June 2024

Cameroon
Economic Update

Fiscal instruments for sustainable forestry

Third Edition

WORLD BANK GROUP

Acknowledgments

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Executive Summary

This 3rd edition of the Cameroon Economic Updates is part of a program of annual reports analyzing Cameron's development trends and constraints. The report provides a comprehensive analysis of the country's recent economic developments, medium-term economic outlook, and the role of fiscal instruments in sustainable forestry. It examines Cameroon's economic performance within the context of global and regional economic conditions, highlighting the interplay between fiscal policies and forestry sector challenges.

Slower Economic Growth Amid High Inflation and fiscal challenges in 2023

In 2023, global economic activity slowed to 2.6 percent, down from 3.0 percent in 2022, largely due to tighter monetary policies and reduced fiscal support in advanced economies. Advanced economies saw growth decrease to 1.5 percent, primarily due to higher borrowing costs and reduced fiscal support. The United States was an exception, experiencing higher growth due to fiscal stimulus. Emerging and developing countries experienced a slight acceleration in growth to 4.0 percent, driven by subdued productivity growth, particularly in China. Commodity prices fell by 24.2 percent, driven by declining fuel and food prices, despite geopolitical tensions. However, cocoa prices showed a sustained upward trend due to supply constraints caused by adverse weather conditions in major producing countries. Sub-Saharan Africa experienced a slowdown in economic growth to 2.9 percent from 3.7 percent in 2022, with major economies like Nigeria and South Africa facing significant challenges.

Cameroon's economic growth slowed in 2023, with real GDP growth decelerating to 3.3 percent, down from 3.6 percent in 2022. This decline spanned across all economic sectors—primary, secondary, and tertiary—amidst challenges such as fiscal consolidation, rising domestic inflation, and ongoing internal conflicts. Service sector, which has been a leading contributor to growth

for the past three decades, also experienced a slowdown in 2023, particularly due to a decline in transportation activities. This decline was largely attributed to an increase in fuel prices in February 2023. In the secondary sector, challenges were pronounced with a sustained decline in hydrocarbon production, which fell by 4.3 percent in 2023, continuing a trend from previous years. Additionally, food processing industries faced difficulties due to higher costs of agricultural inputs and issues with smuggling, despite improvements in the energy supply from new hydroelectric power capabilities and expanded electric power distribution. Conversely, the construction sector demonstrated resilience, maintaining growth driven largely by strong private investment, even as public investment receded.

Meanwhile, the latest employment survey indicated that labor force participation rate has been declining significantly over the past decade, amid high unemployment and underemployment rates, particularly among the youth. Despite an increasing working-age population, labor force participation has decreased notably, dropping from 70.2 percent in 2010 to 57.1 percent in 2021, with the most substantial decline observed among young people. Concurrently, the unemployment rate has risen from 3.8 percent in 2010 to 5.9 percent in 2021.

Average inflation rose to 7.4 percent in 2023 from 6.3 percent in 2022. High food prices and transportation costs, impacted by increased fuel prices, kept inflation elevated. Despite the regional Central Bank's (Banque des États de l'Afrique centrale, BEAC) restrictive monetary policy, domestic factors maintained high headline inflation. The government increased public servant salaries and the minimum wage to mitigate inflation impacts, though these measures did not affect informal sector workers.

The current account deficit widened to 4.0 percent of GDP in 2023 from 3.5 percent in 2022 due to a larger trade deficit from declining hydrocarbon production and exports. Nevertheless, cocoa price surges positively impacted export revenues.

Fiscal consolidation efforts continued, resulting in a reduced fiscal deficit of 0.8 percent of GDP in 2023 from 1.1 percent in 2022. Enhanced tax revenue collection and reduced expenditures, including fuel subsidies, contributed to this improvement. Non-oil tax revenue increased from 10.6 percent of GDP in 2022 to 11.4 percent in 2023, reflecting new revenue measures, such as removal of tax exemptions and increased excise taxes. The public debt-to-GDP ratio slightly decreased to 44.3 percent in 2023 from 44.9 percent in 2022, although interest charges rose due to tighter financial conditions. The current account deficit widened to 4.0 percent of GDP in 2023 from 3.5 percent in 2022, primarily due to a larger trade deficit caused by declining hydrocarbon production and exports.

Moderate Growth in the Medium-term Amid Fiscal Challenges and Risks

The global economic outlook for 2024 indicates moderate growth of GDP growth of 2.4 percent is projected for 2024, down from 2.6 percent in 2023. Slower demand in the US and Europe and challenges in China's real estate sector will constrain growth. Commodity prices are expected to remain moderate, with significant risks from geopolitical developments. Sub-Saharan Africa is expected to grow by 3.8 percent, despite fiscal challenges. In Central Africa, tight financial conditions are anticipated in 2024, easing by 2025-2026.

Looking ahead, Cameroon's medium-term real GDP growth is projected to reach 4.0 percent in 2024 and 4.5 percent on average from 2025 to 2027, driven by improved energy supply and strong public investments. The completion of the Nachtigal hydroelectric dam and of the Memve'ele power plant transmission lines will provide additional energy supply, boosting manufacturing activities. Inflation is expected to gradually decrease, reaching 3.0 percent by 2027, supported by moderating import price inflation and the BEAC's tight monetary policy. The fiscal deficit is anticipated to remain around 1.0 percent of GDP in the medium term, with public debt projected to decline to 36.3 percent of GDP by 2027. Key risks include commodity price volatility, regional security crises, and potential social tensions. Strategic recommendations emphasize the importance of robust fiscal and monetary policies, infrastructure investments, governance reforms, and private sector support to ensure sustainable economic development and stability.

Fiscal policies for forestry could be reformed to contribute to more public revenues and job creation while promoting sustainable forestry management.

Cameroon possesses vast forested areas, rich in biodiversity, essential to climate regulation, and the livelihoods of indigenous peoples and local communities who rely on forest resources. Forests cover about 35 percent of Cameroon's area and play a vital role in regulating carbon dioxide, essential for national and regional climate regulation. It also acts as a sanctuary for indigenous populations who heavily depend on forest resources to feed themselves and build their living environment. About 19 percent of the forest is located in protected areas,

including the country's 10 national parks. About 70 percent of the forest is dedicated to sustainable and controlled production of forest products managed by private companies. The annual deforestation rate in Cameroon is on an upward trend, rising from 0.1 percent to 0.6 percent between 2008 and 2020. This has resulted in a decline in biodiversity and carbon sequestration, and highlights challenges in forest management. The drivers of deforestation include small-scale agriculture, illegal logging, uncontrolled mining activities, and unsustainable land use practices such as slash-and-burn agriculture and unregulated agro-industrial expansion.

The forestry sector's contribution to the Cameroon economy has always been significant, although it is low relative to its potential. While its contribution to the national GDP has slightly decreased over the past two decades, the forestry industry continues to play a crucial role in the economy. In the early 2000s, the forestry industry accounted for 20 percent of exports and 4 percent of GDP. By 2021, it represented over 12.2 percent of exports and contributed 3.8 percent of GDP. The forestry value chain is the third highest provider of export revenues in Cameroon after the cocoa and hydrocarbon sectors. The timber sector currently provides approximately 45,000 jobs, including 22,000 in the informal sector. While Cameroon is the largest producer and exporter of logs in the CEMAC region, the transformation of logs into finished products is still low in the wood industry. As a result of problems linked to a lack of suitable infrastructure, illegal logging, governance issues, insufficient skills capacity development and corruption, Cameroon's forestry industry is limited to primary wood-processed products like industrial roundwood and sawn wood.

CEMAC countries have moved towards implementing a ban on the export of round logs as part of an effort to promote local timber processing within these countries and aligning themselves with a global movement towards sustainable forest management. This significant policy shift, initially slated for commencement in 2022, has been postponed to 2028, allowing countries involved ample time to adapt to this transformative agenda. Cameroon, following the edicts of its 1994 forestry law, began to prohibit log exports in 1999, allowing a generous interval for adaptation. Yet the persistence of log exports, facilitated by a convoluted system of quotas and exceptions, bore witness to the complexity of the issue at hand.

Recent years have seen an uptick in international funding for sustainable forest management in the Congo Basin region, but international commitments are still insufficient. Global commitments still tend to lack quantifiable and transparent targets, leaving a gap between pledges and results. The situation is further complicated when considering the distribution of these funds. Funding allocated to local communities, communal forests, and indigenous populations remain palpably inadequate. This shortfall extends to other vulnerable groups, such as rural women and smallholder farmers.

Photo by Atabong Armstrong, available at Wikimedia, licensed under CC BY-SA 4.0

Part of the solution could thus come from fiscal reforms and increase value addition in the wood industry to optimize forest resources, as a means to secure higher public revenues and environmental goals. Despite the abundance of forest resources, Cameroon has struggled to maximize revenue from its forestry sector. Revenue from forest taxes accounted for only 0.2 percent of GDP in 2022. Half of this revenue comes from logs export taxes, while the other half originates from land area fees and tree harvesting tax. Going forward, fiscal reforms could be designed to further integrate climate-smart fiscal policy instruments, which can be cost-efficient and lead to significant results. Forest-related fiscal policy instruments can complement forest conservation and management strategies, enabling policy makers to fulfill environmental and climate goals more affordably, while generating more revenues for the state.

Fiscal policies such as subsidies for sustainable practices, environmental taxes, tax rebate for forestry certification and agroforestry, reinvestment of natural resource revenues, fiscal transfers, and grants can play a crucial role in protecting Cameroon forestland. But taxation on forests needs to be applied with careful consideration of economic, social, and environmental factors. Ensuring that taxes are equitable, transparent, and effectively used to promote sustainable forest management and conservation is crucial. Balancing the need to discourage harmful practices with the need to support and incentivize sustainable livelihoods will help achieve long-term forest conservation goals. For insistence, area fees reveal the complex, often unpredictable, effects of forest taxes on logging behavior. The response of loggers to these fiscal pressures reveals that increased fees sometimes beckon towards more intensive logging.

The integration of sustainability certification into forest-related tax rates represents a forward-thinking approach to environmental fiscal policy, one that combines fiscal and economic goals with preserving natural assets for the benefit of future generations. Such a strategy acknowledges the complexities of sustainable production and seeks to leverage fiscal instruments in service of a combination of fiscal, economic, social, and environmental goals. Fiscal policies that promote sustainable forestry can also be used by countries such as Cameroun to avoid a path where unsustainable exploitation compromises forest ecosystems, taking instead an approach to forests and other resources that will enable future generations of Cameroun to continue benefiting from the country's rich natural endowments. As the authorities pursue their plans to revise the forestry code, different fiscal policy options could be considered in a strategy to increase fiscal revenues while fostering income generation, jobs, sustainable exploitation of wood resources. Fiscal policies that could be envisaged include:

- Adjusting forest tax rates based on the ecological impact of timber production methods, utilizing assessments from forest certification agencies.

- Encouraging forest certification and consider a "bonus-malus" system, taxing non-certified concessions more than certified ones.

- Rationalizing tax expenditures for agriculture to align with environmental goals and implement a monitoring system for effective fund usage.

- Promoting user-friendly digital services for forestry, including permit applications and real-time tracking, and provide training for forestry officials and concessionaires.

- Engaging local communities in REDD+ projects to ensure direct benefits and secure performance-based funding from international donors.

- Implementing comprehensive legal reforms of the forestry law to ensure sustainable management, strong enforcement, and community involvement.

- Fostering international partnerships to secure funding for forest conservation and climate resilience projects.

- Promoting agroforestry and sustainable land management practices to reduce deforestation and forest degradation.

- Enhancing community engagement and participatory forest management to ensure sustainable conservation efforts.

- Developing a robust local wood processing industry with incentives like tax breaks and grants and invest in vocational training programs.

Fiscal strategies, however, are not standalone solutions but components of a comprehensive policy mix that addresses the multifaceted challenges of forest conservation. From regulatory measures to economic instruments and informational campaigns, the success of forest conservation and sustainable development strategies and efforts hinges on the ability to implement a coherent, integrated strategy that leverages the strengths of each approach. The role of governance, in this context, cannot be overstated. A robust governance framework is essential not only for the effective implementation of tax policies but also for fostering the collaboration and transparency necessary for sustainable forest management.

Below are the main policy recommendations.

Policy Area	Action	Responsible Entities	Time Frame
Tax Revenue Collection	Improve efficiency in tax administration to ensure higher compliance and reduce tax evasion through the use of digital means.	Ministry of Finance	Short to Medium Term
	Broaden the tax base by reducing tax exemptions and preferential rates, particularly in VAT and income tax.	Ministry of Finance, Parliament	Short to Medium Term
Expenditure control	Prioritize spending on infrastructure projects that stimulate economic growth and create employment opportunities	Ministry of Finance, Ministry of Economy	Short to Medium Term
	Gradually phase out fuel subsidies while implementing targeted assistance programs to mitigate the impact on vulnerable populations. Redirect savings from subsidy reduction towards productive investments or social welfare programs.	Ministry of Finance, Ministry of Economy	Short to Medium Term
Sustainable Forestry Practices	Implement natural resource rent taxes to capture resource rents effectively.	Ministry of Forestry, Ministry of Finance	Short to Medium Term
	Establish payments for ecosystem services to incentivize forest conservation and sustainable use.	Ministry of Forestry, Ministry of Environment	Medium Term
	Introduce environmental taxes and tradable permits to regulate and reduce unsustainable practices.	Ministry of Environment, Ministry of Finance	Medium Term
Value Addition and Employment	Provide subsidies and incentives for forest-based industries that add value and generate employment.	Ministry of Industry, Ministry of Finance, Ministry of Forestry	Medium Term
	Encourage local timber processing through financial and technical support.	Ministry of Industry, Ministry of Trade, Ministry of Finance	Medium to Long Term

Below are the main policy recommendations.

Policy Area	Action	Responsible Entities	Time Frame
Forest Governance and Law Enforcement	Enhance transparency in forest management and ensure strict enforcement of forest laws.	Ministry of Forestry, Anti-Corruption Agencies	Short to Medium Term
	Revise forest legislation to align with international commitments and best practices.	Ministry of Forestry, Ministry of Environment, Ministry of Justice	Short to Medium Term
International and Private Financing	Develop mechanisms to attract climate finance from international donors and private investors.	Ministry of Finance, Ministry of Environment International Cooperation Agencies	Medium Term
	Issue high integrity carbon credits to facilitate resource transfers to local communities.	Ministry of Environment, Ministry of Finance	Medium Term
Reforestation and Sustainable Land Management	Strengthen protected areas and promote sustainable forest management practices.	Ministry of Environment, Ministry of Forestry	Medium to Long Term
Mitigation of Deforestation	Address drivers of deforestation, such as small-scale agriculture and illegal logging, through targeted interventions.	Ministry of Forestry, Ministry of Agriculture	Short to Medium Term
	Implement the "bonus-malus" system to fund sustainable practices by taxing non-sustainable production.	Ministry of Finance, Ministry of Environment Ministry of Forestry	Medium Term
Fiscal Policy for Forest Conservation	Integrate fiscal tools with performance bonds and certification schemes to ensure sustainable forest management.	Ministry of Finance, Ministry of Forestry	Medium to Long Term
	Tax discounts or waivers for sustainably certified products	Ministry of Finance, Ministry of Forestry	Medium to Long Term
	Apply recurrent annual charges and auction forest concessions based on sustainability criteria.	Ministry of Finance, Ministry of Forestry	Medium Term
Regional and International Cooperation	Collaborate with regional initiatives like the Central African Forest Initiative (CAFI) and adhere to commitments made at COP26.	Ministry of Environment, International Cooperation Agencies	Short to Medium Term
	Ensure compliance with international regulations, such as the EU Regulation on Deforestation-Free Products.	Ministry of Trade, Ministry of Environment	Short to Medium Term
Human Capital and Social Protection	Increase public spending on education, health, and social protection to support communities dependent on forests.	Ministry of Finance, Ministries in charge of Education, Ministry of Health	Medium to Long Term
	Develop programs to improve the skills and livelihoods of forest-dependent populations.	Ministry of Social Affairs, Ministry of Labor	Medium to Long Term

Chapter 1

The State of the Economy

1.1

Recent Economic Developments

1.1.1 Global and regional economic conditions and outlook: Steady world GDP growth and declining inflation

World economic activity slowed in 2023, rising by only 2.6 percent - against 3.0 in 2022. This overall deceleration, depicted in Figure 1, was not uniform across the world. In advanced economies, growth slowed to 1.5 percent, down from 2.5 percent in 2022. This decline was largely attributed to elevated borrowing costs, spurred by tighter monetary policies, and a reduction in fiscal support. However, the United States stood as an exception, where fiscal stimulus measures led to a higher real GDP growth rate in 2023. Conversely, emerging and developing countries experienced a slight acceleration in growth, from 3.7 percent to 4.0 percent. This was primarily due to subdued productivity growth, particularly in China, where a downturn in the real estate sector dampened economic performance.

Figure 1: Real GDP Growth in the World
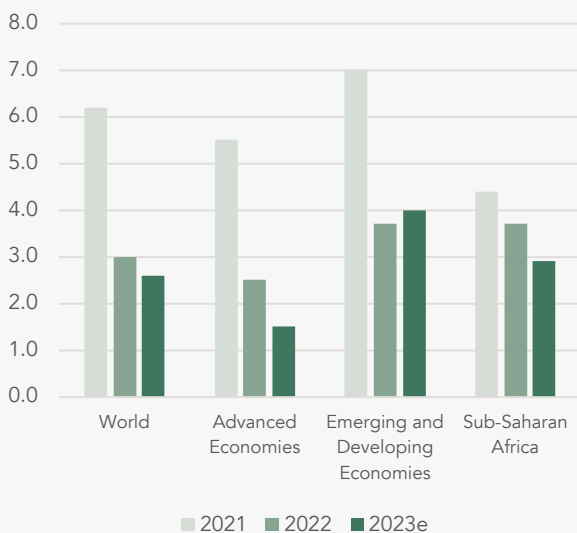
Source: World Bank, Global Economic Prospects January 2024

Figure 2: Commodity Price Index
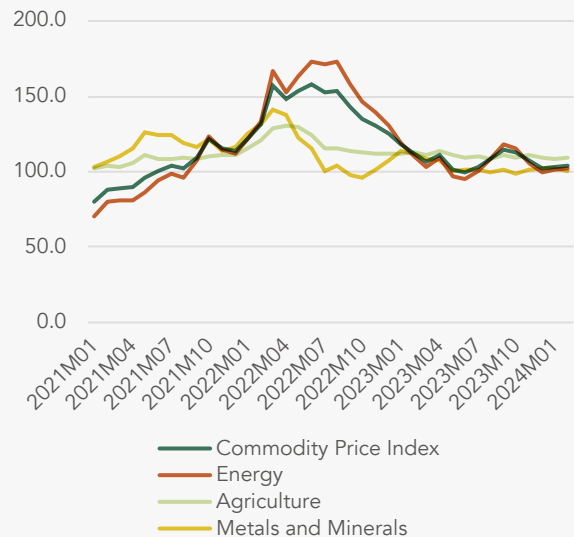
Source: World Bank Commodity Price Data
Notes: Indices are based on prices in nominal US dollars, 2010=100

In 2023, commodity prices declined, in line with the contraction of world GDP, despite the escalation of geopolitical conflicts at the end of the year. The commodity price index decreased by 24.2 percent on average in 2023 compared to 2022 (Figure 2), primarily driven by declining fuel and food prices. Oil and gas prices declined significantly during the first half of 2023, but some of the decline was reversed during the second half of 2023 due to geopolitical tensions in the Middle East and OPEC production cuts. An increased supply of major crops contributed to reduced food prices lower global inflation. However, cocoa prices showed a sustained upward trend (See Box 3 below) due to supply constraints in major producing countries caused mainly by adverse weather conditions.

Throughout 2023, disinflation persisted globally, propelled by tight monetary policies and declining energy and food prices. Global inflation is estimated at 4.0 percent as of end November 2023 against 8.9 percent one year ago. This disinflation trend is more pronounced in advanced economies than in emerging and developing ones (EMDE), which experienced exchange rate depreciation and delayed responses from their Central Banks during the inflation surge at the end of 2021 and beginning of 2022. The global disinflation environment translated into reduced prices of imported goods in developing countries.

Tighter monetary policies worldwide have not only impacted global inflation but also influenced financial conditions in international financial markets. Higher policy rates have exerted a cooling effect on demand through elevated lending rates. Moreover, government bond yields have increased across EMDEs as well as advanced economies. Interest rates were however higher in EMDEs which experienced exchange rate depreciation and capital flight. Nonetheless, EMDEs demonstrated relative resilience, particularly in their banking sectors. However, with limited access to domestic credit markets, developing countries' governments faced challenges from the tight international financial conditions.

Real GDP growth in Sub-Saharan Africa slowed in 2023 to 2.9 percent from 3.7 one year ago, reflecting developments in the region's three largest economies (Nigeria, South Africa, and Angola). South African businesses continued to suffer from severe energy shortages, leading to a drop in GDP growth from 1.9 percent in 2022 to 0.7 percent in 2023. In Nigeria, the Government undertook fiscal consolidation with the partial phasing out of fuel subsidies combined with the unification of multiple exchange rates and the removal of import bans. While positively affecting Nigerian medium term macroeconomic perspective, these measures led to a sharp increase in inflation and heavily constrained economic activity in 2023.

In the CEMAC region, economic activity experienced a decline while inflation remained stable. Real GDP growth amounted at 2.0 percent in 2023, down from 2.9 percent in 2022. This decline is attributed to various factors, including falling hydrocarbon GDP due to oil field depletion and constraints in gas production.

Additionally, manufacturing underperformed despite increased private non-oil investments contributing to GDP growth. Meanwhile, the average regional inflation rate remained stable at 5.6 percent in 2023 against 5.5 percent in 2022. Declining oil and food prices of imported goods along with enforcement of administered prices and restrictive BEAC's monetary policy helped offset inflationary pressures resulting from the partial phasing out of fuel price subsidies in in several CEMAC countries, including Cameroon, Chad, Central Africa Republic and Republic of Congo.

Declining oil prices in 2023 negatively affected CEMAC's Net Foreign Assets (NFA), prompting the Central Bank to intensify its efforts to strictly enforce forex regulations. Following the increase in forex reserves in 2022 and in the first half of 2023, NFAs plummeted due to declining oil prices.[1] To reverse this trend, the regional central bank stepped up the enforcement of the 2018 forex regulations, especially regarding the repatriation of funds reserved for the rehabilitation of oil sites. Additionally, discussions are ongoing between the BEAC, CEMAC's Ministries of Finance and Hydrocarbons, and oil companies on the scope of these funds and the legal framework that will govern the repatriation process and the management of related accounts which will be created in the Central Bank's books. Furthermore, the impending log export ban in 2028 may strain forex reserves, as wood is a major export in three CEMAC countries.

1.1.2 Domestic GDP growth slowed in 2023, while average inflation rose

Cameroon's economic recovery slowed down in 2023, with real GDP expanding by only 3.3 percent, down from 3.6 percent in 2022 (Figure 3). Until the beginning of 2024, all estimates of real GDP growth in 2023 were around 4.0 percent but the latest national accounts of the last two quarters of 2023 showed a marked deceleration in growth. The weaker growth performance was witnessed across the primary, secondary, and tertiary sectors in a context of ongoing fiscal consolidation, higher domestic inflation and multiple sources of fragilities including internal conflicts. While the service sector continued to lead real growth in 2023 as it has been over the last three decades (Figure 5), it decelerated compared to 2022 owing to the decline in transportation sector activities following the increase in fuel pump prices in February 2023.

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1 Average month-on-month decline of 7.6 percent between May and October 2023.

