

SUB NATIONAL NATURAL RESOURCE REVENUE MANAGEMENT IN CAMEROON:

Forest and Mining Royalties in Yokadouma, East Cameroon



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RELUFA would like to thank the Revenue Watch Institute for the financial support that made this study possible

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RELUFA – Mai 2012

ACKNOWLEDGEMENT

This study was born out of the Network for the Fight against Hunger's (RELUFA) extractive industries program. As the industrial mining sector booms in, we need to examine the existing framework for sub-national revenue allocation and management in Cameroon.

To conduct this study, we benefitted from the assistance of many people and organizations. We are thankful to Evelyne Tsague and the Revenue Watch Institute (RWI) for their financial support. We are indebted to Samuel Nguiffo and the Centre for the Environment and Development (CED) for their logistical support. We would also like to recognize the hard work of Edwige Jounda of CED and Mr. Victor Amougou and staff of CEFAID for their assistance in collecting data in the field.

Thea Price, our editor, was extremely helpful in crafting our message.

RELUFA is also grateful to Abel Bove and Herminie Delanne both of the Cameroon World Bank country office for their willingness to facilitate contacts with stakeholders.

During the research phase, the RELUFA team met with dozens of people and organizations whose experience in the domain lends more credence to this study. we are thankful to everyone who shared their knowledge with us, particularly: the Honorable Louis Roger Essola of the National Assembly of Cameroon, Dr. Tim Fomete of Rainbow Environment Consult, Dr. Pierre Kenfack of the University of Yaoundé and Nadege Nzoyem of SNV.

Thanks to our cartographers Diderot Nguelpjouo, Flavien Same, and Freddy Mbianda of CED who created the maps used in the final chapter of the report.

RELUFA also recognizes the hospitality and openness of Gall Charles, the First Assistant Divisional Officer for Yokadouma. There are many other individuals and organizations not mentioned here that facilitated the completion of this study. We hope the findings will inspire actions to improve of the sub-national revenue management framework in Cameroon.

Jaff Bamenjo,

RELUFA Coordinator

PREFACE

The exploitation of natural resources in Cameroon generates significant revenue for the state budget, allowing the government to perform its sovereign task of investing in the country's development and the wellbeing of its people. However, the exploitation of natural resources often has negative consequences on the local communities who live in project areas. Local communities are often frustrated when they see “their” resources disappear, their lives destroyed and no concrete improvements in their standard of living.

It is in recognition of the negative impacts of these projects on local communities and the environment that the Cameroonian Government provides a royalty at the local level in some economic sectors, notably forestry and mining. In these areas a percentage of revenues generated by the project is given back to promote social and economic development. As a result, royalties can boost communal development if local communities properly manage “their share” of revenues.

The Government of Cameroon initiated the first natural resource royalty when it passed the 1994 Law of Forestry. A similar royalty arrangement was developed in the mining sector and enshrined in the new Mining Code of 2001 and its Implementation Decree.

Nearly twenty years after forest communities were granted the legal right to a royalty Cameroon is at the precipice of a mining boom. As numerous industrial mining projects are being planned, it seems important to revisit the management of forest royalties at the local level to draw lessons and make recommendations on how to better manage mining royalties. Currently, it is virtually impossible to trace the national government's use of revenues derived from natural resources. Yet we should be able to easily measure the impact royalties paid to local councils and local communities that are impacted by extractive industries projects.

This is an independent study which is line with the mission of the Network for the Fight Against Hunger in Cameroon (RELUFA). We hope it helps generate debate and improvements in the management of natural resource revenue in local councils and communities while also strengthening the participation of local communities in strategic decisions that impact their futures.

Valery Nodem,

Coordinator of RELUFA 2003-2010

LIST OF ABBREVIATIONS AND ACRONYMS

BRGM	:	Bureau de recherches géologiques et minières
CAPAM	:	Cadre d'appui et de promotion de l'artisanat minier (Framework for Support and Promotion of Small-Scale Mining)
CIMENCAM	:	Cimenteries du Cameroun (Cameroon Cement Company)
COVAREF	:	Comité de Valorisation des Ressources Fauniques (Committee for the Valorization of Wildlife Resources)
C&K	:	Cameroon and Korea Mining Company
DSCE	:	Document de Stratégie pour la Croissance et l'Emploi (Growth and Employment Strategy Paper)
EI	:	Extractive Industries
EIR	:	Extractive Industries Revenues
EITI	:	Extractive Industries Transparency Initiative
FCFA	:	Franc Communauté Financière d'Afrique
FEICOM	:	Fonds Spécial d'Équipement et d'Intervention Intercommunale (Special Council Support Fund)
GDP	:	Gross Domestic Product
GFI	:	Global Financial Integrity
IMF	:	International Monetary Fund
MINFI	:	Ministry of Finance
MINFOF	:	Ministère des Forêts et de la Faune (Ministry of Forest and Wildlife)
MINIMIDT	:	Ministère de l'Industrie, Mines et du Développement Technologique (Ministry of Industries, Mines and Technological Development)

MINTAD	:	Ministry of Territorial Administration and Decentralization
PSRF	:	Programme de Sécurisation des Recettes Forestières (Program for Securing Forest Revenues)
PSRMEE	:	Programme de Sécurisation des Recettes Minière, Eau et Energie (Program to Secure Mining, Water, and Energy Revenues)
RELUFA	:	Réseau De Lutte Contre La Faim (Network for the Fight Against Hunger)
RFA	:	Redevances Forestières Annuelles (Annual Forest Royalty)
SNH	:	Société Nationale des Hydrocarbures (National Hydrocarbons Corporation)
SOPECAM	:	Société de Presse et d'Éditions du Cameroun
SSV	:	Sale of Standing Volume (Vente de Coupe)
UFA	:	Unité Forestière d'Aménagement (Forestry Unit)
UNDP	:	United Nations Development Programme
WWII	:	World War II

INTRODUCTION

This study is meant to be a broad-based and forward looking document on the general framework and management of sub-national natural resource revenue in Cameroon. After illuminating the importance of sub-national revenue sharing, the study will develop a brief history of Cameroon's prior experiments in decentralized revenue management using the forestry sector as a case study, but will focus on the situation of mining royalties—Cameroon's next great test in sub-national revenue management. Local councils and local revenue management committees are the two main vehicles used to invest sub-national natural resource revenues and understanding how they have functioned in the past will be paramount to understanding what reforms may be necessary in the future. We will then analyze the legal and regulatory framework guiding the development of the mining sector, with close attention paid to the local mining royalty. Cameroon's transition from centralized to "decentralized" governance will increase the financial and human resources of local councils in the areas of budget execution and development planning, but do they have the capacity to handle such massive windfalls in addition to mining royalties? We use the local council of Yokadouma as a case study to examine sub-national payments. Yokadouma has received large payments from the forestry sector over the last ten years and will likely be the first council to receive royalties from an industrial mining project under Cameroon's new mining regime. Finally, we will present our recommendations for how implement a fair and transparent sub-national mining revenue system in Cameroon.

Methodology

The project has four main phases: a literature review phase, a consultation phase, a field data collection phase, and a final phase for production and dissemination of findings and recommendations.

a) Literature review

The authors analyzed the contents of the Mining Law of Cameroon, including provisions related to revenue management and sub-national allocation. We also reviewed laws and reports pertinent to the forestry and hunting sectors in Cameroon as well as the decentralization process.

b) Consultation phase

The RELUFA team leading the study consulted experts in the domains of forestry, mining, governance, and decentralization to improve the study's methodology and analysis. This included representatives from government ministries, the World Bank and NGOs.

c) Field data collection phase

This phase allowed RELUFA to collect field data and consult local stakeholders involved in the management of resource revenues including the departmental delegates of the ministries in Yokadouma (East Region), the Yokadouma council and local communities.

d) Dissemination phase

This report is part of RELUFA's overall effort to promote citizen participation in the governance of natural resources and educate the public about natural resource revenue management. RELUFA held a "restitution workshop" on June 30th, 2011 to share our research and solicit comments. RELUFA will publish this report on the internet and distribute printed versions to all stakeholders. The findings will be used in advocacy campaigns to improve governance in the extractive industries sector in Cameroon.

Context

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Mining and Oil History – Resource Curse?

Cameroon began developing its extractive industries during the German, French, and British colonial periods. Cameroon's mining sector boomed during World War II to represent 20% of the country's GDP, but quickly fell to less than 1% after independence.¹ The Government of Cameroon began exploiting oil in the 1970s and historically remains the sole extractive resource contributing to the State budget. In 2008, oil revenues alone accounted for 38% of total government revenues. From 181,000 barrels per day in 1985, oil production has experienced a rapid decline and is currently estimated at about 70,000 barrels a day.²

Despite the strong contribution of oil in the State budget, development indicators continue to decline in Cameroon. Cameroon's growth rate fell to 3.5% between 2001 and 2007, and poverty and unemployment have increased. In addition, Cameroon ranks poorly in World Bank ratings on service delivery and Transparency International's Corruption Perceptions index. Although a marginal oil producer in Sub Saharan Africa, Cameroon's natural resource revenues are significant. Unfortunately, these revenues have failed to deliver poverty alleviation and development for Cameroon's people.

A recurring argument explaining the failure of oil to contribute to national development and

¹ Paul Ntep Gweth et al. (2001). Ressources Minérales du Cameroun. Sopecam. Yaoundé

² British Petroleum. Statistical Review of World Energy 2010. Available for Download at http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2010_downloads/Statistical_Review_of_World_Energy_2010.xls

poverty reduction in Cameroon is that decision-making in the oil sector is reserved for a select group of authorities and political elites. For a long time, revenues were initially not even included in the government's national budget, but placed in an offshore account.³ This practice continued until the late 1990s when oil revenues began to appear in the state budget under pressure from development partners and multilateral development institutions like the World Bank and IMF.⁴ But the problem of translating such income in to tangible benefits for local communities persists. The entire extractive industries value chain needs to be reorganized, and today, the lessons learned from the management of natural resource revenue in other sectors in Cameroon could be useful, particularly for the mining sector, which is in full gestation.

Faced with declining oil production, Cameroon launched an extensive exploration campaign to evaluate its mineral potential. The main minerals present in Cameroon are: gold, diamonds, iron, bauxite, uranium, cobalt, and nickel. The Mobilong diamond project near Yokadouma in the East region of Cameroon will begin exploitation in 2011—the first industrial scale project to be launched in Cameroon's updated mining regime.

Local Mining Royalty

Contrary to oil exploitation in Cameroon which is primarily offshore and whose social and environmental impacts do not always directly affect the population, mining projects will leave a big footprint in communities where practiced. There are significant risks linked to mineral research and exploitation including population displacement, air pollution, soil and groundwater contamination, social disruption in mining communities, disease, and inflation.⁵ To compensate for some of these risks, Cameroonian law provides for a percentage of mining revenues to be allocated to local communities impacted by mining projects.⁶

The Experience of Decentralized Revenue Management in the Forestry Sector

The forestry sector in Cameroon is another important source of government revenue. The Forestry Law of 1994 introduced a framework establishing benefits for local communities. About 40% of national territory is covered by forests, especially in the South and East regions of Cameroon, which are also some of the most isolated zones in the country. Industrial logging has generated significant revenue for the state, but it has also accentuated deforestation.

The concept of Annual Forestry Royalties (known by their French acronym, RFA) was included in Law No. ° 04/01 of 20 January 1994. According to this law and subsequent regulations, 50% of revenues generated by the Annual Forest Royalty (RFA) go to the government central treasury,

³ Bernard Gauthier and Albert Zeufack, 2009 Governances and oil revenues in Cameroon, Oxcarre <http://resources.revenuewatch.org/en/official-document/governance-and-oil-revenues-cameroon>

⁴ Ibid.

⁵ SBMCG. Etude d'Impact Environnemental Projet d'Exploitation du Diamant, Or, et Autres Metaux Precieux A Mobilong-Yokadouma Region de l'Est Cameroun Volume 1 : Rapport Principal. Mars, 2010

⁶ See Cameroon's Mining Code and Application Decree No 2002/848 PM of 26 March 2002

while the remaining 50% is divided between the municipality and the populations affected by logging operations (40% for the council, and 10% for population). This revenue sharing mechanism was altered in 2009 and now 50% of RFA goes to the treasury, 20 % to FEICOM⁷, 20% to the council, 10% to local communities.

Decentralized management of natural resource revenues was introduced in Cameroon with the hope that local councils and neighboring communities would manage the revenue derived from forest exploitation for the socio-economic development of their area. This provided an opportunity to directly improve the living conditions of the population and develop local infrastructure.

Several local governments in the South and East Regions of Cameroon have benefited from the RFA—most notably Yokadouma, Lomié, Dimako, Djoum, Moundoulou, and Gari Gombo. From 2000 to 2008, the Yokadouma council received approximately 14 million dollars (7 billion CFA francs) in revenue from forest royalties while the village communities received approximately 3.5 million dollars (1.7 billion FCFA).⁸

However, most studies evaluating the contribution of the RFA to local development provide us with mixed or negative results. In some cases the RFA helped launch social projects, but there are also many examples of revenue mismanagement.

Coincidence of nature, numerous mining projects being planned in Cameroon like the Mbalam iron project, the Lomie cobalt-nickel-manganese project or the Mobilong diamond project are located in the same forested region of East Cameroon.⁹ The Mobilong diamond project is located in the Yokadouma council—which received and mismanaged billions of FCFA in timber royalties over the last decade. This area will now be faced with the challenge of managing even larger mining windfalls.

Presentation of Mobilong/Yokadouma and the Diamond Mining Project

The Mobilong area is an isolated series of villages in the Yokadouma Local Council in the East Region of Cameroon, close to the Central African Republic border. Cameroon's most recent population census estimates the population of the Yokadouma Council at 64,000 with more than two-thirds living in rural settings. Mobilong counts approximately 5,000 inhabitants.¹⁰ The ethnic composition of the area includes Baka (indigenous forest peoples) and numerous Bantu groups with the Bidjouki living closest to the diamond mine.

⁷ FEICOM is a government-created agency that acts as the bank and financial partner of all local councils. The RFA paid to FEICOM is redistributed throughout Cameroon when FEICOM disburses funds to local councils.

⁸ Nzontcha, Carine. *Analyse Financière des Communes de l'Est Cameroun* (2009). CTFC.

⁹ Paul Ntep Gweth et al. (2001). *Ressources Minérales du Cameroun*. Sopecam. Yaoundé.

¹⁰ Cameroon Population Census of 2005. *Rapport de Présentation des Résultats Définitifs*. Available at : http://www.statistics-cameroon.org/downloads/Rapport_de_presentation_3_RGPH.pdf

The Baka tend to practice their traditional hunter-gatherer lifestyle while Bantu groups, which comprise the majority of the population, prefer small-scale agriculture. The Yokadouma council operates a logging concession of 21,000 hectares alongside a number of commercial logging companies. There is weak access to social services including health, education, and clean water in the zone. Most services are concentrated in Yokadouma town, with little reaching outlying villages including Mobilong.

Artisanal gold and diamond mining has existed in the Mobilong area for decades. Artisanal miners from the Central African Republic first began exploiting diamond deposits in Mobilong in the 1930s. Cameroon's first diamond deposits were officially "discovered" northwest of Yokadouma by CMOO (Compagnie Minière de l'Oubangui Oriental) in 1948-1949. Artisanal production in the zone from the 1930s until 1990 was estimated at 850 carats/month. Central Africans established and dominated the industry despite Cameroon's laws, at the time, banning the possession and importation of diamonds. Consequently, most production was sold across the border where the Central African Republic had developed a trade and taxation scheme for the diamond sector. From 1990-1993 the greater Mobilong area experienced a diamond "boom" where production increased to more than 6000 carats/month, but has since dropped back to normal levels.¹¹

Today the sector is largely informal and artisanal miners often sell their production to middlemen who smuggle minerals out of the country to evade tax authorities. Cameroon created the Small Scale Miners Promotion Unit, known by its French acronym CAPAM, in 2003 to formalize the artisanal mining sector by providing tools to artisanal miners while taxing and regulating production. CAPAM admits it has only managed to formalize 10% of production. From 2005-2007 it sold 342 carats of diamonds from the Mobilong/Yokadouma area¹²—meaning artisanal miners could easily be producing more than 1,000 carats/year.

In 2007, CAPAM formed a joint venture with a Korean company to create C&K Mining with the goal of industrializing small scale gold mining north of Yokadouma as well as search for diamonds. Then in 2009 C&K, 20% owned by the Cameroonian government through CAPAM, announced it had discovered the world's largest diamond deposit estimated at 736 million carats—five times the world's annual production. The Korean operators promised to invest \$1 billion over the 25-year life of the project which they claimed would create over 4,000 jobs.¹³ However, C&K's environmental impact assessment study cited the creation of just 115 jobs¹⁴ and other press reports claim the diamond deposit contains just 18 million carats.¹⁵

¹¹ Ntep Gweth, Paul et al. Ressources Minerales du Cameroun. SOPECAM, Yaounde. 2001.

¹² CAPAM. Sensibilisation des Acteur Miniers, Populations et Autorites Locales. Ministere de l'Industrie, des Mines, et du Developpement Technologique. Yaounde, 2009.

¹³ Guèye, Hance. Cameroun : mystérieux gisement de diamant. November 20, 2009.

<http://www.investiraucameroun.com/mines-et-hydrocarbures-actu/cameroun-mysterieux-gisement-de-diamant>

¹⁴ SBMCG. Etude d'Impact Environnemental Projet d'Exploitation du Diamant, Or, et Autres Metaux Precieux A Mobilong-Yokadouma Region de l'Est Cameroun Volume 1 : Rapport Principal. Mars, 2010.

¹⁵ Shin Hae-in. Seoul under fire over Cameroon diamond business. September 19th, 2011.

