

Validation of Cameroon
Draft Validation Report
Adam Smith International Independent Validator
8th January 2018

1. EXECUTIVE SUMMARY

Cameroon committed to implement the EITI in March 2005. This commitment was formalised by the letter of the Minister of Economy and Finance to the Treasury Secretary of the United Kingdom, on 1 April 2005. The MSG was created on 16 June 2005 by a Decree covering the creation, organisation and functioning of the Committee for the monitoring of EITI implementation. The EITI Board accepted Cameroon as an EITI Candidate country on 27 September 2007 and declared the country to be compliant under the EITI Rules in Abidjan on 17 October 2013. Cameroon has published EITI Reports covering fourteen fiscal years (2001-2014), publishing its ninth EITI Report (covering 2014) in December 2016. Implementation of the EITI has been consistently led at a high level by the Minister of Finance, currently Minister Alamine Ousmane Mey.

On 25 October 2016, the Board agreed that Cameroon's Validation under the 2016 EITI Standard would commence on 1 July 2017. This draft validation report follows on from a quality assurance review of the International Secretariat's initial assessment. The Validator agrees with the Secretariat's preliminary assessment that requirements 1.3, 1.4, 1.5, 2.3, 2.4, 2.6, 3.2, 4.5, 5.1, 5.2, 6.2, 7.1 and 7.4 have not been fully addressed in Cameroon.

2. BACKGROUND

Cameroon is sub-Saharan Africa's sixth-largest producer of crude oil, although its average oil production has declined from around 100,000 barrels per day in 2000 to 64,000 in 2010, before rebounding to around 75,000 by 2015. It produces two types of crude oil, the light crude blend of Kole and the heavier crude blend of Lokele. While still a nascent minerals producer, Cameroon ranks as the world's seventh-largest pumice and pumicite producer, accounting for roughly 4% of global output. It also hosts smaller production of gold, diamond, sapphire (primarily artisanal-mined), as well as clay, sand, limestone and marble. While Cameroon produces smelted aluminium, it imports the raw bauxite from Guinea. Cameroon has significant potential, with much of its landmass not yet explored.

Oil and gas accounted for 96% of the extractive industries' contribution to Cameroon's GDP in 2014, or 7% of 2014 GDP. The sector accounted for 37.8% of exports and 41% of inward foreign direct investment in 2014. Holding proven reserves of 325m barrels in 2014, Cameroon's oil and gas reserves are both onshore and offshore, in the offshore Rio del Rey Basin of the Niger Delta, in the offshore and onshore Douala/Kribi-Camp basins in the West and in the onshore Logone-Birni basin in the North. Cameroon started developing its deep-water offshore recently, with the first deep-water well drilled in 2014. Four companies produce oil and gas in Cameroon, including Addax Petroleum, Perenco, Victoria Oil and Gas and state-owned SNH. Cameroon has controlled the oil-producing Bakassi peninsula since it was returned by Nigeria in 2008 and since then jointly patrolled the waters with Nigeria to curb piracy and groups of militants. The Chad-Cameroon pipeline, completed in 2003 and operated by a consortium of ExxonMobil, Chevron and Petronas, and the Kribi export terminal give Cameroon a potential role as regional oil transport hub. Cameroon held 5.4tn cu ft. of proven natural gas reserves in 2015. While its gas production is modest, at 7bn cu ft. in the first half of 2015, it is developing a LNG terminal project together with GDF Suez. The plateau in oil production and slump in global oil prices has had a severe impact on the national oil company SNH, which saw its oil revenues declines some 24% between 2015 and 2016, from USD 1.06bn to USD 807.7m in a single year.

The government has demonstrated its commitment to enshrining EITI implementation in the new Mining code that was adopted on 14 December 2016, which also covered the Kimberly principles, regulation of ASM, standardising mining conventions, and local content. The government has also implemented significant reforms, including the launch of an online mining cadastre in February 2017. The government has been the main contributor to funding EITI implementation. Budgetary allocations for EITI are made through the Ministry of Finance's (MINFI) budget. The budget attached to the 2017-2019 work plan indicates that the government will allocate XAF 915m (USD 1.6m) to the EITI over three years.