Figure 3: Breakdown of Cameroon Real GDP growth

Oil GDP • Non oil GDP • Real GDP
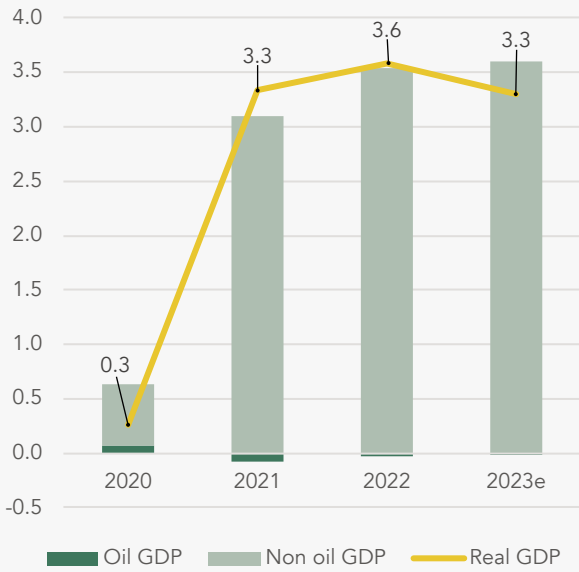
Figure 4: Cameroon Hydrocarbon Production

Oil production • Natural gas production (RHS)

Source: Cameroonian Authorities and World Bank estimates

Credits: Worldbank Cameroon
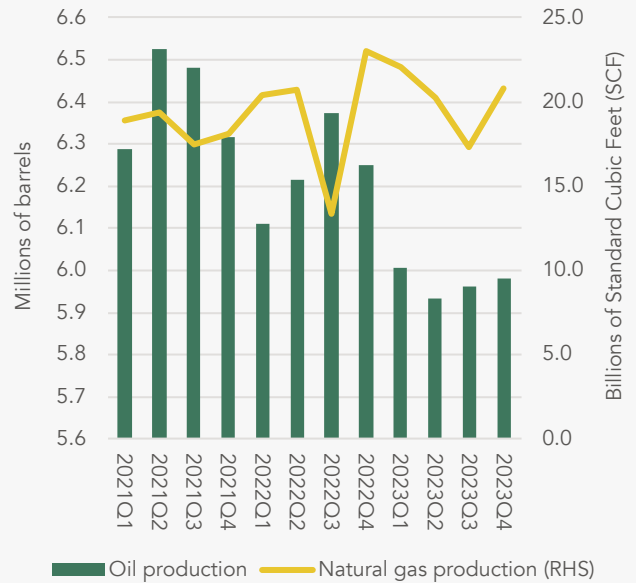
The depletion of oil fields and lower-than-expected performance of the food processing industries contributed to the secondary sector slowdown. Oil and gas production (Figure 4) continued to decline in 2023, and dropped by 4.3 percent, after 2.6 percent and 3.6 percent drops in 2022 and 2021 respectively. Despite improved energy supply following the commissioning of the Memve'ele hydroelectric dam and the extension of the electric power distribution network, food processing industries suffered from higher prices of agricultural inputs and smuggling. The construction sector maintained its growth momentum, primarily due to robust private investment, in spite of shrinking public investment (Figure 6).

Figure 5: Supply-side Drivers of Real GDP Growth
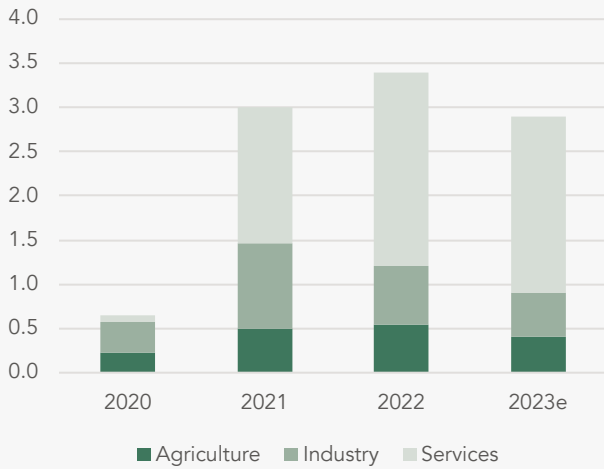
Figure 6: Demand-side Drivers of Real GDP Growth
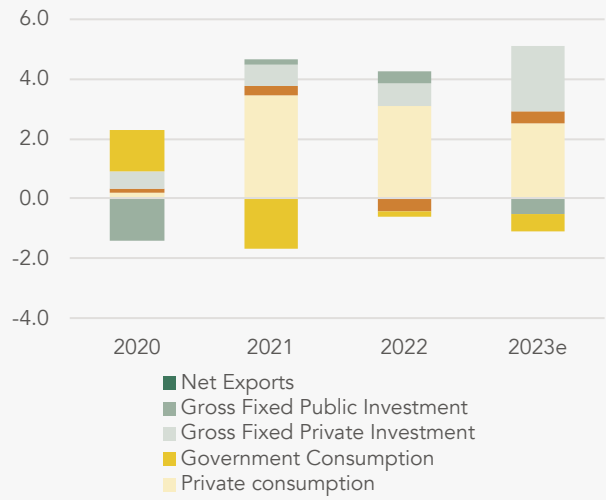
Figure 7: Non-Oil Real and Potential GDP
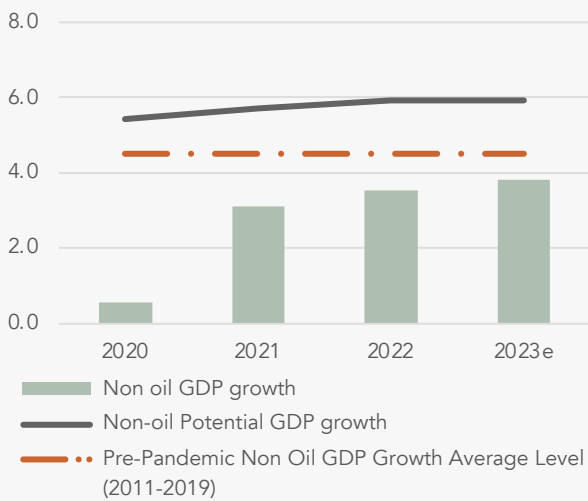
Figure 8: GDP per capita in Cameroon
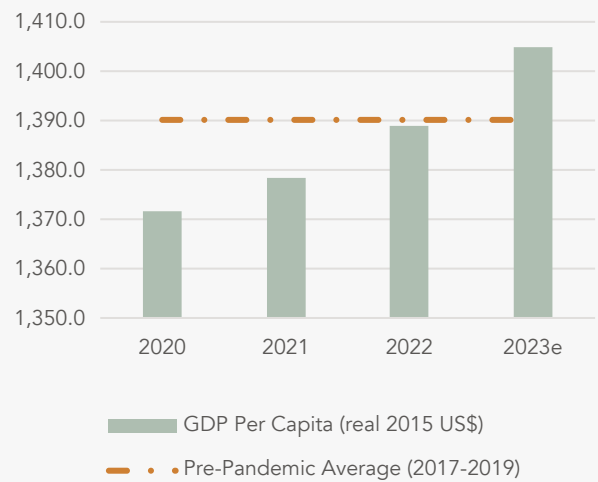
Figure 9: Wood Value Chain Share of GDP
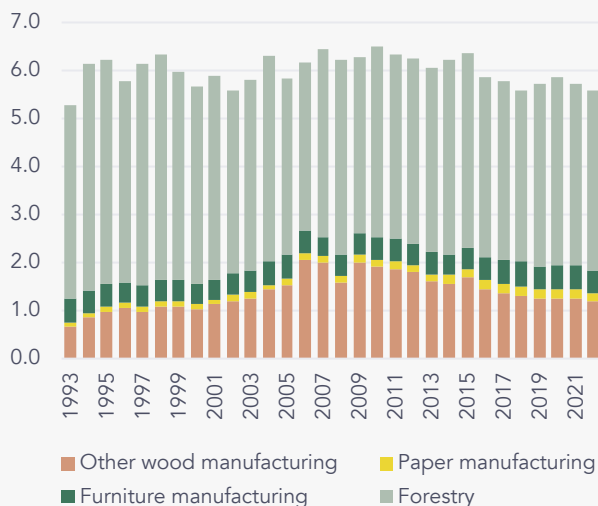
Figure 10: Forestry contribution in primary sector
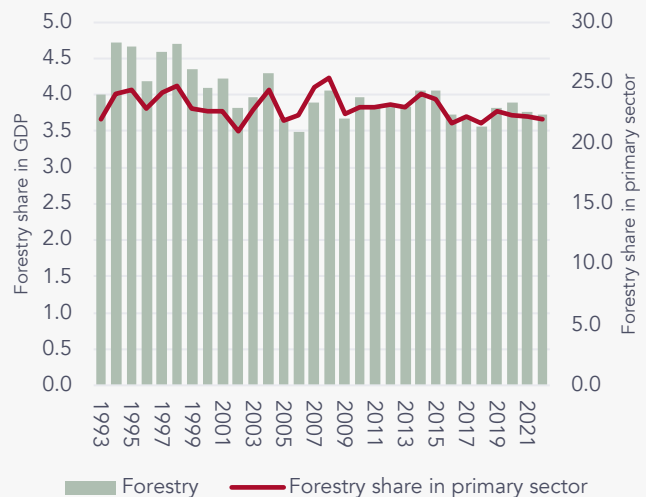
Source: Cameroonian Authorities and World Bank estimates

Economic activity in the primary sector slowed down in 2023. The contribution of this sector to real growth in 2023 stood at 0.1 percentage point, the lowest level in a decade. This performance came from the decline of export-oriented agricultural production, especially for goods like cocoa, rubber, and banana. The introduction of an export tax rate of 10 percent on cocoa bean exports in the 2023 finance law led to increased smuggled to neighboring countries and a decline in recorded exports. On the other hand, the growth in the forestry sector was surprisingly steady in 2023 (stable contribution to real growth at 0.2 percentage point in 2022 and 2023) despite the progressive restrictions on the exports of logs, the temporary suspension of the issuance of logging permits, and the implementation of an export tax on logs introduced in the 2023 budget.

Poverty reduction in Cameroon has stagnated over the past 20 years, with approximately 4 in 10 Cameroonians living below the national poverty line. Household survey data from 2021/22[2] suggests that 23.0 percent of the population lives below the extreme international poverty line of $2.15 PPP per person per day. Despite efforts to address poverty, the extreme poverty rate has remained virtually unchanged since 2001, experiencing only a marginal decrease of 0.9 percentage points between 2014 and 2021. Moreover, the number of people living below the national poverty line has increased by about two-thirds between 2001 and 2021. Although there was a slight improvement in reducing inequality, with the Gini coefficient decreasing from 44.0 in 2014 to 42.9 in 2021, it still exceeds its earlier level of 40.4 in 2001, indicating substantial disparities in living standards between regions and urban and rural areas.

The employment landscape shows concerning trends, with half of the working-age population, particularly youth, either unemployed or disengaged from the workforce.[3] The labor force participation rate declined significantly from 70.2 percent in 2010 to 57.1 percent in 2021,[4] with the biggest drop observed among young people. At the same time, the unemployment rate rose from 3.8 in 2010 to 5.9 percent. Taken together, this resulted in the employment rate dropping from 66.4 in 2010 to 51.2 percent in 2021. As the employment rate declined, under-employment (mostly in the informal sector) of employed persons declined from 70.6 percent in 2010 to 61.4 percent in 2021.[5] This may be partly a result

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2 The fifth Enquête Camerounaise Auprès des Ménages (Cameroon Household Survey, ECAM-5), collected between October 2021 and September 2022.
3 Third Survey on Employment and The Informal Sector in Cameroon (EESI3), Phase 1: Employment Survey, Main Report, National Institute of Statistics, Cameroon, August 2022
4 There has been three employment survey in Cameroon: in 2005, 2010 and 2021.
5 Underemployment is computed as a combination of two variables: the average hours worked in a week compared to a baseline (this variable remained stable between 2010 and 2021), and the average hourly wage compared to the minimum hourly wage (this variable increased significantly over the period). The Cameroon Economic Memorandum currently in preparation will take a deep look on the developments in the labor market.

of structural transformation and migration towards urban areas, as the informal sector, comprising 86.6 percent of total employment, is experiencing a shift from agriculture to urban informal activities. However, cities are not able to offer jobs to these new city dwellers: the employment rate has fallen in urban areas from 54.7 percent in 2010 to 46.1 percent in 2021. As a consequence, urban poverty has increased in recent years.

Average inflation increased to 7.4 percent in 2023 from 6.3 percent in 2022, despite the regional central bank's tight monetary policy and easing global inflation. Despite downside effects exerted by BEAC's restrictive monetary policy stance and shrinking world prices, domestic supply factors kept it elevated. High food prices and transportation costs, affected by higher fuel prices following the raising of fuel price caps in March 2023 and February 2024 by the Cameroonian government, have maintained headline inflation at high levels (Figure 11). YoY headline inflation started to decline in December 2022, but the increase of fuel prices in February 2023 imposed an upward trend and YoY headline inflation returned to its January 2023 level only in September 2023 (Figure 13). However, the inflation's secular trend seems to be downward. On a geographic base, inflation level in 2023 seems to have affected regional cities more evenly than in 2022 (Figure 12). The Cameroonian Government took some measures to mitigate the adverse impacts of inflation on households, including an increase in public servant salaries and the minimum wage in 2023 and 2024. However, these measures will not affect the incomes of workers in the informal sector, where most of the poor earn their livelihoods.

Credits: Worldbank Cameroon

Figure 11: Inflation dynamics (in percent) in Cameroon

Legend:
- Headline Inflation, Year on Year Change
- Food Inflation
- Locally Produced Goods Inflation
- Imported Goods Inflation
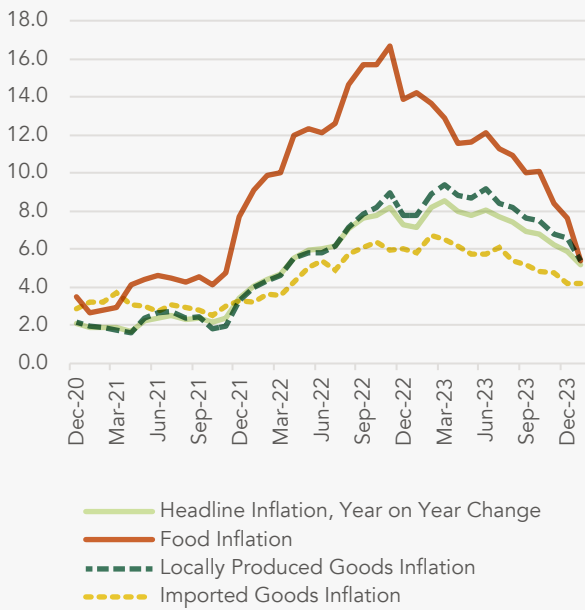
Source: Cameroon National Institute of Statistics
Notes: Base year=2022

Figure 12: Regional Dispersion of YoY Inflation
(Standard deviation between regional capital cities inflation)
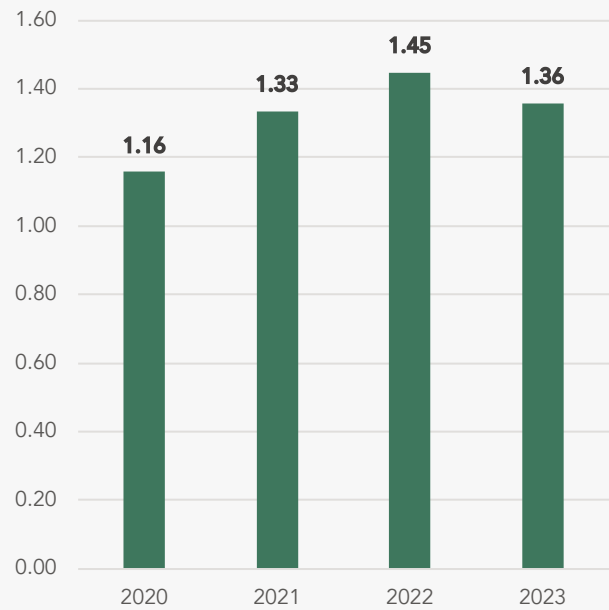
Source: Cameroon National Institute of Statistics and World Bank estimates

Figure 13: Average and Year-on-Year Headline Inflation

Legend:
- Headline Inflation, Year on Year Change
- Headline Inflation, Year Average
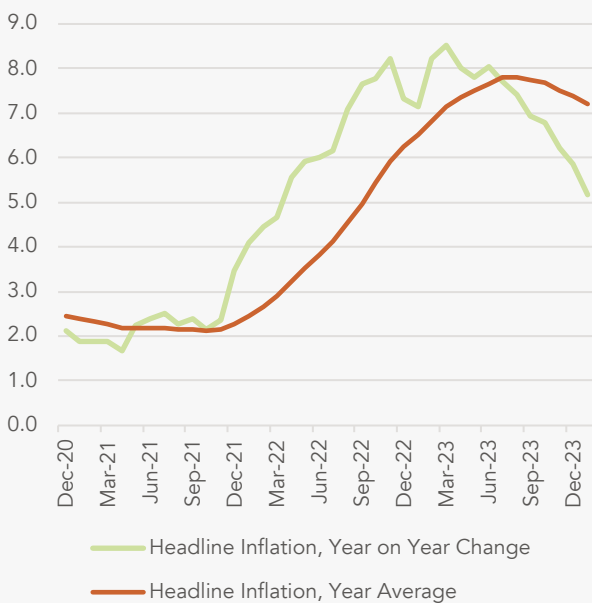
Source: Cameroon National Institute of Statistics

Figure 14: Average inflation in Cameroon Regional Capital Cities

Legend:
- Dec-20
- Dec-21
- Dec-22
- Dec-23
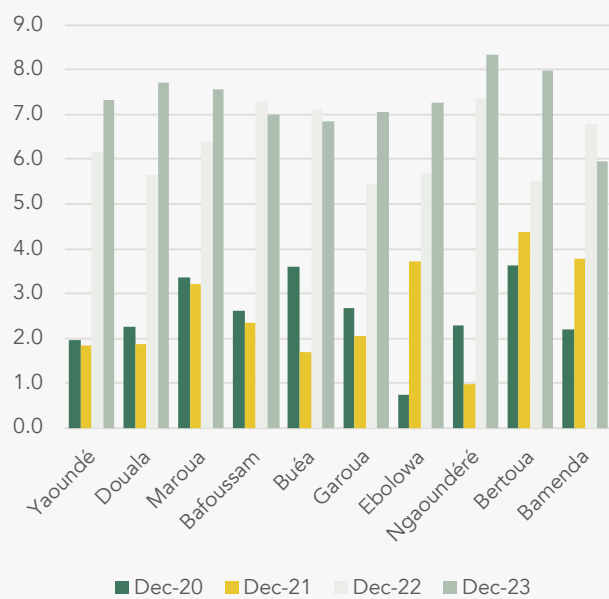
Source: Cameroon National Institute of Statistics

With the current growth dynamic, Cameroon's ambition to become an upper middle-income country by 2035 appears currently off track (Figure 15). The country's growth performance has been below expectations, with an average annual growth rate of 3.7 percent between 2020-2022, significantly lower than the 6.6 percent projected by the NDS30 to achieve the UMIC goal. To bridge this gap, Cameroon would need to attain an average annual growth rate of approximately 10 percent during 2024-2030, which would necessitate major rethink of the country's growth model, placing stronger emphasis on private sector participation and redefining the role of the state in the economy, as outlined in the 2022 SCD Update. With no reforms implemented to unlock the huge growth potential in Cameroon, years needed/real GDP growth required for Cameroon to reach the UMIC status are rising year after year.

Figure 15: Real GDP growth is moving away from NDS30's targets.
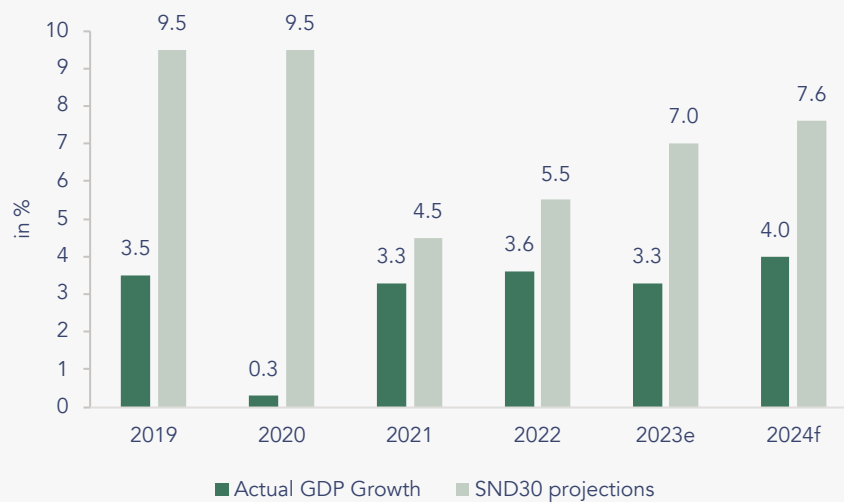
Source: Cameroonian Authorities and World Bank Staff Estimates. Notes: NDS30 is the National Development Strategy (2020-2030). For 2019 and 2020, the development plan was the Growth and Job Strategy Document.

1.1.3 External Sector: Current account deficit widened in 2023

The current account deficit increased to 4.0 percent of GDP in 2023 from 3.5 percent in 2022 (Figure 17), **driven by a widening trade deficit** (Figure 16). After the hydrocarbon price boom which boosted export revenues in 2022, prices declined in 2023 which, combined with the decline in hydrocarbon production, led to a widened trade deficit of 3.8 percent of GDP against 2.6 percent in 2022. The decline in cash crop exports also contributed to the decline in exports of goods. The services balance showed an improvement, as freight costs dropped. The transfer balance improved substantially, owing to a marked increase in remittances. Foreign financing plummeted in 2023 by 2.2 points of GDP, primarily explained by the 2.1 GDP's points drop in financial account balance while capital account balance remained broadly unchanged. Reduction of government indebtedness and capital flight in a domestic and international context of higher interest rates were the factors behind these dynamics. As a result, the balance of payments recorded a deficit of 1.1 percent of GDP in 2023 that was entirely financed by the reduction in official reserves.

Figure 16: Cameroon's Trade Deficit (in percent of GDP)
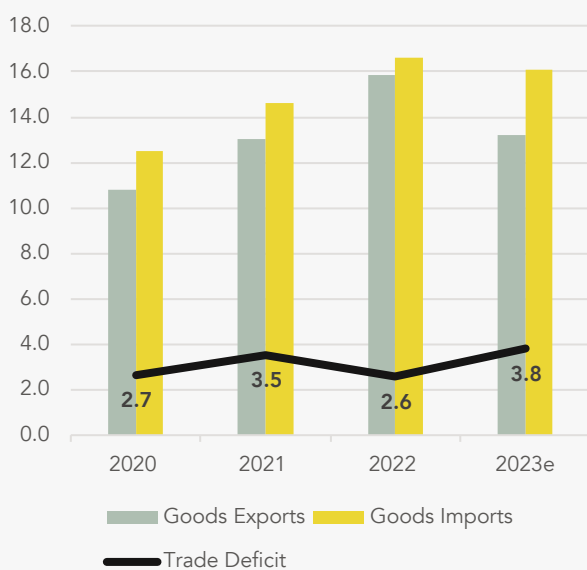
Figure 17: Cameroon Current Account Deficit (in percent of GDP)
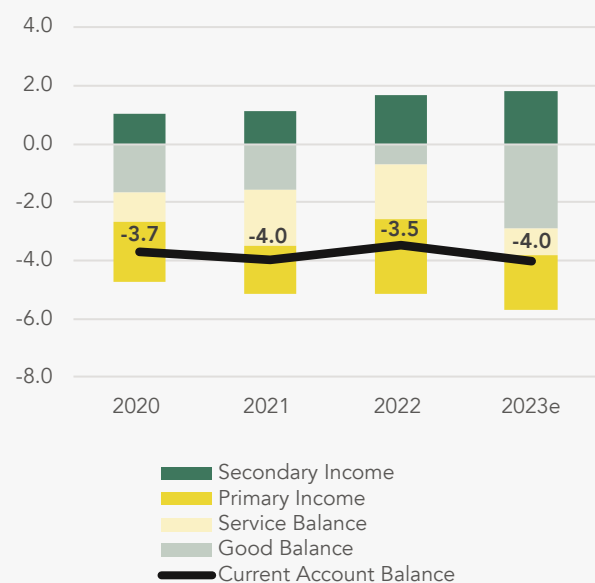
Source: Cameroonian Authorities and World Bank estimates

BOX 1: The recent hikes in farm-gate cocoa prices in Cameroon

Cocoa plays a pivotal role in Cameroon's economy, not only as a key export commodity but also as a significant source of employment and incomes. Cameroon is the world's fourth-largest cocoa producer in 2023, with a production of 280,000 Metric Tons (MT) for the 2022-23 harvest (Figure 18). It remains the primary cash crop for most of the rural population supporting approximately 400,000 jobs. It constitutes 80 percent of agricultural exports' raw material, contributes 1.2 percent to national GDP, and 8.2 percent to the agricultural GDP. Recognizing its importance, the government has set ambitious targets to boost cocoa production, aiming to reach 600,000 MT by 2025 and double that by 2030. Moreover, the sector plays a vital role in climate change mitigation, forestry preservation, and tax revenue mobilization.