<http://www.koreaherald.com/national/Detail.jsp?newsMLId=20110919000845>

In December, 2010 the Cameroonian Government issued an exploitation permit to C&K for diamonds and associated minerals over an area greater than 230Km².¹⁶ The project has reportedly received the blessing of the Korean Vice Prime Minister and an undisclosed, but significant amount of funding from the Korean ExIm Bank.¹⁷ Cameroon, whose interest in the project is managed by CAPAM, will receive 35% of the production with the rest going to C&K. Production has reportedly already begun on a very small scale and could reach 800,000 carats/year once Cameroon adheres to the Kimberley Process. An anonymous South Korean government official has been quoted as saying the project could generate profits equal to 50 times the costs.¹⁸

The Problem

The Application Decree of the 2001 Cameroon Mining Code provides, in article 137, that 50% of the revenues generated by the Ad Valorem Tax on mineral sales will go to the State Treasury, 25% to the Ministry of Mines for project monitoring, 15% to the local council where the project is located and 10% to the impacted communities. Article 137 also states that the modalities of paying the local mining royalty will be defined in a Joint Ministerial Order by the Ministry of Mines and Ministry of Finance. However, the Ministerial Order to oversee the payment and use of 15% allocated to local councils and the 10% for local communities has not been promulgated.¹⁹

Additionally, mining royalties (15% for the council and 10% for local communities) will arrive at the local level in the middle of Cameroon's ongoing "decentralization" process—which devolves management of the government budget to the regional and local levels. Local authorities will see their budgets increase exponentially despite their lack of preparedness to manage these revenues. According to officials of the Ministry of Territorial Administration and Decentralization, 50.266 billion CFA francs were allocated to 360 councils in Cameroon for fiscal year 2010 as part of the process. That amount should increase each year.

Local councils and communities like Yokadouma could eventually receive more revenue than they can effectively manage. Given disappointing outcomes in the management of forestry royalties, there is a great risk that mining royalties could also fail to bring tangible benefits to local people. In Cameroon there is a great need for national dialogue on natural resource revenue management—which is the objective of this study and recommendations.

¹⁶ Décret N° 2010/374 du 16 décembre 2010 portant institution d'un permis d'exploitation minière valable pour diamant et substances connexes

¹⁷ SBMCG, 2010.

¹⁸ S. Korea says it gets go-ahead for Cameroon diamond mine. AFP. December 17, 2010.

¹⁹ <http://news.asiaone.com/News/Latest%2BNews/Business/Story/A1Story20101217-253365.html>

Cameroon's Mining Code Application Decree No 2002/848 PM of 26 March 2002

1 Sub-National Extractive Industries Revenues



- **What Are Sub-national Extractive Industries Revenues and Why Are They Important?**

Generally, the term “extractive industries” (EI) refers to the oil, gas, and mining industries. However, it may also include logging, fishing, and commercial hunting sectors (though rarely). For the purposes of this study, we will primarily discuss revenue sharing in the logging and mining industries while taking secondary look at other sectors.

- **What Are Sub-national Extractive Industries Revenues?**

Sub-national Extractive Industries Revenues (EIR) are payments allocated by central governments to local and/or regional governments or private actors such as landowners. These payments originate from the overall state share of revenues from extractive industries projects. There are three widely used mechanisms for allocating EIR revenues to sub-national actors:

- 1) **Derivation**—a percentage of revenues generated by EI projects are given directly to sub-national entities while the rest are managed at the national level through the normal budget process;

- 2) **Formula**—the national budget process includes a formula uniquely to redistribute EIR to sub-national entities;
- 3) **Budget Process**—in this case, there is no special mechanism and thus EIR are re-distributed via the normal budget process²⁰

▪ **Which Countries Redistribute Extractive Industries Revenues at the Sub-national Level and Why?**

A 2006 survey of 56 developing countries found that 17 had mechanisms for redistributing EI revenues at the sub-national level.²¹ 16 other resource dependent countries attributed large amounts of money to sub-national entities although there was no explicit framework linking sub-national payments to EI revenues.²²

Table of countries that make sub-national EI payments

A. Countries with statutory or policy frameworks for intra-governmental assignment of attributable NR revenues. 2nd tier transfers only – <i>italics</i> Mineral producing countries – *		B. Countries where conventional intra-government revenue transfers incorporate a predominance of NR resourced revenues (excluding countries in column A)	
Angola	Mexico	Algeria	Azerbaijan
Bolivia	<i>Nigeria</i>	Botswana	Cameroon
Brazil*	Papua New Guinea*	Brunei Darussalam	Ecuador
<i>Chad</i>	Peru*	Republic of Congo	Indonesia
Colombia*	Philippines*	Equatorial Guinea	Iran
Ecuador	Russia	Gabon	Iraq
Indonesia*	<i>Sudan</i>	Kuwait	Kazakhstan
Kazakhstan	Venezuela	Libya	Mexico
Malaysia			

Table from Warner and Alexander 2006

There are five generally accepted rationales for sharing revenues with regional or local governments:

- (i) compensating for the depletion of the natural resources of the land belonging to its inhabitants, especially if these have been occupying the land before the establishment of the contemporary state;
- (ii) replacing the existing revenues with sources for economic development for the future generations
- (iii) redressing environmental damages caused by the extraction,
- (iv) preempting autonomous taxation efforts by local

²⁰ Morgandi, Matteo. "Extractive Industries Revenue Distribution at the Sub-National Level: The Experience in Seven Resource-Rich Countries." RWI, 2008.

²¹ Warner, Michael and Alexander, Kyle. "Sub-National Implementation of the Extractive Industries Transparency Initiative (EITI), Issue Paper." London, 2006.

²² Ibid.

authorities if not duly compensated, and in worse cases, (v) preserving harmonious political relations between the central government and the periphery.²³

In countries such as Nigeria and Indonesia, sub-national EIR distribution is clearly a political economy solution to appease constituencies that have strained relations with the central government. However, more and more governments are realizing that communities hosting large EI projects experience negative impacts ranging from price inflation to environmental destruction and therefore have the right to some form of compensation. No matter the reason, sub-national EIR must tangibly contribute to poverty alleviation and local development.

▪ Important Principles for Sub-National EI Revenue Distribution

The International Monetary Fund (IMF) developed a code and implementation guide for best practice management of natural resource revenue. The section of the IMF guide dedicated to sub-national EIR states:

Clear rules and principles should guide whatever sub national revenue sharing arrangement is chosen...Similar principles of transparency to those recommended for other parts of the government budget should apply to the processes for planning, allocating, spending, and reporting of resource revenues. The special features of resource revenue, however, require that governments give particular emphasis to policy clarity with regard to explicit treatment of risks arising from the resource base, transparency of accounting, and control of receipts and spending.²⁴

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Here are some best practice principals recommended by the IMF and others to make sub-national EI payments a success:

1. **Clear Rules:** The mechanism for determining sub-national revenue sharing should be widely discussed and publicly approved. The laws and regulations governing sub-national allocations should be thorough and publicly disseminated in a format comprehensible to the average citizen.²⁵
2. **Traceability and Transparency:** Governments should implement a “traceability” system whereby EIR can be traced throughout the entire value chain from the collection of taxes to sub-national allocations and all the way to expenditures at the local level. This requires a strong tax-collection effort and sound internal mechanisms at finance ministries to track funds. Documents detailing EI revenue allocations and expenditures should be easily accessible by the general public at all levels of government.

²³ See Morgandi

²⁴ International Monetary Fund. Guide on Resource Revenue Transparency (2007).

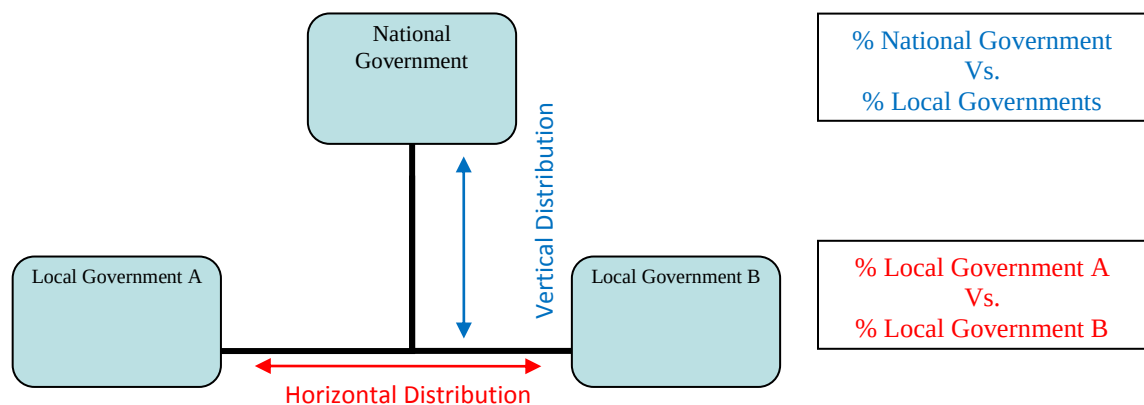
²⁵ Morgandi and IMF. Or see Africa’s Mining Regimes: Framework Report. UNECA. 2009.

3. **Reduce Volatility:** The extractive industries sectors are quite volatile and therefore government receipts from extractive projects can vary greatly from year to year. Central governments often struggle to deal with the volatility of EI revenues and sub-national governments are even more vulnerable.

National governments should protect local governments from volatility by creating “smooth” revenue streams at the sub-national level while monitoring sub-national governments’ expenditures and debts.²⁶

4. **Fair Sub-national Distribution:** As discussed above, many countries adopt sub-national payment schemes to compensate communities impacted by EI projects. However, beyond impacted communities, governments should consider allocating EI revenues to regions or localities with the greatest need. Special attention should be paid to distribution schemes to ensure that a minority of resource “producing” regions do not receive an overly large share of payments. Impoverished “non-producing” areas should also benefit from sub-national EI payments.²⁷ Many authors recommend that governments pay special attention to the vertical and horizontal distribution of EIR. Vertical distribution refers to sharing between different levels of government (national, regional, local), while horizontal distribution refers to distribution across one level of government (sharing between local councils in producing and nonproducing regions for example).

Vertical and Horizontal Transfer Flow-Chart



²⁶ Morgandi and IMF.

²⁷ Payments to poor areas that do not produce natural resources is often referred to as “equalization.” See Morgandi and IMF.

5. **Strong local development planning, external monitoring, and citizen monitoring:**

Sub-national entities should produce short and medium term local development plans as a condition for receiving EI payments. Expenditures should be in line with development plans and concentrated on investments, not consumption.

Thorough external auditing of expenditures should be conducted to detect administrative weaknesses and corruption. Citizens must have the power to refer cases of mismanagement/corruption to the judicial system since they are the intended beneficiaries of sub-national payments.

▪ **Sub-national Payments in Cameroon**

Cameroon's legal framework for sub-national revenue distribution varies by extractive industries sector and ends up using all three revenue sharing mechanisms discussed above.

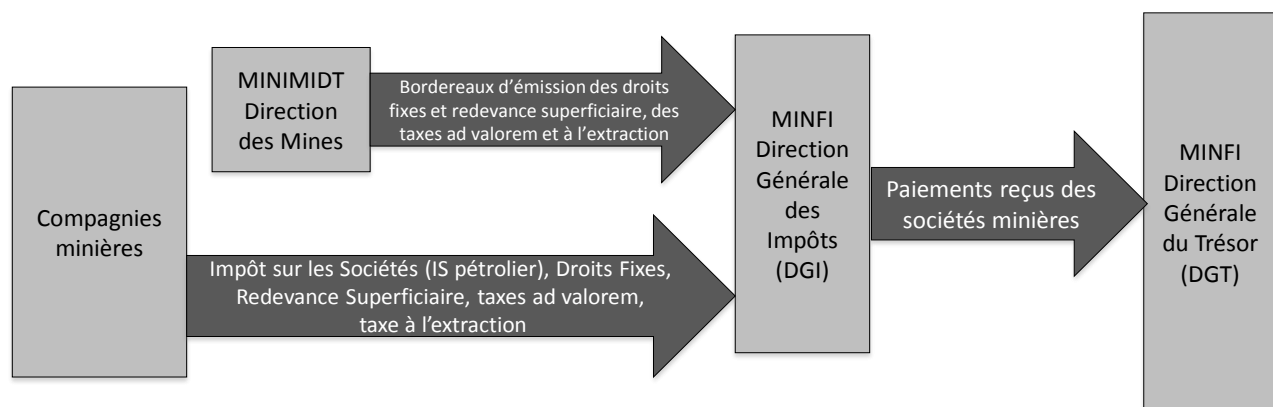
MINING SECTOR

For mines and hunting, Cameroon uses derivation to calculate sub-national payments. In the mining sector, taxes are collected by the Ministry of Mines at the decentralized level, Ministry of Finance at the decentralized level, or the central tax body in Yaoundé and subsequently transferred to the treasury. The process varies slightly depending on whether the project is an artisanal mine, quarry mine, water source, or industrial mine.

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Flow Chart Explaining Mining Payments

Mining Companies

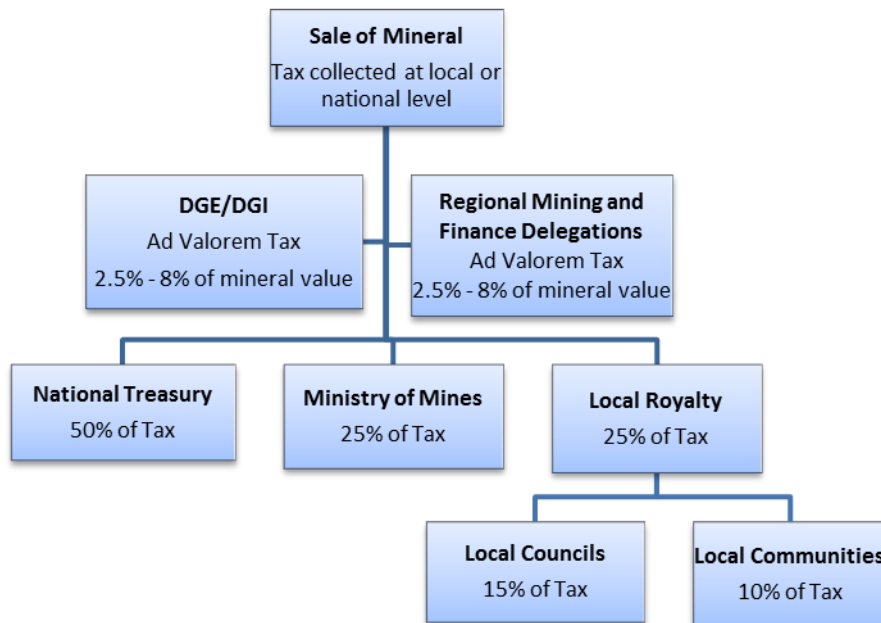


Les droits fixes et redevances superficières payés par les compagnies sont effectués sur la base de bordereaux émis par le Ministère des Mines

Source: Cameroon 2006-2008 EITI Report

The Ad Valorem Tax (rate varies from 2.5% - 8%) levied the sale of minerals is divided up using derivation with 50% going to the treasury, 25% to the Ministry of Mines, 15% to local councils, and 10% to impacted communities.²⁸

Graphic Explaining Sub-national Distribution of Mining Royalties



OIL SECTOR

For the oil and natural gas sectors, revenues go into the treasury from a number of sources and are re-distributed via the normal budget process or extra-budgetary payments by the SNH.²⁹

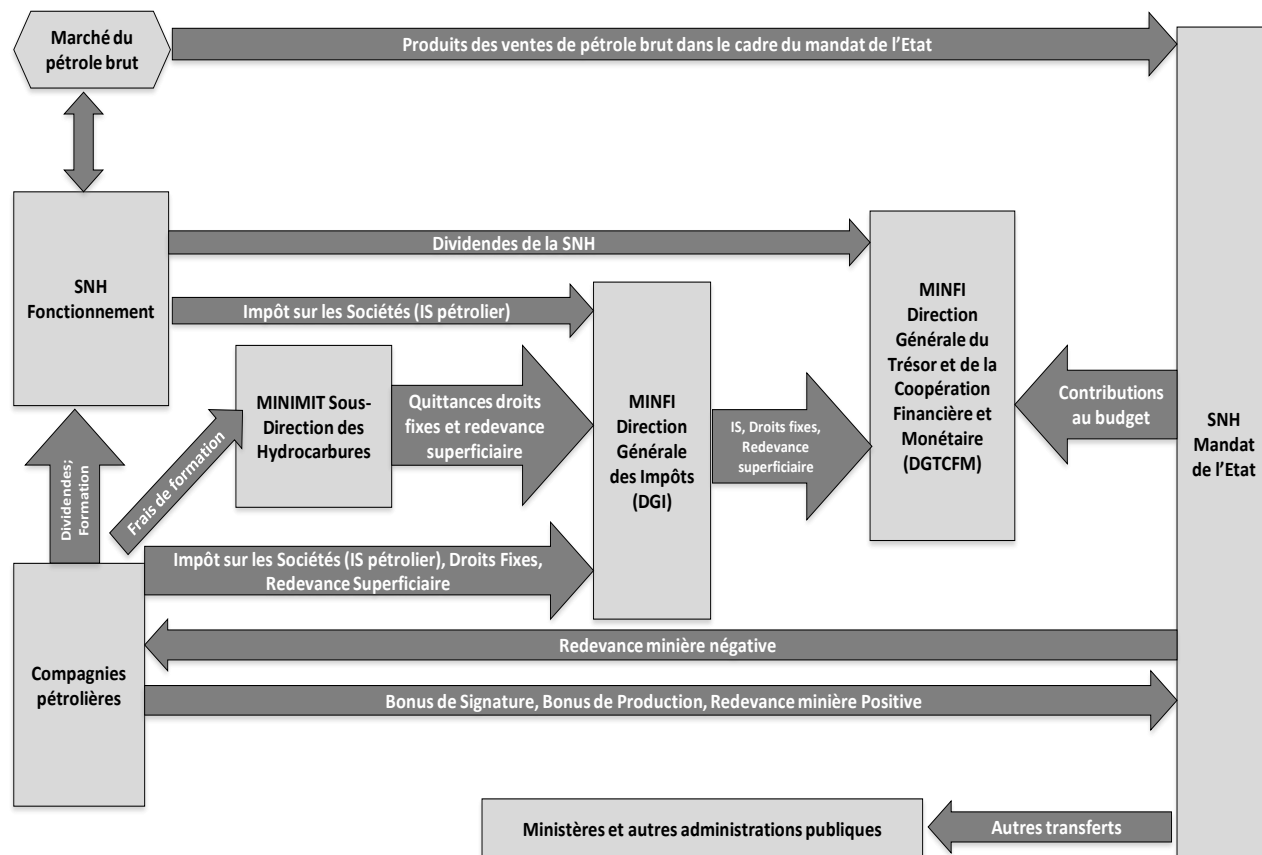
²⁸ Article 137 in Cameroon Mining Code Application Decree of March 26, 2002

²⁹ See Cameroon's EITI report covering fiscal years 2006-2008. Available at

http://www.eiticameroon.org/index.php?option=com_remository&Itemid=85&func=select&id=11&lang=fr

Flow Chart Explaining Oil and Natural Gas Payments

Petroleum and Gas Companies



Source: rapport ITIE 2006-2008 pour le Cameroun

HUNTING SECTOR

In the commercial hunting sector, Cameroon again uses the derivation mechanism to determine the value of sub-national payments. This sector is unique, however, as none of the funds pass through the Ministry of Finance. The Departmental Delegations of the Ministry of Forestry and Wildlife (MINFOF) coordinates the distribution and transfer of the royalty to COVAREFs; the sub-national committees that manage local hunting royalties. COVAREFs receive 10% of the "slaughtering tax" on wildlife and leasing/rental fees on hunting concessions. The process varies slightly depending on whether the hunting concession is a commercial hunting zone (ZIC) or a community concession (ZICGC).³⁰

³⁰ See Ntchamba, Nkanje, Dongmo, and Defo. *Approche Communautaire Dans la Gestion Durable de la Biodiversité: Cas de la Faune Sauvage Dans la Stratégie De Gestion Intégrée des Forêts au Sud-est Cameroun*. WWF 2008.