In line with the Validation Guide, the International Secretariat carried out the first phase of validation—initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the “Initial Assessment”). Adam Smith International (ASI) was appointed as the independent Validator to evaluate whether the Secretariat’s work was carried out in accordance with the Validation Guide. ASI’s principal responsibilities as Validator are to review and amend the Initial Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

1. Work Performed by the Independent Validator

The Secretariat’s Initial Assessment was transmitted to ASI on 20th December, 2017. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and the Civil Society Protocol; (3) Detailed review and comments by the Financial Specialist of Requirements 4, 5 and 6; (4) Consolidation of reviews and the production of this draft Validation Report, sent to the International Secretariat on the 9th January 2018.

2. Comments on the Limitations of the Validation

The Validator carefully reviewed the Secretariat’s Initial Assessment and at this stage has no comments on the limitation of the validation process.

3. Comments on the International Secretariat’s Initial Assessment

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. The data collection took place across three phases. Firstly, from September 2017, a desk review of the available documentation relating to the country’s compliance with the EITI Standard, including but not limited to:

- The EITI work plan and other planning documents such as budgets and communication plans;
- The multi-stakeholder group’s Terms of Reference, and minutes from multi-stakeholder group meetings;
- EITI Reports, and supplementary information such as summary reports and scoping studies;
- Communication materials;
- Annual progress reports; and
- Any other information of relevance to Validation.

Secondly, a country visit, which took place on 2-6 October 2017. All meetings took place in Yaoundé, Cameroon. The secretariat met with the multi-stakeholder group and its members, the IA and other key stakeholders, including stakeholder groups that are represented on, but not directly participating in, the multi-stakeholder group.

Finally, the International Secretariat prepared a report making an initial assessment of progress against requirements in accordance with the Validation Guide. The initial assessment did not include an overall assessment of compliance. The report was submitted to the Validator, with the National Coordinator (NC) also receiving a copy.

3. GENERAL COMMENTS

• Progress in EITI Implementation

Cameroon has an extensive track record of reconciliation and has gradually extended EITI reporting to the oil transportation and solid minerals sectors. The EITI has had an impact in gradually enticing government agencies towards routine disclosures, evidenced by more regular publications by the national oil company, the Société Nationale des Hydrocarbures (SNH). The EITI has also spurred reforms in the mining sector, ranging from the launch of an online mining cadastral portal to a new Mining Code in 2016 that enshrines EITI implementation. While trust has gradually been built amongst stakeholders directly involved in EITI implementation, divisions have emerged within civil society

between those directly involved in the MSG and Technical Secretariat and those outside. Public understanding of the extractive industries has clearly grown: EITI data is widely considered as credible and a significant improvement compared to what used to be publicly-available prior to 2005. However, EITI data has generated far more public debate on the mining sector than on oil and gas, despite the latter accounting for roughly 99% of government extractives revenues. EITI reporting, focused on upstream and oil transportation issues, has steered clear of contentious issues such as the structure of SNH advances to the Treasury and refined fuel subsidies related to the domestic refinery SONARA (Société Nationale de Raffinage).

- **Impact of EITI Implementation**

While there has been some renewal of MSG membership over the past two years, Cameroon has not revisited its multi-stakeholder governance architecture since the adoption of the EITI Standard. Governed by the original Decree establishing the EITI in 2005, EITI Cameroon struggles with non-codified nominations procedures, vague internal governance rules and lack of clear responsibilities of MSG members vis-à-vis their constituencies. The government's planned new Decree governing EITI implementation should serve as a basis to update the governance of EITI Cameroon. The MSG's focus on data collection has not systematically been matched with effective oversight of the technical aspects of EITI reporting nor in producing data that is particularly relevant in the local context. This has led to oversights such as the EITI Reports' lack of SNH oil sales data disaggregated by buyer or domestic gold pricing data despite government entities' willingness to publish such data. There is also little evidence that EITI Cameroon has discussed issues such as the categorisation of SNH's advances to the Treasury as budgeted expenditure, despite the significant differences in opinion between local stakeholders and international financial institutions. While EITI Cameroon has established a relatively efficient reporting mechanism in its first decade of implementation, the key to ensuring longer-term sustainability lies in embedding reporting of data required under the EITI Standard through government and company systems.





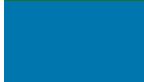


Cameroon's EITI dissemination and outreach has evolved from a focus on subnational activities and communications materials explaining the EITI process to the prioritising of trade fairs and workshops in the political and economic capitals of Yaoundé and Douala. This has been driven both by the MSG's (primarily financial) capacity constraints as well as the fluid security situation in parts of the country affected by Boko Haram. Such communications and outreach efforts have been relatively unsuccessful at generating use of EITI data other than by a handful of CSOs.