Figure 18: Top cocoa producers

Production of cocoa beans by country in %

- Côte d'Ivoire
- Ghana
- Ecuador
- Cameroon
- Nigeria
- Brazil
- Indonesia
- Papua New Guinea
- Rest of the World

Source: ICCO Bulletin No. 4, cocoa year 2022/2023.
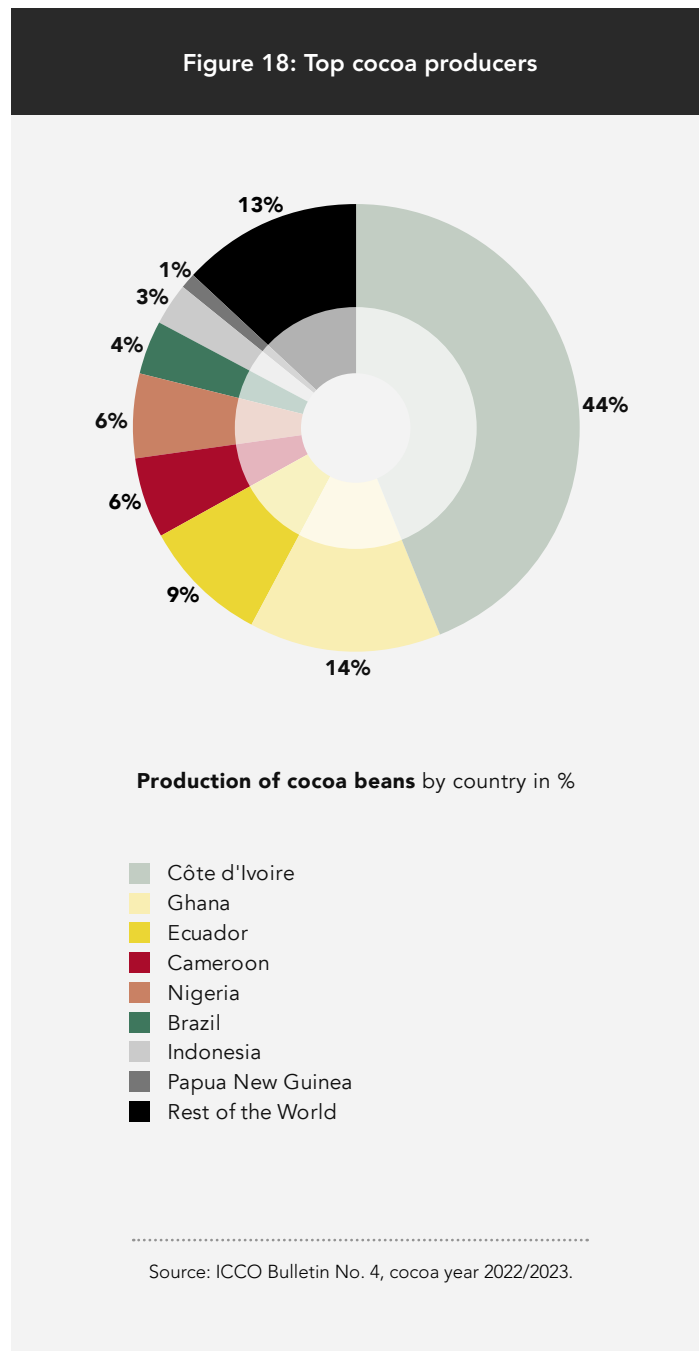
Since late 2022, cocoa bean prices have surged dramatically, increasing by 140 percent from XAF 1544 per kilogram on January 1, 2023, to XAF 3710 by March 1, 2024. This surge is attributed to various factors, especially poor harvests in the main West African producer countries (Ghana, Cote d'Ivoire) due to adverse weather conditions, in an environment of rising demand and a decline in the stocks-to-grindings ratio. The cocoa market has faced significant challenges due to supply shortages observed throughout 2021 and 2022, with an anticipated further shortfall of 374k tons for the 2023/24 period. The easing of COVID-19 restrictions has driven a resurgence in cocoa product demand, particularly in grinding activities. Adverse weather conditions in major cocoa-producing countries such as Cote d'Ivoire and Ghana have further limited production. The stocks-to-grindings ratio has fallen from 42 percent in the 2020/21 crop year to a projected 31.4 percent for 2023/24, driving prices upward. While cocoa bean prices are expected to remain high until at least the end of 2024 or 2025 due to ongoing extreme weather

conditions in Cote d'Ivoire and Ghana, the damaging cacao swollen shoot virus disease, and ageing trees, Due to these structural factors, cocoa prices are widely expected to remain high in the medium term.[6]

Cameroon's liberalized cocoa sector has enabled primary producers to benefit significantly from the recent surge in cocoa prices. The pricing mechanism, based on negotiations between local producers and exporters or processors with international market prices as a ceiling, has led to notably high farm-gate prices. As of March 1, 2024, the average farm-gate price in Cameroon stood at XAF 3500 ($US 5.8), closely aligning with the international market price of XAF 3710 ($US 6.2). This alignment has resulted in increased revenues for Cameroonian farmers. In contrast, cocoa producers in countries like Cote d'Ivoire and Ghana have not reaped the benefits of the price surge due to the farm-gate price setting mechanism by the Cocoa Board. For example, at the beginning of the 2023-24 harvest season, Cote d'Ivoire's guaranteed farm-gate price was XOF 1000 ($US 1.7), highlighting a significant disparity in how global price trends affect local cocoa producers.

The surge in cocoa prices may impact Cameroon's economy through various channels, including its effect on producers, fiscal and external accounts, and overall GDP growth. It could potentially generate an additional XAF 350 billion in export revenues in 2024. Assuming an average cocoa price in 2024 ranging from XAF 3000 to 3500 and an export volume of 235,000 tons as in 2022, the cocoa price surge may imply additional export revenues of XAF 350 to 470 billion. These revenues could offset two-thirds of the trade deficit in 2024 while increasing the earnings of the 400,000 workers in the cocoa sector. Tax revenues from the cocoa sector, collected through export tax, corporate income tax on exporters, and VAT and customs duties on agricultural inputs, may also be affected by cocoa price surges, depending on production dynamics. However, indirect fiscal gains may arise from supplemental revenues that could be directed towards consumption and investment.

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6 See https://www.icco.org/wp-content/uploads/Cocoa-Market-Report-March-2024.pdf and
https://www.jpmorgan.com/insights/global-research/commodities/cocoa-prices
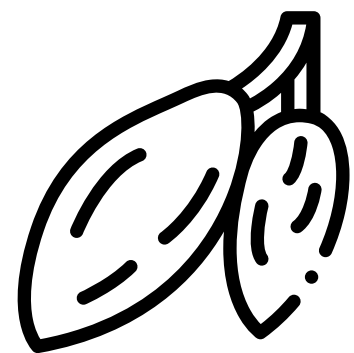
1.1.4 Fiscal consolidation is continuing, allowing public debt as a percentage of GDP to decline

Fiscal consolidation continued in 2023, with a fiscal deficit of 0.8 percent of GDP, down from 1.1 percent in 2022, owing to enhanced tax revenue collection and reduced expenditures, including a significant cut in fuel subsidies and a 12.6 percent reduction in capital spending. The reduction in fuel subsidies through two successive retail price adjustments in February 2023 (21 percent increase) and February 2024 (15 percent increase) significantly lowered the fuel subsidy bill. However, unpaid fuel subsidy expenses from 2022, totaling CFAF 330 billion (1.1 percent of GDP), were carried over into the 2023 budget, resulting in a total fuel subsidy spending 1.5 percent of GDP, down from 3 percent in 2022.

Figure 19: Overall Fiscal Deficit and Public Debt
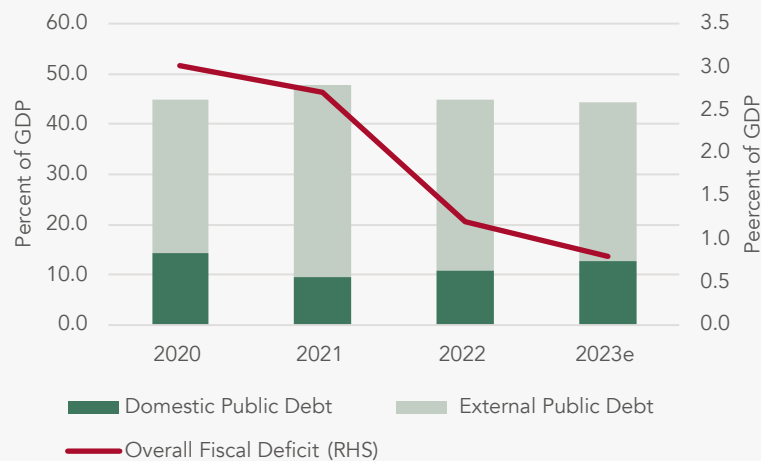
Source: Cameroonian Authorities and World Bank estimates

The stronger performance of domestic revenue mobilization (+ 0.8 percentage point) due to non-oil revenue performance was moderated by a decline in oil revenue. Total domestic revenue increased from 15.9 percent of GDP in 2022 to 16.5 in 2023, despite the drop in oil revenues from 3.5 percent of GDP in 2022 to

2.9 percent of GDP in 2023 as a result of the combined decline in oil production and oil prices. However, non-oil tax revenue increased from 10.6 percent of GDP in 2022 to 11.4 percent of GDP in 2023, reflecting the impact of revenue measures introduced in the 2023 budget, including the removal of some tax exemptions, the adjustments in excise taxes aligned with import-substitution policies, the increase in the stamp duties rate, and the implementation of the tax on mobile money transactions. Additionally, higher stamp and registration fees, along with tax administration measures to combat customs and commercial fraud, also contributed to this improvement. Non-tax revenues also saw an increase from 0.9 percent of GDP in 2022 to 1.1 percent of GDP in 2023, benefitting from efforts to secure and broaden the revenue base through the digitalization of the Treasury payment system.

Figure 20: Breakdown of Government Revenues

Legend:
- Forestry fiscal revenues
- Grants
- Non-tax revenues
- Tax revenues
- Oil revenues
- Total revenues (RHS)
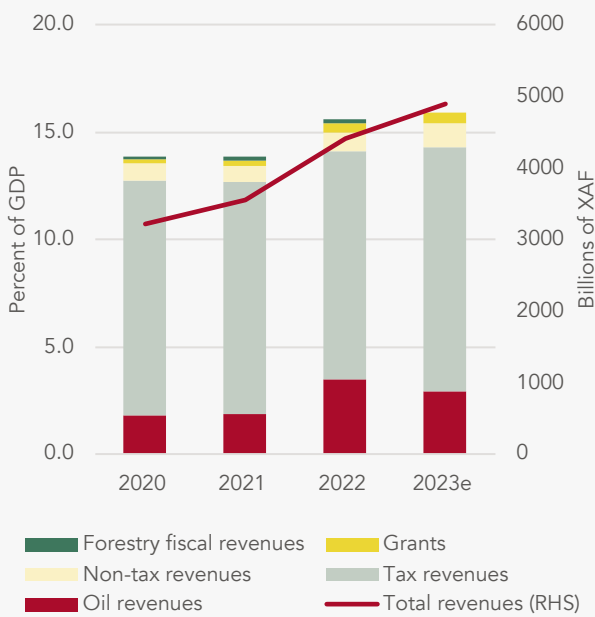
Figure 21: Breakdown of Government Expenditures

Legend:
- Interest payments
- Subsidies and transfers
- Goods and services
- Wages and salaries
- Capital expenditures
- Total Expenditures (RHS)
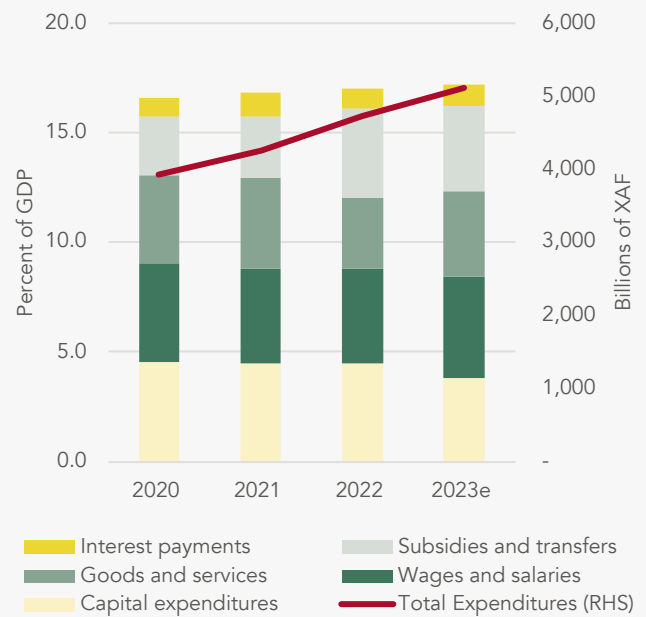
Source: Cameroonian Authorities and World Bank estimates

Total government spending slightly increased in 2023 compared to 2022, on account of increased spending on wages and goods and services but moderated by reduced spending on fuel subsidies and public investment. Fuel subsidies were reduced by half to 1.6 percent of GDP in 2023. To mitigate the impact of higher pump prices on households, the government increased public sector wages by 5.2 percent. Combined with the increase in the number of civil servants (+ 16,281 between June 2022 and June 2023), wages and salaries, jumped to 4.7 percent of GDP in 2023, up from 4.4 in 2022. Goods and services expenditures experienced a notable expansion from 3.3 percent of GDP in 2022 to 4.0 in 2023, mainly explained by higher security spending (+ 23.8 percent in 2023 compared to 2022, partly paid directly by the National Hydrocarbons Corporation[7]) in a context of increased tensions in the conflict-affected regions.[8] Overall, current expenditures increased slightly by 1 percentage point of GDP in 2023. To accommodate the drop of oil revenues and the increase of current expenditures, the government restrained capital spending which dropped from 4.7 percent of GDP in 2022 to 3.9 percentage point of GDP in 2023, the lowest level since 2010. This could have adverse impacts on long-term growth.

The financing of the budget deficit shifted from foreign sources to the accumulation of arrears and the domestic bond market. XAF 584.6 billion of spending committed in 2023 representing 2.0 percent of GDP, as well as arrears from previous years, will be paid in 2024, transferring substantial pressure to the execution of 2024 budget and effectively perpetuating the accumulation of payment arrears across fiscal years. Furthermore, in a context of worldwide tighter financial conditions due to restrictive monetary policies, external financing of the budget continued to decline and dropped by 43.5 percent in 2023 after a 17 percent drop in 2022 (Figure 22). The non-concessional financing declined the most, accounting for half of external financing in 2023, down from a 85.6 percent share in 2022. Facing the same tighter financial conditions in the regional bond market due to the higher BEAC policy rate, with a heavy hike in long-term maturity securities' yield rates, the breakdown of government bonds showed a shift toward shorter maturities that carry lower interest rates: bonds with maturities of less than one year represented 29.9 percent of the bond stock as of December 2023, against 18.2 percent a year before (See Box 2). Although this shift allows to cushion the effect of higher interest rates, it will constrain and delay the domestic financing of the public investment program in the context of the National Development Strategy (SND30).

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7 NHC (National Hydrocarbons Corporation) paid some national security spending with a share of State's oil revenues, and these are recorded in government budget *a posteriori.*
8 https://reliefweb.int/report/cameroon/acled-regional-overview-africa-july-2023

Figure 22: Cameroon Public Deficit financing (in percent of GDP)

■ Gross External Financing   ■ Net Domestic Financing   ■ New Arrears
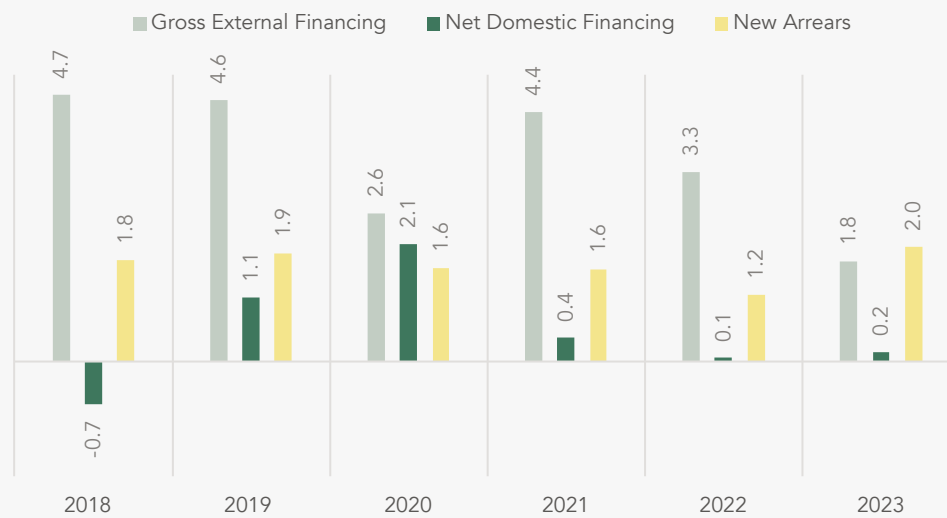
Source: Cameroonian Authorities and World Bank estimates

Public debt decreased from 44.9 percent of GDP in 2022 to 44.3 percent in 2023, reflecting ongoing fiscal consolidation efforts; interest charges however increased. The reduction in the stock of public debt was driven by the shift in the primary balance to a small surplus in 2023. External debt slightly declined in 2023 from 33.9 percent of GDP to 31.5 percent, while domestic debt slightly grew to 12.8 percent of GDP from 11.0 percent as of end 2022. However, debt service remained the largest budget component, accounting for 28 percent of total expenditures and 5.9 percent of GDP in 2023, surpassing total government capital spending. Tighter international and domestic financial conditions led to a significant rise in interest charges on both external and domestic debt. Interest charges on external debt increased by 15 percent between 2022 and 2023, while external debt repayment increased by 20 percent. Meanwhile, interest charges on domestic debt surged by over 200 percent in 2023 (See Box 2). The December 2023 WB-IMF Debt Sustainability Analysis assesses Cameroon's debt as sustainable, even though with a high risk of distress. The country's debt carrying capacity remains weak. Even though Cameroon's external debt stock indicators are below the threshold, external debt service indicators remain above the threshold. Moreover, contingent liabilities remained high at 17.3 percent of GDP as of September 2023, and the

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9 Central Government and State-Owned Enterprises debt

share of float and arrears on domestic public debt stood at 7.5 percent. Weaknesses persist also in debt reporting (Table 1), particularly regarding domestic arrears. Arrears accumulation results from the extensive use of treasury advances without budget allocation and exceptional budget procedures such as imprest accounts, provisional commitments, and cash advances. Moreover, the budget system lacks robust monitoring and evaluation mechanisms to track tracking actual spending against the budget plan which exacerbates the problem.

Figure 23. Declining public debt but rising debt service charges

a. Cameroon Central Government Debt (percent of GDP)
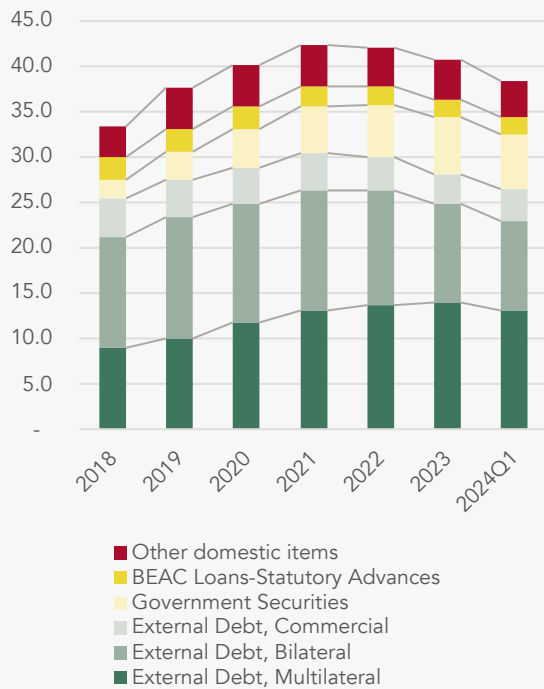
b. Cameroon Public Debt service (percent of GDP)
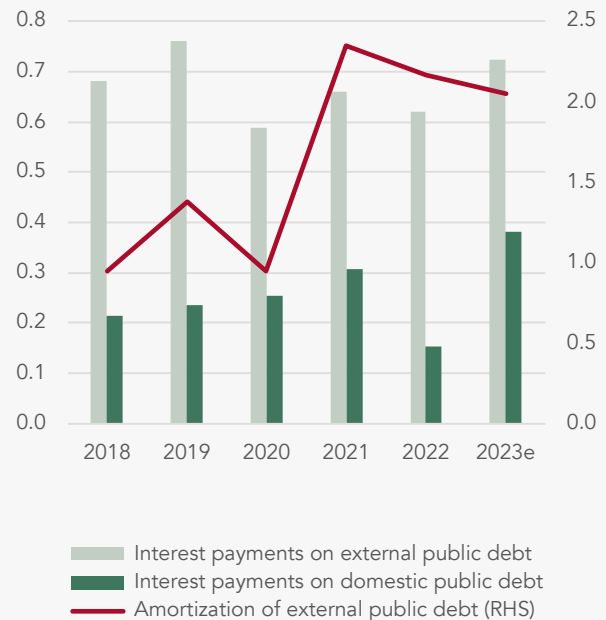
Source: Ministry of Finance - Cameroon

Table 1: Debt Reporting Heat Map				
	2023	**2022**	**2021**	**2020**
Data Accessibility	Partial	Full	Full	Insufficient
Instrument Coverage	Full	Full	Full	Insufficient
Sectorial Coverage	Partial	Partial	Partial	Insufficient
Information on Recently Contracted Loans	Partial	Partial	Partial	Partial
Periodicity	Full	Full	Full	Insufficient
Time Lag	Full	Full	Full	Insufficient
Debt Management Strategy	Full	Full	Full	Full
Annual Borrowing Plan	Insufficient	Insufficient	Full	Limited
Additional Statistics / Memo Items	Limited	Limited	Limited	Insufficient

Legend: 1. Insufficient   2. Limited   3. Partial   4. Full

Source: World Bank, https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report

Box 2: On the rising interest charges on Cameroon's domestic public debt

Interest charges on domestic debt rose by more than 200 percent in 2023 due to tighter financing conditions and higher domestic borrowing in the form of Treasury bills and bonds. Although interest rates on Cameroonian securities have been historically the lowest in the region, Cameroon is facing increasing difficulties borrowing in the domestic market, as the ratio between desired amounts to be raised and the amounts effectively raised is declining.

Various factors, including a deterioration in Cameroon's credit ratings, inflation spikes, tighter monetary policies, increased financing needs, and narrowing interest rate differentials between the European Central Bank (ECB) and BEAC have led to rising interest rates on Cameroon's public securities. The surge in inflation, which soared from 2.5 percent in 2021 to 7.4 percent in 2023, has prompted investors to demand higher yields on public securities to stabilize their real wealth. The regional Central Bank (BEAC) reacted by tightening its monetary policy from October 2021 onwards, aimed at curbing emerging inflationary pressures (Figure 28). In addition, the weaknesses in Cameroon's public finances (e.g., arrears, heavy liquidity pressures, poor budget execution), which led to delays in debt service payments, have led credit rating agencies to downgrade Cameroon's debt. Consequently, Cameroon's T-bill yields, which had historically been below the BEAC key rate, have converged with those of other CEMAC countries (Figure 27).

Furthermore, the accrued financing needs of CEMAC Treasuries have strained the regional securities market, pushing it to its full capacity in terms of available financing. The stock of CEMAC public securities has surged to 9.2 percent of CEMAC GDP at the end of January 2024 from 1.8 percent of GDP in 2017. The shallow secondary market and the concentration of market actors around the banking sector exacerbated this issue.