There is revenue redistribution between COVAREFs meant to “equalize” payments so that no one COVAREF receives an overly large share of hunting revenues.³¹

Flow Chart Explaining Legal and Illegal COVAREF Payments

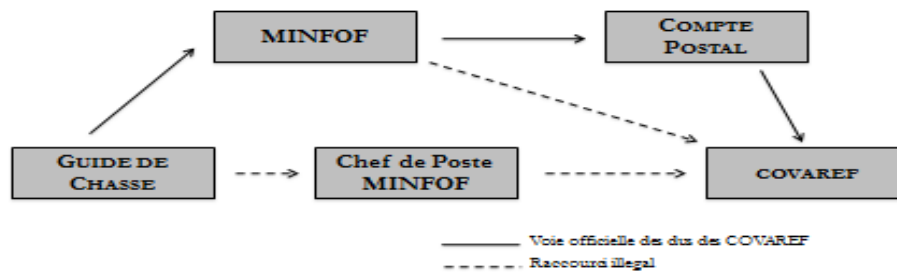


Fig 2: Procédure de décaissement des fonds COVAREF

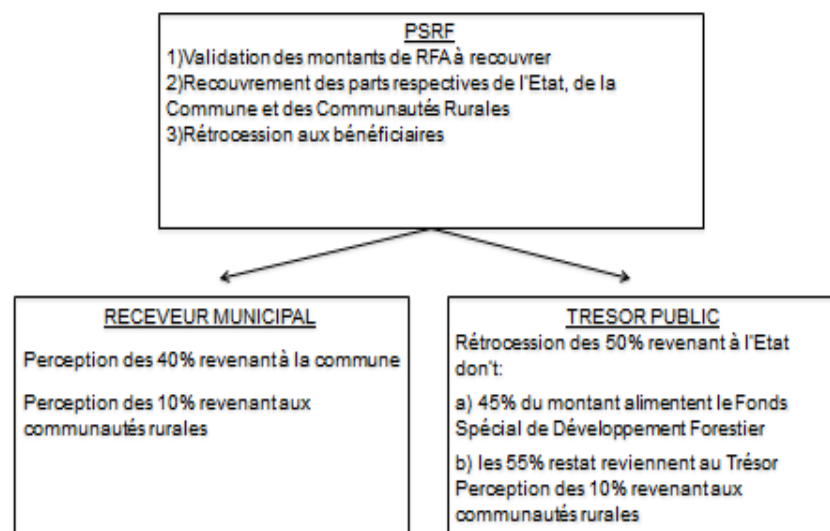
Source : Comprendre les COVAREFS. MINFOF, 2005

FORESTRY SECTOR

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For logging, the government uses a combination of derivation and formulaic redistribution. The Annual Forest Royalty (known as RFA)—the tax which is allocated to sub-national entities—is derived from the number of hectares of a given forestry concession multiplied by the fixed rate that companies agreed to pay during the tendering process. MINFOF and the Ministry of Finance created a special unit, called the “Programme de Sécurisation des Recettes Forestières” (PSRF), to recover the RFA and redistribute it to sub-national entities.

Flow Chart Explaining Sub-national Distribution of RFA

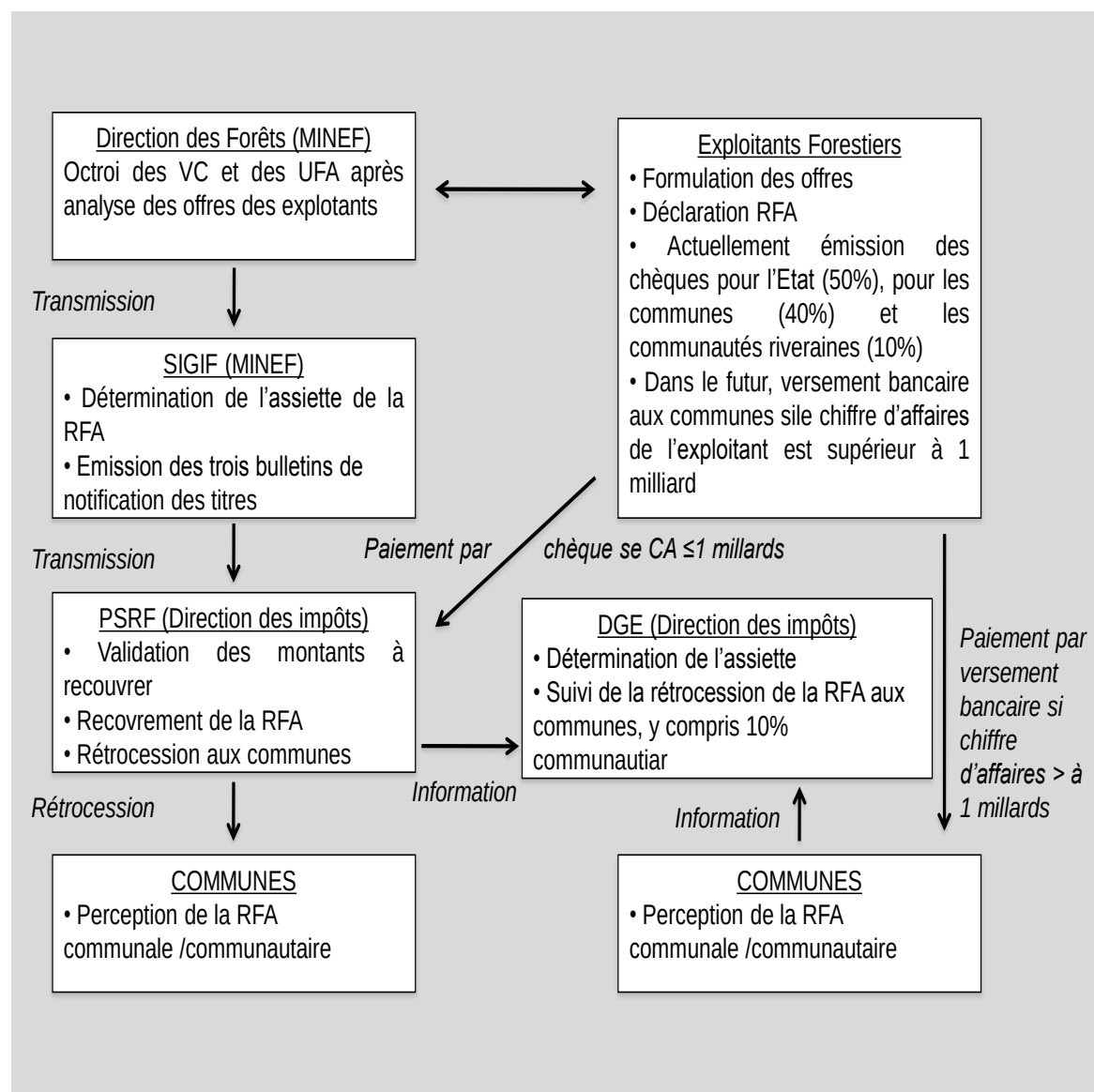


Source : Actualisation de l'audit de la Fiscalité Décentralisée du Secteur Forestier Camerounais

³¹ Interview MINFOF, February 15, 2011. Yokadouma.

However, from 2011 forward, the portion of the RFA that goes to sub-national entities will be divided using formulaic distribution with 20% going to local councils, 10% to local communities, and 20% going to FEICOM which will redistribute the revenues to non-producing local councils.³² The process varies depending on whether the forest concession is a commercial concession (UFA), local government forest, or community forest.

Graphic Explaining RFA Payment Flows



Source : Actualisation de l'audit de la Fiscalité Décentralisée du Secteur Forestier Camerounais

³² Law No. 2009/019 Of 15 December 2009 On Local Fiscal System

Cameroon recently changed the regulations governing sub-national distribution of the RFA. From 1998-2010, the RFA was divided between the National Treasury (50%), local councils (40%), and local communities (10%).³³

“Regional” Governments Excluded

Cameroon uses a variety of mechanisms to redistribute extractive industries and other natural resource revenues at the local level. It is interesting to note that although Cameroon’s administrative structure has three levels of government (national, regional, and local), regional governments are not directly included in any of the revenue sharing mechanisms. EI revenues are shared between national administrative bodies such as the treasury and ministries, and local bodies such as local councils and local communities—but not regional governments. Regional governments will likely receive EIR in the future as Cameroon’s decentralization process unfolds.

Unfortunately, in Cameroon, each sub-national revenue distribution system has a number of serious flaws in either design or implementation. This will be discussed in detail in the following chapters with an accent on the forest and mining sectors.

³³ Décret n° 98/009/PM du 23 janvier 1998 fixant l’assiette et les modalités de recouvrement des droits, redevance et taxes relatifs à l’activité forestière.

Cameroon's Forestry Sector and the RFA

▪ A brief history of Cameroon's forestry sector and management Annual Forest Royalties

Cameroon's forest sector has long been a pillar of Cameroon's economy and a source of livelihood for local communities. Much has been written about the evolution of Cameroon's forest management and there has been consistent involvement of bilateral and multilateral institutions. Although much difficulty remains in finding reliable data related to Cameroon's forests, the World Bank and others estimate that Cameroon's forests cover 40% of its territory.³⁴ Commercial exploitation of Cameroon's forests first began during German colonization and has continued in the post-colonial era, increasing sharply in the 1990s and 2000s.³⁵ Today, European companies dominate the logging sector and Europe is the number one destination of Cameroon's wood exports.³⁶ In the 1990s, the forestry sector employed over 30,000 people, comprised almost 9% of GDP, and over 3% of government revenues.³⁷ Cameroon's forests are the subject of intensive illegal exploitation which has resulted in a loss of revenue for the state and livelihoods for communities.

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The 1994 Law instituting the Regime of Forests, Wildlife, and Fishing and subsequent decrees created Cameroon's first sub-national EI revenue distribution system. The new regime not only intended to give local communities more control over the management of their resources, but also aimed to create economic conditions for communities to receive direct benefits from forest exploitation and sustainable practices.³⁸ Despite positive developments in community participation in the management of forests, the economic activities related to forest exploitation are still dominated by foreign commercial interests. Forest exploitation largely depends on technologies imported from abroad and despite significant efforts; there are still no significant linkages with the rest of Cameroon's economy.

³⁴ Essama-Nssah and Gockowski. Cameroon Forest Sector: Development in a Difficult Political Economy. World Bank OED. 2000.

³⁵ Djeukam, Gerber, Veuthey. Forestry and Communities in Cameroon. CED, 2009.

³⁶ Essama-Nssah and Gockowski.

³⁷ Ibid

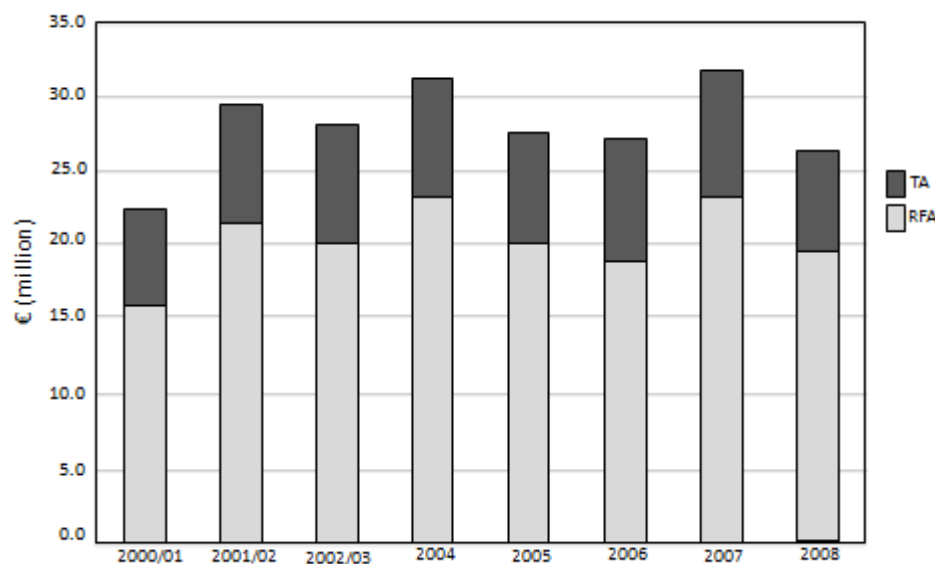
³⁸ Belign, Delvienne, Mbolo, Nguenang. La gestion décentralisée des ressources forestières au Cameroun : Les forêts communales après les forêts communautaires.

Around 90% of employment is for unskilled and low-paid laborers.³⁹ Therefore using fiscal revenue to promote development at the local and national levels remains the best way for Cameroon and Cameroonians to benefit from the exploitation of their forests.

▪ The Annual Forest Royalty (RFA)

Cameroon has experimented with a number of tax regimes to raise revenue from the logging sector. Currently the Local Annual Royalty, known as the RFA, generates around 13 billion FCFA annually and is the single most important forest-related tax.⁴⁰ The tax is based on a simple calculation: the number of hectares in a forestry concession multiplied by an amount the forestry company agreed to pay per hectare when its bid was submitted during the tendering process.

RFA Payments Collected (white portion of columns) in Millions of Euros



Source: Cerutti et al *The Challenges of Redistributing Forest-Related Monetary Benefits to Local Governments*

Since Cameroon passed its 1994 Forestry and Wildlife Law, local councils and local communities have benefited from sub-national payments of the RFA as described in chapter 1. From 1994-1998 the RFA was paid in an improvised manner because of gaps in regulation. In 1998, joint Ministerial Order 122 from the Ministry of Forests, Ministry of Finance, and Ministry of

³⁹ Eba'a Atyi, R. 1998. *Cameroon's Logging Industry: Structure, Economic Importance and Effects of Devaluation*. Center for International Forestry Research Occasional Paper Number 14. Center for International Forestry Research, Indonesia.

⁴⁰ P.O. Cerutti, G. Lescuyer, S. Assembe-Mvondo, and L. Tacconi. *The Challenges of Redistributing Forest-Related Monetary Benefits to Local Governments: A Decade of Logging Area Fees in Cameroon*. 2010.

Territorial Administration laid down the modalities for paying the portion of the RFA reserved for local councils (40%) and local communities (10%). From 1998-2008, over 55 billion FCFA in RFA was paid to 90 local councils and local communities.⁴¹ But despite huge sums of money reaching sub-national entities, the RFA's contribution to development has been quite mitigated due to weaknesses across the entire value chain. Using the five principles of good sub-national payments systems presented in chapter 1, we will analyze the strengths and weaknesses in Cameroon's RFA distribution system.

Clear Rules: The regulations and implementation practices guiding Cameroon's sub-national forest revenues have evolved over time and produced inconsistent results. From 1994-1998 the regulation governing the RFA payment system was incomplete. This led to RFA distribution via cash payments in an ad hoc scheme that was corrected with the Prime Ministerial Decree 009 of 1998 and the joint Ministerial Order 122 of 1998.⁴²

The Ministerial Order established local councils (40%) and local village revenue management committees (10%) as the two vehicles to invest the RFA. The regulation introduced guidelines for RFA expenditure for local management committees, but provided no guidance to local councils. Mayors were often unclear about what types of expenditures were and were not allowed by the regulation. They were also given great leeway to make questionable investment decisions and use a large percentage of RFA funds on unsustainable consumption.⁴³ Furthermore, different local councils attributed the 10% due to local communities in an ad hoc manner.⁴⁴ Communities were not well sensitized about the structure of sub-national RFA distribution and were unable to distinguish RFA payments from other forestry taxes or social projects executed at the local level.⁴⁵

The Ministerial Order of 1998 was replaced by a new Ministerial Order of 2010⁴⁶ altering the rules of RFA management at the sub-national level. The new regulation provides more guidance to local councils on what types of investments are appropriate using RFA funds. However, Mayors and Municipal Receivers who are responsible for managing the finances of local councils have expressed a need to clarify certain provisions. Article 11 of the 2010 Order requires a minimum of 80% of RFA expenditures be on projects classified as "investments" and a maximum of 20% on "functioning." This contradicts Cameroon's 2009 Law Laying Down the Regime of Decentralized Finances which allows local councils to spend a maximum of 60% of their annual budget on "functioning" and a minimum of 40% on investment.⁴⁷ It is the author's opinion that the RFA should be considered a "special regime" whereby the spending

⁴¹ Author's calculations. Figures taken from Cerutti et al and Audit du Programme de Sécurisation des Recettes Forestières – PSRF 2005. MINFI.

