaining also affects allocation. Because the Regional Development Account is embedded in the general budget and intergovernmental fiscal relations, it may become part of negotiations among federal institutions, governorates, parties, and parliamentary blocs. Political participation in budgeting is normal in representative government, but institutional safeguards are necessary to prevent the developmental purpose of the account from being displaced by short-term bargaining. The key safeguards are objective allocation criteria, transparent project selection, published implementation data, independent audit, and clear responsibility for delays or failures.

Overall, the Iraqi model demonstrates that earmarking public money for territorial development is only the first stage of effective allocation. The legal framework must also ensure predictable financing, objective distribution, sufficient local capacity, coordinated planning, transparent procurement, and accountable implementation.

The problem of fiscal volatility deserves particular emphasis. Because oil revenues finance a large share of Iraqi public expenditure, changes in international oil prices can alter the fiscal space available for capital investment within a short period. IMF analysis has repeatedly emphasized the desirability of fiscal buffers and rules that protect productive expenditure from oil-price cycles [1]. Regional-development allocations are therefore vulnerable when they are treated as residual capital expenditure that can be reduced whenever revenue falls.

Conditional financing and reform programs can interact with this vulnerability. IMF conditionality is intended to connect financing with agreed macroeconomic and structural reforms [24]. In principle, such conditions can strengthen transparency and fiscal discipline. In practice, however, compliance can be difficult when administrative systems are fragmented or when fiscal adjustment is politically contested. The effect on regional development depends on whether adjustment protects priority investment or instead compresses capital expenditure disproportionately.

Corruption risks further complicate implementation. Public investment creates opportunities for irregularities at the stages of project selection, procurement, contract variation, certification, payment, and acceptance. The Commission of Integrity's reporting framework and Iraq's financial-management legislation provide important control mechanisms [19, 22]. Yet prevention requires more than ex post investigation. Transparent tendering, public contract data, conflict-of-interest rules, digital payment trails, engineering supervision, and independent audit are necessary to reduce discretion throughout the project cycle.

A final institutional constraint concerns information. Development planning requires accurate data on population, poverty, service deficits, infrastructure condition, and project performance. If allocation criteria rely on outdated or inconsistent data, even a formally objective formula can produce inequitable results. Similarly, if expenditure reports do not distinguish between commitments, cash payments, physical completion, and operational delivery, high spending rates may conceal weak development outcomes. The Regional Development Account should therefore be evaluated on both financial execution and the actual completion and functionality of projects.

4. THE LEBANESE SOVEREIGN WEALTH FUND: LEGAL FRAMEWORK AND OPERATIONAL READINESS

Lebanon's Sovereign Wealth Fund represents a different legal technique for allocating resource-related public wealth. Whereas the Iraqi Regional Development Account is embedded in recurrent public-budget expenditure, the Lebanese model is designed as a separate public institution for the management and investment of future petroleum revenues. Its central purpose is not immediate territorial expenditure but the preservation, investment, and long-term use of resource-derived financial assets.

The Lebanese framework developed before the existence of a substantial, recurring stream of petroleum revenues. This creates a distinctive institutional situation: the legal architecture can be examined in detail even though the Fund's core investment functions have not yet been tested through the management of a mature portfolio. The assessment must therefore distinguish between statutory design and operational performance.

4.1. CONCEPT, LEGAL CHARACTER, AND FUNDING SOURCES

Definition and legal character. Sovereign wealth funds are generally understood as state-owned investment arrangements established for macroeconomic or long-term financial purposes. The OECD describes sovereign wealth arrangements as state-owned assets managed directly or indirectly by governments to pursue national objectives [25]. The IMF similarly characterizes sovereign wealth funds as special-purpose investment funds or arrangements owned by the general government, established for macroeconomic purposes and used to hold, manage, or administer financial assets according to defined investment strategies [26]. The Sovereign Wealth Fund Institute also emphasizes state ownership and the use of public surpluses, foreign-exchange assets, privatization proceeds, or natural-resource revenues as common funding sources

[27].

From a legal perspective, the essential features are public ownership, statutory or governmental establishment, a defined institutional mandate, dedicated assets, and rules governing management and investment. Al-Dakhil accordingly treats a sovereign wealth fund as a public legal entity to which assets are allocated for long-term fiscal or economic objectives [28]. The legal question is therefore not simply whether the state owns financial assets, but whether those assets are placed within a distinct governance structure that regulates their use and protects their assigned purpose.

Funding sources. Sovereign wealth funds may be financed from rentier or non-rentier sources. Resource-based funds commonly receive revenues derived from oil, gas, minerals, or other exhaustible natural resources. Their economic logic is intertemporal: a non-renewable natural asset is converted into a diversified financial asset that can continue to produce returns after extraction [29]. This structure is especially relevant to Lebanon because the statutory fund is linked to future petroleum revenues.

Non-resource sources can include fiscal surpluses, privatization proceeds, accumulated foreign-exchange reserves, and investment returns. International practice demonstrates that sovereign wealth funds are heterogeneous and that the appropriate funding source depends on the macroeconomic objective of the fund [25, 26]. The Lebanese model is, however, specifically tied to petroleum-related revenues and should therefore be evaluated as a resource-revenue fund rather than as a general reserve-management vehicle.