The narrowing of the interest rate differential between the ECB and BEAC has further exacerbated financing shortages in the regional public securities market. This differential has been significantly reduced since the end of 2021 (Figure 28), owing to multiple successive ECB rate hikes. As yields are converging between the euro area and CEMAC, there is a more pronounced capital flight as the trade-off between interest income and investors' preference for a more secure environment has become smaller. This capital flight has led to a decline in the Cameroon's financial account balance of 2.2 points of GDP in 2023, substantially explaining the overall BoP balance decline of 2.9 points of GDP between 2022 and 2023 (Figure 29).

Figure 24: Cameroon's Treasury issued more short-maturity bonds since end of 2022 (in percent of total securities)
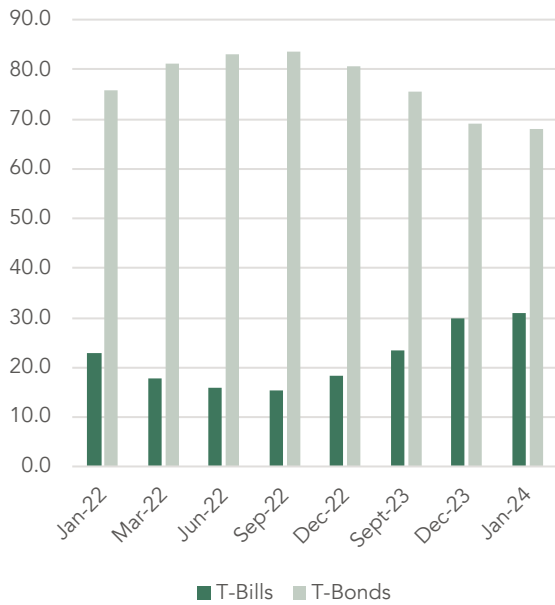
Source: Monthly Bulletins of the regional public securities market, BEAC
Notes: T-Bills have a maturity lesser than one year, as opposed to T-Bonds.

Figure 25: Increase of the average interest rate on CMR 26 Weeks-T-bills (in percent) since mid-2021

Source: Monthly Bulletins of the regional public securities market, BEAC

Figure 26: Increase of the average weighted interest rate on CMR T-Bonds (in percent)
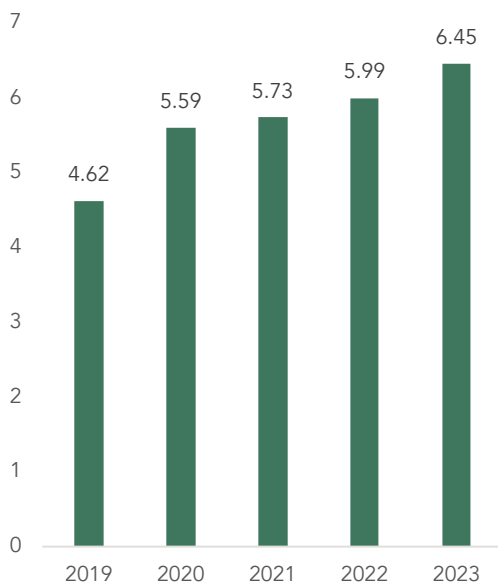
Figure 27: T-bills interest rates of CEMAC's countries are converging
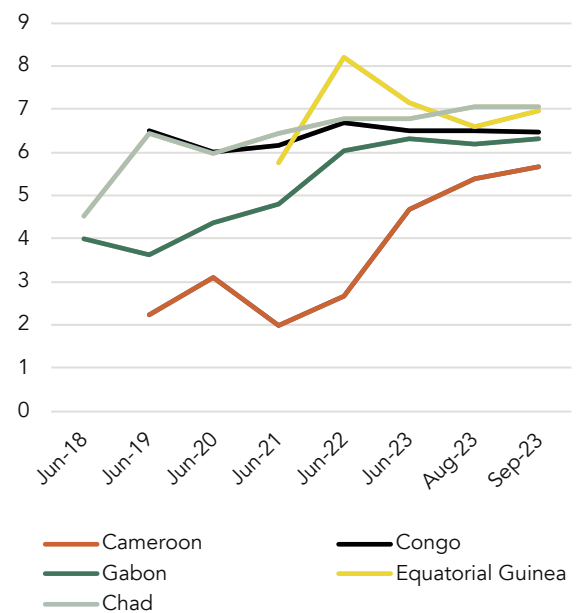
Source: BEAC

Figure 28: Narrowing interest rate differential between euro area and CEMAC	Figure 29: More capital left the country in 2023
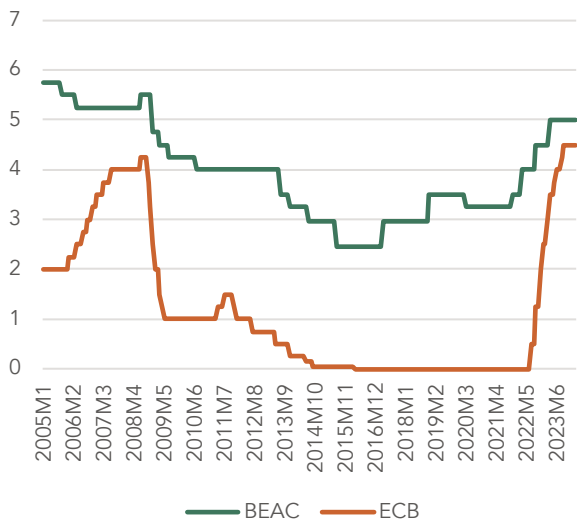
Source: BEAC, ECB
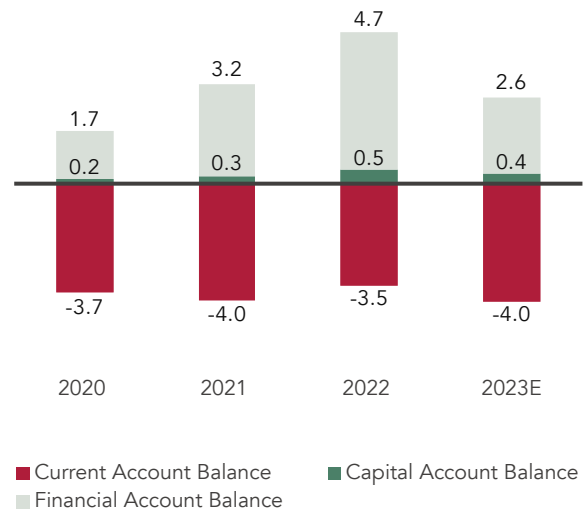
Source: Cameroonian Authorities and World Bank estimates

1.1.5 Monetary policy and Banking Sector: Tighter monetary conditions and Cameroon's Banking System remains resilient despite some fragilities

The regional central bank (BEAC) continued to tighten its monetary policy in response to rising inflation. In a global and regional context full of uncertainties, BEAC's policies remained geared towards price and external stability, guided by the community targets of an inflation rate of around 3 percent in the medium term and reserves coverage of money higher than 20 percent. BEAC increased the policy rates in March 2023 to contain inflationary pressures and to strengthen the region's external position. It also continued to mop up banking system excess liquidity with weekly liquidity purchasing operations at increasing amounts. As a result, the banking system's liquidity (without the central bank interventions) dropped by 28.5 percent in January 2024 compared to the level a year ago. As a result of these actions, the reserves coverage of money reached 71.1 percent at the end of 2023 (after 73.1 percent one year ago), far higher than the statutory floor of 20 percent.

Broad money growth continued to decelerate to 6.2 percent in 2023 from 16.9 percent and 11.1 percent in 2021 and 2022, respectively, driven by BEAC's tighter monetary policy stance. In addition to three policy rate hikes between November 2021 and December 2023, BEAC started to mop up excess liquidity in early 2023, leading to a significant slowdown in the expansion of the monetary base that grew by only 2.2 percent in 2023 against 21.4 percent in 2022. Domestic credit to the private sector grew faster (growth of 13 percent in 2023) than credit to the public sector, driven by strong demand for credit. As a result, credit to private sector reached 16 percent of GDP, which remains very low compared to the averages for lower-middle income economies (45.5 percent) or SSA countries (38.8 percent).

Figure 30: Money Aggregates Growth in Cameroon (in percent)
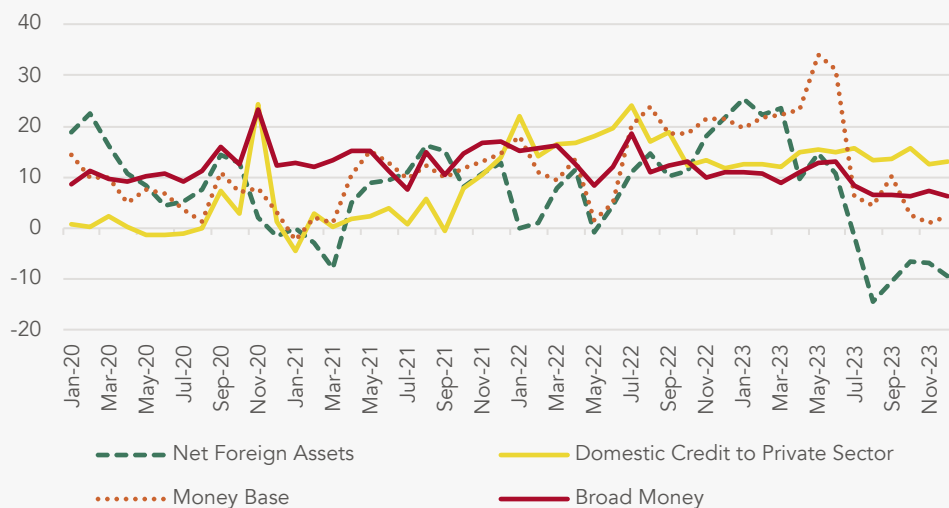
Source: Bank of Central African States (BEAC)

Although Cameroon's banking system remained robust, vulnerabilities persisted and are related to solvency challenges and high sovereign exposure. Liquidity ratios remained steady at 29.8 percent, and the banking sector's capital adequacy ratio increased from 15.0 percent at the end of 2022 to 16.3 percent by the second quarter of 2023, surpassing the regulatory requirement of 8 percent set by the regional banking commission (COBAC). However, solvency risks are persistent: non-performing loans (NPLs) reached 15.4 percent of total gross loans by the second quarter of 2023, up from 13.0 percent at the end of 2022. Risks to financial stability also arise from the banking system's exposure to sovereign bonds, which has increased in recent years to reach about 35.3 percent of total assets in 2022.

Table 2: Selected Economic Indicators							
	2021	**2022**	**2023e**	**2024p**	**2025p**	**2026p**	**2027p**
Real economy: annual percent change, unless indicated otherwise							
Real GDP	3.3	3.6	3.3	4.0	4.2	4.6	5.1
CPI (average year on year change)	2.3	6.3	7.4	7.0	5.7	4.9	3.0
Contributions to real GDP growth (percentage points)							
Private consumption	3.2	2.9	1.7	2.4	2.5	2.6	2.8
Government consumption	0.3	-0.4	0.0	0.5	0.6	0.0	0.7
Gross fixed private investment	1.0	2.8	3.7	2.5	2.4	2.9	2.9
Gross fixed public investment	0.6	-1.2	-0.5	0.1	0.1	0.7	0.2
Net exports	-1.7	-0.2	-3.5	-1.4	-1.4	-1.6	-1.5
Fiscal accounts (percent of GDP)							
Overall balance	-2.8	-1.1	-0.8	-0.8	-1.0	-1.1	-1.1
Primary balance	-1.7	-0.3	0.2	0.1	-0.1	-0.3	-0.3
Total revenues and grants	**14.3**	**15.9**	**16.5**	**16.8**	**17.1**	**17.2**	**17.2**
Oil revenues	1.9	3.5	2.9	2.5	2.3	2.2	2.1
Tax revenues	10.8	10.6	11.4	11.7	12.1	12.1	12.2
Non-tax revenues	0.7	0.9	1.1	1.2	1.3	1.4	1.5
Grants	0.3	0.4	0.5	0.3	0.3	0.3	0.3
Other Taxes	0.6	0.5	0.6	1.1	1.1	1.2	1.1
Expenditures	**17.0**	**17.1**	**17.3**	**17.6**	**18.1**	**18.3**	**18.3**
Current expenditures	*12.2*	*12.6*	*13.4*	*13.4*	*13.6*	*13.1*	*12.9*
Wages and salaries	*4.3*	*4.3*	*4.6*	*4.8*	*4.9*	*4.7*	*4.7*
Goods and services	*4.1*	*3.2*	*3.9*	*3.8*	*3.8*	*3.8*	*3.8*
Subsidies and transfers	*2.8*	*4.1*	*3.9*	*3.9*	*4.0*	*3.7*	*3.6*
Interest payments	*1.1*	*0.9*	*1.0*	*0.9*	*0.9*	*0.8*	*0.8*
Capital expenditures	4.5	4.5	3.8	4.1	4.4	5.1	5.2
General Government Debt	47.8	44.9	44.3	42.8	42.0	38.9	36.3
External debt	38.1	33.9	31.5	31.0	30.4	28.2	26.3
Monetary aggregates (annual percent change)							
Broad money (M2)	16.9	11.1	6.2	8.3	6.4	6.5	6.7
Domestic credit to the private sector	13.9	11.7	13.0	9.5	7.7	7.4	7.2
Balance of Payments (percent of GDP)							
Current Account Balance	-4.0	-3.5	-4.0	-4.5	-4.8	-4.3	-4.4
Imports of goods and services	20.6	20.9	21.5	21.6	21.8	22.7	23.7
Exports of goods and services	14.3	13.4	13.1	14.2	15.3	15.9	16.6
Other memo items							
Nominal GDP (USD millions)	43,755	43,303	48,199	52,001	55,792	60,236	64,324

Note: **e**: estimated; **p**: projected
Sources: National authorities, World Bank, and IMF, May 2024

1.2
Medium Term Economic Outlook

1.2.1 World and Regional Economic Outlook: Moderate economic growth with many uncertainties

Global economic growth is expected to be moderate over the medium-term, pointing to a likely decline in commodity prices. World GDP growth is projected at 2.4 percent in 2024, down from 2.6 in 2023.[10] Higher real interest rates in the United States and the Euro Area will continue to constrain demand, while China's growth will be constrained by the crisis in the real estate sector and stagnant productivity. Slowing global demand will ease pressures on commodity prices, which are projected to remain moderate over the next three years, but with significant risks arising from geopolitical developments in the Middle East and Europe. Although remaining tight, financial conditions could be slightly eased with inflation that would return to its targets in major economies.

Activity in Sub-Saharan Africa (SSA) is projected to grow by 3.8 percent in 2023, notwithstanding ongoing fragilities related to widening fiscal deficits, expanding public debts coupled with higher interest charges, and large current account deficits. The three largest economies in the region (South Africa, Nigeria, and Angola) are expected to grow at a slower pace, bring down average growth in SSA over the medium term. Political instability and violent conflicts are the major risks to the SSA economic outlook.

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10 Global Economic Prospects, January 2024, World Bank

Tight financial conditions in Central Africa are expected to continue in 2024 but to ease in 2025-2026. The downward path of regional Net Foreign Assets throughout the second half of 2023 combined with elevated average inflation, driven by higher fuel prices, in Cameroon and other CEMAC countries will continue to require tight financial conditions in 2024. However, BEAC, the regional Central Bank may shift its monetary policy stance in 2025 and 2026 contingent on inflation returning to its 3 percent target.

1.2.2 GDP growth is expected to accelerate in 2025-26 and stabilize thereafter, while inflation will progressively, converge to the 3 percent target

Cameroon's medium-term real GDP growth, projected at 4.0 percent in 2024 and 4.5 percent on average in 2025-2027, will be driven by an improved energy supply and a strong public investment program. The commissioning of the Nachtigal hydroelectric dam and the completion of the transmission lines from the Memve'ele power plant in late 2023 will provide an additional 420 MW to ease energy supply shortages and boost activities in the manufacturing sector. Moreover, the construction sector will directly benefit from the strong public investment program in the medium-term, while there will be a knock-on effect on the other economic sectors.

Inflation is projected to decrease from 7.4 percent in 2023 to 7.0 percent in 2024, reaching 3.0 percent in 2027. This decline in inflation would be supported by moderating import price inflation, increased industrial production due to improved energy supply, and the effects of the BEAC's tight monetary policy. However, reaching the BEAC inflation target of 3.0 percent may take time, contingent upon domestic fuel prices, which will depend on global oil price dynamics and member states' efforts to continue reducing fuel subsidies.

1.2.3 Current account deficit will remain stable over the medium-term

The current account deficit will stabilize over the medium term around 4.5 percent of GDP. Although major commodity prices will follow a steady pace over the forecast horizon, recent soaring cocoa bean prices are expected to persist in the medium term, partially balancing out the effects on the trade balance of the downward trend in oil production and the scaled-up public investment program that will call for more imports. Government policies aiming at expanding the production of some cash crops and developing value chains for wood, and agricultural products, through tax and regulatory actions, could bolster Cameroon's export performance in the medium-term only if barriers and constraints faced by the private sector are removed and a fair competition environment is established.

1.2.4 Fiscal deficit will remain around 1 percent of GDP in the medium-term, allowing the debt to GDP ratio to decrease

In line with the ongoing fiscal consolidation, the fiscal deficit is expected to remain around 1.0 percent of GDP in the medium term, thanks to improved domestic revenue mobilization and contained current spending. Fiscal efforts on the revenue side, like the electronic invoice system, will increase tax revenue to 12.1 percent by 2027. However, oil revenues will decelerate alongside subdued oil prices and oil field depletion. On the spending side, there will be a gradual reduction in current expenditures, especially fuel subsidies, and increased public investments in infrastructural projects motivated by National Development Strategy (NDS30) implementation. The 2025 legislative, municipal, and presidential elections could exert some pressures on public finance.

Public debt is projected to decline in the medium term, reaching 36.3 percent of GDP in 2027 supported by continued fiscal consolidation over the projection period. The primary balance is expected to remain positive in the medium term. Measures under the SDFP-PPA will contribute to strengthen the debt management and fiscal sustainability. As part of the FY24 SDFP PPA, the Ministry of Finance has adopted and published an arrear clearance plan for arrears from 2000-2019. The arrears clearance plan expects the government to clear arrears over a three-year period from 2024 to 2026. Continue monitoring of the non-concessional borrowing through the SDFP PPA will also support debt management.

Figure 31: Overall Fiscal Balance and Public Debt

Source: Cameroonian Authorities and World Bank estimates

The surge in interest charges on domestic debt, driven by higher interest rates on Treasury bills and bonds, poses a threat to the fiscal framework and public debt sustainability. This underscores the urgent need for reforms to tackle the issue. Operationalizing the treasury single account (TSA) will help the Government improve cash management and alleviate liquidity pressures.

Going forward, encouraging investors to participate in the regional public securities market could promote financial inclusion and enhance communication with market actors. The government could take steps to boost financial inclusion, such as allowing people to buy public securities using their mobile money accounts. Additionally, fostering closer relationships and communication with pension funds, insurance companies, and other firms capable of investing in long-term securities is essential for financing infrastructure investments. Improving the state's financial transparency and credibility, including by improved debt management to improve sovereign credit ratings, is crucial. However, achieving this requires resolving current arrears and implementing a strategy to prevent future arrears.

1.2.5 The outlook in this Economic Update is less optimistic than a year ago

As shown in Table 3, macroeconomic projections are moderately less favorable than a year ago. Estimates of economic growth in 2023 are below last year's projections, due to more limited public investment and lower-than-expected activity in manufactured industries. However, we maintain our view regarding the expected acceleration of growth in 2024 and 2025, thanks to the gradual increase in power supply amid the commissioning of Nachtigal hydroelectrical dam, along with higher public investment. CPI inflation remained elevated due to domestic factors, especially the partial phasing out of fuel subsidies. Previous forecasts of current account balance were supported by the positive effects of export diversification policy and the expected gas production boom in 2025. While export diversification policy could take a while to show significant outcome, the expected strong public investment program will create a call for more imports. On the fiscal deficit side, the 2025 projection has worsened regarding the strong public investment program and the potential government desire to respond to social demand ahead of the general elections.

Table 3: Projections Comparison

CAMEROON	2023 Economic Update			2024 Economic Update		
Comparison	2023f	2024f	2025f	2023e	2024f	2025f
GDP growth (%)	3.9	4.2	4.5	3.3	4.0	4.2
CPI Inflation, year average (%)	5.9	4.3	3.0	7.4	7.0	5.7
Fiscal balance (% of GDP)	-0.8	-0.7	-0.4	-0.8	-0.8	-1.0
Current account balance (% of GDP)	-2.7	-2.6	-2.4	-4.0	-4.5	-4.8

Source: World Bank staff calculations. Projections for 2023 Economic Update were based on information available as of April 2023. Estimates and projections for 2024 Economic Update are based on information updated as of April 2024. Color code: red if worse than 2023 Economic Update, yellow if stable, green if improved.

1.2.6 The outlook is subject to downside risks

While the outlook is favorable, it remains subject to important downside risks. These are associated with (i) commodity price volatility (including oil); (ii) a persistent security crisis in the North-West, South-West, and the Far North regions; (iii) lower-than-expected budget support from external , (iv) the Euro/Dollar US nominal exchange rate and its effects on debt, domestic inflation, and fuel subsidies, (v) a possible intensification of domestic social tensions, which could escalate in the run-up to the elections, and (vi) a more intense climate-related disasters.

1.2.7 Structural issues and challenges in Cameroon

Cameroon's structural indicators show an overall stagnant situation (Table 4**), suggesting that the country's efforts towards structural transformation have had modest results**. Cameroon's prospects for economic transformation could improve if ongoing reforms were to be accelerated. In the past year, the decentralization process moved forward with the approval of decrees transferring competencies in health and secondary education. This will allow tailoring public expenditures close to local needs. In terms of public financial management, the government approved a decree creating the treasury single account and a ministerial order reorganizing the Cash Management and Budget Regulation Committee that will improve State's cash management and reduce cash payment by the Treasury. To improve inclusion and equitable access to services, the Government also issued regulations to ensure school access to all by limiting the amount of fees requested by parent associations, and to restrain the outflow of teachers to administrative positions. The reduction in fuel subsidies could be effective in reducing poverty if these fiscal savings are redirected to well-targeted social safety nets. In that respect, the Government took steps to implement the unified social registry of vulnerable persons and households by defining the technical and registration modalities, methodology, mechanisms, and targeting criteria. Finally, a substantive reform was made regarding water resources management, with the potential to increase irrigated areas across the country.

Table 4: Structural Change Indicators in Cameroon

LEGEND

(1)	Indicator trend from 2020-2022:[a]	↑	Up	↓	Down	=	Stable
(2)	Position in the income group:[b]	UT	Upper tercile	LT	Lower Tercile	MT	Middle Tercile

(**a**) The table shows how the indicator value evolved over a three-year period from 2020 to 2022, except for the ND-gain index and Logistics Performance Index, for which data is shown in different years. The value can either increase, decrease, or remain stable.
(**b**) Additionally, for each structural indicator, the country's position in its income group based on its 2022 indicator value is identified. The country can be in the upper tercile (countries with higher scores in the income group), middle tercile (countries with average scores in the income group), or lower tercile (countries with lower scores in the income group).
Note: Blank cells in the table mean there was not enough data available to assess the trend or to identify the tercile position of the country.