⁴² Cerutti et al.

⁴³ Ibid.

⁴⁴ Oyono, Phil René; Cerutti, Paolo O., and Morrison, Karla. Forest Taxation in Post-1994 Cameroon: Distributional Mechanisms and Emerging Links with Poverty Alleviation and Equity. WRI, 2009.

⁴⁵ Ibid.

⁴⁶ Ministerial Order 522 of 2010

⁴⁷ See Article 39.

requirements (40% investment vs. 60% functioning) of the Decentralized Finance Law would not apply. Clarifying the rules related to RFA distribution and harmonizing implementation will benefit all stakeholders. The Cameroonian Government must lead this effort.

Traceability and Transparency:⁴⁸ Although great progress has been made, Cameroon is still struggling to implement a wholly traceable and transparent system to manage RFA payments. From 1994-1998, the RFA was collected by the national tax collection agency. This produced poor results as forestry companies regularly evaded taxes, greatly reducing the amount of money that finally reached local councils and village revenue management committees. In 1999 the government created the PSRF, a specific unit in the tax agency to collect forest-related taxes.⁴⁹ From 1999-2000, RFA receipts increased 300% and sub-national RFA payments became very important sources of income for local communities in forested zones (a portion of the increase is due to more efficient tax collection and some is due to the growth of Cameroon's forestry sector).⁵⁰

However, increased revenues did not correlate sufficiently with increased transparency. Often, RFA payments were managed outside of normal budget procedures by sub-national entities. Despite the fact that logging agreements are publicly accessible documents, local governments lack information to calculate how much RFA they are due and therefore suspect mismanagement or corruption at the national level. In many cases, the amount of RFA the Ministry of Finance reported sending to a given locality did not correspond to the amount the locality reported receiving.⁵¹

To their credit, the PSRF did grant RFA checks to local entities in public ceremonies covered by the press in addition to publishing RFA figures in the Cameroon Tribune for a couple years. This was a positive step towards the transparent governance of the RFA. Unfortunately, since bank transfers have replaced checks as the primary method for delivering the RFA to local entities, public ceremonies to deliver RFA checks have ceased.

Best practices require governments to publish and widely disseminate information on the distribution and expenditure of natural resource revenues. Cameroon's laws and regulations did not require sub-national entities to produce reports uniquely for RFA expenditures even though RFA represented the 50%-90% of many local councils' budgets.⁵² This has been corrected in Article 23 of the new Ministerial Order (520). However, many local governments continue to refuse non-state actors access to information on RFA receipts, thus rendering transparency difficult at the local level.⁵³ Finally, many local councils remain unsure whether logging companies should pay RFA directly to local council bank accounts or whether PSRF

⁴⁸ See « Transparence dans le Secteur Forestier au Cameroun : Rapport Annuel 2009 » by Samuel Nguiffo for a discussion of the challenges of creating transparency throughout the value chain of forest exploitation.

⁴⁹ PSRF is the *Programme de Sécurisation des Recettes Forestières*

⁵⁰ *Audit du Programme de Sécurisation des Recettes Forestières – PSRF 2005*. MINFI.

⁵¹ Cerutti et al.

⁵² Ibid.

⁵³ Ibid.

should collect RFA payments and subsequently transfer the revenues to their accounts. The RFA payment modalities should be clarified to all parties.

Currently it is unclear which government agency has the primary task of widely disseminating baseline data that can be verified by citizens and stakeholders at all levels of government. Establishing a traceable and transparent RFA system across the entire value chain will be paramount to reducing corruption and improving the poverty alleviation outcomes of the RFA.

Reduce Volatility: Extractive industries revenues are extremely volatile because of swift price changes at the international level. Unlike national governments, sub-national entities are extremely vulnerable and unable to combat revenue volatility. As noted above, in Cameroon many local councils receive a large portion of their budget from RFA payments. Village management committees receive 100% of their budgets from RFA payments since they were created with the sole purpose of managing these revenues. Local development planning becomes very difficult when local entities are uncertain of their short and medium term budget levels. Most often, EI revenue dependent councils become indebted as ambitious local development projects don't correspond with real RFA revenue from year to year.

The amount of RFA received by sub-national entities has been volatile for a number of reasons: 1) weak tax collection; 2) expiration of logging permits; 3) bankruptcy of logging companies; 4) rule changes in the amounts due to local entities; 5) no fixed calendar for transferring RFA to sub-national entities.

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Short term Sale of Standing Volume (SSV or 'ventes de coupe') forest exploitation permits have resulted in significant revenue fluctuations in some zones. Recent tax exonerations for logging companies⁵⁴ and changes to the regulations guiding RFA allocations have also been a shock to local government accounts.⁵⁵ In theory, RFA payments are made to sub-national entities each quarter. However, delays in transferring payments to the local level have been a persistent complaint of local councils and village management committees.⁵⁶

Cameroon's forest taxation system is designed to promote local development in forested areas. Again, the two vehicles designated to carry out local development via RFA sub-national payments are local councils and village management committees. These entities depend on timely and "smooth" revenue streams to implement their activities.

Fair Sub-national Distribution: The allocation of RFA has been a sensitive political issue in Cameroon for some time. Residents in heavily forested areas claim they should receive monetary benefits and compensation for the exploitation of their resources. But residents and local governments in non-forested areas and forested protected areas (such as national parks)

⁵⁴ The Cameroonian Government exonerated logging companies from 50% of their RFA dues after the international financial crisis hurt demand.

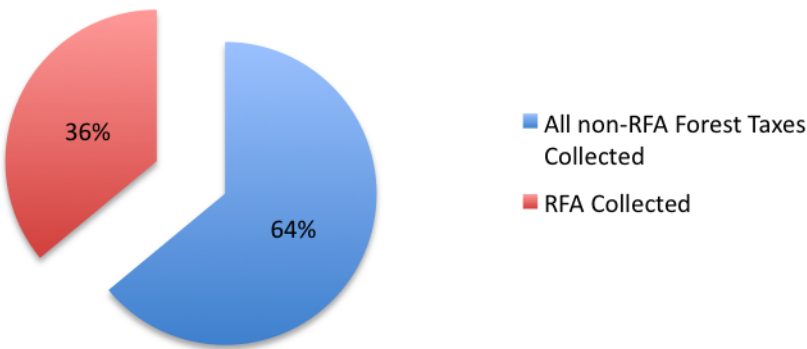
⁵⁵ The 2009 Law on Local Fiscality and the new Ministerial Order 522 of 2010 lowered the percentage of RFA allocated to local councils from 40% to 20%.

⁵⁶ Oyono et al.

claim they should also benefit from the exploitation of forests since Cameroon’s resources belong to all Cameroonian citizens.⁵⁷

Both sides of the debate make sound arguments and thus we should pay careful attention to how RFA payments are shared between different levels of government (vertically) and between different local councils (horizontally). Additionally, it is important to note that the RFA is just one of many taxes collected by the government in the logging sector—it represents just 36% of the total amount of tax income generated from logging (see Figure 1). While the debate has centered upon the question “What percentage of RFA should be allocated to communities in producing vs non-producing logging areas?” we ask “What percentage of total forest tax revenues should be allocated to producing and non-producing communities?”

Total Taxes Collected from the Forestry Sector 1996-2003



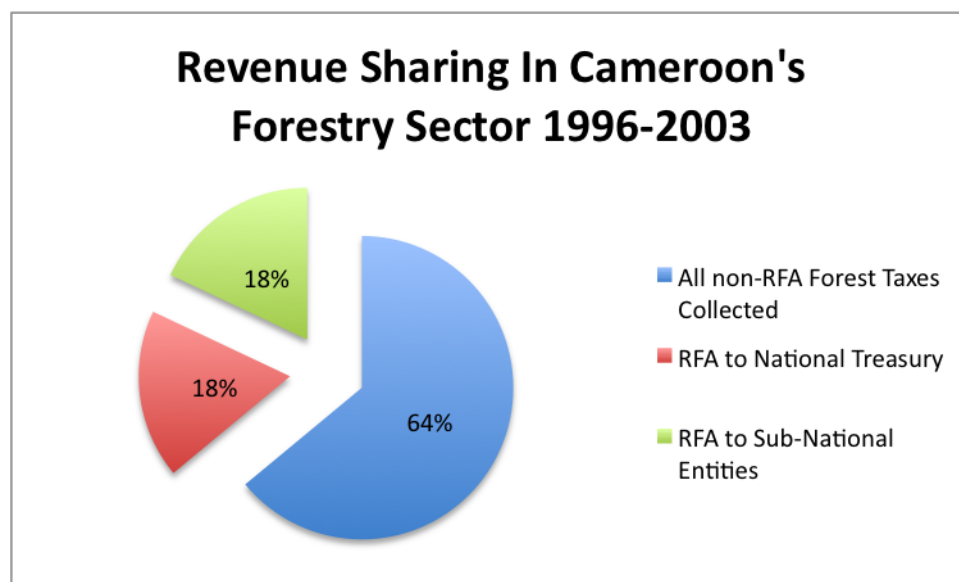
Historically, 90 of Cameroon’s 370 councils have received RFA payments. However, many of these councils received very little with the greatest amounts going to just 51 councils. These 51 councils represent 35% of Cameroon’s land mass, but just 6.2% of total population.⁵⁸ Most of these councils are in the heavily forested areas of the East and South Regions. The table below depicts the evolution of RFA payments to local councils in comparison to the total government revenues generated by the forestry sector:

⁵⁷ Cerutti et al and Ibid

⁵⁸ Cerutti et al

Year	Total Forest Taxes Collected	RFA Collected	RFA to Sub-National Entities (50% RFA)	RFA to Sub-National Entities as % of Total Forest Revenues ⁵⁹
1996 – 1997	6,378,000,000	1,232,000,000	616,000,000	9.66%
1997 – 1998	8,690,000,000	2,291,000,000	1,145,500,000	13.18%
1998 – 1999	11,570,000,000	3,235,000,000	1,617,500,000	13.98%
1999 – 2000	12,888,000,000	3,051,000,000	1,525,500,000	11.84%
2000 – 2001	21,358,000,000	10,471,000,000	5,235,500,000	24.51%
2001 – 2002	33,243,000,000	13,430,000,000	6,715,000,000	20.20%
2002 – 2003	40,798,000,000	14,645,000,000	7,322,500,000	17.95%
Total	134,925,000,000	48,355,000,000	24,177,500,000	17.92%

From 1996-2003, 17.9% of Cameroon's total forestry revenues were allocated to sub-national entities via RFA payments, in comparison to the 82.1% that went to the National Treasury (to be subsequently redistributed across Cameroon via the normal budget process).⁶⁰



Many of the councils receiving the greatest share of revenues are located in the East Region, creating the perception the East was flooded with money. Non-forested regions complained that they were not benefitting proportionally from Cameroon's forest exploitation, leading the government to allocate 20% of RFA payments to non-producing local councils via FEICOM.

⁵⁹ All figures taken from MINFI audit of PSRF 2005. Note: Figures only cover forest specific taxes and not VAT.

⁶⁰ Though some of those funds are earmarked for MINFOF.

However, from 2000-2005, central government allocations to the East Region for ministries working in seven important poverty alleviation sectors fell from 70 billion to 57 billion FCFA (presumably because the national government felt the East's councils had received unduly large amounts of RFA payments).⁶¹ Given these spending cuts, it can be deduced that the East's net gain from RFA royalties was very minimal. The money the National Treasury "saved" by cutting allocations to the East region in key ministries was likely spent in "non-producing" regions to "equalize" revenues across the country. Although these cuts and reallocations are understandable, they are contrary to the compensation principle behind sub-national EI payments. If communities experience negative impacts from forest exploitation, then the sub-national royalty should be paid *in addition* to regular sub-national allocations, and *not used to replace* regular allocations.⁶²

The national debate on RFA distribution should be reframed integrating the following three concepts:

- 1) Researchers must first attempt to put a CFA value on the negative impacts forest communities experience due to forest exploitation. Sub-national RFA allocations should, at minimum, monetarily compensate communities for costs associated to negative impacts and simultaneously promote local development.
- 2) A new hybrid revenue distribution formula should be developed taking into account multiple factors including revenue distribution per capita, per village, per square kilometer, and any other important criteria.
- 3) The RFA is merely one of a number of forest-specific taxes which generates only 36% of total logging related revenues. Policy discussions should not only focus on RFA distribution, but redistribution mechanisms for all government income from the forestry sector and natural resource extraction beyond that (oil, natural gas, mining, etc).

▪ **Strong local development planning, external monitoring, and citizen monitoring**

In Cameroon, the sub-national entities in charge of managing RFA payments are local councils and village level management committees. Unfortunately, numerous studies have found these entities to be inefficient, mismanaged, unable to contribute to poverty alleviation, and in worst cases, corrupt.⁶³

⁶¹ Oyono et al. The key ministries are health, education, public works, women's affairs, livestock & fisheries, agriculture & rural development, and forests

⁶² See Morrison et al. Broken Promises: Forest Revenue Sharing in Cameroon for an excellent analysis of these issues.

⁶³ See Nzoyem, Cerutti et al, Oyono et al, Bigombe Logo.

In Cameroon 70% of local councils lack a medium term development plan.⁶⁴ The quality of existing development plans varies greatly. Some local councils have plans, but their Mayors sidestep them to focus spending on other priorities. The PNDP⁶⁵ has been working with local councils to develop plans, which is an encouraging advancement, but there is still much work to be done. Historically, the lack of a coherent development vision has allowed Mayors to overwhelmingly use the RFA for “functioning” (consumption) and not investment, which could have been avoided if strong local development plans were elaborated.⁶⁶ Participative local development planning will be one of the keys to future success of RFA expenditures.

Village revenue management committees (which manage 10% of RFA payments to a locality) were often sidelined by Mayors who did not include them in the elaboration or execution of development works. Village revenue management committees lack the financial and human capacity to produce their own local development plans, but they rarely coordinated their projects with local councils which do have that capacity. Minorities and vulnerable groups such as indigenous forest peoples (often called pygmies) and women are seriously underrepresented in management committees.

There were enormous irregularities in the granting and monitoring of public works contracts at the local level. This meant that RFA was often spent on development projects that were never completed.⁶⁷

Strong external monitoring can serve as a counterbalance to mismanagement and corruption. Cerutti et al write that in Cameroon:

The lack of effective and independent control of the AF [RFA] use, as well as the adoption of sanctions for mismanagement, also remain unresolved issues affecting the management of the AF [RFA]. The tools to discover bad financial management practices and to impose effective sanctions are not lacking, but the political will to enforce them is missing.⁶⁸

Strong citizen monitoring can also act as a deterrent to poor management and corruption. Unfortunately, because of weaknesses in PSRF’s ability to disseminate information about RFA to the general public, many communities do not have sufficient information to pressure public officials on the use of RFA. Furthermore, under Cameroonian law, communities do not have the power to refer cases of mismanagement or corruption to the court system because RFA

⁶⁴ Cerutti et al.

⁶⁵ Programme National de Développement Participatif financed by the World Bank and managed by the Ministry of Territorial Administration- MINATD. <http://www.pndp.org/>

⁶⁶ Cerutti et al.

⁶⁷ Nzoyem, Nadège et al. *Audit de la Fiscalité Décentralisée du Secteur Forestier Camerounais*. 2003, Nguiffo 2009.

⁶⁸ Cerutti et al. Page 136.

payments are considered “public funds.”⁶⁹ This is a serious obstacle to participative development and needs to be corrected.

Despite the enormous sums of money sent to local councils via the RFA, poverty alleviation and local development has not yet been achieved.

Local councils and village management committees proved not to be effective investment vehicles. All stakeholders should refocus their attention towards improving the composition and management of the sub-national entities managing the RFA.

The Future

Cameroon’s Economic Growth and Employment Strategy Paper (DSCE) calls for expanded forest exploitation and transformation as a driver for Cameroon’s future. The document also stresses the importance of increasing the efficiency of public expenditure and improving the public’s access to information with regards to budget management and government in general.⁷⁰ It is vital that all stakeholders recognize that these are heavily interconnected challenges that must be tackled with a comprehensive approach to ensure that forest exploitation contributes to poverty alleviation, economic growth, and employment.

⁶⁹ Only state apparatuses can refer corruption cases to the court system.

⁷⁰ Available in French at http://www.paris21.org/sites/default/files/Cameroon_DSCE2010-20.pdf. See pages 12-13.

Cameroon's Mining Sector and the Mining Royalty

▪ A Brief History of Cameroon's Mining Sector

Very little is known about Cameroon's mining sector during German colonization. The Germans conducted exploration in what is today the Far North Region of Cameroon and found promising samples of tin, bauxite, gold, limestone, and laterite.⁷¹ However, Cameroon's transfer to French and English occupation created a mining boom driven by European demand for minerals in the lead up to and during WW II. The French created a local mining bureau which granted over 1,000 exploration and operating permits. The extraction of Tin, Tin Oxide, Gold, and Titanium Oxide—among other minerals—gave momentum to the mining sector which grew to represent over 20% of Cameroon's GDP during WW II.

The mining sector was more or less neglected during the post war period which transitioned into Cameroon's independence. Although artisanal extraction of gold and diamonds continued on a small scale, industrial mining was almost nonexistent.

Cameroon continued mineral reconnaissance with the help of France's BRGM and began developing more and more precise mining maps in addition to geological databases. The Ministry of Mines, with technical and financial cooperation from France's BRGM, the United Nations Development Program (UNDP), and a Canadian company, launched the most extensive mineral research program ever conducted in Cameroon during the 1970s and 80s.⁷² The findings surpassed expectations and revealed significant deposits of a variety of minerals—gold, diamonds, bauxite, uranium, iron, nickel-cobalt, and more.