The distinction between stabilization funds and savings funds is also relevant to institutional design. A stabilization fund is usually intended to reduce the fiscal impact of volatile commodity revenues by accumulating assets during periods of high prices and allowing controlled withdrawals during downturns. A savings fund emphasizes intergenerational wealth preservation by converting exhaustible natural resources into diversified financial assets. Some sovereign wealth funds combine both purposes, but the legal rules governing withdrawals, investment horizons, and risk tolerance must reflect the specific objective of the institution [26].

This distinction matters for Lebanon because the temptation to use future petroleum revenues for immediate fiscal relief may be substantial in a country facing persistent public-finance pressures. A fund intended to preserve wealth for future generations will be weakened if its withdrawal rules allow routine transfers to cover recurrent deficits. Conversely, a stabilization objective may legitimately permit countercyclical withdrawals under clearly defined conditions. The law must therefore define the relationship between savings, stabilization, development, and debt management with sufficient precision to prevent the purpose of the Fund from changing through ordinary political discretion.

Funding-source rules are equally important. Resource revenues can enter a sovereign fund at different points in the fiscal chain: before or after taxes, royalties, profit shares, or other petroleum receipts are recognized as state revenue. Clear legal definitions are necessary to prevent disputes over which receipts belong to the Fund. They are also necessary for audit, because an auditor cannot determine whether all legally required revenue has been transferred unless the revenue base is precisely defined.

The investment side of the Fund raises a separate set of legal questions. Once revenue has been transferred, managers must determine asset allocation, risk limits, eligible instruments, external-manager arrangements, custody, valuation, and performance measurement. These are financial decisions, but they require legal authorization and institutional controls. The Santiago Principles emphasize that investment policy should be consistent with the Fund's objectives, risk tolerance, and investment horizon [8]. This linkage between statutory purpose and investment policy is essential to prevent short-term political priorities from distorting long-term asset management.

The governance of a sovereign wealth fund must also distinguish the role of the state as owner from the role of the governing board and professional managers. The owner defines the public purpose and legal framework; the board establishes policy and supervises management; professional managers execute investment decisions. If these roles are blurred, ministerial or political actors may intervene in individual investments, weakening both professional independence and accountability. The legal personality and administrative independence established by Law No. 320 of 2023 should therefore be understood as mechanisms for role separation rather than as immunity from public oversight.

4.2. LEGISLATIVE FRAMEWORK AND INSTITUTIONAL DESIGN

The Lebanese framework developed through several stages. The Offshore Petroleum Resources Law No. 132 of 2010 established the basic legal regime for offshore petroleum activities and provided for the transfer of net petroleum revenues to a sovereign-fund arrangement, while requiring a separate law to regulate the Fund's system and management [5]. This was a significant legislative choice because it separated the regulation of petroleum extraction from the later institutional management of public revenue.

The Law on Tax Provisions Related to Petroleum Activities No. 57 of 2017 governs taxation associated with petroleum activities and also refers to the future sovereign wealth fund [30]. The separation of the petroleum-regulation, tax, transparency, and sovereign-fund regimes can be understood as a form of functional specialization: different laws govern extraction rights, taxation, disclosure, and long-term asset management.

Law No. 320 of 2023 completed the central institutional step by establishing the Lebanese Sovereign Wealth Fund [6]. The law gives the Fund legal personality and administrative and financial independence and establishes a governance structure for managing and investing petroleum revenues. It also defines the objectives of preserving and developing capital in a manner consistent with long-term national interests and intergenerational considerations.

The law's importance lies in the attempt to create institutional distance between petroleum revenues and ordinary short-term expenditure. Resource-rich states frequently face pressure to convert temporary revenue increases into current spending, a dynamic often discussed in the literature on the resource curse [31]. A sovereign wealth fund can mitigate this risk only if statutory restrictions are enforceable and if political authorities cannot easily override investment, withdrawal, or reporting rules when fiscal pressure increases.

Lebanon's legal design should also be read together with Law No. 84 of 2018 on enhancing transparency in the petroleum sector [32]. The transparency regime requires publication and disclosure across the petroleum value chain and therefore provides an important supporting framework for the revenues that may ultimately finance the Sovereign Wealth Fund.

Law No. 320 of 2023 is significant because it provides a dedicated institutional framework rather than leaving petroleum revenues subject only to general public-finance rules. The statute's provisions on legal personality and administrative and financial independence seek to create a degree of separation between the Fund and ordinary ministerial administration [6]. Such separation can protect professional asset management, but it also requires strong accountability mechanisms because independent institutions exercise substantial discretion over public wealth.

The law's objectives connect capital preservation with long-term development and intergenerational interests. This objective should guide interpretation of other provisions, especially those governing withdrawals and investment. Where statutory language is ambiguous, decision-makers should avoid interpretations that undermine the preservation function by converting exceptional access to funds into routine fiscal financing.

Board composition is another important safeguard. Professional competence, experience, independence, and conflict-of-interest rules affect whether investment decisions are made according to financial and statutory criteria rather than partisan considerations. Appointment procedures should therefore be transparent and sufficiently insulated from bargaining that compromises the professional character of the board. At the same time, insulation cannot eliminate democratic accountability; the Fund remains a public institution managing state assets.