Indicators	Value			Trend	Position relative to the lower middle-income group (upper tercile – middle – lower tercile)
	2020	2021	2022		
PRIVATE SECTOR					
Foreign direct investment, net inflows (percent of GDP)	1.7	2.1	2.0	=	MT
Industry (including construction), value added (percent of GDP)	23.0	24.5	26.3	↑	MT
Services, value added (percent of GDP)	51.7	50.9	49.9	↓	MT
Agriculture, forestry, and fishing, value added (percent of GDP)	17.4	16.9	16.9	=	MT
INFRASTRUCTURE					
Gross fixed capital formation (percent of GDP)	18.1	18.1	18	=	LT
Access to electricity (percent of population)[c]	64.3	65.4	65.2	=	LT
WB logistics Performance index (LPI)[d] Score: 0 to 5 Rank: Out of about 160 countries	Score:2.1 Rank:148 In 2016	Score:2.6 Rank: 95 In 2018	Score:2.1 Rank: 134 In 2023	↓	LT
HUMAN CAPITAL (EDUCATION)					
Government expenditure on education, total (percent of GDP)	3.10	2.83	2.62	↓	MT
Output per hour worked (GDP constant 2017 international $ at PPP	4.35	4.3	4.23	=	LT
DIGITALIZATION					
Individuals using the Internet (percent of population)	45.5	45.6	45.8	↑	MT
CLIMATE CHANGE					
ND-gain index on climate vulnerability and readiness (higher is better)	39.7	39.9	40.1	↑	LT
EMPLOYMENT					
Employment in agriculture (percent of total employment)	43.1	42.8	42.1	↓	MT

Indicators	Value			Trend	Position relative to the lower middle-income group (upper tercile – middle – lower tercile)
	2020	2021	2022		
Employment in industry (percent of total employment)	15.1	15.28	15.35	↑	MT
Employment in services (percent of total employment)	41.7	41.8	42.44	↑	MT
Labor force participation rate, total (percent of total population ages 15-64) (modeled ILO estimate)[11]	71.78	71.47	72.46	↑	UT
Labor force participation rate, male (percent of male population ages 15-64) (modeled ILO estimate)	76.391	75.668	77.143	↑	UT
Labor force participation rate, female (percent of female population ages 15-64) (modeled ILO estimate)	67.233	67.331	67.836	↑	UT
Vulnerable employment, total (percent of total employment) (modeled ILO estimate)[e]	72.44	72.21	71.87	↓	UT
Vulnerable employment, male (percent of male employment) (modeled ILO estimate)	64.50	64.17	64.26	=	UT
Vulnerable employment, female (percent of female employment) (modeled ILO estimate)	81.41	81.17	80.49	↓	UT
GOVERNANCE					
Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)					
Voice and Accountability,	15.46	17.87	17.39	=	LT
Political Stability and Absence of Violence/Terrorism	9.9	9.9	10.84	↑	LT
Government Effectiveness	17.14	16.19	18.86	↑	LT
Regulatory Quality	20.47	16.66	19.33	↑	LT
Rule of Law	11.42	12.85	15.09	↑	LT
Control of Corruption	12.38	13.33	13.20	=	LT

(**c**) Access to electricity and the ND-gain index are reported for 2021, 2020, and 2019. The 2021 value is used to allocate each country into its tercile within its income group.
(**d**) The WB logistics performance index (LPI) is reported for 2023, 2018, and 2016. The 2023 value is used to allocate each country into its tercile within its income group.
(**e**) Vulnerable employment has a different color code rule. When vulnerability goes down it shows improvement (green color), and when it goes up, it shows deterioration (red color). Being in upper tercile means belonging to countries with higher vulnerability in the country income group.

Sources: World Development Indicators, World Economic Outlook, ILOStat, UNESCO Institute for Statistics, International Energy Agency, ND-Gain Country Index, World Bank Climate Portal, Global Findex, Worldwide Governance Indicators

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11 Labor force participation numbers may differ between official sources (Cameroon National Institute of Statistics) and ILO data.

In addition to the previously mentioned challenges, Cameroon's growth performance is hampered by factors such as low physical infrastructure and limited export diversification. The poor quality of infrastructure, especially electricity and roads, remains one of the main constraints to business in Cameroon, affecting virtually every sector . Internet connectivity also remains inadequate, impeding technological advancement. Furthermore, the underdevelopment of the financial system is a barrier to private investment. Additionally, the country's heavy dependence on exports, especially commodities like oil, exposes it to external shocks driven by fluctuations in global demand and prices.

Cameroon faces also significant exposure to the adverse effects of climate change, endangering both economic growth and the livelihoods of millions reliant on agriculture. The 2022 Climate Change and Development Report identifies four critical sectors—agro-forestry, transport, energy, and urban development—as particularly vulnerable. Coastal regions are threatened by floods and rising sea levels, while the northern areas are prone to droughts and floods. Escalating temperatures and prolonged droughts in conflict-affected northern regions have intensified migration patterns, with communities seeking stability, water, and arable land elsewhere. Deforestation poses significant risks in terms of climate change and environmental degradation. Soil degradation, deforestation, and coastal erosion pose additional threats to Cameroon's ecosystems. Deforestation arises from various activities, including forest conversion for agriculture, wood extraction for fuel and industry, logging, and extensive development projects. In 2021, Cameroon ranked seventh globally in deforestation, with 89,000 hectares lost, trailing its neighbor, the Democratic Republic of the Congo. Tropical rainforests, crucial for global objectives, sequester carbon and harbor diverse plant and animal species. They play vital roles in supporting Cameroon's economy, including by regulating rainfall and surface water crucial for agriculture, hydroelectric power, and municipal supplies.

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12 Cameroon 2021 SCD update

Chapter 2

Designing Fiscal Instruments for Sustainable Forests

2.1

Introduction: Context and Objectives

The six nations encompassing the Congo Basin — Cameroon, Central African Republic, Equatorial Guinea, Gabon, Democratic Republic of the Congo (DRC), and Republic of the Congo — are custodians of the world's second-largest tropical forest and its largest remaining unbroken forest landscape. This basin serves as a vital carbon sink, crucial for both regional and global ecological balance and climate stabilization. It is a rich reservoir of biodiversity and a cherished home for 60 million inhabitants, for whom these forests are not only indispensable natural resources but also an integral part of their cultural legacy. Indigenous peoples and local communities in this region depend on and sustainably manage these ecosystems. Sustainable forest management and well-regulated wood production are important sources of economic activity and revenue in the Congo Basin.

Historically, the Congo Basin has experienced relatively low deforestation rates compared to other tropical forest regions. However, 2021 marked an alarming increase in forest loss, outpacing previous years. Deforestation in the Congo Basin increased in 2021 compared to the baseline period 2018-20 by nearly 30,000 hectares (or 4.9 percent), reaching a total of 636,000 hectares lost in 2021. To achieve the global goal of halting deforestation by 2030, a reduction in forest cover loss of 10 percent per year from the 2018-20 baseline will be needed. According to a recent regional assessment, only two Congo Basin countries – the Republic of the Congo and Gabon – are currently on track to meet this goal. Each year that passes without sufficient progress makes it increasingly difficult to meet global forest protection goals – and increases the annual reductions that will be required in future years. Beyond mere deforestation, the risks of forest degradation and fragmentation loom large, threatening the integrity of the world's most extensive intact forest landscape.

The value of carbon sequestration services provided by the Congo Basin Forest is estimated at at least US$55 billion annually, corresponding to 36 percent of the GDP of the region covered by the forest in 2021[13,14]. In addition, the Congo Basin forests also mitigate global warming through their cooling effects through transpiration. Other important ecosystem services provided by the forests, some of which also have global public good characteristics, include biodiversity, controlling floods and erosion, and filtering water supplies.

The Congo Basin countries face difficult tradeoffs between forest preservation and economic opportunities that involve deforestation. The primary threats to these core intact forests arise from industrial mining, logging, and commercial agriculture, which pave the way for further development and deforestation in pristine forest territories. Although subsistence agriculture remains the most common direct cause of deforestation in the region, it typically occurs in already fragmented areas. Challenges such as insecure land tenure for local communities, governance issues, weak institutional frameworks, and insufficient law enforcement intensify the encroachment and direct pressures on these forests. Given the Congo Basin countries' need for accelerated economic growth and job creation, finding an adequate balance between forest preservation objectives and the use of forest resources and land for economic development is essential. International climate finance can play an important role by providing resources that at the minimum provides adequate compensation for foregoing alternative economic uses of forest resources and land and help to finance alternative investments that would generate economic growth and employment that does not rely on deforestation.

Governments in the Congo Basin region of Central Africa are engaged in concerted efforts to mitigate deforestation, though their prioritization of economic growth and poverty alleviation may inadvertently conflict with forest conservation goals if not strategically aligned. Integrating a forest-centric approach into broader macro-economic development plans and fiscal policy regimes can assist these nations in achieving sustainable development and enhancing rural livelihoods, while concurrently preserving their forest ecosystems. The realization of these objectives in the Congo Basin demands the supportive engagement of industrialized nations, the private sector, and philanthropic entities, investing in the sustainable use and management of these indispensable forest resources.

Carbon-finance, ODA, and private sector mobilization for forest protection can play an important role in making forest preservation a sustainable component of the Congo Basin countries' development strategies by at least compensating countries for the economic opportunities foregone by preserving their forests. The Congo Basin nations need the backing of industrialized countries, the private sector, and philanthropic organizations to invest in the sustainable utilization and

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13 Mitchell I. and S. Pleek. 2022. How Much Should the World Pay for the Congo Forest's Carbon Removal? CGD Note. November 2022.
14 This is a lower bound estimate, using the the value of US$50 per tonne used by the US government. However, other estimates suggest that the value could be as high as US$150 per tonne (Mitchell and Pleek, 2022).

management of these vital forests. However, at present financial compensation for the provision of the global public good of carbon sequestrations amount to less than one percent of the estimated value of these services. At the same time, forest projects are among the lowest cost interventions per ton of CO2 averted (Mitchell and Pleek, 2022).

In 2021, during the UN COP26 climate conference, over 140 countries, covering more than 90 percent of global forest cover, pledged to cease deforestation and land degradation worldwide by 2030, as part of the Glasgow Leaders' Declaration on Forests and Land Use. All six countries of the Congo Basin have endorsed this declaration, acknowledging the critical need to safeguard forests both globally and within their region.

International benefactors have recognized the paramount importance of the Congo Basin forests, committing USD 1.5 billion between 2021 and 2025 to aid in their protection and sustainable stewardship. Yet, these commitments, though laudable, have not fully materialized into concrete actions. The 2022 global Forest Declaration Assessment revealed that a year following COP26, the world witnessed the loss of 6.8 million hectares of forest, resulting in the emission of 3.9 billion metric tons of greenhouse gases. A mere six years remain to fulfill the ambitious objective of stopping and reversing deforestation by 2030. Under the Forest Carbon Partnership Facility, the World Bank is working with eleven countries, including Cameroon, the Central African Republic, the Republic of Congo, and Gabon, to enhance readiness for the issuance of high integrity carbon credits which would facilitate the transfer of resources to communities from companies and governments.

Credits: Edouard Tamba on Unsplash

Fiscal policy is an often-underused policy instrument to foster the sustainable use of forest resources and economic growth but can play an important complementary role to other instruments such as regulation, information, and voluntary instruments. In particular, fiscal policy tends to be effective where economic agents respond to price signals and where limited governance capacities constrain the effective enforcement of regulations.[15] Expenditure policies can also support sustainable forest management, but limited fiscal space tends to severely constrain their use. While scaled up climate finance for the Congo Basin countries is essential to help moderate trade-offs between sustainable forest management and economic development objectives, environmental fiscal policies can help widen fiscal space and create important pre-conditions for leveraging greater international and private financing of domestic climate action.

Effective use of fiscal instruments can help (a) capture a fair share of resource rents for the public sector and thus contribute to overall fiscal space; (b) promote industrial policy objectives for the forest sector, such as increased domestic value addition and employment; and (c) foster environmental management and sustainable use of forests. Key instruments include the taxation of natural resource rents, results-based expenditure policies (payments for ecosystem services, REDD+[16]), subsidies, environmental taxation (taxes, charges, and fees), tradable permits, biodiversity offsets/biobanking, liability instruments (noncompliance fines) or performance bonds. The various fiscal instruments will interact in the achievement of the afore mentioned objectives. In addition, economic policies that do not directly address forest issues, such as agricultural policies or mining policies, may also affect the use of forest resources. It is thus important that they are embedded in a comprehensive and consistent approach for the sustainable management of forest resources.

The effective use of forest-related fiscal instruments can play an important role in expanding fiscal space, including for increased expenditures that would help promote the sustainable management of forests. This is particularly important in the Cameroonian context, where fiscal consolidation is a policy priority to contain public debt and deficits. Cameroon faces a significant challenge in increasing its tax revenue, which remains below the 15 percent benchmark required to support basic government functions. Cameroon's tax revenue lags behind the averages of lower-middle-income countries, Sub-Saharan Africa, and peer countries in other regions. A substantial portion of non-oil sector tax revenue comes from a small group of large taxpayers, with the top 0.5 percent of businesses contributing 73 percent of this revenue. By effectively utilizing forest-related fiscal instruments, Cameroon can increase tax revenue while promoting sustainable forest management and conservation.

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15 World Bank. (2021). Designing Fiscal Instruments for Sustainable Forests. Washington D.C.: The World Bank.
16 Reducing Emissions from Deforestation and Forest Degradation and the Role of Conservation, Sustainable Management of Forests, and Enhancement of Forest Carbon Stocks in Developing Countries.

Fiscal policies for sustainable forests are closely intertwined with potential international compensation for climate services provided by the Congo Basin countries. First, environmental fiscal policies can help to achieve sustainable management of forests as the basis for leveraging carbon finance. At the same time, given the Congo Basin countries' very limited fiscal space, international and private financing are also essential to implement programs for forest conservation and to establish adequate monitoring, reporting, and validation systems.

The special topic (i) examines the current socio-economic context of forest policy Cameroon, (ii) discusses the role and current use of forest-related fiscal instruments, and (iii) proposes options and trade-offs in the design of forest related fiscal policy reforms to adequately capture resource rents, promote forest based value-addition and employment, mitigate deforestation and forest degradation, and promote sustainable growth, while creating important preconditions for leveraging greater international and private financing of domestic climate action. There remains a notable lack of comprehensive knowledge in this area, particularly in terms of how fiscal policy instruments are currently employed at the country level, the effects these policies have on various incentives, and how particular fiscal policy reforms may contribute to the goal of leveraging greater climate finance from international donors and the private sector. The report can provide an initial step towards providing policymakers a spectrum of strategies to craft a fiscal system tailored to forest conservation and sustainable growth management.

The analysis and discussion focus narrowly on fiscal revenue instruments directly targeting forest production and preservation to highlight first order opportunities for the use of fiscal instruments. However, it is important to note that concrete policy design and implementation will need to consider a whole range of complementary issues. First and foremost, forest-related fiscal instruments are a subset of economic instruments for sustainable forest management and complement regulatory approaches and information and voluntary instruments. Second, deforestation and use of forest resources also depends on non-forest policies. An important example of such non-forest policies are agricultural policies such as agricultural subsidies that may lead to increased demand for land and lead to deforestation. Water sector policies are another important example, given the central role of healthy river systems for sustainable forests. Policies that lead to unsustainable water extraction or river pollution would result in negative impacts on river and the forest ecosystem. Another example would be policies that affect the livelihood to people and their demand for forest products. For example, with wood being used by many households, provision of alternative energy sources would reduce the demand for wood. Finally, it is also important to mention the importance of land use planning-frameworks and their interaction with fiscal policies. For example, ecological reserves would need to be managed differently from community managed forests and taxation/fines allocated according to the land use planning.

The present analysis draws on and contributes to the World Bank's broader engagement on the Congo Basin forests. This includes work on Country Climate and Development Reports, Public Finance Reviews, and Country Economic Memoranda which have been or are being prepared for most CEMAC member countries. In several countries, including Cameroon, the Central African Republic, and Gabon, the World Bank has specific project activities to support the sustainable utilization and management of forests. The World Bank is currently also preparing natural capital accounts for several Congo Basin countries, which will provide a in-depth valuations of the services provided by the Congo Basin Forest. Another important aspect of the World Bank's work is to look at options for monetizing the carbon and ecosystem services provided by the Congo Basin Forest, looking at options such as nature linked bonds, debt for nature swaps, or helping countries meet the prerequisites required for accessing carbon finance. Recognizing the importance of helping countries achieve greater benefits and value added from their forests, a project that would, inter alia, support value chains in the forest sector in the CEMAC region is currently being prepared. The World Bank has also recently established the Global Challenge Program: Forests for Development, Climate, and Biodiversity (GCP-F). The program recognizes that conservation will remain a vital part of sustainable forest management, but it will broaden the approach to put people at the center by generating meaningful economic opportunities and mobilizing significant private sector resources to develop cross-sectoral forest-based economies. Specific activities for the roll-out of the program to the Congo Basin countries are currently being designed.

2.2

State and Trends of Forests in Cameroon

Cameroon possesses vast forested areas, rich in biodiversity, essential to climate regulation, and the livelihoods of indigenous peoples and local communities who rely on forest resources. Forests cover about 35 percent of Cameroon's area and play a vital role in regulating carbon dioxide, essential for national and regional climate regulation. It also acts as a sanctuary for indigenous populations who heavily depend on forest resources to feed themselves and build their living environment. Vegetation is dominated by the steppe and the Yaéré in the Far North, savannah in the North, Adamawa and semi-deciduous forests in the South, and the evergreen forests and mangroves in the coastal zone.[17] Forests are indispensable ecosystems that fulfill a myriad of crucial roles in the environment, society, and economy. They serve as sanctuaries for an immense array of plant and animal species, fostering biodiversity and ensuring ecosystem stability. Forests regulate the water cycle, reduce soil erosion, and purify air and water by filtering pollutants.

2.2.1 The place of forestry in the Cameroon's Economy

Agriculture is a major sector of the Cameroonian economy, accounting for 17 percent of its GDP in 2022 and employing 43 percent of the workforce. Despite significant agricultural potential, the country still faces major challenges in properly feeding its population. This situation, combined with the country's rapid population growth – an annual average of 2.7 percent over the past five years - and other economic and social challenges, poses the challenges of food security and managing agricultural expansion and land management sustainably without diminishing biodiversity and the viability of forests.

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17 Cameroon NDC, 2021.

The forestry sector's contribution to the Cameroon economy has always been significant, although it is low relative to its potential. While its contribution to national GDP has slightly decreased over the past two decades, the forestry industry continues to play a crucial role in the economy. In the early 2000s, the forestry industry accounted for 20 percent of exports and 4.0 percent of GDP. By 2022, it contributed 3.8 percent of GDP.[18] Industrial roundwood production reached 5.4 million m3 in 2021 (figure 32), generating approximately XAF 940.9 billion in revenue. Cameroon exports forest products worldwide, primarily to China, Vietnam, Europe, and the United States (figure 33). The timber sector currently provides approximately 45,000 jobs, including 22,000 in the informal sector.

The forestry value chain is the third highest provider of export revenues in Cameroon after the cocoa and hydrocarbon sectors. In 2022 it accounted for XAF 314.8 billion of export revenues (9.0 percent of total export revenues). Exports from the forestry and wood sector are mainly composed of logs products and sawn wood. Since 2015, logs exports have been substantially reduced, from 0.9 million m3 in 2015 to 0.7 million in 2022. At the same time, quantities of processed wood (mainly sawn wood) exported have more than doubled, reaching 1.2 million m3 in 2022 against 0.6 million in 2015. These dynamics are the outcomes of the recent policy of a higher export tax on logs.

As opposed to its major place in the Cameroon export basket, forestry goods account for just 1.1 percent of Government revenues (0.2 percent of GDP) on average over the last ten years, with an absolute contribution of XAF 46.2 billion (around USD 76 million) in 2022. Half of this revenue comes from logs export taxes, while the other half originates from land area fees and tree harvesting tax.

Cameroon is the largest producer and exporter of logs in the CEMAC region, but the transformation of logs into finished products is still low. Due to problems linked to a lack of suitable infrastructure, illegal logging, governance issues, and corruption, Cameroon's forestry industry is limited to primary wood-processed products, i.e., industrial roundwood and sawn wood timber, which make up the bulk of timber exports (Figures 34 and 35). The export value of secondary processed wood products, such as moldings and wooden furniture, was approximately USD 6 million in 2022 (Figure 35). This amount is relatively low compared to the country's ambition to significantly increase the share of finished wood products in its exports.

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18 Cameroon National Institute of Statistics, 2022

Figure 32. Cameroon Industrial Roundwood, production quantity (1000 m3)
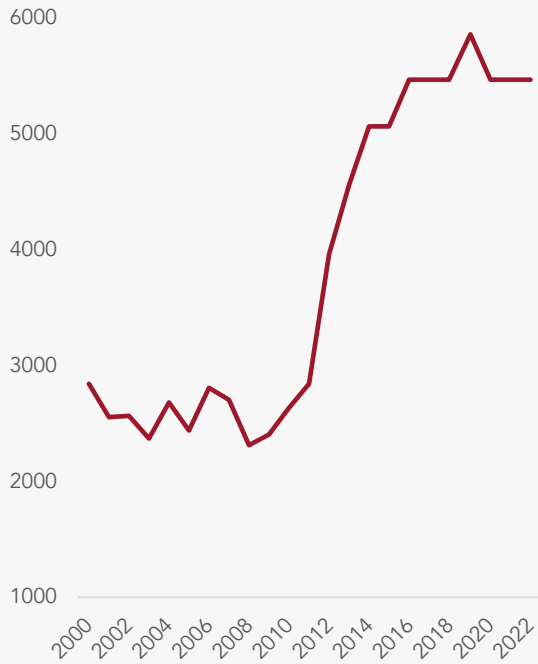
Source: The International Tropical Timber Organization (ITTO)

Figure 33. Cameroon 2018 Export Partner Share
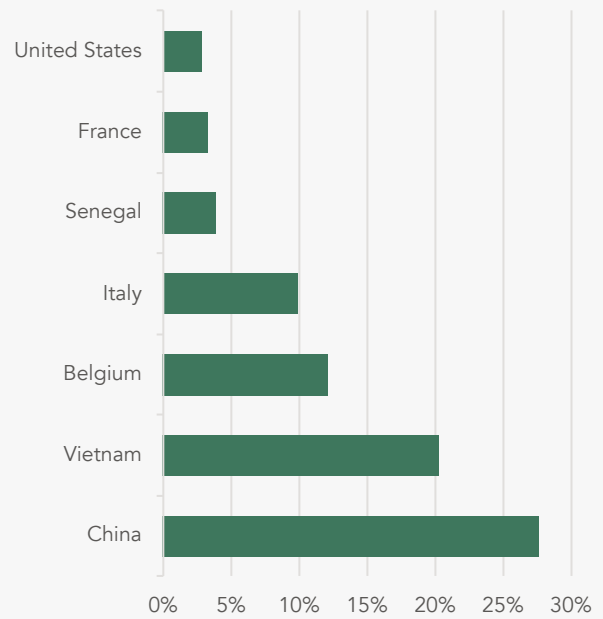
Source: WITS

Figure 34. 2022 export, primary processed wood products, millions USD

■ Ind. Roundwood ■ Plywood ■ Sawnwood ■ Veneer
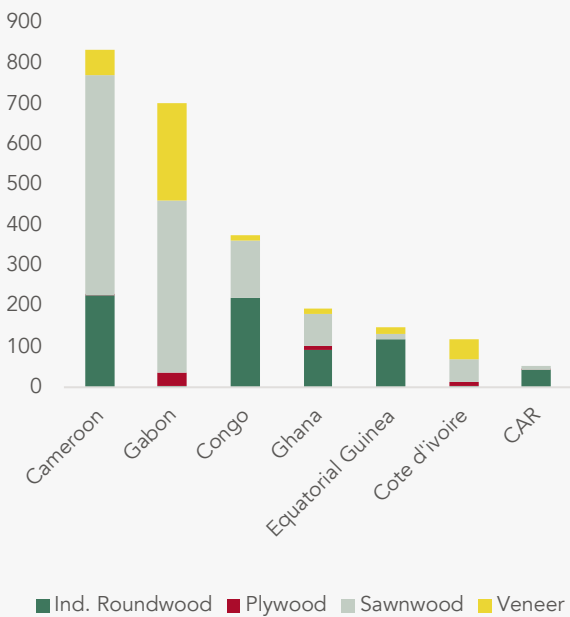
Figure 35. 2022 export, secondary processed wood products, millions USD

■ Mouldings   ■ Cane & bamboo
■ Builder woodwork   ■ Other SPWPs
■ Wooden furniture