The Independent Validator's Assessment of Compliance

Figure 1 – Validator's assessment

EITI Requirements		LEVEL OF PROGRESS				
		No progress	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
MSG oversight	Government engagement (#1.1)				■	
	Industry engagement (#1.2)				■	
	Civil society engagement (#1.3)			■		
	MSG governance (#1.4)		■			
	Work plan (#1.5)			■		
Licenses and contracts	Legal framework (#2.1)				■	
	License allocations (#2.2)				■	
	License register (#2.3)			■		
	Policy on contract disclosure (#2.4)			■		
	Beneficial ownership (#2.5)	■				
	State participation (#2.6)			■		
Monitoring production	Exploration data (#3.1)				■	
	Production data (#3.2)			■		
	Export data (#3.3)					■
Revenue collection	Comprehensiveness (#4.1)				■	
	In-kind revenues (#4.2)			■		
	Barter agreements (#4.3)	■				
	Transportation revenues (#4.4)				■	
	SOE transactions (#4.5)			■		
	Direct subnational payments (#4.6)	■				
	Disaggregation (#4.7)				■	
	Data timeliness (#4.8)				■	
	Data quality (#4.9)				■	
Revenue allocation	Distribution of revenues (#5.1)			■		
	Subnational transfers (#5.2)		■			
	Revenue management and expenditures (#5.3)	■				
Socio-economic contribution	Mandatory social expenditures (#6.1)					■
	SOE quasi-fiscal expenditures (#6.2)		■			
	Economic contribution (#6.3)				■	
Outcomes and impact	Public debate (#7.1)			■		
	Data accessibility (#7.2)	■				
	Follow up on recommendations (#7.3)				■	
	Outcomes and impact of implementation (#7.4)			■		

Legend to the assessment card

	The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
	The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
	The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
	The country is compliant with the EITI requirement.
	The country has gone beyond the requirement.
	This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
	The MSG has demonstrated that this requirement is not applicable in the country.

4. DETAILED FINDINGS

The Validator agrees with the findings of the Initial Assessment. Therefore there are no detailed findings on disagreements to report.

5. RECOMMENDATIONS

1. In accordance with Requirement 1.3.a, civil society must be fully, actively and effectively engaged in the EITI process. To strengthen implementation, the civil society constituency should address the concerns regarding constituency representation, including potential conflicts of interest linked to per diems (see Requirement 1.4) and ensure more effective liaison between the CSO representatives and the broader constituency. The civil society constituency may wish to consider undertaking a capacity needs assessment and formulating actions to address capacity constraints.
2. In accordance with Requirement 1.4, the MSG should update its internal governance rules to cover all provisions of Requirement 1.4.b and publish procedures for nominating and changing MSG representatives, including the duration of mandates. In accordance with Requirement 1.4.b.vi, the MSG must clarify the practice of per diems for attending EITI meetings or other payments to MSG members to ensure that there is no conflict of interest. The MSG may wish to consider keeping public attendance records and posting MSG minutes online. The industry constituency may wish to consider establishing constituency guidelines and mechanisms to ensure coordination of mining, oil and gas companies as a constituency. The MSG may also wish to increase their engagement with Douala-based companies to ensure that their views are taken into account and that they are aware of the work of the MSG and the achievements of EITI Cameroon. The industry constituency could consider liaising with CCIMA or GICAM to ensure that the views and interests of quarries and artisanal and small-scale mining are better represented on the MSG, considering the important public interest on this sub-sector. The civil society constituency may wish to take steps towards broad and full civil society participation. This could be achieved by adopting a constituency-wide code of conduct, which could serve as a basis to set out a process for civil society nominations to the MSG and to clarify the roles and responsibilities of CSO representatives on the MSG and the Technical Secretariat.
3. In accordance with requirement 1.5, the MSG should agree a work plan that is linked to national priorities and is revisited annually to take account of changing conditions and opportunities. Clearer links to national discussions and priorities will encourage more relevance of EITI information to popular demand and could help mobilise additional resources.
4. In accordance with Requirement 2.3, Cameroon is required to maintain a publicly available register or cadastre system(s) with timely and comprehensive information regarding each of the licenses pertaining to oil and gas companies. In the absence of a public register the MSG should ensure that dates of application and license coordinates are disclosed for all licenses held by material companies.
5. In accordance with Requirement 2.4, Cameroon should ensure that the government's policy on contract disclosure is clear and public, rather than commenting on the existence of specific contractual terms hindering the disclosure of contracts, and comment on actual practice of contract disclosure in the mining, oil and gas sectors.
6. In accordance with Requirement 2.6, Cameroon should ensure that there is a publicly-available comprehensive list of extractives companies in which the government, or any SOE, holds equity and the specific level of government ownership (and any change in the year under review). It should also work with government stakeholders to clarify the rules and practice related to the financial relationship between SOEs such as the SNH and its subsidiaries and the government as well as the existence of any loans or loan guarantees from the state or any SOE to companies operating in the mining, oil and gas sectors. The MSG may wish to integrate its approach to addressing this corrective action with (Section C) Article 23 of its July 2017 IMF extended credit facility agreement related to the SNH.