External audit and public reporting are equally important. Financial statements should disclose the value and composition of assets, investment performance, transfers, fees, and risk exposure. Governance reports should identify decision-making structures, conflicts of interest, external managers, and compliance with investment policy. Without such information, formal independence could reduce rather than improve accountability. The best institutional design combines operational autonomy with robust reporting and review.

The statutory framework should also be assessed in relation to the timing of institutional preparation. Establishing governance systems before revenues arrive can be advantageous because it allows appointment rules, investment policies, internal controls, accounting standards, custody arrangements, and external-audit procedures to be designed without the immediate pressure of managing large financial inflows. Early preparation can therefore reduce the risk that emergency fiscal needs dictate the Fund's initial structure.

At the same time, premature institutional formalization can create dormant bodies whose procedures are not tested for many years. To avoid this problem, the authorities can prepare operational manuals, conflict-of-interest procedures, reporting templates, investment-policy statements, and procurement rules in advance, while linking full staffing and investment operations to clearly defined revenue thresholds. This phased approach would preserve readiness without creating unnecessary administrative cost.

The relationship between the Fund and the Ministry of Finance will also require careful implementation. Even where the Fund is administratively independent, petroleum revenues enter the broader public-finance system before they are transferred, and withdrawals from the Fund may have budgetary implications. Reconciliation procedures should therefore ensure that amounts recorded by the petroleum authorities, the Ministry of Finance, the Fund, and the external auditor are consistent. Discrepancies should be reported and explained publicly.

4.3. OWNERSHIP OF FUND ASSETS AND CURRENT OPERATIONAL STATUS

Legal ownership and management of fund assets. Law No. 320 of 2023 distinguishes between ownership of petroleum revenues and institutional management of those revenues. The legislation treats petroleum-derived income as belonging to the Lebanese state while assigning the Fund responsibility for management and investment within the statutory framework [6]. The Fund's separate legal personality therefore does not mean that the underlying national resource wealth is privatized or transferred away from the state.

This distinction is important for accountability. A public entity may exercise considerable operational independence while still managing assets on behalf of the state. The governing board must therefore be able to make professional

investment decisions within the law, but it must also remain accountable for compliance with statutory objectives, investment policy, risk rules, audit requirements, and disclosure obligations.

The Fund's administrative and financial independence is designed to reduce direct political management of individual investments. Independence, however, is not absolute autonomy. It must coexist with public-law accountability, legislative oversight, external audit, transparent reporting, and restrictions on withdrawals or transfers. The legal strength of the model will ultimately depend on whether these safeguards operate in practice.

Availability of petroleum revenues and consequences for operation. The central practical limitation is that the Fund's investment role depends on actual petroleum revenues. The Lebanese Petroleum Administration's financial information explains the mechanisms through which government revenues from petroleum activities would be collected [33]. Until a material revenue stream exists, the statutory rules governing portfolio allocation, investment, withdrawal, and performance evaluation cannot be tested fully.

The absence of substantial fund assets has several consequences. First, the Fund cannot yet demonstrate investment performance or the practical effectiveness of its risk controls. Second, rules on withdrawals and transfers remain largely prospective because there is no mature portfolio from which to withdraw. Third, the effectiveness of governance arrangements—including board independence, professional asset management, audit, and disclosure—cannot be assessed solely from the text of the law. Fourth, the institution remains legally valid even though its core financial function is not yet fully operational.

This distinction is central to the comparative analysis. Iraq faces the problem of governing funds that already move through the budget and are subject to implementation risk. Lebanon faces the problem of creating a credible governance system before the expected resource revenues become available. The Iraqi challenge is primarily one of operational control and fiscal stability; the Lebanese challenge is one of institutional readiness and future enforcement.

5. INSTITUTIONAL GUARANTEES FOR PUBLIC-FUND ALLOCATION: GOVERNANCE AND TRANSPARENCY

Institutional guarantees determine whether a legal allocation remains connected to its intended purpose after the legislature has created it. Two guarantees are particularly important in the Iraqi and Lebanese models: governance and transparency. Governance concerns the structure of authority, the distribution of responsibilities, operational independence, oversight, and accountability. Transparency concerns the availability of information that allows legislators, audit bodies, stakeholders, and the public to evaluate how funds are received, allocated, spent, or invested. The two concepts are mutually reinforcing: governance without transparency can conceal weak or politically influenced decision-making, while transparency without clear accountability may disclose problems without providing an effective mechanism to correct them.

5.1. GOVERNANCE AS AN INSTITUTIONAL GUARANTEE

Definition and legal role. Governance has developed across legal, administrative, financial, and corporate fields, but its common concern is the organization and responsible exercise of authority. Al-Khudairi emphasizes the rules governing relationships between those responsible for administration and the persons affected by administrative decisions [34]. The World Bank's *Governance and Development* defines governance as the manner in which power is exercised in the management of a country's economic and social resources for development [7]. This definition is especially relevant to the allocation of public funds because allocation is itself an exercise of legal authority over economic resources.

Iraqi public-finance legislation does not contain one comprehensive definition of governance applicable to every public institution. Nevertheless, governance principles appear in sector-specific regulation. The Central Bank of Iraq's Corporate Governance Guide for Banks, for example, emphasizes the distribution of responsibilities among governing bodies, executive management, stakeholders, risk functions, compliance, disclosure, and transparency [35]. These principles illustrate a broader point: sound governance requires both organizational clarity and mechanisms for reviewing the exercise of delegated authority.