Source: ITTO

2.2.2 Rising Deforestation

The annual deforestation rate in Cameroon is on an upward trend, rising from 0.1 percent to 0.6 percent between 2008 and 2020, while reforestation remains stagnant at 0.1 percent (figure 36). This has resulted in a decline in biodiversity, carbon sequestration, and challenges in forest management. Cameroon's forestlands face numerous threats, including deforestation due to small-scale agriculture, illegal logging, uncontrolled mining activities, and unsustainable land use practices such as slash-and-burn agriculture and unregulated agro-industrial development. Additionally, forests are increasingly vulnerable to the impacts of climate change, characterized by rising temperatures and reduced rainfall, increasing the risk of droughts, wildfires, and disease outbreaks among populations.[19] The government recognizes that unilaterally prioritizing all mining projects could substantially negatively impact the environment and ecosystems, especially since over 70 percent of the country's mining reserves are located within forested areas.[20] Deforestation and forest degradation increase the risk and exposure to emerging zoonotic diseases. As humans encroach on natural forests, the chances for outbreaks and transmission of such diseases from animals to humans increase.[21]
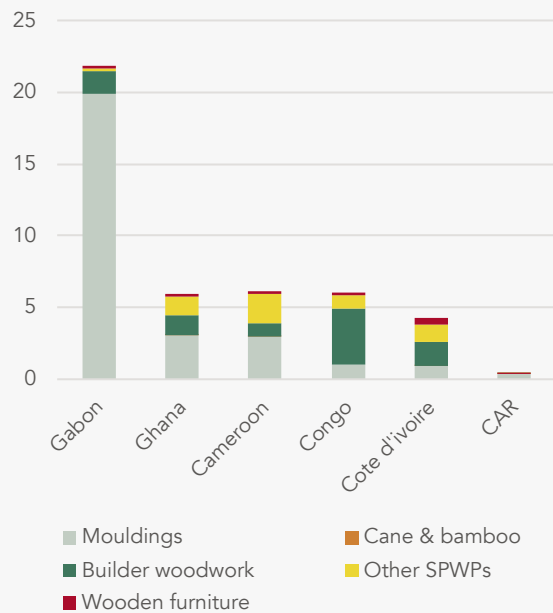
The drivers of deforestation are diverse and interconnected, often varying from one region to another. In the Dja-Odzala-Minkebe Trinational (TRIDOM) area, deforestation is mainly due to mining, road and rail infrastructure construction, and logging. In Ebo, palm oil and corn production are the main sources of deforestation. In Campo, urban expansion, infrastructure projects, and oil palm plantations contribute to the loss of forest cover. In Grand Mbam, logging and cocoa-growing activities are the leading causes of deforestation. Finally, in the country's north, deforestation is attributable to cotton cultivation, food crops, fuelwood exploitation, and transhumance. These various activities highlight the importance of understanding the complex links between the different causes of deforestation in order to implement effective strategies to preserve forest resources.[22]

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[19] Average annual temperature has increased while average annual precipitation has decreased in recent decades. The average annual temperature increased by 0.86°C over 46 years, from 24.28°C in 1974 to 25.14°C in 2020. see Climate Change Knowledge Portal (database), World Bank, Washington, DC (accessed 2022), https://climateknowledgeportal.worldbank.org/country/cameroon.
[20] Cameroon NDC (2021)
[21] World Bank (2021)
[22] World Bank (2022)

Figure 36. Cameroon deforestation trend and categories
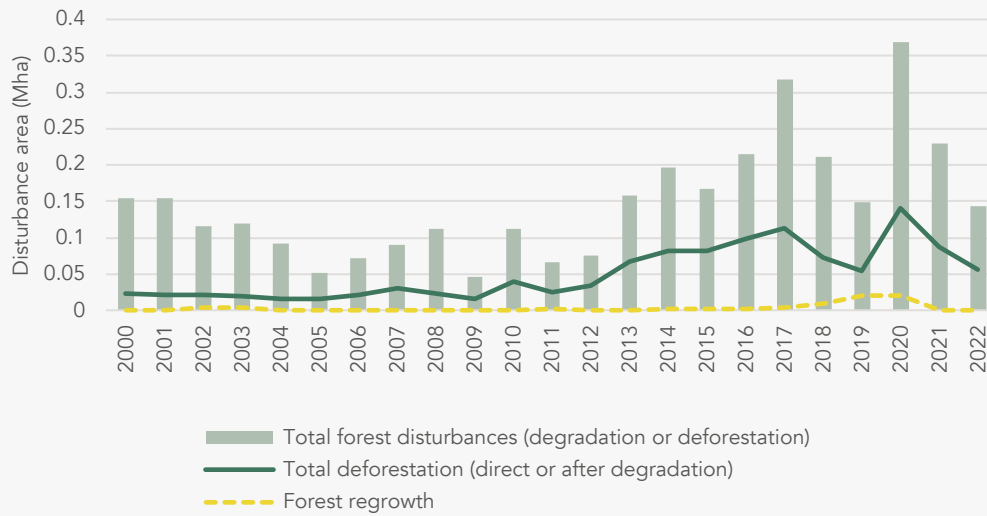
Source: Vancutsem et al. (2021)

2.2.3 Forest carbon emissions and NDC commitments

Emissions from land-use change and forestry rank as the second largest contributor to total greenhouse gas emissions in Cameroon after industry. Over the past two decades, Cameroon's total greenhouse gas (GHG) emissions have seen a slight increase, while emissions per capita have significantly decreased. This trend is a result of reforestation efforts and the shift towards renewable energies in the energy mix. Total emissions have moderately increased from 126 million tons in 2001 to 128 million tons in 2020 (figure 37), while per capita emissions have fallen from 9.54 tons of CO_2e per capita in 1998 to 2.5 tons in 2020 (figure 38). This is lower than the African average of 3.2 tons, and the world average of 6.12 tons in 2020. The main sectors contributing to GHG emissions are industry (47 percent), land use change and forestry (27 percent), agriculture (10 percent), and the energy sector (5 percent). However, if no actions are taken, Cameroon's own projections indicate a significant increase in greenhouse gas (GHG) emissions by 2030 under a business-as-usual scenario. Emissions are expected to rise by 71 percent compared to their 2010 level, underscoring the urgent need for forest policy reforms and commitments.[23]

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23 Cameroon NDC, 2021

Figure 37. Cameroon Total and per capita GHG emissions, million tons, 1990-2020
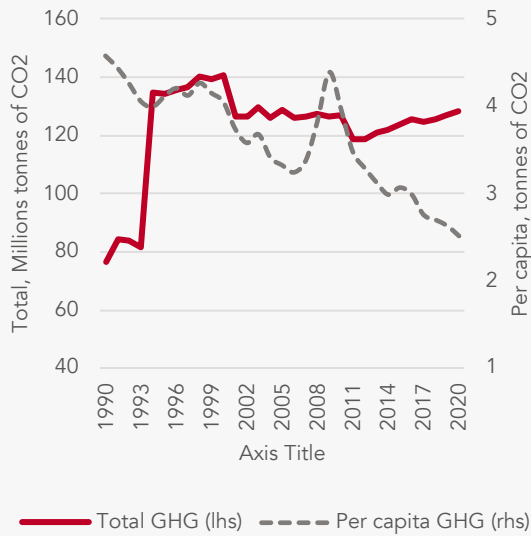
Figure 38. Cameroon GHG emissions by sector, million tons, 2020
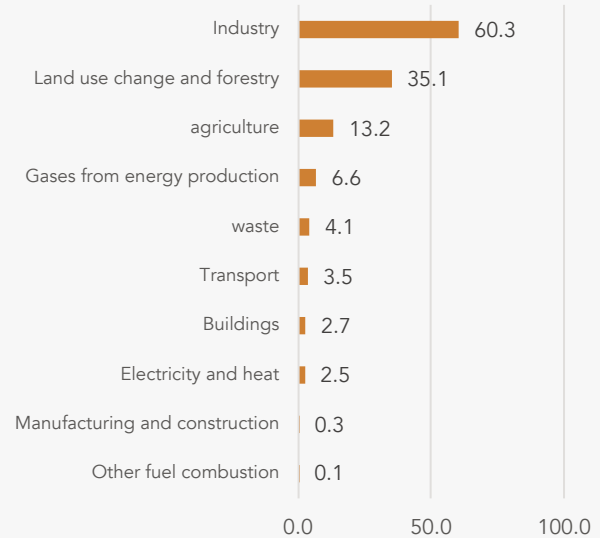
Source: Climate Watch

Cameroon ratified the Paris Agreement in 2016 and submitted an updated Nationally Determined Contribution (NDC) to the United Nations Framework Convention on Climate Change (UNFCCC) in 2022, in which the government aims to reduce the country's carbon footprint by 35 percent by 2030, with 2010 as the reference year. However, this reduction is conditional on support from the international community and donors, as well as from the private sector in the form of financing, capacity-building, and technology transfer. Cameroon intends to reduce its emissions by 12 percent with its own resources and up to 35 percent with substantial international assistance. The Cameroonian government intends to focus on three sectors with high carbon emissions mitigation potential: agriculture, forestry, and land management, and energy and waste management.

Almost half of the 35 percent reduction will be achieved in forestry and land management, which has been identified by the Cameroonian authorities as the main sector with the greatest reduction potential. Among the measures proposed in the NDC to protect forests are: (i) sustainable forest management through the exploitation and development of productive forests within the framework of management plans; (ii) contribution to economic growth and the fight against poverty through the retrocession of part of tax revenues to communities, job creation, the creation of communal forests in the Domaine Forestier Permanent (DFP) and community forests in the Domaine Forestier Non-Permanent (DFnP);

(iii) biodiversity conservation through the strengthening of the national network of protected areas; and (iv) bringing coherence to the land tenure system through zoning plans. The technological means considered by the NDC include reforestation, forest regeneration, and agroforestry practices. This notably involves reforestation across 650,000 hectares of degraded land and protecting 3,299,000 hectares of forests nationwide. Additionally, authorities plan to install control barriers on forest roads, and eco-guards will be trained to conduct continuous patrols in all protected areas.

Table 5. NDC mitigation commitment, share of reduction by sector in 2030

Reduction share among sector by 2030

	Agriculture	Forestry	Energy	Waste	Total
Reduction in quantity (Gg Eq CO2)	6808.8	19378.63	13369.85	2701.78	42258.73
Share of each sector in total reduction (percent)	16.1 percent	45.9 percent	31.6 percent	6.4 percent	100 percent
Share of each sector in percentage reduction (percent)	5.7 percent	16.3 percent	11.2 percent	2.3 percent	35.5 percent

Source : (Cameroon NDC, 2021)

Cameroon estimates the funding required to meet its CO2 reduction targets in the forest sector at 2,974.84 million U.S. dollars (USD). The total investment needed for climate change actions is estimated at $57.64 billion USD, including $25.784 billion for mitigation and $31.856 billion for adaptation. The funds requested for forestry will be used specifically to finance the reforestation and rehabilitation of degraded ecosystems and to secure and expand protected areas. Regarding domestic public funding sources, Cameroon has mobilized approximately $162.35 million USD over the 2015-2020 period for activities planned or linked to the implementation of commitments made under the Paris Agreement.[24] However, this amount is far lower than what is needed to meet the requirements set out in the NDC.

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24 Cameroon NDC, 2022

Credits: Flore de Preneuf / World Bank

2.2.4 Forest policy reforms, governance, and inclusive participation

In 2008, Cameroonian authorities initiated a revision of the country's 1994 forest legislation, reflecting an ongoing effort to adapt and enhance forest management and conservation practices in response to emerging challenges and international commitments. The 1994 legislation was initially crafted to improve the management of production forests, integrate community involvement, and enforce sustainability practices. However, over the years, various shortcomings, including issues related to forest governance, illegal logging, and the effectiveness of forest management plans, have necessitated a comprehensive review and revision of this law. However, the revision process has been slow, partly due to the complex socio-political and economic contexts in which these forestry laws operate. Challenges include bureaucratic delays, conflicts of interest between various stakeholders, and difficulties in implementing and enforcing new regulatory frameworks. Additionally, there is the need to align national laws with international agreements, such as the EU-Cameroon Voluntary Partnership Agreement under the Forest Law Enforcement, Governance, and Trade (FLEGT) initiative, which further complicates and prolongs the legislative process. The interplay of local and international factors, stakeholder interests, and the imperative to address both conservation and economic needs contribute to the slow emergence of new forestry legislation.

Cameroon has developed a national REDD+ strategy as part of global efforts to mitigate climate change by protecting and sustainably managing forests. The principal objective of this forestry policy, released in 2018, is to maintain at least 30 percent of the national territory as Permanent Forest Estate. A 10-year climate-smart investment plan was developed to prioritize climate response in the agriculture and livestock sectors. Cameroon has made progress in implementing its REDD+ strategy, establishing a national REDD+ coordination unit, developing a national forest monitoring system, and initiating pilot projects in various regions. However, the country faces several challenges. Limited technical and financial resources, along with institutional capacity constraints, have hindered the full-scale implementation of the plan. Ensuring effective stakeholder engagement, particularly with indigenous and local communities, has been challenging due to issues related to land tenure rights and benefit-sharing mechanisms. Additionally, addressing the underlying drivers of deforestation, such as illegal logging, agricultural expansion, and mining activities, remains a significant obstacle. Improvement is needed in coordinating efforts across multiple sectors and ministries, as well as aligning national policies and legal frameworks with REDD+ objectives.

Improving forest governance, developing a robust timber processing industry, and enhancing monitoring, reporting, and verification of logging activities are critical to achieving both forest preservation and economic goals. Cameroon's ambitious 2035 development plan includes large-scale transport, infrastructure, and energy sector projects, which should be aligned with forest preservation goals to minimize deforestation and forest degradation. Balancing large infrastructure or energy projects with forest conservation requires meticulous planning and comprehensive environmental impact assessments (EIAs) to evaluate potential consequences on forest ecosystems. These assessments should involve input from various stakeholders, including environmental experts, local communities, and indigenous groups. Based on the findings, project designs can be adjusted to minimize forest encroachment, incorporate offsetting measures like reforestation, and implement stringent mitigation strategies to safeguard biodiversity and ecological corridors. Better governance in the forestry sector requires fighting corruption and aligning objectives and decisions across sectors, such as those between the ministries governing agriculture, mining, and infrastructure development. It also requires better coordination among all institutions responsible for forest management, both at the national and local levels. Increasing timber processing necessitates investment in infrastructure and skills. Improving monitoring, reporting, and verification of logging activities through digitalization will also help fight deforestation and will be foundational for both better governance and the emergence of a robust timber processing industry.

Securing land tenure for forest communities and enforcing the benefiting sharing of forest revenue is central to combating deforestation, improving local communities' social conditions, and strengthening social cohesion. Research shows that when effectively implemented, granting participation rights to local actors in forest governance can enhance forest management (klooster and Masera,

2000; Smith and Scheer, 2003; Veit, 2019). When communities have a direct stake and decision-making power in managing their local forests, they are more likely to adopt sustainable practices that align with their long-term interests. By receiving a portion of the revenues from activities such as sustainable timber harvesting, non-timber forest product collection, or eco-tourism initiatives, communities become invested stakeholders in the responsible management of these natural assets. Additionally, the income generated through revenue sharing can be reinvested in community development projects, education, healthcare, or alternative livelihood opportunities, further strengthening the connection between forest conservation and local well-being. Community-based Forest management and forest revenue benefit sharing foster a sense of ownership and responsibility among community members, encouraging them to protect the forests from overexploitation and illegal activities. For full effectiveness, community forestry programs need clear tenure rights, capacity building, and support from higher levels of governance.

Cameroon has made efforts to promote community-based forests since its enactment into law in 1994, but lack of assistance to local communities and implementation challenges limit the benefits of laws to people and forests. Cameroon's 1994 forestry law, specifically Article 3(11) of Decree 95/531/PM of August 1995, paved the way for the creation of community forestry, ensuring that rural communities have access to forest resources. In May 2024, there were 705 communal forests in Cameroon, of which 330 were definitively allocated, and 305 were provisionally allocated.[25] However, despite this progress, many forest-dependent communities still face significant challenges in obtaining licenses to operate community forests. It is estimated less than half of community forests are fully operational in the country (Alemagi et al, 2022). Weak institutions, particularly inadequate implementation of community forestry laws and policies, have been widely cited as a leading cause of the sector's poor performance (Piabuo et al., 2018; Essougong et al., 2019; Alemagi et al., 2022). Despite the government's numerous initiatives to promote community forestry, institutional deficits persist, including legal issues, poor law enforcement, rights limitations, size and biophysical resource challenges,[26] lack of transparency in revenue sharing, and management skills limitations. To effectively address these deficits, relevant government authorities and policymakers within the Ministry of Forestry and Wildlife (MINFOF) should prioritize simplifying the procedures for obtaining community forest licenses, providing technical assistance and equipment to local forest communities, offering capacity-building programs for revenue-sharing management, and fostering better and more transparent collaboration with third parties, such as non-governmental organizations and private sector entities (Moutoni, 2019).

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25 Cameroon Forest Atlas
26 In Cameroon, the maximum allowable limit for a community forest is 5000 hectares. This is far less than the 200,000 hectares allocated to forest exploitation companies.

2.3
Regional and International Context

2.3.1 Financing for Sustainable Forest Management

Recent years have seen a notable uptick in international funding for sustainable forest management within the CEMAC region, a trend exemplified by the Central African Forest Initiative (CAFI) and the rejuvenated pledges at COP26. This financial bolstering has been crystallized in the Joint Declaration for the Congo Basin, which earmarks an ambitious USD 1.5 billion for distribution across six countries from 2021 to 2025. Letters of intent signed between CAFI and national authorities have further solidified commitments, amounting to USD 465 million. Yet, when set against the stark backdrop of the Congo Basin's needs for forest protection – a sum that dwarfs these commitments – one cannot help but perceive a mismatch of scale and ambition.

International financial pledges, while substantial, often lack the accompanying quantifiable, transparent targets, leaving a gap between promise and practice. This discrepancy is thrown into sharper relief when considering the Congo Basin's relative underfunding for climate action and environmental protection, when compared to other tropical forest regions. The situation is further complicated when considering the distribution of these funds. Funding allocated to local communities, communal forests, and indigenous populations remain palpably inadequate. This shortfall extends to other vulnerable groups, such as rural women and smallholder farmers.

Overall, at the national level, we observe a patchwork of intent and action: governments do earmark budget lines for forest conservation and protected area funding, but governmental action is marred by a lack of coherence. The financial objectives and actions of different ministries often appear to be reading from different scripts, diluting the potential impact of these funds.

For example, one ministry might prioritize conservation and allocate funds for protected areas, while another focuses on economic development projects that may inadvertently encourage deforestation. Additionally, there can be discrepancies in policy implementation, with some departments failing to enforce conservation laws effectively or lacking the capacity to monitor and manage protected areas adequately.

While many international observers posit that REDD+ approaches and similar mechanisms around voluntary carbon markets can serve as potential financial lifelines for the Congo Basin forests, the reality is more tempered. Consider Gabon, which in 2021 distinguished itself as the first African nation to receive performance-based payments through REDD+, securing US$ 17 million of the anticipated US$ 150 million through CAFI. While this development is laudable, it underscores the broader issue: the funding flow through REDD+ is a trickle rather than the needed torrent. Moreover, the integrity of the voluntary carbon market itself invites skepticism, with its potential financial injection falling short of the region's pressing demands.

Refining fiscal processes at the national level and increasing forest activities value added can lead to more effective channeling of existing funds towards forest protection. Enhanced budget allocation, efficient resource use, increased credibility, strategic alignment with national plans, robust monitoring, and community engagement are all critical elements that contribute to the success of forest protection initiatives. By addressing these areas, governments can ensure that funds are used effectively to conserve and sustainably manage forest resources.

Forest-related fiscal policy instruments and results-based financing (RBF) are interconnected through their shared goal of promoting sustainable forest management and conservation. Fiscal policy instruments, such as Pigouvian taxes and subsidies, are designed to influence the behavior of forest stakeholders by making sustainable practices more financially attractive. For instance, in Nepal, fiscal policy instruments have been used to address issues related to revenue sharing and benefit distribution among community forest user groups, although inconsistencies in these policies have hindered their effectiveness. Similarly, in India, intergovernmental fiscal transfers have been employed to support forest conservation, but the design of these transfers is crucial for achieving desired conservation outcomes. On the other hand, RBF links financial rewards to the achievement of specific, pre-defined results, such as reduced deforestation or improved forest governance. This approach is central to initiatives like REDD+ (Reducing Emissions from Deforestation and Forest Degradation), which mobilizes financial resources based on verified emissions reductions. The integration of fiscal policy instruments with RBF can enhance the effectiveness of both approaches by providing continuous financial incentives for sustainable practices while ensuring

accountability and measurable outcomes. For example, Gabon's use of a 'bonus-malus' (feebate) fiscal instrument mechanism in forest policy demonstrates how aligning fiscal measures with sustainability certification standards can improve fiscal resource distribution and policy performance. Overall, the synergy between fiscal policy instruments and RBF can create a robust framework for achieving sustainable forest management and conservation goals.

2.3.2 Implementation of the CEMAC Log export ban: A potential solution for increasing value added in the wood industry

CEMAC countries have moved towards implementing a ban on the export of round logs as part of an effort to promote local timber processing within these countries and aligning themselves with a global movement towards sustainable forest management. This significant policy shift, initially slated for commencement in 2022, has been postponed to 2028, allowing countries involved ample time to adapt to this transformative agenda.

This initiative is a facet of a broader regional strategy, the Sustainable Industrialization Strategy of the Timber Sector in the Congo Basin, designed to reconcile and weave together environmental stewardship and industrial development. The strategy envisions the establishment of special economic zones focused on wood processing, a regional committee to oversee industrialization efforts, and the development of plantations in accordance with sustainable practices. Furthermore, it advocates for the creation of educational institutions to nurture a new generation of professionals in the timber sector, supported by a harmonized forest code and a unified forest taxation policy. The African Development Bank is expected to play a pivotal role in financing this transformative project.

The regional initiative to ban round log exports across the entire Congo Basin represents a veritable turning point in the history of regional cooperation, moving beyond previous unilateral efforts. Cameroon and Gabon, each in their own time and manner, have previously grappled with the formidable challenge of halting log exports, albeit with modest outcomes. Cameroon, following the edicts of its 1994 forestry law, began to prohibit log exports in 1999, allowing a generous interval for adaptation. Yet the persistence of log exports, facilitated by a convoluted system of quotas and exceptions, bore witness to the complexity of the issue at hand. Gabon, taking a step further, enacted a total ban on log exports in 2010, having initially targeted four pivotal species. This move, however, inadvertently catalyzed a shift in forest exploitation activities to other nations within the Congo

Basin, underscoring the inherent limitations of unilateral measures. Against this backdrop, the collective ban by the CEMAC countries is not just a policy shift but a philosophical realignment, recognizing the intertwined fates of nations in the region in their attempts to limit deforestation and promote sustainable forest management. It represents a recognition that the preservation of the Congo Basin necessitates a shared vision and collective action.

The impact of this policy shift, once implemented, is expected to be significant. For instance, the Cameroonian Minister of Forests, Jules Doret Ndongo, anticipates a substantial increase in timber collected from forest concessions by 2030, with an expected rise to 15 million cubic meters per year, up from the current 7 million cubic meters. This increase is forecasted by the ministry to double the timber sector's contribution to GDP and create around 100,000 jobs, up from the current 40,000. The focus will be on enhancing the rate of log processing and improving secondary and tertiary processing activities. However, there is an acknowledgement that in the initial years of the ban's implementation, the CEMAC region countries might face negative impacts in the short run, including a significant drop in government revenues from the sector. This anticipation has reinforced the delays in the log export ban's full implementation.

BOX 3: An indicative trajectory of structural reform to transition from log exports to higher value-added processing

Transitioning from log exports in Gabon and other CEMAC countries involves several key steps aimed at fostering sustainable forest management, economic diversification, and enhancing domestic capabilities. Firstly, implementing reforms such as the Log Export Ban (LEB) can significantly reduce deforestation, as evidenced by Gabon's avoided deforestation of nearly 2,100 km² from 2010 to 2018. Strengthening the regulatory and institutional framework for export promotion is crucial, alongside improving human capital quality and creating a fair business environment. Developing a national land use plan that includes sustainable concessions and mandatory forestry certification can help balance economic goals with environmental protection. Additionally, adopting a national carbon threshold for land conversion and requiring concession-level set-aside ratios can mitigate carbon emissions from activities like timber and palm oil plantation expansion. Addressing the informality and illegal practices in the domestic lumber market through better governance and clear legislation is also essential. Encouraging forward linkages in the timber industry by setting domestic processing targets, despite challenges like high production costs and inadequate infrastructure, can enhance value addition within the country. Ensuring supply chain transparency and traceability of wood products through stable isotope analysis and other tracking technologies can support due diligence and compliance with international regulations. Finally, the success of these initiatives depends on the government's capacity to enforce sustainable forest management and the willingness of concession holders to invest in long-term forest management plans. These steps collectively aim to transition from log exports to a more diversified and sustainable economic model in Gabon and other CEMAC countries.