Despite these impressive reserves, Cameroon's mining industry made little progress in the 1990s due to the country's economic instability and outdated mining legislation. The World Bank advised the Cameroonian government while it revised the legal and fiscal frameworks for the sector. These efforts came to fruition in 2001 and 2002 with the adoption of Cameroon's Mining Code and its Application Decree respectively.⁷³

⁷¹ Belinga, Eno S.M. *Géologie et Recherche Minière des Deux Adamaoua sous le Cameroun Allemand, Une Bonne Page de Notre Histoire. Peuples et Cultures de l'Adamaoua (Cameroun)*. Boutrais, Jean. Orstom Editions ; 1993. http://horizon.documentation.ird.fr/exl-doc/pleins_textes/pleins_textes_6/colloques2/40373.pdf

⁷² History from *Ressources Minérales du Cameroun* by Paul Ntep Gweth et al. Sopecam. Yaoundé, 2001.

⁷³ Loi n°001-2001 du 16 avril 2001 and Décret n° 2002/840/PM du 26 mars 2002. Government of Cameroon.

The new legal framework created greater incentives for companies to invest in Cameroon (mostly by giving tax exonerations), added more stringent social and environmental regulations, and instituted different permit processes for different mining classes (artisanal, quarry, industrial, etc.).

Since the legal reforms, Cameroon has seen a steady increase in mining permit applications; partially due to the improved legal regime, but mostly due to record high mineral prices. As of January, 2011 the Ministry of Mines had granted a total of 494 mining permits—90 exploration permits, 4 operating permits, 150 quarry mining permits, and 250 artisanal mining authorizations.⁷⁴ The total land mass covered by these licenses amounts to less than 2% of Cameroon's territory.

Cameroon has granted just two industrial mining exploitation permits since implementing the new mining code. Geovic, an American company, was granted an operating permit for a nickel-cobalt mine in Lomie, Cameroon in 2003. C&K Mining, a Korean company, was granted a diamond mining permit in Mobilong, Cameroon in 2010. A couple of other industrial projects are in advanced stages of exploration, including Sundance Resources Iron project in Mbalam and CAL's Bauxite mine in Ngaoundal. These projects are unlikely to be operational in the next five years since they will require billions of US Dollars in infrastructure investment.

Cameroon's Economic Growth and Employment Strategy Paper contains significant plans to develop Cameroon's mining sector as a driver for long term industrialization and growth. Cameroon will also need to invest billions of USD to develop the transport, port, and energy infrastructure necessary to accompany the mining sector.

Like all the extractive industries, the mining sector tends to be an "economic island" with few linkages to the rest of the economy. If the development of Cameroon's mining sector mimics the forestry sector, the country could be left with the same disappointing results: low paid jobs, lack of transfer of technology, and little or no "local content" etc. Similar to the logging industry, Cameroon's best chance at development via mining will hinge on its ability to properly capture and manage revenues derived from the sector at the national and local levels.

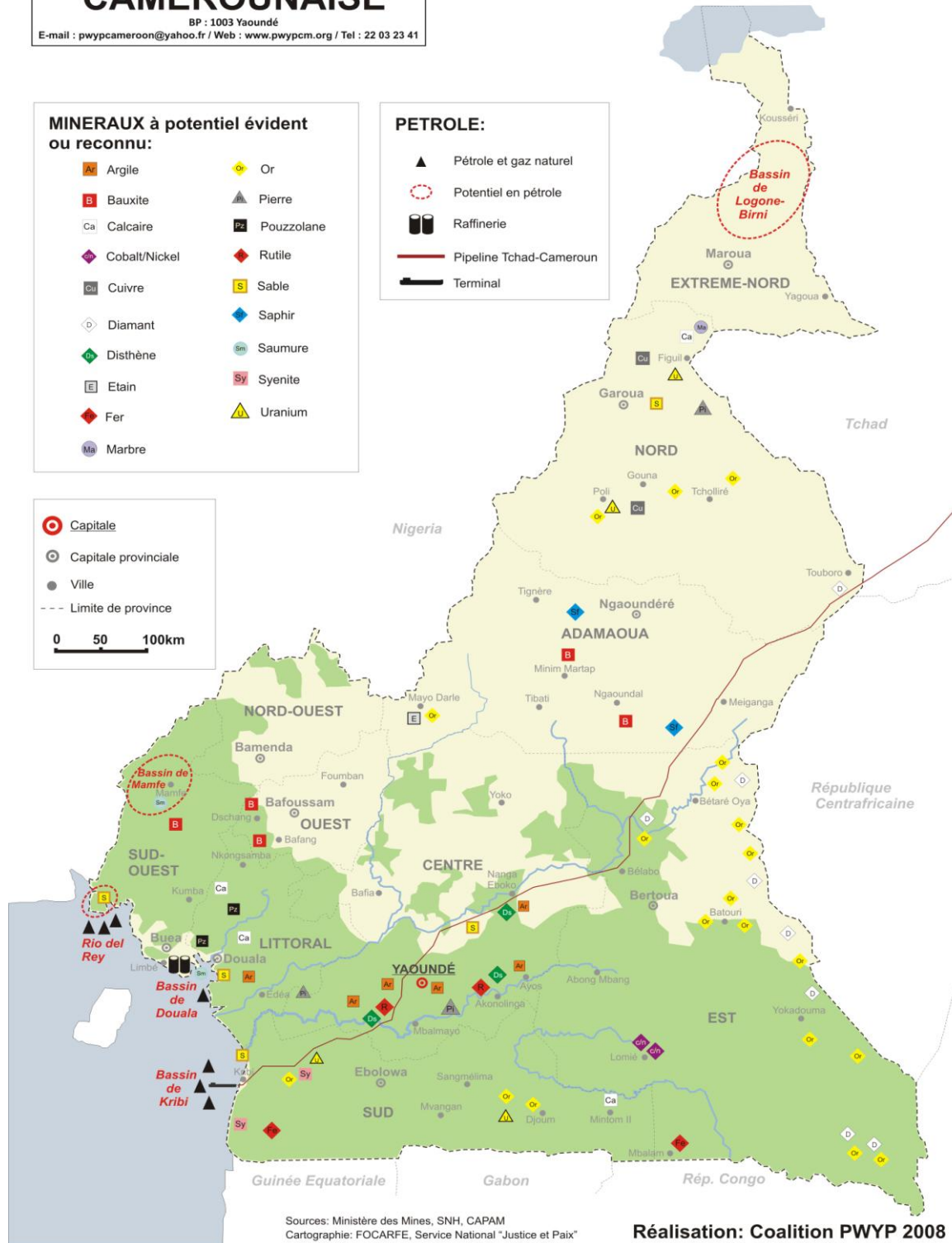
⁷⁴ Consultores Ortega Garcia S.L. Audit du Cadastre Minier : Rapport du Diagnostic. Janvier, 2011. Valencia.

EITI & PWYP
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Carte des Ressources Extractives du Cameroun



▪ The Mining Royalty System

The Extraction and Ad Valorem Taxes

Cameroon's mining sector is legally governed by the Mining Code (2001)⁷⁵, its Application Decree (2002)⁷⁶, and subsequent regulations. Similarly to the Forestry and Wildlife Law of 1994, the 2001 Mining Code ushered in a new regime of sub-national revenue sharing derived from specific taxes. The Mining Code distinguishes between four different categories of mines: artisanal mines, quarry mines, industrial mines, and water sources. In 2010, the government amended the Mining Code to add "small mines" as a fifth category, but it remains unclear whether or not the amendments have entered into force. The formula to calculate sub-national mining allocations varies depending on the type of mine.

Articles 142 and 144 of the Mining Code Application Decree explain the formula for calculating the Extraction Tax and Ad Valorem Tax respectively (both taxes are known as "proportional taxes").

The Extraction Tax is levied on minerals primarily used as construction materials and is calculated as follows:

- For "Loose Materials" (including sand and laterite): 150 Francs CFA/ M³
- For "Hard Materials" (stones): 300 Francs CFA/ M³

The Ad Valorem Tax is calculated on the basis of the value of the minerals, gems, and water being sold by a given mining company to another party. The Ad Valorem Tax is levied on artisanal mines, quarry mines, and industrial mines that produce gems, metals, or water. The Ministry of Mines determines the value of a mine's production by examining the sale agreements signed by the mining company and its buyers. It then levies the Ad Valorem Tax using the following percentages:

Precious Gems (Diamonds, Sapphires, etc): 8%

Precious Metals (Gold, Platinum, etc): 3%

Basic Metals and other Metals (Iron, Bauxite, etc): 2.5%

Geothermal Deposits (Various Classifications of Water): 2%

National and Sub-national Distribution of the Ad Valorem and Extraction Proportional Taxes

Article 137 of the Mining Code Application Decree states that the *Ad Valorem Tax* (levied on the sale of metals and gems from artisanal mines, industrial mines, and water sources) and the

⁷⁵ Code Minier. Loi n°001-2001 du 16 avril 2001. Available online at : <http://www.droit-afrique.com/images/textes/Cameroun/Cameroun%20-%20Code%20minier.pdf>

⁷⁶ Décret fixant les modalités d'application de la loi n°001-2001 du 16 avril 2001. March 26, 2002.

Extraction Tax (levied on quarry mines) shall be shared at the national and sub-national levels. The taxes are divided up as follows:

- 25% for impacted populations:
 - 15% for the Local Council
 - 10% for local communities
- 25% for the Ministry of Mines for project monitoring
- 50% for the National Treasury

Incomplete Regulation

Article 137 also states that a Joint Ministerial Order by the Ministry of Mines and the Ministry of Finance will define the payment modalities for the impacted populations' and local councils' shares of the mining royalty. Like Ministerial Orders 122 and 520 in the forestry sector, this ministerial order should define the composition of management committees, the types of expenditures that can be made using the local mining royalty, and the financial management procedures.

Despite the promulgation of the Mining Code's Application Decree in 2002, the Joint Ministerial Order defining modalities of the local mining royalty was not published at printing of this report in October, 2011. Although mining activity in Cameroon has remained quite limited during this period, the absence of clear rules has led to the creation of an ad hoc system governing sub-national mining payments which operates outside the spirit and the letter of the Mining Code.

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Ad Hoc Mining Royalty System

The ad hoc mining royalty system has proved difficult to monitor due to a lack of information, has failed to promote local development in many mining areas, and at times has been managed with questionable legality. Below we describe the system in place for each type of mine:

Industrial Mines

Cameroon has granted just two industrial mining permits since the new mining code was enacted. Both companies, Geovic and C&K, are in the process of finalizing feasibility studies and building capital. Since neither project is active, no Ad Valorem tax payments are available for redistribution at the sub-national level.

Quarry Mines

There is no publicly available information on the distribution and use of the Extraction Tax levied on quarry mines. As stated above, the Ministry of Mines has granted 150 quarry mining permits. Locating many of these quarries is impossible because the Ministry of Mines has not rendered its mining cadaster public. These projects are generally small-scale mechanized and artisanal laterite, sand, marble, and stone quarries dispersed throughout Cameroon.

Cameroon's 2006-2008 Extractive Industries Transparency Initiative (EITI) Reconciliation report shows the government collected 93 million FCFA in Extraction Tax payments over that period from CIMENCAM and ROCAGLIA for limestone and marble quarry mines.⁷⁷ PSRMEE reports having collected 162 million FCFA in extraction taxes in 2009 and 84 million in 2010.⁷⁸ The authors of this report could find no information on the sub-national distribution of the Extraction Tax or its use in the local councils and communities benefiting from the tax.

Artisanal Mines

Artisanal mining is concentrated in Cameroon's East Region—particularly in the Betare Oya area. Artisans primarily produce gold and diamonds in very small volumes. CAPAM, the government artisanal mining bureau created to channel artisanal production into official circuits, purchases gold and diamonds directly from local artisans. This production is declared at the Ministry of Mines regional office in Bertoua where the Ad Valorem Tax is levied and re-distributed according to article 137 of the Application Decree. However, most communities in the East Region are unaware they have the right to 10% of the Ad Valorem Tax and the administrative procedure for creating revenue management committees is unclear due to missing regulations governing the local mining royalty. Thus, in practice, local councils manage and spend the 10% of the Ad Valorem Tax destined for local communities.

PSRMEE reports the government received 21 million FCFA in ad valorem tax payments in 2009 and 46 million in 2010 (all mining classes included).⁷⁹ There exists very little publicly available information about the use of sub-national payments derived from the Ad Valorem Tax. CAPAM asserts authority over just 10% of artisanal miners; the other 90% sell their production to intermediaries that systematically evade taxes. CAPAM's and the Ministry of Mines' inability to tax the lion's share of gold and diamonds deprives local communities tens of millions of FCFA in royalty payments per year.

Small Mines

The class of projects commonly called "small mines" refers to mines that use rudimentary mechanized methods to extract minerals. They are an intermediary class of mines that are more efficient and larger than artisanal mines, but not nearly as large in terms of size or production as industrial mines.

Unlike in most countries, Cameroon's Mining Code of 2001 does not incorporate small mines as a mining class and provides no guidance on permitting or taxing small mines. In practice, small mines are developed primarily by foreign companies (Chinese, Korean, South African, American, and French) which lease a series of adjacent artisanal mining permits from artisan groups.

⁷⁷ Ministry of Finance, Cameroon. Comparison of Figures and Volumes within the Framework of EITI in Cameroon for the 2006, 2007, 2008 Fiscal Years. Available at

http://www.eiticameroon.org/index.php?option=com_content&view=article&id=70&Itemid=76

⁷⁸ Tableau des statistiques mensuelles des recettes par nature de taxe (Secteur MINIMIDT). PSRMEE

⁷⁹ Tableau des statistiques mensuelles des recettes par nature de taxe (Secteur MINIMIDT). PSRMEE

Companies import machinery to operate the mines and share gold/diamond production with the artisans from whom they lease the permit areas. This practice is illegal since articles 9 and 24 of the mining code state that artisanal mining is exclusively reserved for Cameroonian nationals. There are between eight and twelve companies operating at any given time—mostly extracting gold.

Some companies operating small mines pay the Ad Valorem Tax levied on their production while others a monthly flat fee of 3.5 million FCFA. Many do not declare their production at all to tax bodies and likely systematically evade taxes. The Ad Valorem Tax and flat fees are subsequently divided between a series of sub-national entities run by local administrative and traditional authorities. These entities include a “Supervision Committee,” “Management Committee,” and “Monitoring Committee.” Local Councils also receive a portion of the revenues generated from the flat fees. Oversight of expenditures is sparse, though some development projects have been executed in Colomine using revenue generated by this system.⁸⁰ The small mine revenue distribution system is very troubling as it operates entirely outside of the spirit and letter of Cameroon’s Mining Code.

Mining Royalty Value Chain



The mining royalty value chain summarizes the six basic steps that must occur for the Cameroonian government to effectively deliver sub-national payments to local councils and communities.

⁸⁰ F. Barthélémy. Audit de l’artisanat minier du Cameroun - Compte-rendu de la mission d’expertise du BRGM Mars-avril 2011. Yaoundé. BRGM.

Each individual link in the chain is analyzed below as we highlight the need to improve the entire value chain of revenue management in the mining sector. The regulatory framework, technical capacity of the government ministries, and transparency all need to be reinforced. The ultimate goal is to migrate as quickly as possible from the current ad hoc system, which has produced unimpressive results, to a transparent and well-regulated sub-national payment system in the mining sector. We focus our analysis on mining royalties generated from industrial mining.

Step 1: Monitoring the Production of Mining Companies

Mineral production (the amount of minerals extracted) by mining companies is the baseline for determining the local mining royalty in Cameroon's fiscal framework for the mining sector. Currently, the Mining Code and practice require mining companies to declare their production to the Ministry of Mines and Ministry of Finance (either monthly or at the time of liquidation of a shipment). Unfortunately, in Cameroon and across Africa, mining companies do not always faithfully declare their production for a number of reasons, but principally to avoid paying taxes. Even in fully industrialized countries, with hundreds of years of experience in regulating the mining sector, many companies do not fully declare production. The United States government uncovered a scandal whereby agents at the Minerals Management Service (MMS), the state agency responsible for collecting oil and gas revenues, blindly accepted production declarations made by oil and mining companies without verifying the authenticity of the statements.⁸¹

Since Cameroon's local mining royalty is calculated as a percentage of the value of production, artificially low production declarations will directly impact the amount of mining royalties paid at the sub-national level.

Currently, Cameroon's Ministry of Mines lacks the capacity required to effectively monitor the production at many mining sites. For example, in Betare Oya (East Region of Cameroon), only three of the eight gold mining companies operating in the locality regularly declare their production to the authorities.⁸² The Ministry of Mines only has 17 employees qualified to monitor mineral production at the national and local levels and just one agent in the entire Yokadouma zone which hosts the C&K diamond mine.⁸³ Furthermore, the modus operandi of the Ministry of Mines is to accept production declarations by mining companies without physically verifying their veracity. This combination of lack of capacity and lack of verification allows mining companies to continue to under-declare production.

⁸¹ US Government Accountability Office. Oil and Gas Royalties: MMS's Oversight of Its Royalty-in-Kind Program Can Be Improved through Additional Use of Production Verification Data and Enhanced Reporting of Financial Benefits and Costs. September 26, 2008. <http://www.gao.gov/new.items/d08942r.pdf>

⁸² F. Barthélémy, 2011.

⁸³ Consultores Ortega Garcia. 2011.

Recommendations:

- 1) Increase the amount of qualified personnel in the departmental delegations of the Ministry of Mines to enable mine production monitoring.
- 2) Cross-check production declarations made by mining companies by i) comparing them to mining companies' feasibility studies and ii) physically inspecting mine sites to verify the veracity of production figures.

Step 2: Determining Mineral Prices and Values

Once companies report production figures (step 1 in the value chain), the Ministry of Mines must calculate the unit price and total value of the production to determine the total proportional taxes due and the subsequent amount paid at the sub-national level.⁸⁴ This is the most important and most complicated step in the upstream portion of the mining royalty value chain. Not only do mining companies often under-report their production figures, but they also under-value their production with the same goal—tax evasion. To understand challenges in this step of the value chain, we must briefly examine the contours of international trade.

Trade Mispricing

Sixty percent of international trade takes place between subsidiaries of the same company.⁸⁵ Since companies have an obvious incentive to reduce their tax burden, they often employ “trade mispricing” to shift profits and tax payments to “secrecy jurisdictions” (also known as tax havens) that have low or zero tax rates.