For the purposes of this study, governance may be defined as the set of legal and institutional rules that determine who may allocate, manage, invest, supervise, and review public funds and under what conditions. Effective governance requires a clear mandate, separation of incompatible functions, qualified decision-makers, reliable internal control, independent oversight, accountability for deviation, and procedures for correcting failure.

Governance and proper allocation. Governance contributes to public-fund allocation in several ways. It defines the objectives of the institution and the authority of each participating body; reduces overlapping competences; strengthens internal and external control; supports anti-corruption safeguards; improves the quality of financial decisions; and creates a basis for evaluating whether expenditures or investments are consistent with legal objectives [36, 37]. Governance also helps ensure continuity when governments or officeholders change, because institutional rules can preserve the purpose of

the fund beyond a particular political cycle.

International standards. The Santiago Principles constitute the most important international governance framework specifically designed for sovereign wealth funds [8]. Their relevance lies in several recurring requirements: a sound legal framework, clear division of responsibilities, operational independence of management, professional investment decision-making, appropriate risk management, accountability to the owner, reliable valuation and performance measurement, and public disclosure of governance arrangements. Principle 6 emphasizes a sound governance framework and clear allocation of roles; Principle 16 addresses public disclosure of the governance framework and operational independence; Principles 18 and 19 concern investment and risk-management policy; and Principle 24 encourages regular review of implementation.

The Truman framework offers a complementary analytical approach by assessing sovereign wealth funds according to structure, governance, accountability, transparency, and behavior [10]. It focuses on whether investment objectives are defined, decision-making authority is clear, funding and asset use are disclosed, performance information is available, and meaningful oversight exists. The framework is useful because it translates broad principles into observable institutional indicators.

These sovereign-fund standards apply most directly to Lebanon. The Iraqi Regional Development Account is not an investment fund and should not be judged against every Santiago requirement. However, the underlying principles of legal clarity, defined responsibility, accountability, disclosure, and protection against arbitrary political intervention remain applicable to any mechanism for earmarked public money.

Comparative application. The Iraqi Regional Development Account has limited institutional independence because it operates through the general budget and existing executive institutions. Its legal basis changes with budget legislation, multiple authorities participate in planning and implementation, and funding varies with public revenue. This structure can weaken continuity and make responsibility difficult to trace. Governance reform should therefore focus on a clearer statutory identity, published allocation criteria, defined federal and local responsibilities, project-level accountability, and independent review.

Lebanon's Sovereign Wealth Fund has a more specialized legal framework. Law No. 320 of 2023 provides legal personality, administrative and financial independence, a governing board, investment objectives, and accountability mechanisms [6]. The model is therefore closer to the institutional architecture contemplated by the Santiago Principles. The principal uncertainty is operational: governance provisions have not yet been tested through sustained management of a substantial petroleum-revenue portfolio.

The Santiago Principles also help distinguish governance from direct political control. They do not require a sovereign wealth fund to operate outside the state; rather, they seek a clear allocation of roles between the owner, governing bodies, and operational management. This is a crucial distinction. The state may legitimately define broad objectives and risk tolerance, but day-to-day investment decisions should be protected from ad hoc political direction where the legal framework assigns those decisions to professional managers.

Risk management is another governance dimension. A fund may comply with formal appointment rules yet still be poorly governed if it lacks systems for market, credit, liquidity, operational, and reputational risk. Governance therefore extends beyond board composition to the internal control environment. Clear limits, independent risk functions, valuation procedures, and escalation mechanisms are necessary to ensure that investment policy is implemented consistently.

For the Iraqi Regional Development Account, analogous principles appear in a different form. The principal risks are not portfolio-market risks but project-selection, procurement, implementation, and expenditure-control risks. Accordingly, governance should focus on who selects projects, who certifies eligibility, who conducts procurement, who supervises construction, who authorizes payments, and who audits completion. The functional principle is the same: no single institution should control the entire process without independent review.

This comparison illustrates why institutional guarantees must be tailored to function. Applying sovereign-fund standards mechanically to the Iraqi account would obscure the actual risks of public-investment execution. Ignoring international governance principles altogether, however, would miss the broader lessons concerning role clarity, independence, accountability, and audit. A sound comparative method therefore identifies equivalent governance functions even where institutional forms differ.

5.2. TRANSPARENCY AS A LEGAL AND INSTITUTIONAL GUARANTEE

Definition and importance. Transparency requires relevant information about public decisions, procedures, revenues, expenditures, assets, and performance to be made available in a form that is accurate, timely, understandable, and usable for accountability. Transparency International links transparency with access to information and with the capacity of citizens and stakeholders to scrutinize public action [38]. In the extractive sector, the EITI Standard provides a specialized framework for disclosure and accountability concerning oil, gas, and mining revenues [23].

Transparency performs several legal and financial functions. It supports fiscal discipline, improves the quality of oversight and decision-making, enables audit bodies to identify deviations, reduces opportunities for concealment or

manipulation, and allows the public to evaluate whether allocated funds reach their intended beneficiaries [39–41]. Transparency is therefore not an end in itself; its value lies in making accountability possible.