2.3.3 The EU Law on Deforestation-Free Products: A regulation that promotes sustainable forest management in the region?

Adding to the complexity of CEMAC regional initiatives in the forestry sector, the European Union has taken significant steps to restrict the import of commodities linked to deforestation as part of a broader effort to mitigate climate change and biodiversity loss. The new EU Regulation on Deforestation-Free Products aims to ensure that a range of products sold within the EU do not originate from deforested land anywhere in the world. This includes commodities such as wood products, meat products, cocoa, coffee, palm oil, soy, rubber, charcoal, and printed paper products.

The EU's deforestation regulation includes three key elements: due diligence requirements, risk-based controls, and penalties for non-compliance. First, companies will need to provide a "due diligence" statement confirming that their products do not come from deforested land and have not led to forest degradation, including of irreplaceable primary forests, after December 31, 2020. This also includes rules requiring compliance with relevant legislation of the producing (exporting) country, respecting human rights and the rights of indigenous peoples. Second, the EU will classify countries or regions as low-, standard-, or high-risk based on an objective assessment. Products from low-risk countries will undergo a simplified due diligence procedure, whereas higher-risk countries will be subject to more rigorous checks. Third, companies that fail to comply with these rules could face significant fines, with a maximum amount set at 4 percent of the total annual turnover in the EU of the non-compliant operator or trader.

The imposition of the EU deforestation regulation on Congo Basin countries could incentivize greater momentum towards enforcement of certification regimes coupled with environmental fiscal policy reforms promoting sustainable forest management. By requiring stringent due diligence and traceability of products, the EU regulation sets a higher standard for environmental monitoring, reporting, and verification (MRV) systems in the forestry sector, which could encourage producing countries to adopt more sustainable practices. This, in turn, could lead to the development of policies and practices that prioritize forest conservation and sustainable land use, aligning with the EU's environmental standards to maintain access to its market.

However, the real-world effect of the EU deforestation regulation may be minimal in some countries and will depend on various factors, including the (limited) exposure of CEMAC forest-related commodity exporters to the EU market (and thus to the added regulatory cost burden), the political will of

the governments in the region, the capacity of local industries to comply with these standards, and the support from international bodies and NGOs in facilitating compliance. Nevertheless, it is anticipated that over time, the EU's approach could serve as a model for other regions and countries, demonstrating how stringent environmental standards can be integrated into trade policies to promote global forest conservation efforts.

In their regional response to EU regulations banning deforestation-linked commodity imports, Cameroon and other Congo Basin countries are likely to face complex governance challenges that necessitate increased bureaucratic and strategic state capacities. On the one hand, to varying degrees, they will need to adapt to EU's stringent requirements, which necessitate proof that their exports, such as timber, agricultural, paper, and mineral products, are not linked to deforestation. On the other hand, they will need to align with regional policies like the CEMAC log export ban, in pursuit of their efforts to boost local processing and sustainable forestry practices.

To manage these dual pressures effectively, greater coordination across national policies and ministries will be crucial. Countries will need to harmonize their efforts to develop sustainable forestry practices that meet international standards while also building local processing capabilities to add value to their exports. Such coordination could involve sharing best practices, developing regional frameworks for sustainable forestry, and seeking technical and financial support from international partners to build the necessary infrastructure and capabilities. While these policy directions present distinct challenges, they also offer opportunities for these countries to enhance their forest management practices, diversify their economies, and improve their standing in the global market by aligning with international environmental standards.

To this end, the CEMAC region engages in the Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPAs) with the EU, which aim to ensure timber exported to the EU is legally sourced. This involves defining a legality standard and setting up a Timber Legality Assurance System (TLAS) that covers the entire supply chain. These processes have led to increased transparency, stronger civil society organizations, and more forest revenues being distributed to communities.

Cameroon has signed a comprehensive agreement with the EU to improve transparency in the forestry sector. The agreement, known as the FLEGT Voluntary Partnership Agreement (Forest Law Enforcement, Governance, and Trade), was ratified in 2011 and aims to ensure that wood products exported from Cameroon to the EU comply with legal requirements (FAO, 2022). This agreement includes various measures such as improving forest governance, enhancing law enforcement, and promoting transparency in the timber trade sector. The agreement provided three years for a preparatory phase to obtain the first FLEGT authorization and

establish a Timber Legality Verification System (TLVS). To date, no authorization has been issued,[27] although the Cameroonian Ministry of Forestry and Fauna (MINFOF) has taken the first official step by enacting a Ministerial Order. If adhered to by forestry companies, this Ministerial order would enable the issuance of a "legality certificate," thereby streamlining the process for obtaining FLEGT authorization in the future. Overall, the VPA is perceived as having contributed slightly to reducing illegal logging in the Permanent Forest Estate (DFP) but without effect in the Non-Permanent Forest Estate (DFnP), where cases of illegality appear to have increased (Cerutti, et al., 2022).

### BOX 4: Cross-cutting issues in sustainable forest management

Promoting sustainable forest management (SFM) in CEMAC countries faces several cross-cutting issues, including weak governance structures and political economy constraints. Effective governance is crucial for SFM, yet many regions, including CEMAC, suffer from inadequate governance capacity, which hampers the adoption of forest certification and other sustainable practices. Institutional and structural obstacles, such as insufficient funding and lack of technical forestry operations training, further impede the effective involvement of local communities in forest management, leading to overexploitation and degradation. Additionally, the presence of multiple, overlapping, and independent actors along the value chain can create trust and credibility issues, complicating the implementation of policies like the Voluntary Partnership Agreement (VPA). Political economy constraints, such as the influence of forest-adverse economic sectors like agriculture, bioenergy, and mining, also pose significant challenges, necessitating coherent international policy cooperation and integrative actions to align these sectors with SFM goals. Moreover, the high transaction costs associated with implementing and enforcing rules to reduce overharvesting can deter effective forest governance, especially under conditions of environmental and institutional uncertainty. The uneven progress in SFM, particularly in tropical low-income countries, highlights the need for long-term forest management plans and clear ownership of forests to prevent deforestation and degradation. Despite the global expansion of SFM, the gap between developed and developing countries remains wide, necessitating multi-dimensional solutions involving coordination among various stakeholders. Finally, the socio-economic benefits of forests are often undermined by poor governance, which calls for systematic analysis and targeted efforts to improve administrative systems and promote positive changes. Addressing these cross-cutting issues is essential for achieving sustainable development and ensuring the resilience of forest ecosystems in CEMAC countries.

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27 It seems there was a disagreement between the European Union and the Ministry of Forests and Fauna on SIGIF2, which is a second-generation IT regulation system advocated by the EU. More research is needed to relate the story.

Furthermore, the Governance of Forests Initiative (GFI) Indicator Framework, a tool developed by the World Resources Institute and its partners to assess the quality of forest governance, has been utilized in Cameroon to support civil society assessments and outreach, aiming to strengthen forest governance. This framework provides a comprehensive set of indicators that help diagnose the strengths and weaknesses in forest governance systems. The framework aims to offer a systematic and replicable approach to qualitative assessment, helping various stakeholders—including government agencies, legislators, and civil society organizations—to understand and improve forest governance. The GFI Indicator Framework has been field-tested and refined in several countries, including Brazil, Indonesia, and Cameroon. It is designed to support a wide range of users and applications, from assessing the effectiveness of policy implementations to supporting civil society in advocacy for governance reform.

Taken together, these regional and international forest-related regulations and governance arrangements operating in the CEMAC countries demonstrate a multi-faceted approach to combating deforestation and promoting sustainable forest management. By incorporating both legislative measures and collaborative initiatives, these efforts aim to ensure the conservation and sustainable use of forest resources, contributing to global objectives of biodiversity conservation and climate change mitigation.

Credits: Edouard Tamba on Unsplash
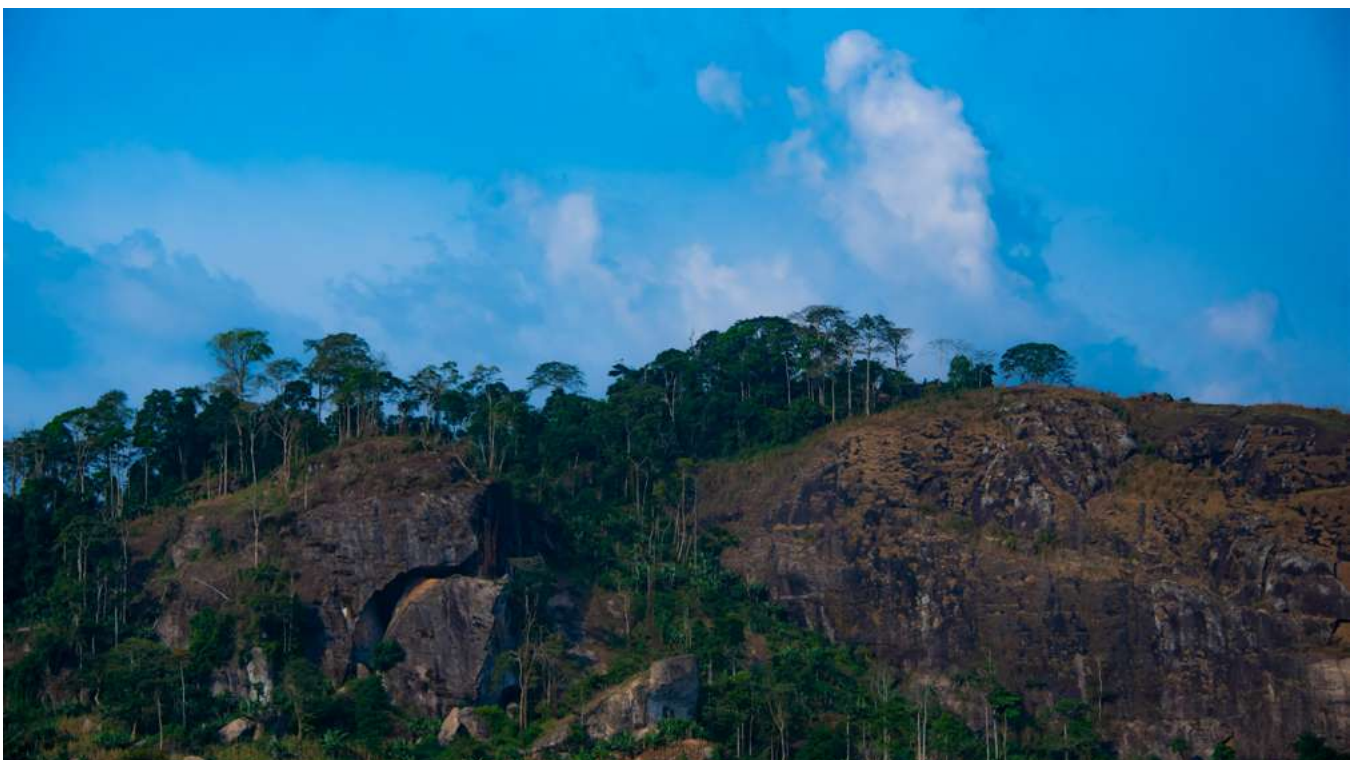
2.4

The Role of Environmental Fiscal Policy: Trade-Offs in the Forestry Sector

Numerous strategies exist for the conservation of forests, yet their efficacy varies significantly, particularly in the context of nations with limited economic resources. Regulatory mechanisms, such as mandated standards and prohibitions, have shown promise in meeting conservation goals (Figure 39). Nevertheless, they demand substantial administrative and enforcement infrastructure and may not be as cost-effective as alternative economic measures. Economic tools, such as policies based on results-driven spending, necessitate advanced governance structures and are typically more expensive to deploy due to the establishment of new institutions and administrative frameworks. Some of these policies, like REDD+, hinge on financial support from international benefactors.

Figure 39. Selected Approaches and Policy Instruments for Sustainable Forest Management

REGULATORY APPROACHES

- Restrictions or prohibitions on use (e.g., restrictions on trade in illegal timber)
- Restrictions or prohibitions on access and use (e.g., designation of protected area
- Permits and quotas
- Quality, quantity, and design standards (e.g., minimum harvesting diameters)
- Spatial planning (e.g., ecological corridors)
- Planning tools and requirements (e.g., environmental impact assessments, strategic environmental assessments)

INFORMATION & VOLUNTARY INSTRUMENTS

- Ecolabeling and certification (e.g., sustainability certification)
- Green public procurement
- Voluntary approaches (e.g., negotiated agreements between firms and governments)
- Corporate environmental accounting
- Conditional credit

ECONOMIC INSTRUMENTS

- Results-based expenditure policy (payments for ecosystem services, REDD+)
- Subsidies
- Environmental taxation (taxes, charges and fees, e.g., royalties)
- Tradable permits
- Biodiversity offsets/biobanking
- Liability instruments (noncompliance fines)
- Performance bonds

Source: World Bank (2021), adapted from OECD (2013)

Conversely, climate-smart fiscal policy instruments applied to the forestry sector are, in principle, a cost-efficient strategy that can be independently implemented by countries. When thoughtfully crafted, forest-related fiscal instruments have the potential to be impactful even in environments marked by limited governance or administrative capacity. Forest-fiscal policy instruments complement other forest conservation and management strategies for forests. Although environmental taxation should be leveraged more extensively to foster forest conservation and sustainable practices, it is not the sole solution. A holistic approach, incorporating regulations, informational measures, and various economic strategies, including policies based on results-driven spending, is crucial for a comprehensive and effective conservation framework.

Forest taxes are used by governments in addition to corporate taxation to capture a greater share of revenues, but often in the context of imperfect, asymmetrical information. Theoretically, the aim of forest taxes is to capture the "stumpage value" of a production forest, which can be assimilated to an economic rent (Gillis 1992). The stumpage value corresponds to the market price of the wood production (that is, a mix of logs, sawn wood, by-products, and finished products) minus the cost associated with logging, forest management, transport, processing, marketing, and a "normal" profit. Corporate taxation should also be deducted to get the stumpage value of a forest management unit. Forest taxation, therefore, can be viewed as a way of capturing the forest economic rent not collected by corporate taxation, in a context of asymmetrical information between companies and governments about the prices and costs of timber operations.

Such information asymmetry is often specifically associated with tropical timber and fragile states. Species are often traded in small quantities on few markets, making the information on sales prices difficult to know. Relative prices are constantly evolving, not only among species but also between logs and processed products. In addition, companies can reduce their tax base, often through transfer pricing, but not only, and understaffed tax authorities frequently lag behind. Therefore, forest taxes play a critical role by collecting minimum revenues for the state, whether they capture some share of the economic rent.

The strategic application of forestry taxation requires an astute understanding of its potential impacts (Table 6). A tax targeting timber production, for instance, might inadvertently encourage practices detrimental to forest health, depending on the nuances of the production process. The goal, then, is to refine tax policies to incentivize methods that align with sustainable forest management principles, ensuring that taxation not only serves fiscal objectives but also contributes to the broader goal of forest conservation.

Table 6. A selection of fiscal mechanism and their relative impact on incentives for sustainable forest management (SFM)

FISCAL MECHANISM	DESCRIPTION	EFFECT ON SFM INCENTIVES	OTHER FEATURES
Excise tax	Tax on timber and other forest-derived products. Can be unit-, profit-, or resource rent–based	Mixed impact – Without additional measures can increase incentives for illegal or informal logging, selective harvesting, and land use change	Revenue-increasing High administrative costs (information, enforcement)
Area fee	Fee based on harvested area	Mixed impact – Without additional measures can encourage more intensive harvesting	Low administrative costs
Export tariff	Tax on exported timber and other forest products, levied by customs authority	Mixed impact – Without additional measures can generate distortions in consumption and marketing of forest products or encourage inefficiency and waste in domestic industry	Revenue-increasing Low administrative costs
Input tax	Charges on capital equipment, labor, or other inputs	Mixed impact – Can be mechanism to help control illegal logging	Revenue-increasing
Subsidy or tax expenditure	Fiscal incentives and tax Discounts	Strong impact on incentives for SFM and land use change, if well targeted	Revenue-decreasing High administrative cost
Combination of taxation and subsidy/rebate (feebate)	Taxation and rebate combination based on firm adoption of SFM or another environmental indicator	Strong impact on incentives for SFM, if well targeted	Potentially revenue Neutral Medium administrative cost, if used in combination with information instruments
Ecological fiscal transfer	Portion of central government fiscal transfers allocated based on environmental indicators	Strong impact on public incentives for SFM and forest conservation	Revenue neutral Low administrative cost

Source: World Bank (2022), Adapted and expanded from Gray (2002)
Note: This is a non-comprehensive list of forestry fiscal mechanisms. The country-level context will determine which instruments are most appropriate in each circumstance.

The revenue-generating potential of well-designed forest taxes, for example, may incentivize public authorities to keep forested land under its current use rather than encourage land conversion to agriculture. However, traditional forest taxes do not act as environmentally targeted (Pigouvian) taxes, since tax rates in practice do not vary based on the size of negative externalities (e.g., emissions) but on the area exploited or volume of timber. While it is theoretically possible to foresee taxes levied based on associated environmental damages, this could entail high administrative costs. Forest services in fragile states lack independent financial means to monitor forestry operations and estimate the level of damages on a consistent, objective basis.

BOX 5: The impact of forest-related fiscal instruments on fiscal space

Forest-related fiscal instruments significantly impact fiscal space by influencing government revenues and expenditures through various mechanisms. Instruments such as Pigouvian taxation and subsidies, and market-based systems like feebates and certification schemes can either enhance or constrain fiscal space depending on their design and implementation. For instance, the introduction of feebates, which are budget-neutral mechanisms, can promote sustainable forestry without reducing government revenues, as seen in the promotion of certified timber and agricultural commodities in Central Africa. However, the effectiveness of these instruments can be limited by high administration and compliance costs, as well as the niche market shares, they often occupy, which has been observed in the case of voluntary certificates supported by developed countries. Several cross-country examples illustrate the varied impacts that forest-related fiscal instruments can have on public finances. In Brazil, the REDD+ strategy, which includes both results-based funding and market instruments, demonstrates how financial resources can be mobilized for emissions reductions, thereby impacting fiscal space through the redistribution of funds across various governance levels. In Nepal, inconsistencies in fiscal policy instruments, such as multiple taxation and unclear revenue-sharing mechanisms, have hindered the sustainable management of forest resources and affected the financial situation of community forest user groups, thereby impacting local fiscal space. In Poland, the forest fund model redistributes resources from high-income to deficit-reporting forest districts, although it faces challenges in ensuring fair and rational distribution. Additionally, the implementation of financial accounting standards like AASB 1037 in Australia, which mandates the reporting of forest assets' net market value, can influence fiscal space by recognizing changes in asset values as revenues or expenses. The impact of forest-related fiscal instruments on fiscal space is multifaceted, requiring a balanced approach that considers both economic and regulatory measures to achieve sustainable forest management and fiscal stability.

This nuanced approach to forest taxation is part of a broader fiscal rationale aimed at capturing economic rent in the face of informational asymmetries. By focusing on the "stumpage value," or the net value of forest production after accounting for various costs, governments can leverage taxes as a tool for securing revenues that might otherwise be lost to inefficiencies and information gaps. The challenge of accurately assessing this value, particularly in contexts where timber trade is marked by volatility and opacity, highlights the critical role of innovations in environmental forest-fiscal policy in ensuring equitable and effective revenue collection from forest resources.

In what follows, we will survey a select set of forest-fiscal instruments, their economic and environmental rationale, and whether and how they are utilized in Cameroon. We begin with the most basic and administratively rudimentary fiscal instruments, proceeding gradually to those which attempt to balance multidimensional considerations of environmental targeting (Pigouvian principle), fiscal (revenue-generating) considerations, administrative capacity, and strategic state capacity in managing varied vested interests in the forest-related commodities sectors.

2.5

Survey of Forest-Fiscal Policy Instruments in Cameroon

This section provides an overview of the taxation of forest-related taxation in Cameroon. This includes recurrent annual charges, logging licenses and the auctioning of forest concessions, output taxes, and business income taxes.

2.5.1 Recurrent Annual Charges

Recurrent annual charges come in several forms, including property taxes (charging a percentage of the value of the property, either including or excluding the value of the trees), and area fees (a fixed charge per area of land) (World Bank 2021). Area fees are generally simpler to implement since property taxation necessitates regular land revaluation assessments. However, area fees also entail some administrative sophistication as they are typically determined by some valuation of the forestry concession, which may need to be adjusted over time. This is sometimes achieved through competitive auction.

Area fees reveal the complex, often unpredictable, effects of forest taxes on logging behavior. The response of loggers to these fiscal pressures reveals that increased fees sometimes beckon towards more intensive logging. The empirical literature, enriched by insights from Vincent, Gibson, and Boscolo (2003), hints at a potentially myopic rush towards exploitation induced by higher fees, urging loggers towards premature extraction. This is because area fees impose a fixed cost that forestry operators must pay regardless of the volume of timber extracted.

Cameroon does not impose property taxes on forested lands but does levy areas fees. The applicable rate, tax base and other tax modalities are detailed in article 243 of the Tax Code, with tax revenue detailed in the n+1 Settlement Bill. A minimum annual fee of 2,500 XAF per hectare applies to a one-year operating license, while an annual fee of 1,000 XAF per hectare applies to longer-term operating licenses.

2.5.2 Logging Licensing and the Auctioning of Forest Concessions

One method of imposing upstream area fees is by using a bidding procedure (i.e., competitive auctions) for allocating forest permits. The resulting license fees ex-ante have the character of a tax on logging rents. According to economic theory, forestry operators will be willing to bid up to the value of their rents – i.e., economic profits more than companies' discount rates – for the concession. Economic theory further suggests that such auctioning can fulfill two related policy objectives: (i) to increase tax collection through better economic rent capture using competition between companies for securing their access to the resource; and (ii) to counter discretionary allocation of permits through the comparison of proposals and, ideally, the publicity and transparency of the allocation procedure.

The political economy constraints on competitive auctioning of forestry concessions are often considerable. The auctioning of forest permits is often strongly opposed by insiders in the private sector, including the logging and deforestation-linked commodities sectors. At the same time, forestry ministries tend to favor "technical criteria" over financial ones, overestimating their capacity to monitor the fulfillment of commitments once the permit has been allocated (thus making eventual sanctions unlikely).

In Cameroon, an auction system jointly designed and revised with the World Bank has been implemented since 1997. However, the coexistence of technical and financial based offers has favored corruption (Topa et al. 2009). Even though the financial offer was given the most weight (at 70 percent) in the resulting concessions, the eliminatory threshold associated with the technical offer has often benefitted certain competitors over others that were excluded. With a small number of bidders, however, the risk of collusion to underbid will be high. Up-front transmission of information on the bids to some competitors (sent in advance by bidders to the commission under sealed envelopes) has also been suspected to have distorted competitive conditions on some occasions (Karsenty and Fournier 2008). Real-time auctions would mitigate such risk of information leakage, but it has not been attempted for concession allocation in the forestry sector.

In Cameroon, the auction system has demonstrated the potential to collect a greater part of the economic rent from forestry and has, to some extent, reflected the true willingness to pay (Topa et al. 2009); however, duplication of the mechanism in other countries has not occurred. Insiders prefer discretionary allocation. Companies equally fear that competition leads to overbidding and the "winner's curse." An annual area fee set through auctioning is a fixed cost, while timber prices (and other costs) vary over time. This potentially creates a risk for

the forestry industry, which is a long-term activity. The risk of price variation can be mitigated if the annual fee set through the auction process is indexed to a composite price index reflecting the variation of the market price of various timber species, and products (logs, sawn wood, plywood, and so on).

The Cameroonian government does not provide publicly available, up-to-date data on the annual fees set through the bidding procedure, making transparent and reliable tracking of the system unfeasible. Moreover, formal qualification for bidding in the auctioning process is not made contingent upon the sustainability of the logging practices nor upon the forestry operators acquiring timber certification. The International Tropical Timber Organization (ITTO) publishes a bimonthly list of prices; however, the list is not exhaustive, and the accuracy is disputed. Nevertheless, it reflects FOB price change trends for various regions.