Glencore, an international company that owns mining interests in Zambia, has been accused of employing this strategy through one of its subsidiaries operating the Mopani Copper Mine (MCM). Allegedly, Glencore sold Zambia's copper to companies operating in Switzerland at an artificially low price (trade mispricing)—which was then resold at a higher price (its true value) on the international market. Glencore also made false declarations claiming it exported copper worth billions of US dollars to Switzerland, but the copper simply disappeared—likely ending up in secrecy jurisdictions. The effect was that Mopani Copper Mines reported almost no profits and paid almost no taxes to the Zambian Government (while the Swiss Government likely received a large amount of taxes from the importation and re-sale of Zambia's copper).⁸⁶

Khadija Sharife explains in detail how Glencore structured its corporation to take advantage of secrecy jurisdictions and trade mispricing:

⁸⁴ The formula for calculating the royalty is: Unit of Production X Unit Value = Total Production Value X Proportional Tax Rate (varies from 2.5% - 8%) X 1/4 (the percentage granted to the sub-national level) = Sub-national payment. $UP \times UV = TPV \times PR \times \frac{1}{4} = \text{Sub-national Payment}$

⁸⁵ Global Witness, Tax Justice Network, Christian Aid, Global Financial Integrity. The links between tax evasion and corruption: how the G20 should tackle illicit financial flows. September 2009.

⁸⁶ Rousseaux, Agnès. Glencore : comment une multinationale pille l'Afrique avec la complicité de l'Europe. (11 janvier 2011). Available at : <http://www.bastamag.net/article1352.html>

The financial geography of MCM [Mopani Copper Mines] is located almost entirely in tax havens: though a Zambian company, it is 73 per cent owned by Carlisa Investments (a British Virgin Islands company, 82 per cent owned by Bermuda-based Glencore Finance, which is 100 per cent owned by Glencore International AG). MCM's mining partner, holding 18 per cent of Carlisa, is another mining entity active globally and in Zambia - First Quantum.⁸⁷

Trade mispricing defies international trade rules which require goods to be traded at market prices to promote fair play between companies, but is still widely employed on the African continent. Corporations across Africa have taken advantage of weak tax bodies and secrecy jurisdictions to illicitly transfer \$854 billion outside the continent over the last 40 years.⁸⁸

Trade Mispricing in Cameroon?

Foreign companies operating in Cameroon are known to employ trade mispricing to avoid paying taxes.⁸⁹ Global Financial Integrity (GFI) estimates that from 1970-2008, over \$11.5 billion has been illicitly transferred abroad using trade mispricing.⁹⁰ That represents billions of USD in lost tax income for the Cameroonian Government.

Cameroon's mining sector is ripe ground for trade mispricing since many of the industrial mining companies are operating through subsidiaries of their multinational parent companies. For example, Geovic Cameroon, which already has an operating permit for a nickel-cobalt-manganese mine in Lomie is 60% owned by Geovic Ltd, which is registered in the Cayman Islands, a popular secrecy jurisdiction.

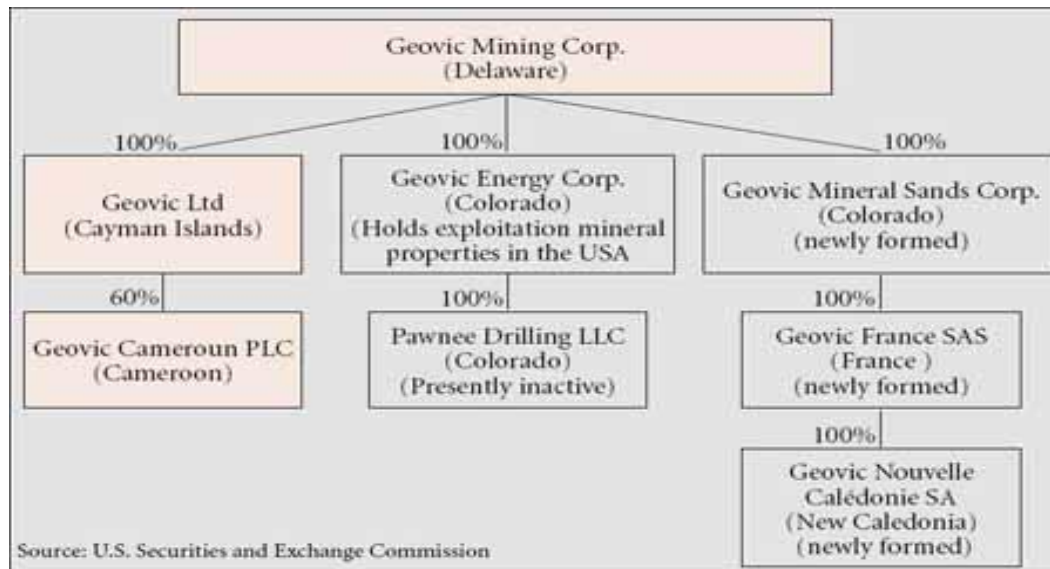
⁸⁷ Sharife, Khadija. 'Transparency' hides Zambia's lost billions. Available at: <http://english.aljazeera.net/indepth/opinion/2011/06/20116188244589715.html>

⁸⁸ Kar, Dev and Cartwright-Smith, Devon. Illicit Financial Flows from Africa: Hidden Resource for Development. Global Financial Integrity Working Paper.

⁸⁹ See <http://wikileaks.org/cable/2008/04/08YAOUNDE366.html>. "CAMEROON'S ANIF DIRECTOR DISCUSSES TERRORIST FINANCE AND CORRUPTION" the head of Cameroon's Financial Investigation Agency explains that a French company uses trade mispricing to avoid taxation worth hundreds of millions of dollars.

⁹⁰ Kar and Cartwright-Smith

Geovic Mining Corporation's International Structure



We are not accusing Geovic Cameroon of employing trade mispricing to evade taxes in Cameroon. However, the case of Geovic is illustrative since its corporate structure, and the structure of many other mining companies operating in Cameroon, resembles that of Glencore in Zambia. Cameroon's mining regulations are currently insufficient to detect and prevent trade mispricing in the sector.

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Threat to Cameroon's Sub-national Mining System

Article 145 of Cameroon's Mining Code Application Decree requires companies to send invoices for the sale of their minerals to the Cameroonian Government before making a shipment. Cameroon's Ministry of Finance and Ministry of Mines then levy the Ad Valorem Tax based upon the value of the mineral sales listed in the invoice provided by the company. This is an inefficient system for two principal reasons:

- 1) Companies are allowed to unilaterally declare the value of their mineral sales, which creates the possibility of trade-mispricing
- 2) Different companies will pay different amounts of Ad Valorem Tax based upon the price proposed by their buyers and not the true value of the mineral on the international market. In theory, two different companies could sell the same quantity of the same mineral on the same day for two different prices and thus pay different amounts of Ad Valorem Tax.

Cameroon's sub-national royalty system in the mining sector is significantly weakened by the fiscal system explained above. Local councils and communities impacted by mining projects receive 25% of the Ad Valorem Tax paid by mining companies. If minerals are undervalued

when the Ad Valorem Tax is levied, local councils and communities will lose revenue that is critical to promoting local development.

Properly valuing minerals and combatting trade mispricing will require Cameroon to adapt its regulations and fiscal system in the mining sector. Instead of levying the Ad Valorem Tax based upon invoices provided by companies, the Ad Valorem Tax should be levied using prices on the international market.

Recommendations:

- 1) The Ministry of Mines and Ministry of Finance should levy the Ad Valorem Tax based upon prices on international commodity exchanges and not invoices provided by companies. This will ensure that the Ad Valorem Tax is levied on the true value of the mineral on the international market and not an arbitrary price agreement between a seller and a buyer. This will also increase the amount of revenues paid to local communities and render the sub-national mining royalty system fairer. The Cameroonian Government should revise its mining regulations to give these improvements legal grounding.
- 2) Agents responsible for evaluating and levying taxes in the mining sector should receive training on how to detect trade mispricing.

Step 3: Tax Collection in the Mining Sector

Proportional Tax Collection – PSRMEE

Cameroon's mining sector is nascent and thus contributes relatively insignificant amounts of revenue to the government. According to the *Programme de Sécurisation des Recettes des Mines, de l'eau et de l'énergie (PSRMEE)*, the government tax unit created in 2002 to collect taxes in the mining sector, the country amassed 869 million FCFA in 2006, almost 500 million FCFA in taxes and royalties in 2009 and 675 million FCFA in 2010.⁹¹ These statistics are highly questionable considering Cameroon's mining sector has become more active as time has passed, yet PSRMEE reports revenues have actually fallen.

PSRMEE has also reported serious difficulties in recovering taxes. For example, in fiscal year 2006, the program was unable to recover over 650 million FCFA; the equivalent of 43% of the total amount due to the government for the year. Furthermore, Cameroon's EITI report covering the years 2006-2008 contains large discrepancies between payments reported by companies and receipts disclosed by the government; particularly for the extraction tax.⁹²

⁹¹ Tableau des statistiques mensuelles des recettes par nature de taxe (Secteur MINIMIDT). PSRMEE.

⁹² Ministry of Finance, Cameroon. Comparison of Figures and Volumes within the Framework of EITI in Cameroon for the 2006, 2007, 2008 Fiscal Years. Available at http://www.eiticameroon.org/index.php?option=com_content&view=article&id=70&Itemid=76

Reinforcing the human and technical capacity will be paramount to building a strong sub-national royalty system. It is obvious that the Ad Valorem Tax must be collected before it is transferred to the local level. Weak tax collection will hurt local communities that await royalty payments to promote local development.

Like PSRF⁹³ in Cameroon's forestry sector, PSRMEE (in collaboration with the Tax Department of Large Enterprises—DGE) should be the main body in charge of collecting mining-specific taxes, calculating sub-national payments, disbursing funds to the local level, and publishing statistics on the sector. PSRMEE currently lacks the political mandate plus the human and financial capacity to fulfill its functions.

Recommendations:

- 1) Increase the human and financial capacity of PSRMEE through hiring and training.
- 2) Give PSRMEE the political mandate to play a central role in tax collection and sub-national payment distribution by closely collaborating with the Ministry of Mines and the Large Enterprise Tax Department in the Ministry of Finance. PSRMEE must ensure communication between actors at the local and national levels since the mining royalty will be granted differently depending on the type of mine (artisanal, industrial, etc).
- 3) Require PSRMEE to publish statistics and widely disseminate information on mining specific-taxes—particularly Ad Valorem Tax payments.

Step 4: Calculating the Local Royalty

Isolating the Ad Valorem Payments

Because the local mining royalty is calculated as a percentage of the Ad Valorem/Extraction tax, all stakeholders must be able to isolate these proportional taxes from other taxes paid by mining companies. Cameroon's mining regulation renders this basic task very difficult since article 136 of the Application Decree allows companies to pay multiple taxes with one check or bank transfer. Despite the regulatory deficiency, in practice, the Ministry of Mines and decentralized tax offices have used a separate tax declaration form to collect the Ad Valorem and Extraction Taxes and calculate each stakeholder's dues—15% for local councils, 10% for local communities, 25% for the Ministry of Mines, 50% for the National Treasury (see Appendix).

Recommendation

- 1) The government should amend article 136 of the Mining Code Application Decree to bring it in line with practice.

⁹³ Programme de Sécurisation des Recettes Forestières

Steps 5 and 6: Transferring Sub-national Royalties to the Local Level & Local Development Planning and Expenditure

Once proportional taxes are calculated, they must be allocated to each beneficiary according to the law (the National Treasury, Ministry of Mines, local councils, and local communities are the four beneficiaries). We only address the system of transfers to the two sub-national entities—local councils and local communities.

Article 137 (2) of the Mining Code Application Decree of 2002 states that the Ministry of Finance and Ministry of Mines will publish a joint Ministerial Order to define the payment modalities of the local mining royalty to local councils and communities. As of October 2011, this ministerial order had still not been published and the regulatory gap has led to an almost decade long period of inefficient and ad hoc management of the local mining royalty, as described earlier in this chapter.

MINIMIDT-MINFI Joint Ministerial Order – Defining the Rules of the Game

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Experience and best practice have taught us that clearly defining the rules of the game will lead to better development outcomes via sub-national extractive industries payments. Given Cameroon's difficult experience in managing RFA sub-national payments in the forestry sector—via two different Ministerial Orders⁹⁴—we know that the Ministries of Mines and Finance must carefully craft a Ministerial Order which includes input from all stakeholders; most importantly local communities. It must be recognized that mining is fundamentally different from the logging sector because mining projects cannot perpetuate themselves throughout the centuries by adopting sustainable management techniques. Mining projects are one-off opportunities to translate revenues into local development. Once minerals are extracted and depleted, there is no second chance.

The forthcoming joint Ministerial Order from the Ministries of Mines and Finance should address the following topics:

- Who benefits from local mining royalties – what are the criteria used to decide which villages and local councils are beneficiaries?
- The composition of mining royalty committees (at the local council and in the village committees). How are members selected? How to include minorities and vulnerable groups such as women and indigenous forest peoples.
- How do communities officially register mining royalty management committees with the government?
- What types of expenditures are appropriate using the mining royalty?
- What is the maximum percentage of revenues to be spent on “functioning” and the minimum percentage for the execution of investment projects?

⁹⁴ Ministerial Order 122 of 1998 and the new Ministerial Order 520 of 2010.

- Should sub-national payments be made on a scheduled basis (monthly, quarterly, etc.) or should they be made when sufficient funds have accrued to execute a specific project?
- Accounting provisions, public reporting, and oversight of the use of mining royalty funds.
- Should a portion of the Ad Valorem Tax be distributed throughout all local councils in Cameroon via FEICOM as in the forest sector?
- Transparency measures built into the sub-national payment system that gives average citizens easy access to data at all levels of government.
- The integration of sub-national mining payments into the EITI process.

Fair Sub-national Distribution of Mining Revenues

In addition to filling in regulatory lacunae, Cameroon must have a national debate on what constitutes fair revenue sharing in the mining sector. Similarly to the forestry sector, the Cameroonian Government needs to scientifically calculate the true costs that weigh on communities hosting mining projects and ensure that the mining royalty adequately covers those costs and leaves something additional for local development.

Currently sub-national payments are based on a percentage of the Ad Valorem Tax—which is only one of five different taxes that mining companies pay under Cameroon’s fiscal framework. It is difficult to estimate what the Ad Valorem Tax’s contribution to the total amount of revenue generated by mining since no industrial mines are operational at the moment. Geovic Cameroon publicly disclosed its feasibility study, which estimates the Ad Valorem Tax will account for 17% of the total amount of taxes the company pays during the twenty-one year project (mine life of 11 years).⁹⁵ Thus sub-national entities will receive approximately 4.25% of the revenue generated by the nickel-cobalt-manganese mine. Is this fair? What percentage of revenues should be distributed throughout the rest of Cameroon?

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Strong Local Development Planning and Smooth Payments

The Ministry of Mines and other ministries should assist local councils and community management committees to develop coordinated local development plans for the short and medium term in mining zones. Ad Valorem Tax estimates in mining companies’ feasibility studies should be made public to allow councils and communities to adapt their development plans to revenue projects. A mechanism should be developed to reduce the volatility of payments to sub-national entities since they are very vulnerable to large revenue fluctuations.

Both sub-national entities, but community management committees in particular, will need significant capacity building to manage mining windfalls which offer a one-time only chance at development.

⁹⁵ SRK Consulting. NI 43-101 Technical Report - Geovic Mining Corp. Nkamouna and Mada Deposits. June 2011.

Multiple Sources of Sub-national payments – How to manage?

As nature would have it, many of Cameroon's artisanal and industrial mining projects are located in the heavily forested East and South regions of Cameroon. Communities and local councils in these zones have received sub-national payments from logging (RFA) and commercial hunting (ZIC) for over 15 years. Although studies point to disappointing development outcomes resulting from these sub-national payments, much effort has been made to build the capacities of local councils and community management committees to professionally manage revenues.

In line with new regulations, local councils must create special committees within their council to govern the use of RFA payments. Communities that host both logging and commercial hunting projects have for the most part created separate committees to manage the two different sub-national revenue streams (though many of the same people are members of the two committees). In a very short time, these same councils and communities will receive mining royalties—what institutional arrangement should be created to promote efficient management of the mining royalty?

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At the local council level, should separate committees manage RFA and mining royalties or should they both be funneled into a single committee? At the community level, should committees that manage the RFA or hunting royalties manage mining royalties or should one community-level committee be created to manage all sub-national EI payments?

There are obvious pros and cons to both systems. Channeling all EI revenues into one committee will reduce overhead costs and allow a greater percentage of revenues to be invested in development projects. It will also improve the coherence of local development actions. However, given the history of corruption and inefficiency in the management of sub-national EI payments, and Cameroon's neo-patrimonial governance of natural resource revenue in general, can we trust that the committees in place will transform revenues into development?

There are strong arguments for allowing different committees to manage different sources of sub-national revenue. Although it is less efficient in economic terms, it enlarges the circle of people involved in sub-national revenue management which is positive for democratic participation and oversight at the local level. Having multiple committees could also create a sort of competition marketplace between committees to achieve development outcomes. Committees that perform poorly in relation to their peers would be forced to improve efficiency so as not to lose legitimacy in the eyes of their constituents.

Road Map to Empower Communities

Steps five and six in the value chain are extremely complex. The success of sub-national payments depends on factors that cut across the anthropological, institutional, and governance histories of communal life, power, and legitimacy in Cameroon. Rather than make recommendations for strengthening steps five and six in the value chain, we propose a road map for a participative approach to achieving consensus on these complex issues. This road map will draw upon Cameroon's experience in sub-national revenue management and the best practice principles laid out in Chapter one of this report—although we recognize that a sustainable approach to local revenue management goes well beyond technocratic solutions aimed at reducing volatility in payments for example. Cameroon needs a buy-in from all levels of government and communities on how best to manage these important resources for development.