International standards. The Santiago Principles incorporate transparency into sovereign-fund governance through disclosure of the legal framework, institutional structure, objectives, investment approach, and relevant financial information [8]. The Truman framework likewise evaluates the publication of financial statements, asset information, investment policy, returns, and governance arrangements [10]. Together, these approaches support a distinction between nominal transparency and substantive transparency. Publishing large quantities of data is not sufficient if the information does not reveal how decisions were made, where money went, or whether objectives were achieved.

Iraq. Iraq participates in the Extractive Industries Transparency Initiative, which creates a formal mechanism for disclosure of oil and gas revenues [23, 42]. This is relevant to the Regional Development Account because extractive revenues dominate the fiscal resources from which regional allocations are financed. However, the transparency problem does not end with disclosure of national petroleum income. Effective accountability also requires information on the amount allocated to each governorate, the formula used to calculate allocations, dates of transfer, project selection, procurement, implementation progress, actual expenditure, and completed outputs.

The Federal Financial Management Law No. 6 of 2019 provides a broader legal basis for fiscal transparency and reporting [19]. Iraq's 2020 White Paper on Economic Reform likewise emphasized improvements in fiscal governance, public financial management, and institutional reform [43]. Yet the practical transparency of regional development remains uneven because project-level data and implementation information are not always published in a sufficiently integrated and accessible form.

Lebanon. Lebanon has developed a specialized transparency regime for petroleum activities. Law No. 84 of 2018 on Enhancing Transparency in the Petroleum Sector establishes disclosure and publication requirements across the petroleum value chain [32]. Law No. 320 of 2023 adds fund-specific accountability and transparency provisions, including reporting and oversight requirements for the Sovereign Wealth Fund [6]. This provides a comparatively coherent legal architecture linking sectoral petroleum transparency to future fund governance.

The limitation is again operational. Rules that appear strong before revenues exist must still prove effective once financial assets accumulate and politically consequential withdrawal or investment decisions arise. The true test will be whether reports are timely, sufficiently detailed, independently audited, and capable of exposing non-compliance.

The comparative conclusion is that Iraq has substantial experience managing actual resource revenues but needs stronger transparency over the subnational allocation and implementation chain, while Lebanon has a more specialized prospective legal framework whose practical effectiveness remains untested. In both cases, transparency must extend from the source of revenue to the final use, investment, or developmental outcome of the allocated funds.

Transparency should also be evaluated in relation to the timing of disclosure. Information published only after a project is completed may be too late to influence procurement or prevent misuse. Effective transparency requires disclosure at several stages: the legal basis of the allocation, the formula or decision used to determine the amount, the identity of implementing bodies, procurement notices and awards, payment and implementation data, audit results, and final outcomes. This sequence allows oversight institutions and the public to intervene before problems become irreversible.

In Iraq, an integrated digital platform could connect oil-revenue information, federal budget allocations, governorate transfers, procurement records, and project progress. Such integration would reduce the fragmentation that currently forces users to consult separate ministries and reporting systems. It would also help distinguish between amounts appropriated, amounts released, amounts contractually committed, and amounts actually paid. These figures have different legal and financial meanings and should not be presented as interchangeable measures of performance.

Lebanon faces a different transparency challenge because the Fund will invest financial assets rather than execute local infrastructure projects. Disclosure must therefore include investment policy, strategic asset allocation, external managers, custody arrangements, performance benchmarks, fees, risk exposure, and withdrawals. Commercial confidentiality may justify withholding some transaction-level information, but confidentiality should not become a blanket justification for concealing the overall portfolio or governance arrangements. The Santiago Principles recognize this balance by combining operational independence with meaningful public disclosure [8].

Transparency should also be linked to consequences. Disclosure is weak if identified irregularities produce no corrective action. Audit findings should trigger responses from the responsible institution, and material non-compliance should be reported to oversight bodies. In this sense, transparency is the informational foundation of accountability, while accountability is the institutional response to information.

6. POLITICAL STRUCTURE AND THE EFFECTIVENESS OF INSTITUTIONAL GUARANTEES

Political structure matters because it determines where legal authority is located, how competences are divided, and which institutions participate in fiscal decision-making. Nevertheless, political structure should not be treated as a direct measure of institutional quality. A federal system may formally decentralize authority yet remain dependent on central

transfers; a centralized system may concentrate authority yet still suffer from fragmented accountability or political bargaining. The relevant question is how each structure interacts with legal safeguards governing public money.

6.1. IRAQ: FEDERALISM, DECENTRALIZATION, AND DEVELOPMENT ALLOCATION

The Constitution of 2005 establishes Iraq as a federal state and creates a framework of regions, decentralized governorates, and local administrations [2]. Article 122(2) grants governorates not incorporated into a region broad administrative and financial powers, while the Law of Governorates Not Incorporated into a Region No. 21 of 2008 gives further statutory form to local governance [13]. These rules support the principle that development planning should not be entirely centralized.

Federalism can improve allocation when local institutions have better information about local needs and when they possess sufficient authority to prioritize infrastructure and services. Regional-development allocations can therefore help reduce spatial inequality by linking financial transfers with population, deprivation, infrastructure deficits, and other local conditions. In principle, this brings development decisions closer to affected communities.