7. In accordance with Requirement 3.2, Cameroon should ensure that the production value of each mineral commodity (particularly natural gas) produced in the year(s) under review is publicly available. The MSG may also wish to explore opportunities for publishing volumes, values and pricing data in a routine manner online, drawing on data from MINMIDT, CAPAM and SNH.
8. In accordance with Requirement 4.2, Cameroon should ensure that future EITI Reports present information on volumes collected as the state's in-kind revenues, volumes sold and related revenues disaggregated by buyer for both oil, gas condensate and gold.
9. In accordance with Requirement 4.2, Cameroon should ensure that information on volumes collected as the state's in-kind revenues, volumes sold and related revenues be publicly accessible and disaggregated by buyer for both oil, gas, condensate and gold received as the state's in-kind revenue.
10. In accordance with Requirement 4.5, Cameroon must ensure that the role of SOEs, including transfers between SOEs and other government agencies, is comprehensively and publicly addressed. The MSG may wish to consider working with the Treasury and SNH to publish information on SNH's sovereign advances to other government entities in a routine manner.
11. In accordance with Requirement 5.1, Cameroon should ensure that there is a clear public indication of which extractive industry revenues, whether cash or in-kind, are recorded in the national budget and clarify the allocation of revenues not recorded in the national budget, providing links to relevant financial reports as applicable. The MSG may wish to explore opportunities together with the Treasury and IMF to use annual disclosures as a diagnostic tool for assessing the efficiency of SNH sovereign advances in relation to normal budgetary spending.
12. In accordance with Requirement 5.2, Cameroon should undertake a more explicit assessment of the materiality of subnational transfers prior to data collection and ensure that the specific formula for calculating transfers to individual local governments be disclosed, to support an assessment of discrepancies between budgeted and executed subnational transfers. Given the high level of public interest in this issue, the MSG may wish to consider including extractives-hosting local government (communes) in the reporting process for subnational transfers in order to reconcile these transactions.
13. In accordance with Requirement 6.2, Cameroon should consider the existence and materiality of any quasi-fiscal expenditures undertaken by extractives SOEs and their subsidiaries, ensuring that all material quasi-fiscal expenditures are publicly disclosed.
14. In accordance with Requirement 7.1.e, Cameroon should ensure that outreach events, whether organised by government, civil society or companies, are undertaken to spread awareness of and facilitate dialogue about the EITI Report across the country. The MSG is encouraged to pursue its work in outreach and dissemination through a communication strategy, involving all three constituencies. The MSG might wish to foster public debate on the oil and gas sector through the use of specific data points and by building on its existing networks.
15. In accordance with Requirement 7.4.a.iii, Cameroon should ensure that the APR includes an overview of the MSG's responses to and progress made in addressing the recommendations from reconciliation and Validation. Cameroon is required to list each recommendation and the corresponding activities that have been undertaken to address the recommendations and the level of progress in implementing each recommendation. Where the government or the MSG has decided not to implement a recommendation, it is requirement that the MSG documents the rationale in the APR. In accordance with Requirement 7.4.a.iv, the MSG should include an assessment of progress with achieving the objectives set out in its work plan, including the impact and outcomes of the stated objectives. To strengthen implementation, Cameroon is also encouraged to provide a comprehensive overview of the impact of the implementation of the EITI in the APR. Cameroon might also with to conduct a formalised impact assessment after twelve years of implementing the EITI. To strengthen implementation, Cameroon is encouraged to provide a comprehensive overview of the impact of the implementation of the EITI in the APR. Cameroon might also with to conduct a formalised impact assessment after twelve years of implementing the EITI.