Pilot Project

Cameroon's mining sector is still in its infancy; however certain communities have hosted artisanal mining extraction or industrial exploration for decades. As mentioned previously, many of these communities have significant experience in managing sub-national revenues derived from other sectors. We propose a pilot project to create a dialogue forum at the local level which is inclusive of all the stakeholders involved in the sector:

- Impacted communities (including women and indigenous peoples)
- Local and national NGOs
- Local elected officials
- Local representatives of mining companies
- Local representatives of the ministries of mines and finance
- The Sub-Divisional Officer (sous-préfet)

The forum should build a consensus on the issues related to the management of the mining royalty and make recommendations that could help shape the design of the forthcoming Joint Ministerial Order to lay down the modalities of mining royalty management. Each group of stakeholders must feel free to express themselves via the dialogue forum which should promote participation and consultation in its form and style. However, the dialogue should be oriented to empower local communities to take sovereign responsibility of revenues generated by the extraction of their resources.

The following localities should be considered for the pilot initiative:

- Betare Oya—intensive artisanal mines and small mines already generate royalties
- Yokadouma—the C&K industrial diamond mine will begin exploitation in 2012
- Mbalam—the world-class iron mine will begin exploitation in 2014 by Hanlong Mining
- Lomie—where Geovic will begin exploiting nickel, cobalt, and manganese in 2014

Once a consensus is reached on how to reconstruct the sub-national royalty system at the local level, a similar dialogue forum should be scaled up to the national level to include policy makers. High-level representatives from the government and companies should participate in validating a new mining royalty system to support community development.

The World Bank is sponsoring a technical assistance project scheduled to begin in 2012 which will develop Cameroon's capacity to manage the mining sector. The project, called PRECASEM,⁹⁶ is ideally placed to lead the pilot dialogue forums on mining royalties because of the World Bank's strong relationship with the Cameroonian Government, civil society, and local governments. PRECASEM already plans to introduce a number of reforms to Cameroon's mining sector and facilitate dialogue between key stakeholders. Thus it seems natural for PRECASEM to use its resources to assist actors at the local and national levels in this sense

The Future

Cameroon has taken a high level political and economic decision to promote the development of its mining sector.⁹⁷ The success of the mining sector and Cameroon's economic emergence will ultimately depend on its ability to transform mining royalties into poverty alleviation, growth, and employment at the local and national levels.

⁹⁶ Projet de Renforcement des Capacités du Secteur Minier (PRECASEM). Visit the World Bank website for more information :

<http://web.worldbank.org/external/projects/main?Projectid=P122153&theSitePK=40941&piPK=64290415&pagePK=64283627&menuPK=64282134&Type=Overview>

⁹⁷ See Cameroon's Growth and Employment Strategy and "2035 Vision"

The debate on the management of revenue from natural resources in Cameroon has shifted from the central government level to local councils and communities. This shift is justified by the fact that local councils in the forested areas of Cameroon have been accorded the right to manage a portion of the revenue generated from forest exploitation as a result of forest sector reforms introduced by the government with the support of the World Bank. These reforms, introduced by law No. 04/01 of January 20th 1994, aimed to promote citizen participation in the management of revenues as well as provide social and economic benefits to offset the impacts of forest exploitation. According to the 1994 Cameroon forest law, industrial logging companies operating in Cameroon pay an Annual Forest Royalty (RFA) which is shared between the central government, the local councils and the local communities near forest concessions.

Yet most studies have concluded that RFA payments at the sub-national level have not led to significant social and economic development in the beneficiary communities and councils.⁹⁸

Today, Cameroon's government has opted to open up its mining sector to industrial mining projects which will provide additional revenues for local councils and communities via the local mining royalty. Additionally, Cameroon is slowly undergoing a "decentralization" process whereby budgetary and administrative functions are devolving to regional and local governments. Given Cameroon's disappointing experience managing the RFA, will mining royalties or decentralization-related payments be managed more efficiently? To understand the future, we look to the past.

Justification of the choice of study area

This case study is conceived as a preliminary reflection aimed at highlighting the existing weaknesses in local revenue management in Cameroon using the RFA mechanism as the basis for analysis.

The locality of Yokadouma was chosen as our case study principally because the Yokadouma council and local communities have been benefitting from RFA for over 15 years and will soon receive sub-national mining payments from the C&K industrial diamond mine in Mobilong. Diamond exploitation could reportedly begin as soon as 2012 and thus Yokadouma will become the first locality to simultaneously receive sub-national payments from industrial logging and industrial mining projects.

⁹⁸ P.O Cerutti et al., 2010; Morrison et al., 2009 ; Oyono et al., 2009 ; Bigombo 2004 ; Nzoyem et al., 2003

Annual Forest Royalties transferred by PSRF to Yokadouma council 2000-2009

Amount in FCFA

Year	Amount
2000	1,730,430,150
2001	1,323,140,199
2002	1,244,963,062
2003	606,145,758
2004	638,270,181
2005	671,477,710
2006	714,159,434
2007	493,753,020
2008	764,002,147
2009	349,180,701
TOTAL	8,535,522,362

Source: <http://cameroun-foret.com/governance/forest-royalties-transferred-councils> (total calculations for 2007, 2008, 2009 done by author from provided data)

Description of the Case Study Area

Yokadouma is a colonial town in the East Region situated some 300 km from Bertoua and 650 km from Yaoundé, the political capital of Cameroon.⁹⁹ It is the headquarters of the Boumba and Ngoko division. Yokadouma sub division covers a surface area of 10,100km² with a population estimated at 64,000.¹⁰⁰ People engage principally in subsistence agriculture, fishing, animal husbandry and hunting. The Yokadouma council is one of the largest councils in the East Region with a total of forty-one municipal councilors, a mayor and four assistant mayors.¹⁰¹ The council and the local communities have benefitted from one of the largest municipal budgets over the past 15 years following the introduction of RFA payments to communities around industrial logging forest concessions. Despite the huge revenue flows into the council and local communities, Yokadouma has not shown any visible signs of meaningful development. The infrastructure in the council area remains rudimentary with no tarred roads. The Yokadouma council has also been in the spotlight for the embezzlement of council funds by the former mayor and local treasurer.¹⁰²

⁹⁹ Gervais Zoa <http://www.fao.org/docrep/article/wfc/x11/0163>

¹⁰⁰ Cameroon Population Census of 2005. Rapport de Présentation des Résultats Définitifs. Available at : http://www.statistics-cameroon.org/downloads/Rapport_de_presentation_3_RGPH.pdf

¹⁰¹ <http://www.feicom.net>

¹⁰² 2009 state department country report on human rights <http://www.state.gov/g/drl/ris/hrrpt/2009/af>. The former Mayor and Municipal Treasurer were recently sentenced to 30 years of prison each for embezzlement.

Data Collection

A RELUFA team comprised of three researchers spent five days conducting interviews and documentary research in the locality of Yokadouma. The principal topics explored include:

- The regulatory framework governing RFA payments
- Composition and functioning of the local RFA management committees
- The inclusion of minority groups such as Baka and women in decision-making processes
- Projects executed using RFA funds and methods of choosing them
- Managing sub-national EI revenues derived from different sources

The regulatory framework governing RFA payments

Due to forest sector reforms in 1994, local communities began to receive 10% of the RFA payments made by logging companies operating in their locality while the local council received 40%. Many people interviewed for the purpose of this study commented on the weaknesses of the regulatory framework for the management of the RFA at the local level. Once the forestry reforms instituting RFA entered into force in 1994, there was a four year gap until the introduction of joint ministerial order MINEFI/MINAT N 0122 of 29 April 1998 laying down modalities for use of revenue destined for local communities. This greatly contributed to the inefficient use of revenue which was generally not spent on community-based social projects as initially intended. Interviewees in Yokadouma explained that RFA received by local communities during this period was arbitrarily distributed amongst different families by the village chief. Although there exist arguments in favor of direct cash transfers to communities impacted by extractive industries projects, these transfers must be conducted in a fair and transparent manner according to fixed criteria—which was not the case in Yokadouma. The same failures could be repeated with mining royalties to be paid at the sub-national level once the industrial diamond mining project begins given the lack of regulation.

Additionally, the joint ministerial order of 1998 failed to properly regulate the 40% of RFA managed by the local council. Such a gap gave the mayor of the council total discretion to manage the council share of the royalty with little accountability and transparency. However, after close to two decades, this situation is gradually being redressed through new regulations notably the joint MINAT/MINFI/MINFOF ministerial order N 0520 of June 3rd 2010. This joint ministerial order modifies previous legal framework by introducing management committees to oversee the use of royalties meant for the local councils—limiting the Mayor's discretionary use of funds.

Functioning of the local RFA management committees

Most of the interviewees felt that community-level RFA management committees were ineffective. The main weakness they highlighted is that members of management committees

had no power to influence decision-making which was essentially controlled by the mayor who acted as the de facto committee president.

Local management committees became a source of enrichment for its members since the per diems paid to members during meetings were often 70,000 FCFA (\$140) per day. Thus administrative costs of management committees were quite high, leaving scant funds for investment in micro-projects in local communities. Community members also complained that local management committees made little effort to educate the public about their activities.

Local forest royalty management committees in the Yokadouma council January 2006

Bidjouki Mpou-Mpong Ouest Mpou-Mpong Sud Kounabembe Ouest Kounambembe Sud

Source: Document de travail du forum départementale sur la gestion et l'impact des revenus de l'exploitation forestière. Yokadouma 2006

The inclusion of minority groups such as Baka and women in decision-making processes

The Baka, indigenous forest-peoples, represent about 20% of the population in the Yokadouma council.¹⁰³ Despite their large presence, the Baka were not represented in RFA management committees until their participation was legally mandated in 2010. The indigenous Baka of Ampaya village, near the Mobilong diamond site, expressed dissatisfaction with their representation in the local RFA management committee. The chief of the village and their representative in the RFA management committee explained that although they had asked for the construction of a village school and a health center, neither of the projects had been funded.

¹⁰³ www.africa-interactive.com/site/list



Primary school in the Baka village of Ampaya. Photo: Jaff Napoleon Bamenjo 17/02/2011

Additionally, women throughout the Yokadouma area are not sufficiently sensitized about the RFA payments and are weakly represented in RFA management committees. Many women interviewed for this study were totally unaware that Yokadouma received sub-national payments from forest exploitation.

Projects executed using RFA funds and methods of choosing them

In Yokadouma there exists a general consensus that too much power was concentrated in the hands of the Mayor and Council Treasurer—relegating the local management committee to the background. The mayor had the final decision on the choice of projects executed with RFA funds, the award of public contracts and the disbursement of funds. This centralized power created an opaque system to manage revenue in the local council and communities. Information disclosure on the amount of RFA received from Yaoundé and used for projects in Yokadouma was infrequent and left local citizens with little information about the use of sub-national payments supposedly destined for them.

Because of the strong influence of the Mayor, the projects chosen for funding were not the choice of the people and the process for awarding public contracts became a source of illicit enrichment for elites and sub-contractors who won no-bid contracts to execute public works.

One of the most striking physical features of the town of Yokadouma is its unfinished City Council building. Local NGOs reported that the former Mayor creatively avoided the law on public contracts—which requires all public works contracts over 5 million FCFA (\$10,000) to be publicly auctioned—by granting a series of contracts worth 4.9 million CFA to complete different sections of the building. Evidently, the funds were not well managed and the City Hall sits rotting on Main Street in Yokadouma.



Unfinished City Council Building - Yokadouma

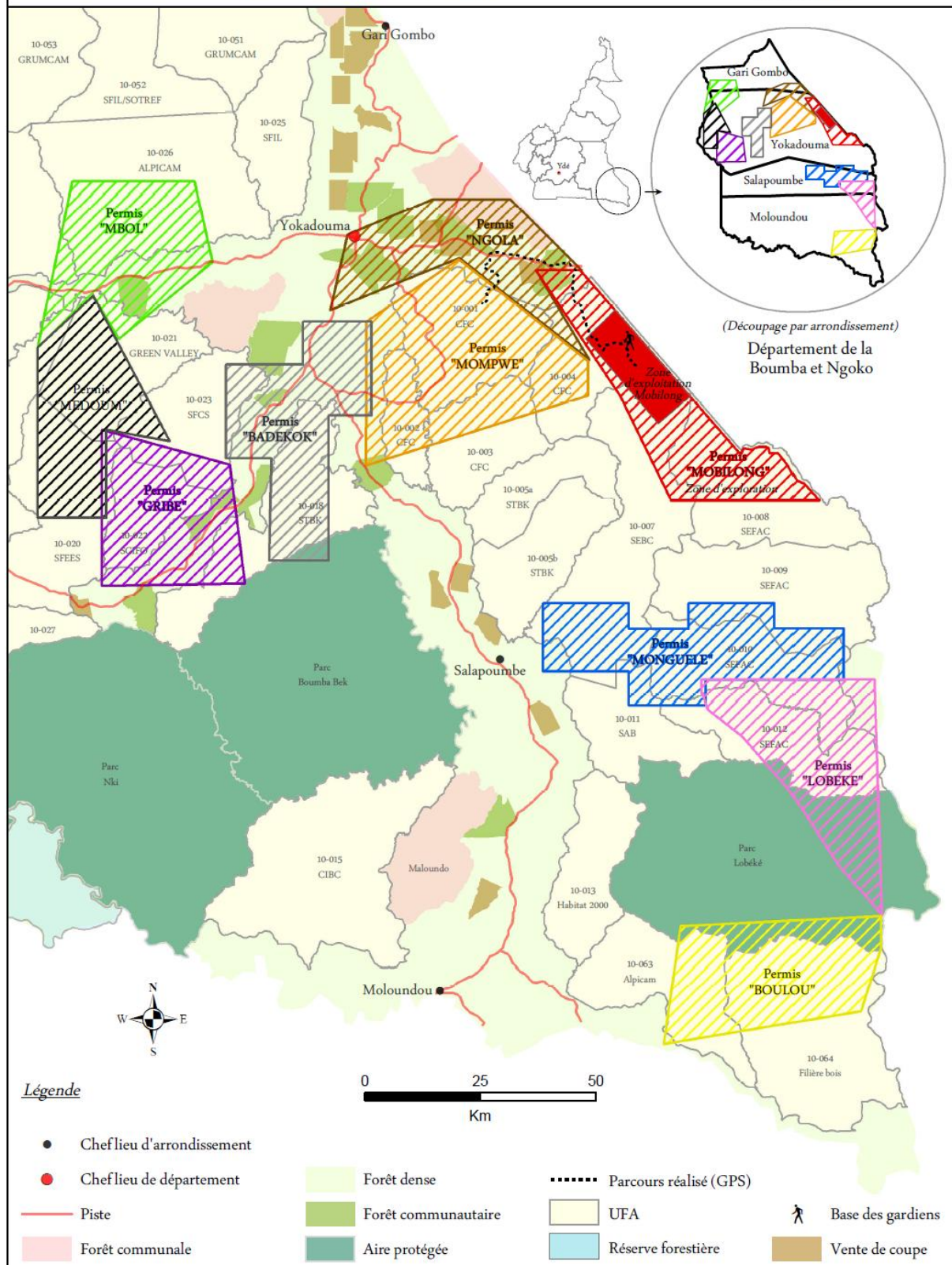
Managing sub-national EI revenues derived from different sources

Chapter three explained the logistical challenges of managing sub-national revenues derived from different sources—hunting, logging, mining, and decentralization. As this map of southeastern Cameroon shows, there is already significant overlap between mining and logging concessions. (The area around Yokadouma also hosts a number of hunting concessions which are not detailed in the map).

Situation des permis miniers

Cameroun - région du Sud Est

Centre pour
l'Environnement et
le Développement
Réalisation : avril 2011



Logging concessions are labeled “UFA” in the map and contain a code beginning with “10-.” Mining Permits are overlaid in the various colors. The C&K diamond permit is represented by the solid red rectangle on the border with the Central African Republic.

All of these commercial activities are generating sub-national royalties for the locality, but the fiscal and management frameworks vary depending on the activity. Anecdotal evidence suggests the sub-national hunting royalty system has been the most effective, but far from perfect, at translating revenues into concrete development in the zone. Local observers point to four main reasons for this:

- 1) **Better planning:** communities play a larger role in planning projects and ensuring their completion.
- 2) **Strong support and oversight from international development partners:** International organizations such as the World Wildlife Fund (WWF) and GIZ (the German Technical Cooperation), in addition to MINFOF, provide logistical support and oversight to committees managing hunting royalties.
- 3) **Hunting royalties are paid directly to management committees:** Whereas the RFA and mining royalty is paid and calculated at the national level and then wired back to the local level, the hunting royalty is paid directly to local management committees.
- 4) **Only one government agency, MINFOF, is involved in the value chain:** The Ministry of Forests and Wildlife is the only ministry involved in collecting and distributing hunting royalties. This had led to greater efficiency when compared to the RFA or mining royalty due to the challenges of inter-ministerial collaboration in Cameroon’s government; The RFA requires coordination between three ministries and the mining royalty involves two. With regards to the RFA, many communities report receiving less funds than were allocated to them at the national level.¹⁰⁴ With regards to mining royalties, most communities do not receive them at all due to the lack of regulation and sensitization described in chapter three.

These are all lessons that could be useful for developing a more efficient mining royalty system.