The problem is that decentralization is incomplete when local authorities depend heavily on federal revenue transfers. The World Bank's public-expenditure analysis of Iraq identified continuing centralization and weaknesses in service-delivery institutions, illustrating the gap between formal decentralization and administrative capacity [44]. A governorate may have responsibility for development planning yet remain unable to control the timing or amount of funding on which its projects depend.

Oil dependence intensifies this problem. IMF analysis shows that Iraq's fiscal position is highly sensitive to petroleum prices and that procyclical expenditure has contributed to volatility [1]. Because the Regional Development Account is linked to the public budget rather than protected by an autonomous funding rule, changes in national revenue can directly affect local development allocations.

Political bargaining also shapes the annual budget. Parliamentary negotiation is an inherent part of representative budgeting, but instability arises when allocation decisions are driven by short-term political compromise rather than published development criteria. Research on political development and stability in post-2003 Iraq highlights the broader influence of political fragmentation on state institutions [45]. For the Regional Development Account, the institutional response should not be to remove political choice altogether, but to limit discretion through transparent formulas, objective project evaluation, and clear legal responsibilities.

Iraq's experience therefore demonstrates that federalism can create a legal space for decentralized development without automatically creating fiscal autonomy. The effectiveness of regional allocation depends on the relationship among constitutional authority, transfer rules, local capacity, and public-finance institutions.

6.2. LEBANON: CENTRALIZATION, POWER-SHARING, AND SOVEREIGN-FUND GOVERNANCE

Lebanon differs from Iraq because it is not a federal state and does not constitutionally divide fiscal authority among federal and regional governments. Municipalities and unions of municipalities exercise local functions, but major public-finance decisions remain concentrated at the national level. In principle, such centralization can facilitate unified management of petroleum revenues and prevent fragmentation of the Sovereign Wealth Fund across territorial units.

Centralization, however, does not guarantee institutional effectiveness. The IMF's 2026 *Diagnostic Report Governance and Corruption* identifies significant weaknesses in Lebanese public financial management, oversight, institutional coordination, and accountability [46]. These weaknesses are directly relevant to the future operation of a sovereign wealth fund because the Fund will depend on the integrity of the wider public-law environment in which appointments, reporting, audit, and enforcement take place.

Lebanon's political system also involves power-sharing among sectarian and political groups. Salti and Chaaban's study of postwar public expenditure found that sectarian distribution was strongly associated with patterns of public spending, demonstrating how political structure can influence resource allocation even within a centralized state [9]. The implication for the Sovereign Wealth Fund is not that sectarian influence will necessarily determine investment decisions, but that legal safeguards must be strong enough to protect the Fund from appointment bargaining, politically directed withdrawals, or allocation decisions unrelated to its statutory objectives.

The Fund's centralized structure can be an advantage if it creates one professional institution with a clear mandate and prevents petroleum revenues from being divided among competing administrative bodies. Law No. 320 of 2023 attempts to create such a structure by granting the Fund legal personality and administrative and financial independence [6]. Yet the effectiveness of these provisions will depend on appointments, enforcement of conflict-of-interest rules, investment governance, audit, publication of reports, and respect for statutory withdrawal restrictions.

The comparison with Iraq therefore illustrates an important point: centralization can reduce institutional fragmentation,

but it can also concentrate political pressure. Federalism can disperse authority, but it can also create coordination problems and dependence on intergovernmental transfers. Neither model is inherently superior. The effectiveness of institutional guarantees depends on whether the political structure is accompanied by clear law, professional administration, transparent information, and enforceable accountability.

The interaction between political structure and institutional guarantees also has a temporal dimension. Federal systems can experience negotiation over transfers every fiscal year, making long-term planning difficult if allocation formulas are not stable. Centralized systems can avoid some intergovernmental bargaining but may concentrate conflict at the national level, especially when powerful political groups compete for control over appointments or withdrawals. Stability therefore depends on whether key rules are entrenched sufficiently to survive changes in government and political coalition.

In Iraq, a stable formula for regional-development allocations could reduce annual bargaining without eliminating parliamentary authority over the budget. Parliament would retain the power to determine the overall fiscal envelope, while the distribution of an approved envelope could follow transparent statutory criteria. This would separate political choice over total expenditure from administrative implementation of the distribution formula.

In Lebanon, the equivalent safeguard is a clear statutory boundary between the state's role as owner and the Fund's role as professional manager. Political authorities may define the Fund's objectives through legislation, but intervention in individual investments or exceptional withdrawals should be limited by the law. The more severe the national fiscal pressure becomes, the more important these boundaries will be.

Political structure therefore affects where pressure appears, but institutional guarantees determine whether that pressure can alter the legal purpose of public funds. This is the central reason why the comparison focuses on governance and transparency rather than treating constitutional form as the principal explanatory variable.

7. COMPARATIVE DISCUSSION

The comparison reveals two different forms of institutional vulnerability. In Iraq, the Regional Development Account operates within an existing fiscal and administrative system, but its effectiveness is constrained by dependence on annual budget decisions, oil-price volatility, delayed budget approval, fragmented responsibilities, uneven subnational implementation capacity, and political bargaining over resource distribution. Its principal weakness is therefore not the absence of public expenditure, but the instability and fragmentation surrounding the way development allocations are determined, transferred, implemented, and monitored.