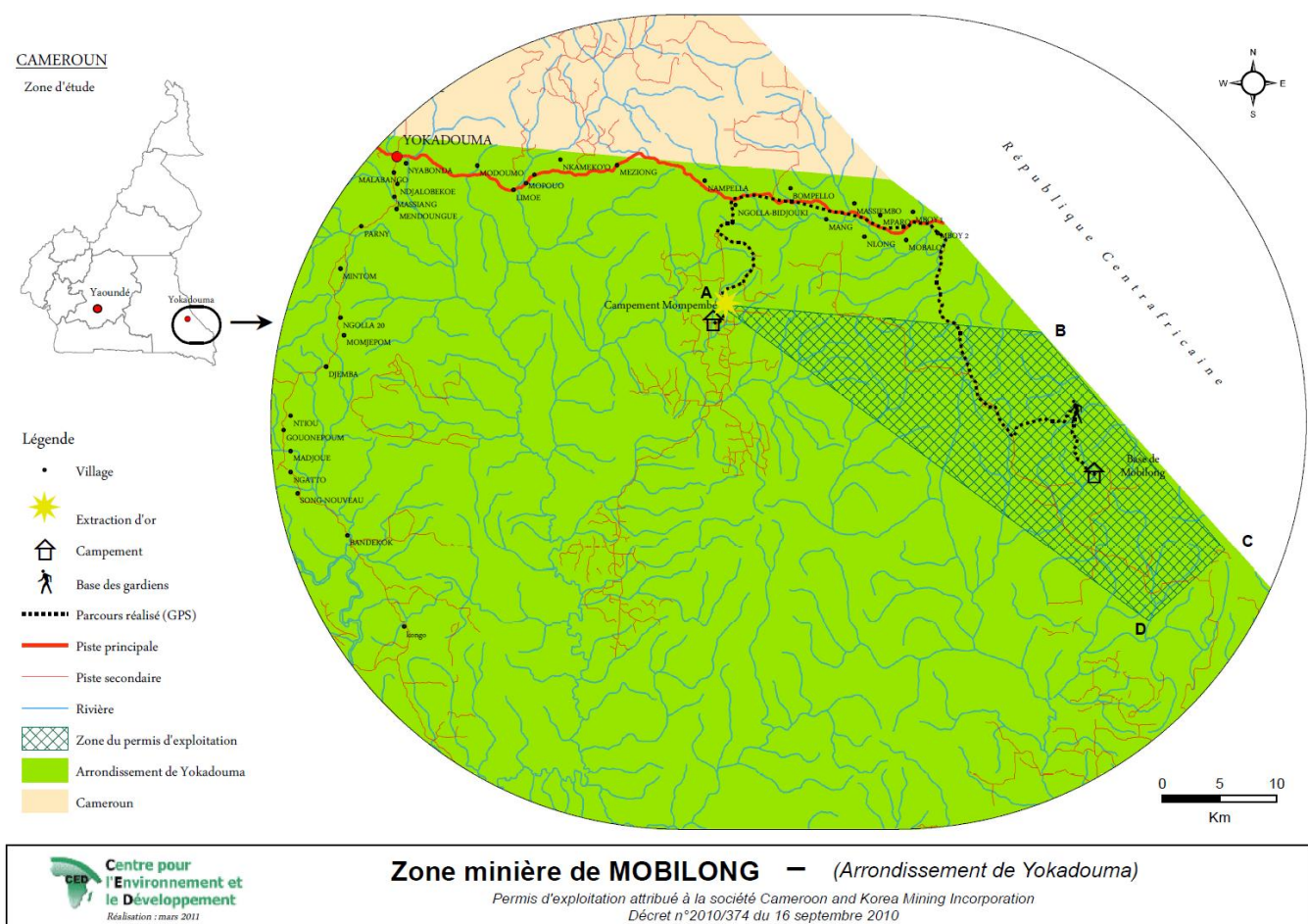
Mining Royalties in Yokadouma

Based upon our interviews, there is an alarming lack of sensitization and planning around the mining royalty in Yokadouma. Many locals are unaware of the existence of the mining royalty and had no knowledge that the C&K diamond mine will become operational in 2012.

The local delegate from the Ministry of Mines designated the seven villages closest to the mine as the beneficiaries of the 10% of royalties allocated to local communities.

¹⁰⁴ See Morrison, Ceruti, Oyono, Steil. Broken Promises: Forest Revenue-Sharing in Cameroon. WRI, 2009.

Map of Villages around the C&K diamond mine



The villages that will receive mining royalties are: Mang, Massiembo, Long, Mparo, Mobalo, Mboy I, and Mboy II.

Based upon our interviews, each village expressed the desire to have their own revenue management committee with a separate bank account (as opposed to creating one committee to manage royalties for all seven). The Baka indigenous community was particularly insistent that they have their own committee since they have not benefitted from RFA payments. Each group also expressed the desire to work with authorities and civil society to create local development plans as a basis for mining royalty expenditures.

Members of the local council hope to create a committee within the council to plan the use of mining royalties. They agreed that the Mayor participate in the committee, but should not be the president to avoid over-concentrating decision-making power in the hands of one individual.

The Future

Yokadouma currently receives sub-national payments from diverse sources, but none of the royalty systems operate efficiently. All stakeholders involved in the mining sector need to urgently commit to dialogue at the local level. Yokadouma has an obvious need for the pilot dialogue platforms described in the conclusion of Chapter three.

If Yokadouma can successfully implement a system to manage mining royalties, this system could be applied to other natural resource sectors. Furthermore, as Cameroon pursues its decentralization process, localities like Yokadouma will begin to receive sub-national payments in other sectors such health and education. The zone's development will hinge on its ability to transparently and efficiently translate these revenues into human development for its citizens.

APPENDIX A

GHANA'S SUB-NATIONAL MINING ROYALTY SYSTEM

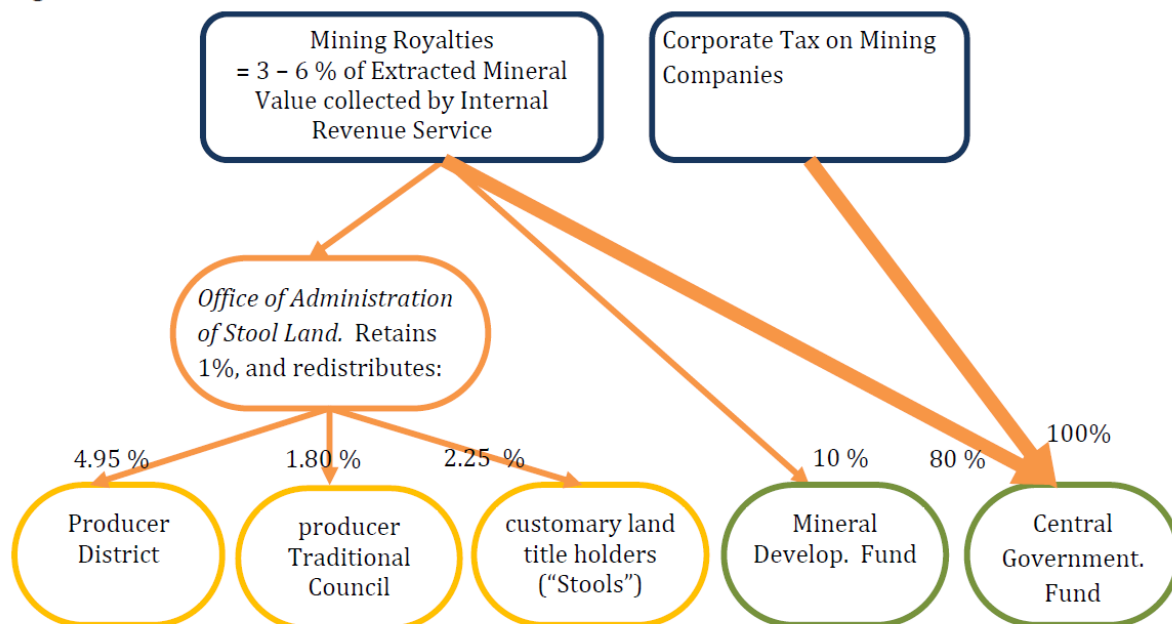
As is the case in many mineral producing countries, Ghana allocates a percentage of its mining revenues to local areas impacted by mining extraction. How does the system work and how does it compare to Cameroon?

Legal Framework

The distribution of revenue across levels of government in Ghana is regulated by Chapter 22 of the 1992 Constitution, the Administrative Fiat of 1999, and article 25 of the Minerals Act. Article 25 of Ghana's Minerals and Mining Act was recently amended and requires that mining companies pay a production royalty of 5% of the value of their production, instead of the old fiscal regime where rates varied between 3-6%. 80% of the royalty payments go directly to the central government and 10% to the minerals commission—Ghana's regulatory agency. The Office for the Administration of Stool Lands receives the remaining 10% of mineral royalties and gives 4.95 % to the producer regions, 1.80% to producer traditional councils and 2.25% to customary land title holders, called stool lands, for maintenance of the stool. The office of the stool lands makes quarterly payments by wire transfer and publishes relevant information in the newspaper while reporting to Ghana's Internal Revenue Service.¹⁰⁵

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Figure 14: Ghana Revenue Distribution



Source: Morgandi, *Extractive Industries Revenue Distribution at the Sub-national Level*

¹⁰⁵ Interview Office of Stool Lands, December 6, 2011.

Royalty Distribution

In Ghana, royalties comprise the grand majority of direct revenues generated from mining. In 2004, for example, royalties accounted for 89% of all mineral revenue.¹⁰⁶ On average, royalties comprise closer to 80% of total revenue.¹⁰⁷ Thus, we can infer that the local royalty is approximately 8-9%, as a percentage of total mineral revenue. Ghana has had trouble collecting large amounts of corporate tax due to favorable fiscal provisions that allow companies to carry forward and inflate costs in addition to favorable capital allowances. Normally corporate taxes should comprise a larger amount of overall mineral revenue.

What justifies paying the local royalty and is the amount fair? Why should certain citizens have beneficial access to state resources in a democratic system? Evidently, local communities suffer from the negative externalities caused by mining projects and resource depletion. Should beneficiaries of the mining royalty be required to spend their revenues to directly address the negative impacts of the mine or should they be free to spend on other development projects?

Weak Sub-national Structures

These are important questions that all stakeholders, but particularly CSOs, in Ghana have been working hard to address. Despite decades of royalty payments, there still exist no regulations concerning the expenditure of mining royalties. Similar to Cameroon's forestry royalties, Ghana's traditional rulers maintain an opaque system of revenue management and are not required to report expenditures to the government. Local councils, on the other hand, are required to account for their expenditures—which have overwhelmingly supported recurrent costs at the expense of capital investment.¹⁰⁸ Central authorities in Accra have blamed much of the failure on weak sub-national structures—a recurrent theme throughout African countries undergoing decentralization processes. CSOs in Ghana reported great contestation between local stakeholders over the use of the local mining royalties.

Prestea

Often, the expenditure of sub-national royalties in Ghana has not sufficiently addressed negative impact of mining. For example, in the Prestea mining area, local communities have been informed that local water sources are no longer viable as the mining company continually trucks in clean water from outside. However, once extraction at the mine site is finished, who will continue to supply clean drinking water to local communities? Prestea's mining royalties have been largely wasted on recurrent expenditure.

¹⁰⁶ Morgandi, Extractive Industries Revenue Distribution at the Sub-national Level

¹⁰⁷ Interview with Boas Associates, December 8, 2011.

¹⁰⁸ Interviews with PWYP Ghana and Third World Network, December 5, 2011.



Photo: Entrance to New Century Mines, Prestea. Credit: Jaff Napoleon Bamenjo

Mining companies, Stabilization Clauses, and the Mining Royalty

As is the case in Cameroon, the Ghanaian mining royalty is calculated as a percentage of the value of minerals extracted by the private companies. Ghana's mining sector is dominated by five industrial gold mines that pay a royalty between 3-6% as negotiated in their contract. Record gold prices have caused the government to call for an increase in royalty rates. Fiscal stabilization clauses contained in the contracts of Anglo Gold Ashanti and Newmont Mining have prevented the government from raising royalty rates. The stability of low royalty rates have prevented local communities from receiving a greater share of the windfall generated by gold mining. Cameroon has also agreed to fiscal stabilization clauses in its first two industrial mining contracts (though neither project is operational). These clauses could, in the future, prevent local communities from receiving a fair share of benefits from these mining projects.

Despite refusing to raise the royalty rates they pay to the government, mining companies in Ghana have been advocating for increasing the percentage of royalty payments from 10% to 30%.¹⁰⁹ Local CSOs believe mining companies favor the increase to improve community relations and the companies' social license to operate. The question remains, is this fair?

Ghana vs. Cameroon

Although there are fundamental differences in the political and legal frameworks in Cameroon and Ghana, it appears the recurrent challenges of weak local governance, transparency, and

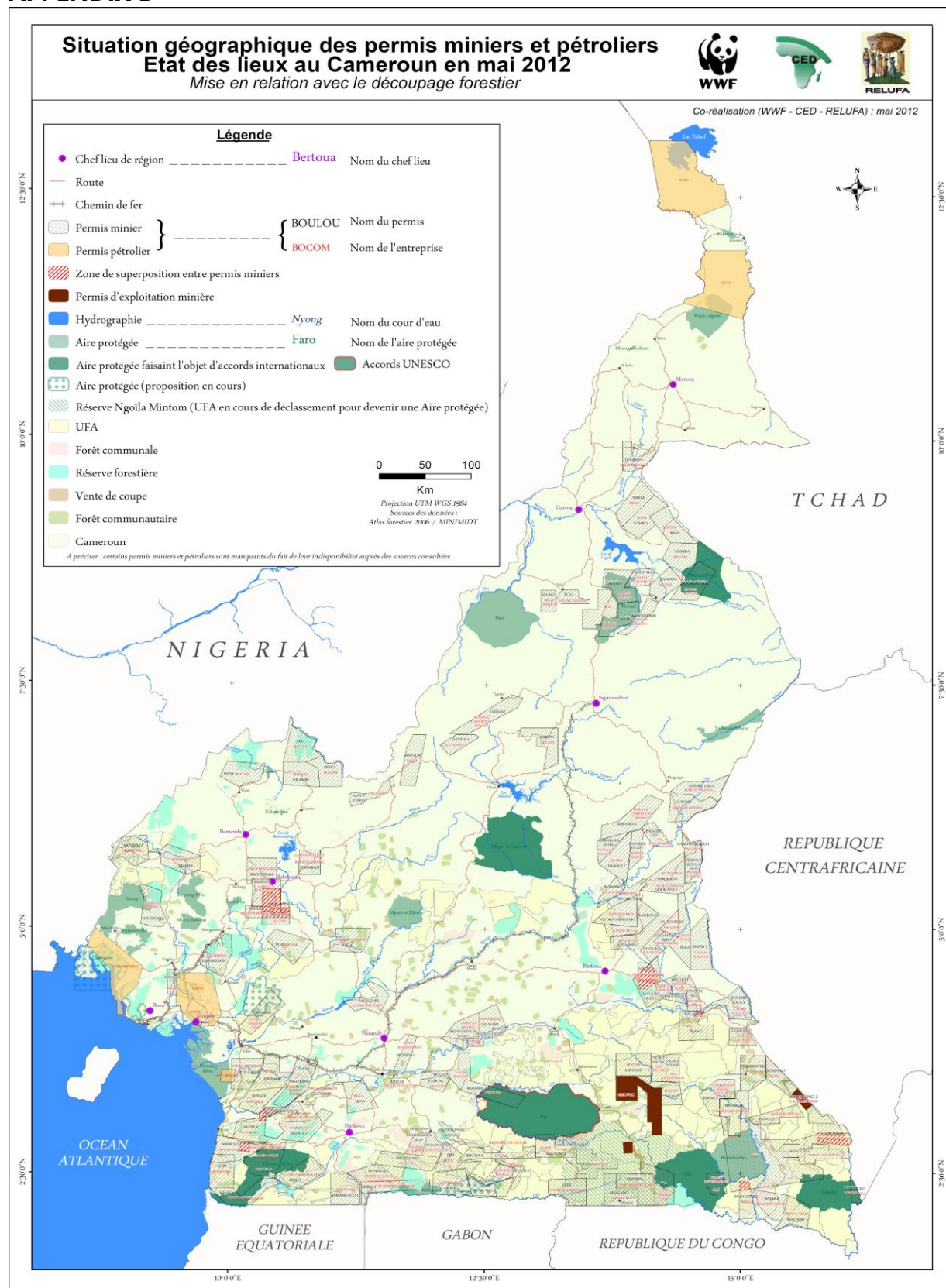
¹⁰⁹ Interview Chamber of Mines, December 6, 2011.

accountability have failed to make forestry royalties in Cameroon and mining royalties in Ghana a success.

It is also interesting to note the similar responses of CSOs and the government of each country. After years of RFA mismanagement in Cameroon, the government, under pressure from civil society, issued new strict guidelines for forest royalty expenditures in 2010. Cameroon's Ministry of Mines is also beginning to develop guidelines for the expenditure of sub-national mining payments.

Ghana's government, also under pressure from civil society, began elaborating guidelines for sub-national mining payments in 2011. ISODEC, a Ghanaian CSO, also launched a pilot advocacy program in two different mining zones to improve royalty management. RELUFA is launching a similar pilot initiative in Cameroon.

APPENDIX B



APPENDIX C

List of People Interviewed in Yokadouma

No.	NAME	FUNCTION
1	Balla Ottou Apollinaire	Chief of sector department of Fauna- Boumba et Ngoko division
2	Kaffo Eric	Chief of Sector department of forest- Boumba et Ngoko
3	John Ndoumba Mouelle	President of the Communal Committee for RFA -Yokadouma council
4	Lahand Yetnang	Divisional delegate of mines- Boumba et Ngoko
5	Empiph Abelang Didier	Chef of service, forestry and rural development- Yokadouma council
6	Gall Charles	Sub divisional officer- Yokadouma
7	Bekono Nka Amare	Chief of Exploitation CFC-Yokadouma
8	Sanimori Modieui Pierre	Village chief-Mboy
9	Balolo Amare Jacques	Farmer
10	Mara Jerome	Artisanal miner
11	Diemba Basil	Village chief Ampire- Baka
12	Gambilo Jacques	Baka Notable
13	Mme Zambo Juliette	Municipal Councillor-Yokadouma council
14	Mohamadou Mahmoudou	Municipal council treasurer
15	Ndassa Mamoud	Coordinator of NGO GRIPE
16	Madam Akongongol epse Mikam	Coordinator of NGO AAFEBEM
17	Bidjobeno Diane	President of Contract commission –Yokadouma council

18	Konda Sameleu Silvere	2 nd Assistant Mayor- Yokadouma council
19	Moapi Soboth Gerald	Municipal Councillor- Yokadouma council
20	Mongo Toussaint	Farmer/ Ntiou Village
21	Suenel Suenel	Student
22	Ntabis Edna Noel	Housewife
23	Gnapessa Nkouang Chantal	Student
24	Ntebani Epse Amougou Evaline	Assistant coordinator CEFAID-Yokadouma