Lebanon presents almost the opposite configuration. Law No. 320 of 2023 provides a comparatively specialized legal structure for a sovereign wealth fund, including legal personality, administrative and financial independence, governance arrangements, investment rules, and accountability requirements [6]. Yet the fund's central financial functions depend on the existence of petroleum revenues that have not yet generated an established stream of assets for investment. The Lebanese model therefore illustrates the distinction between a legally constituted institution and an operationally tested institution. Its rules may be well designed on paper while their effectiveness remains uncertain until the fund receives assets, makes investments, publishes reports, and becomes subject to real-world political and fiscal pressures.

Governance standards clarify this contrast. The Santiago Principles emphasize a sound legal framework, clear institutional responsibilities, operational independence, investment discipline, accountability, and disclosure [8]. The Lebanese legislation reflects several of these principles explicitly, whereas the Iraqi Regional Development Account is embedded in ordinary public-finance administration and is not designed as an independent investment institution. It would therefore be inappropriate to evaluate Iraq against every sovereign-wealth-fund standard. Nevertheless, the underlying governance requirements of clear responsibility, transparent rules, effective oversight, and protection from politically motivated diversion remain relevant.

Transparency reveals a similar difference. Iraq already manages large and recurring oil revenues and participates in EITI processes, while Lebanon has enacted sector-specific transparency legislation for petroleum activities and included accountability and disclosure obligations in the Sovereign Wealth Fund Law [6, 32]. In Iraq, the key challenge is connecting national-level disclosure to detailed information on subnational allocations, transfers, project execution, and outcomes. In Lebanon, the challenge is prospective: the transparency framework must operate effectively once the Fund receives and manages petroleum revenues rather than remaining only a statutory commitment.

The political-structure comparison should also be interpreted cautiously. Iraq's federal system and administrative decentralization create opportunities for local participation in development planning, but they also create coordination problems when legal competences, funding authority, and implementation responsibilities are not clearly aligned. Lebanon's centralized structure can, in principle, facilitate unified management of petroleum revenues, but centralization does not by itself protect resources from political influence, weak oversight, or fragmented accountability. The IMF's 2026 governance diagnostic identifies significant weaknesses in Lebanon's public-finance and oversight systems, demonstrating that centralized authority is not equivalent to institutional effectiveness [46].

The central comparative finding is therefore that constitutional structure shapes the environment in which public funds

are allocated, but it does not determine outcomes by itself. Federalism may distribute authority without guaranteeing implementation capacity; centralization may unify formal authority without guaranteeing independence or accountability. What matters most is whether legal rules are sufficiently clear and durable to preserve the purpose of the allocation, whether the responsible institutions have the capacity and independence to act, and whether financial flows are subject to effective transparency, audit, and public accountability.

This distinction has practical implications for reform. Iraq requires greater stability and specialization in the legal treatment of regional development allocations, stronger publication of allocation and implementation data, clearer responsibility among federal and local actors, and stronger mechanisms for evaluating project performance. Lebanon requires effective implementation of the safeguards already established by Law No. 320 of 2023, including credible appointment procedures, operational independence, transparent investment policy, external audit, public reporting, and strict protection of the fund from short-term fiscal appropriation once revenues become available. The reforms are therefore different in form but similar in institutional purpose: both seek to ensure that legally allocated public resources remain connected to the objectives for which they were created.

A useful way to summarize the comparison is to distinguish the two models across five institutional dimensions. The first is *legal form*. Iraq relies on budget-linked earmarking within the ordinary public-finance system, while Lebanon relies on a separate statutory public institution. The second is *revenue status*. Iraqi allocations are financed from existing public revenues, whereas Lebanon's Fund depends on future petroleum income. The third is *principal risk*. Iraq faces execution, volatility, and intergovernmental coordination risks; Lebanon faces institutional-readiness, political-interference, and future investment-governance risks. The fourth is *transparency need*. Iraq requires project- and transfer-level transparency, while Lebanon requires portfolio, investment, and withdrawal transparency. The fifth is *reform priority*. Iraq needs greater stability and integration of an operating mechanism; Lebanon needs credible implementation of a specialized framework before substantial assets accumulate.

These differences show why a formal comparison based only on institutional names would be misleading. The Regional Development Account should not be evaluated as though it were a sovereign wealth fund, and the Lebanese Fund should not be judged as though it were an annual development budget. The relevant comparison concerns the institutional guarantees that preserve an allocation from diversion. In both cases, legal clarity, predictable rules, transparent information, competent administration, and enforceable accountability perform this protective function.

The analysis also has a broader implication for public law. Earmarking alone is a weak guarantee if the institution responsible for implementation lacks capacity or if the legislature can alter the purpose without transparent justification. Conversely, institutional independence can become problematic if it is not accompanied by accountability. The design challenge is therefore to balance stability and flexibility: rules must be strong enough to protect the public purpose of the funds but flexible enough to respond to legitimate changes in economic conditions through legally defined procedures.

Finally, the study demonstrates the importance of distinguishing between *formal compliance* and *substantive effectiveness*. A government may comply formally by passing a law, creating a board, publishing a report, or appropriating money. Substantive effectiveness requires evidence that the funds are actually used or invested according to objective criteria, that irregularities are detected and corrected, and that the public purpose of the allocation is achieved over time. Future empirical research could build on this legal analysis by examining project outcomes in Iraqi governorates and, once operational data become available, the investment and governance performance of the Lebanese Sovereign Wealth Fund.

8. CONCLUSION

This study compared two distinct legal mechanisms for allocating and protecting resource-related public funds: Iraq's Regional Development Account and Lebanon's Sovereign Wealth Fund. The comparison shows that both mechanisms seek to prevent public resources from being absorbed indiscriminately into immediate expenditure, but they do so through different legal forms. Iraq uses a budget-linked territorial development mechanism, while Lebanon has created a specialized public institution for the future management and investment of petroleum revenues.

The Iraqi model has the advantage of operational experience: funds are allocated through the public budget and used for actual development projects. Its weaknesses arise from annual fiscal dependence, oil-price volatility, delayed budget processes, fragmented administrative responsibility, variable local capacity, and incomplete transparency across the project cycle. The central reform challenge is therefore to strengthen continuity, legal clarity, objective distribution, implementation capacity, and accountability without undermining legitimate local participation in development planning.

The Lebanese model has the advantage of a more specialized statutory structure. Law No. 320 of 2023 establishes legal personality, administrative and financial independence, governance arrangements, and rules for managing future petroleum revenues [6]. Its weakness is not primarily the absence of legal rules but the absence, so far, of a mature flow of petroleum revenues through which those rules can be tested. The key challenge is therefore to ensure that the legal safeguards become operational in practice and remain effective when fiscal and political pressure increases.

Governance and transparency emerge as the most important common guarantees. Governance requires clear mandates,

professional management, separation of responsibilities, effective oversight, and enforceable accountability. Transparency requires disclosure from the source of revenue through allocation, transfer, expenditure or investment, performance, and final outcome. A legal allocation that cannot be traced is difficult to protect; a transparent system without clear responsibility is difficult to enforce.

The analysis also shows that political structure is an important context but not a sufficient explanation. Iraq's federal and decentralized framework can improve responsiveness to local development needs, yet dependence on federal transfers and fragmented implementation can weaken effectiveness. Lebanon's centralized structure can support unified management of petroleum revenues, yet centralized authority remains vulnerable to institutional weakness and political bargaining. The decisive factor is therefore not federalism or centralization in the abstract, but the quality of the legal and institutional safeguards operating within each system.

The study accordingly concludes that effective public-fund allocation requires the integration of five elements: a stable legal basis; predictable and clearly defined funding; professional and sufficiently independent administration; comprehensive transparency; and effective audit and accountability. Where one of these elements is missing, the formal allocation of funds may fail to achieve its developmental or intergenerational purpose.

9. RECOMMENDATIONS

1. Iraq should develop a more specific and stable legislative framework for the Regional Development Account that clearly defines its legal nature, authorized purposes, funding rules, federal and local responsibilities, allocation criteria, reporting obligations, and procedures for monitoring project implementation.
2. Distribution criteria for regional-development allocations should be objective, published, and based on reliable indicators such as population, poverty, deprivation, infrastructure deficits, and documented development needs. Any departure from the formula should be explained publicly.
3. Iraq should publish integrated project-level information covering allocations, transfers, procurement, implementation progress, actual expenditure, completion rates, and audit findings. This would connect national oil-revenue transparency with the local expenditure chain.
4. Local implementation capacity should be strengthened through improved project preparation, procurement expertise, cost estimation, engineering supervision, and digital monitoring systems so that financial decentralization is matched by administrative capacity.
5. Lebanon should complete the institutional arrangements required for the effective operation of the Sovereign Wealth Fund and should apply the appointment, independence, conflict-of-interest, investment, audit, and reporting provisions of Law No. 320 of 2023 before substantial petroleum revenues are received.
6. Withdrawal and transfer rules for the Lebanese Fund should remain strict, transparent, and legally enforceable so that the Fund cannot be converted into a routine mechanism for financing short-term fiscal deficits or politically negotiated expenditure.
7. Lebanon should integrate the disclosure obligations of the petroleum-transparency regime with the reporting obligations of the Sovereign Wealth Fund so that the movement of revenue can be traced from petroleum activity to collection, transfer, investment, and eventual authorized use.
8. Both countries should strengthen the role of independent audit, legislative oversight, public disclosure, and accessible financial reporting. Governance and transparency should apply throughout the entire life cycle of allocated public resources, not only at the point of initial appropriation.

AUTHORS CONTRIBUTION

Both authors contributed to the development of the study, critically reviewed the manuscript, approved the final version, and agreed to be accountable for all aspects of the work.

CONFLICTS OF INTEREST

The authors declare no conflicts of interest.

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No new empirical dataset was generated for this comparative legal study. The analysis is based on legislation, official documents, institutional reports, and published sources cited in the manuscript.

DECLARATION OF GENERATIVE AI AND AI-ASSISTED TECHNOLOGIES IN THE WRITING PROCESS

During preparation of this manuscript, the authors used ChatGPT to assist with English-language editing, readability, and organization of the text. The authors subsequently reviewed and revised the manuscript, verified the legal and scholarly content, and take full responsibility for the final version.

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