Fortifying this information service would perhaps convince new governments to experiment with auction mechanisms for allocating forest permits without placing all the risk on the industry. In Africa, where foreign companies tend to dominate the industrial value chain, national loggers fiercely oppose the auction system, which was considered to favor powerful economic actors. In Cameroon, for some years, certain allocation rounds have been reserved for nationals. However, it turned out that some local concessionaires winning the auction were associated with hidden foreign operators.

2.5.3 Output taxes: royalties from harvested timber and stumpage yield taxes

Output taxes in the forestry sector commonly take one of two forms: royalties from the market value of harvested timber, or a stumpage yield tax. Royalties based on the value of harvested timber are typically calculated as a percentage of the market value of the timber at the time of harvest. This means the amount paid varies with the market price of the timber, which can fluctuate based on demand, supply, and other economic conditions. A stumpage yield tax, in contrast, is a fixed charge levied on the volume of wood extracted, regardless of its market value. It is typically set per unit of volume (e.g., per cubic meter or per ton), and the rate usually remains constant unless changed by policy.

The design of the output tax has economic implications – for both revenue variability and risk-sharing. Royalties that depend on the market value of timber are more variable since they are directly tied to timber prices. This can mean higher revenues for landowners or governments when prices are high, but lower revenues when prices are down. In contrast, a stumpage yield tax provides a more predictable and stable revenue stream, as it is not dependent on market prices. The implications for the sharing of risks are also significant. Royalties on the value of harvested timber share the price risk between the timber owner and the harvester (or the government in some cases). When prices are high, both benefit, and when they are low, both earn less. On the other hand, a stumpage yield tax places more risk on the timber harvester, as they have to pay a fixed rate regardless of the timber's selling price.

Stumpage yield taxes have lower administrative complexity, with implications for compliance. Calculating royalties based on timber value can be more complex, requiring accurate assessment of timber prices and possibly leading to disputes over valuations. This system might also need more rigorous enforcement and auditing to prevent underreporting of values. The stumpage yield tax, being a fixed rate based on volume, is generally simpler to administer and easier for compliance.

The behavioral effects of the two output taxes – royalties on harvested timber and stumpage yield taxes – have mixed, ambiguous impacts on harvesting decisions. With value-based royalties, there might be an incentive to harvest more when prices are high, potentially leading to unsustainable practices if not well-regulated. In contrast, a fixed stumpage yield tax might encourage more consistent harvesting practices, but it could also discourage harvesting if the fixed tax becomes economically burdensome during periods of low timber prices. Each system has its advantages and challenges, and the choice between them often depends on the economic objectives, administrative capacity, and forestry management goals of the region or country implementing these policies.

Stumpage yield taxes can modify incentives as there is room to modulate tax rates according to the objective of promoting certain sustainable forestry management practices. Following such a principle, —and in the interest of encouraging optimal use of raw material—beginning in 2000, the government of Cameroon moved towards a stumpage yield tax rather than a royalty on harvested timber. In other words, the change involved moving the tax on processed products from the output to the (input) volume of logs entering the mills, with the objective to encourage an optimal use of the raw material. The objective mentioned—encouraging optimal use of raw material—aligns with the principle of stumpage yield taxes, which are often implemented to ensure that the volume extracted is recorded and taxed appropriately, potentially encouraging more efficient use of resources.

This change was implemented for almost a decade, but stumpage yield tax collection rapidly declined with pervasive implementation challenges. The controllers posted at the entry of the (numerous) mills became "captured" by companies and neglected to report certain volumes (or did not declare the right species). Eventually, this solution was abandoned, and taxes are mainly collected at the export chokepoint. This example illustrates the difficulties of implementing environmentally targeted forest-fiscal instruments in fragile states. The difficulties faced in maintaining effective tax collection, with issues like corruption and misreporting at the mill entry points, reflect common challenges in implementing volume-based taxes in environments with weak governance or administrative capacities. The tax depended on accurate reporting of the volume and type of logs entering the mills, which is critical for stumpage yield taxes.

The eventual abandonment of this system in favor of collecting taxes at export chokepoints—i.e., an export tax on timber—suggests a reversion to a simpler, more controllable form of taxation. This shift back is indicative of the complexities involved in administrating stumpage yield taxes effectively, particularly in settings where monitoring and enforcement can be compromised.

Cameroon's timber export tax rate of 75 percent (since the 2024 Finance Law) is exceptionally high. Firms located in an industrial free zone currently pay a reduced rate of 60 percent of the FOB log's value and 15 percent (since the 2023 Finance Law) of the FOB processed wood's value. Additionally, there is a minimum export surcharge between 1000 XAF and 5000 XAF per log unit following a competitive auction (Custom Tariffs 44.6, 44.7, and 44.9, available in the Custom Code and the Custom Tariffs Rate).

Levying a high export tax on timber can bring about a range of economic, administrative, and environmental challenges. First, high export taxes can significantly increase the cost of timber products for international buyers, making them less competitive in the global market. This can lead to reduced demand for exports, affecting the overall revenue generated by the timber sector. Second, while one of the goals of high export taxes may be to lower domestic prices to boost local industry, this can also distort market dynamics, potentially leading to inefficiencies in resource allocation. Third, high taxes can incentivize producers to focus on the domestic market even if they are more efficient or profitable in export markets, leading to potential misallocation of resources. Fourth, high export taxes can incentivize illegal activities such as smuggling or underreporting of exports to avoid taxes. This is especially a concern in countries with weaker enforcement mechanisms. The high financial stakes involved can also foster corruption among officials tasked with tax collection and regulation enforcement. Fifth, high export taxes can deter both domestic and foreign investment in the timber industry.

Investors may perceive the high tax rate as a barrier to profitability, leading to reduced capital inflow, which is crucial for development and technological upgrades in the sector. Sixth, if the domestic market cannot absorb all the timber produced efficiently, there might be incentives to overexploit forest resources, especially if domestic processing capacity is limited or inefficient. If there is an economic push to process timber domestically due to high export taxes, but local processing is wasteful or inefficient, it could lead to greater environmental degradation compared to exporting logs for processing elsewhere. Seventh, high export taxes require robust mechanisms for compliance and enforcement to prevent evasion. This can be administratively demanding and costly, particularly in countries where governance and institutional capacities are limited. Addressing these challenges often requires a balanced approach that considers both the economic benefits of taxation and the potential for negative outcomes. Solutions might include more moderate tax rates, improved enforcement mechanisms, and policies that encourage sustainable practices in both the domestic and export markets.

2.5.4 Business Income Taxes

Forestry businesses, apart from facing sector-specific taxes like export taxes or stumpage yield taxes, are also subject to general business income taxes. These taxes have unique considerations in the forestry sector due to its distinctive characteristics, particularly the long investment cycle. In forestry, the period from planting trees to harvesting can extend over many decades, which influences how income taxes are designed and implemented.

In many jurisdictions, income from timber is not taxed on an accrual basis, where income is recognized as it is earned. Instead, it is taxed on a realization basis, meaning the income is recognized at the point of harvest. This method recognizes the proceeds from timber, minus the associated costs, only when the timber is actually harvested and sold. The taxation of these proceeds can vary: they may be treated as ordinary income or as capital gains. Typically, long-term capital gains taxes are lower than ordinary income tax rates. When timber proceeds are taxed as capital gains, this usually provides a significant tax benefit because of the lower rates applied.

2.5.5 Tax Expenditures for Agriculture and VAT Exemptions for Farm Inputs

In the broader context of fiscal policies impacting forestry and deforestation, the role of tax expenditures for agriculture, as well as VAT exemptions for farm inputs, becomes crucial. These financial instruments can significantly influence land use decisions, potentially accelerating deforestation when not aligned with environmental objectives.

Under Cameroon's Tax Code (articles 122 and 124-A), VAT exemptions are provided for employer and fiscal charges on employee's salaries in the agriculture sector, registration fees for transfers of agricultural land, property taxes, and personal income taxes.

Tax expenditures, which include various tax breaks and incentives for agricultural activities, can significantly impact deforestation. These incentives are often designed to promote agricultural expansion and productivity but can inadvertently encourage the conversion of forested lands into agricultural fields, especially in regions where agricultural expansion is the primary driver of deforestation. Tax breaks or incentives for agricultural investments can make it financially attractive for farmers and corporations to clear more forested land for cultivation. This is particularly impactful in Cameroon, where agriculture is a major economic driver and land is seen as a critical asset.

In regions rich in biodiversity, such as Cameroon's tropical forestland, incentives that favor agricultural expansion can lead to significant ecological disruptions, biodiversity loss, and increased carbon emissions due to deforestation. Without proper regulatory frameworks and sustainable land use planning, tax expenditures can undermine environmental conservation efforts. They may conflict with national or international goals for climate change mitigation and sustainable development.

Under Cameroon's Tax Code (articles 122 and 124-A), VAT exemptions are provided for pesticides, seeds, fertilizers, other farm inputs, and farm machinery and equipment. VAT exemptions for farm inputs (like seeds, fertilizers, and machinery) are common in many countries, including Cameroon, as a measure to reduce the cost burden on farmers, enhance food security, and boost agricultural productivity. While these exemptions have clear benefits for agricultural efficiency and output, they also have implications for land use and environmental sustainability.

By reducing the cost of agricultural inputs, VAT exemptions can make it cheaper and more economically viable for farmers to cultivate larger areas, including

potentially encroaching on forested lands. While potentially beneficial for food production, these exemptions can lead to more intensive farming practices that might degrade soil, reduce biodiversity, and increase runoff and pollution if not managed sustainably.

These fiscal tools could be redesigned to support sustainable agricultural practices. It is possible, for example, to align tax expenditures and VAT exemptions with environmental benchmarks. Fiscal authorities could provide these benefits only for agricultural practices that maintain or improve forest cover, use environmentally friendly technologies and practices that contribute to soil conservation and biodiversity, or employ advanced agroforestry techniques. To mitigate the negative environmental impacts while leveraging the economic benefits of agricultural development, it is crucial to integrate fiscal policies strategically. By carefully designing and implementing these fiscal instruments, governments can help ensure that agricultural growth contributes positively to both economic development and environmental sustainability, avoiding the pitfalls of unchecked expansion that leads to significant deforestation.

Credits: Worldbank Cameroon

2.6

Opportunities for Climate-Smart Forest Fiscal Policy Reform in Cameroon

2.6.1 Varying Forestry Taxes by the Sustainability of Production Methods

The fiscal and ecological benefits of forestry taxes hinges on the precise targeting of the tax base. Taxes on timber products essentially penalize production output, yet the environmental impact varies greatly depending on the production methods utilized. Ideally, environmental forestry taxes should target these methods directly to incentivize sustainable forest management investments.

In particular, the ideal of dynamically varying tax rates in accordance with the sustainability of production practices emerges as an optimal environmental forest tax principle, echoing a departure from the uniform taxation models of the past. This innovative approach, reminiscent of the transition from indiscriminate electricity taxes to carbon taxes, emphasizes the importance of differentiating tax burdens based on environmental impact. Such differentiation aims to encourage sustainable production in the forestry sector by adjusting tax rates to reflect the ecological footprint of different production methods. This shift represents a nuanced understanding of fiscal incentives, acknowledging that the sustainability of timber production varies significantly across different harvesting techniques.

Despite the potential of commodity tax systems to drive sustainable practices, the practical challenge of varying tax rates based on production methods lies in the fiscal authorities' limited insight into the specifics of these methods. This informational gap hinders the ability to align tax rates precisely with the sustainability of production practices, thus diluting the environmental efficacy of such taxes. Overcoming this obstacle requires innovative strategies that enable fiscal authorities to access detailed information about production techniques, thereby facilitating more nuanced and effective taxation policies.

The integration of sustainability certification into tax policy offers a promising solution to this challenge. By leveraging the detailed assessments conducted by certification agencies, fiscal authorities can align tax rates more closely with the environmental impact of production methods. Offering tax discounts or waivers for products certified as sustainable introduces an incentive structure that encourages producers to adopt more environmentally friendly practices. This approach not only addresses the informational gap but also promotes market formalization by incentivizing legality and sustainability in production processes.

The collaboration between fiscal authorities and certification agencies exemplifies a synergistic approach to environmental policy, wherein the strengths of each entity are harnessed to achieve a common goal. This partnership has the potential to enhance market dynamics by creating a dual incentive structure, where certified producers benefit from both tax advantages and consumer preferences for sustainable products. Moreover, this approach fosters international cooperation by aligning domestic fiscal policies with global sustainability goals, offering a model for international collaboration in forest conservation.

Ultimately, the integration of sustainability certification into forest-related commodity tax rates (including for timber, paper, and potentially agricultural and mineral products) represents a forward-thinking approach to environmental fiscal policy, one that acknowledges the complexities of sustainable production and seeks to leverage fiscal instruments in service of environmental conservation. By adopting this strategy, governments can create a more effective, information-driven framework for encouraging sustainable practices in the forestry sector and beyond, paving the way for a more sustainable and environmentally responsible global economy.

2.6.2 A 'bonus-malus' system in forestry: using taxes on non-sustainable production to finance tax benefits for sustainable practices

A 'bonus-malus' system in forestry consists of applying higher taxes on non-sustainable production to fund tax reductions for sustainable practices. This system is intended to be budget-neutral, where the revenue from higher taxes (maluses) directly funds the reductions (bonuses). This model is particularly relevant in budget-constrained environments in Congo Basin countries. This mechanism requires careful calibration to ensure it does not lead to revenue losses for the

state. For instance, when applied to taxation based on concessions' certification levels, the mechanism's success depends on accurate forecasting of the transition from non-certified to certified units, which in turn affects the financial sustainability of the tax system.[28]

In Gabon, a differentiated forestry taxation system was introduced, which resembles a bonus-malus mechanism: certified forestry concessions (FSC or PAFC) received a tax reduction, concessions with legality certification faced a moderate tax increase, and uncertified concessions saw a significant tax increase. This system, which can be replicated in other countries, aimed not just at budget neutrality but also at increasing overall tax revenues, by incentivizing sustainable practices through fiscal measures. Potential challenges of the Bonus-Malus mechanism concern the accessibility of certification systems for national operators and small producers, often due to high audit costs. A potential solution to this would be allocating a portion of sectoral taxation to a special fund dedicated to subsidizing these costs, thus reducing financial barriers and mitigating potential conflicts of interest between auditors and their clients.

Implementing a bonus-malus system in forestry taxation can encourage sustainable forestry practices. However, it requires robust management and forecasting capabilities to ensure that changes in production patterns do not lead to fiscal imbalances. Furthermore, supporting smaller producers through financial subsidies for certification can enhance the inclusivity and effectiveness of such policies. By linking tax incentives directly to sustainable practices, governments can drive significant environmental benefits, aligning economic activities with broader ecological objectives.

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28 Karsenty, 2024

2.7
Looking Ahead: Lessons Learned

2.7.1 Combining fiscal instruments with better forest governance through improved enforcement, monitoring, and transparency will help Cameroun safeguard its forests while enhancing the forestry sector's role in the economy

The effectiveness of ecological tax reform in the forestry sector can be enhanced by innovative fiscal policy design but depends on alignment with a country's governance capacity and inclusion of stakeholders. The integration of taxes with performance bonds and certification schemes presents an innovative approach to leveraging fiscal tools for environmental stewardship. Subsidies for sustainable practices, adjusting forest taxes with the ecological footprint of the wood production method, tax rebates for forestry certification and agroforestry, reinvestment of natural resource revenues, fiscal transfers, and grants for forestry sustainable practices can play a crucial role in protecting Cameroon forestland. However, past experience in Central Africa highlights the need for inclusive policy-making processes that involve all stakeholders, including local communities and forest-dependent populations, to ensure that forestry reforms support both environmental sustainability and economic development (Box 1).

Such fiscal strategies, however, are not standalone solutions but components of a comprehensive policy mix that addresses the multifaceted challenges of forest conservation. From regulatory measures to economic instruments and informational campaigns, the success of forest conservation and sustainable

development strategies and efforts hinges on the ability to implement a coherent, integrated strategy that leverages the strengths of each approach. The role of governance, in this context, cannot be overstated. A robust governance framework is essential not only for the effective implementation of tax policies but also for fostering the collaboration and transparency necessary for sustainable forest management.

Cameroon is making efforts to support sustainable forestry, better governance, and better use of fiscal revenue instruments combined with efforts to increase value addition in the timber industry can help achieve both forest preservation and economic goals. International rules, most recently the EU Law on Deforestation-Free Products, have been pushing Cameroon towards more sustainable forestry. In coming years, the CEMAC log export ban will encourage joint development of environmental stewardship and industrial development in the forest sector. Forestry and wood products can contribute to Cameroon's 2035 national development plan, but the country needs to build a strong commercial timber processing industry. Finally, if the international community begins to deliver the levels of carbon finance warranted by the importance of Cameroon and the Congo Basin's vital carbon sink, then Cameroon's forests and peatlands will have every chance to be preserved into the future.

Box 6: Insights from Fiscal Reforms: Transforming Forestry in Central Africa

Since the early 1990s, the World Bank has supported reforms on forest concession regimes in Central Africa with two main goals: enhancing the economic value of forest resources and dismantling the patronage system in forest permit allocation.[29] These reforms aimed to improve governance and transparency but faced resistance from vested interests, resulting in only partial implementation. Key aspects included adjusting the fiscal framework to increase public revenue and reduce resource waste. Over time, the focus of forestry reforms shifted towards REDD+ initiatives, which emphasize reducing emissions from deforestation and forest degradation. This shift reflected a broader change in international environmental policy priorities. However, the actual impact of these initiatives on forest management practices and deforestation rates has been mixed.

In the interest of learning from history, the practical difficulties in implementing these reforms, including the need for robust and transparent systems to manage and monitor forestry activities, should be acknowledged. Past reform efforts in the forestry sector across Congo Basin countries were critiqued for not sufficiently involving local communities in

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29 Karsenty, 2016

decision-making processes and for underestimating the non-timber values of forests, which are crucial for the livelihoods of forest-dependent people. Ongoing work by World Bank teams is now focused on the development of robust natural capital accounting, including the value of forest ecosystem services and other non-timber benefits, in the Congo Basin forests.

Past experience highlights the importance of aligning fiscal instruments with sustainable forestry management goals. It also points to the need for inclusive policy-making processes that involve all stakeholders, including local communities and forest-dependent populations, to ensure that forestry reforms support both environmental sustainability and economic development.

While fiscal instruments such as adjusted taxation and competitive bidding for concessions have been central to the World Bank's reform efforts, their effectiveness has been tempered by the complex interplay of local governance, economic interests, and institutional capacities. The ongoing challenge is to design and implement fiscal policies that effectively balance economic incentives with conservation goals, ensuring that forestry practices contribute to sustainable development and environmental protection.

Going forward, addressing the multifaceted challenges facing Cameroon's forestry sector, a coherent set of solutions is proposed, focusing on both fiscal reforms and measures for long-term sustainability of forest management and conservation. These include:

- Adjust forest tax rates to reflect the ecological footprint of timber production methods. By leveraging the detailed assessments conducted by forest certification agencies, fiscal authorities can align tax rates more closely with the environmental impact of production methods.

- Encourage forest certification and, like Gabon, experiment with the implementation of a "bonus-malus" system where non-certified concessions are taxed more than certified ones.

- Rationalize tax expenditures for agriculture to improve their targeting and align them with environmental goals. Public authorities could consider implementing a monitoring system to ensure funds are used effectively and aligned with environmental goals.

- Promote user-friendly digital services for the forestry sector, including processes for permit applications, tax and fees payments, and real-time tracking of forestry activities, ensuring these platforms are available in remote areas to increase

efficiency and transparency. As part of capacity building, the government could provide training for forestry officials and concessionaires on the use of digital tools to improve efficiency and transparency.

- Engage local communities in expanding and strengthening the implementation of REDD+ projects across Cameroon's forests to ensure they benefit directly from carbon sequestration efforts. This could include financial incentives or alternative livelihood programs. Secure performance-based funding from international donors by demonstrating measurable progress in carbon sequestration and community benefits.

- Implement comprehensive legal reforms to strengthen forest governance and law enforcement. The new forestry law, currently under revision, should include clear definitions and regulations to ensure sustainable forest management, strong enforcement mechanisms to protect against illegal activities, and provisions for the involvement of local communities in decision-making processes.

- Foster international partnerships and secure increased funding for forest conservation and climate resilience projects. Cameroon should actively seek international cooperation to attract climate finance, technical assistance, and capacity-building support. By engaging with global environmental initiatives, international donors, and climate funds, the country can secure resources needed for forest conservation, community adaptation strategies, and sustainable livelihood programs.

- Promote agroforestry and sustainable land management practices as key strategies for reducing pressure on forests. Investments in agroforestry projects that integrate tree cultivation with agricultural crops, coupled with training and technical support for farmers, can facilitate the transition to more sustainable agricultural practices, such as crop rotation, organic farming, and soil conservation techniques, thereby reducing deforestation and forest degradation.

- Enhance community engagement and participatory forest management to ensure the sustainability of conservation efforts. Empowering local communities and indigenous peoples through participatory forest management models is crucial for the sustainable use of forest resources. Implementing community-based forest management programs that include clear benefit-sharing mechanisms can incentivize conservation and sustainable livelihoods.

- Increase efforts to develop a robust local wood processing industry, which can add value to forest products, create more jobs, and generate more revenue compared to exporting raw timber. This could be facilitated by offering incentives such as tax breaks, grants, and technical support. Focus on producing high-value products for domestic and international markets. Invest in vocational training programs to build a skilled workforce capable of supporting a thriving wood processing sector.

2.7.2 Strengthening regional cooperation through harmonized regulations, better law enforcement, and improved forest fiscal policy alignment will better equip Congo Basin countries to face cross-border challenges, enhance institutional capacities, and attract more international funding

Better coordination of forest preservation policies in Congo Basin countries will help ensure consistent enforcement across borders, reduce illegal activities, and improve sustainable management practices. Although Congo Basin countries have legal frameworks that aim at regulating forest management and protection, the lack of regional guidelines, and enforcement often hinders the implementation of these laws. Strengthening the Central African Forestry Commission (COMIFAC), particularly through its Central African Forest Observatory (OFAC), is essential for harmonizing national institutional frameworks and data collection. Harmonizing fiscal policies, particularly to encourage forest management plans and certifications, and aligning agricultural and mining policies with forest protection efforts can significantly contribute to forest preservation.

Regional political efforts within CEMAC to harmonize forest-related fiscal policies are crucial for fostering environmental conservation, business environment, and regional integration. While aligning countries to commit to a ban on the export of logs to promote the domestic timber sector is a significant step, it is not sufficient. More impactful policies include enhancing the coverage, quality, and monitoring, verification, and enforcement (MRV) of sustainability certifications for forest-linked commodities. These certifications ensure products meet environmental and social standards, improving market access and prices. Adopting recurrent annual charges on commercial land use, such as land area taxes, can discourage deforestation and promote sustainable land management. Implementing feebates, with taxes varying based on production sustainability, incentivizes eco-friendly practices, while eliminating uneconomic and environmentally harmful tax expenditures, like subsidies for agricultural inputs, further supports sustainable forest management.

Aligning CEMAC member countries with this best-practice frontier of forest-fiscal policies can mitigate competitive disparities among member countries, creating a stable and predictable investment environment that attracts sustainable investments. Regional policy alignment initiatives are essential to avoid beggar-thy-neighbor policies, which can undermine collective progress by shifting unsustainable logging practices to less regulated countries. Through environmentally targeted (Pigouvian) standardization of forest taxation and regulations, governments can reduce tax evasion, capture greater land-use sector rents, promote fairer revenue distribution, and lessen administrative burdens

for firms engaged in cross-border operations. Regional alignment encourages greater foreign business investment in sectors such as timber, agriculture, and eco-tourism, benefiting local populations through job creation, technology transfer, and infrastructure development. Coherent policies also bolster regional integration by facilitating trade and cooperation, enhancing overall cohesion, and making the region more attractive to international donors and organizations focused on climate change and sustainable development (OECD 2019).

Regionally integrated forestry initiatives are essential to avoid beggar-thy-neighbor policies, which can undermine collective progress by shifting unsustainable logging practices to less regulated countries. Harmonized regulations promote sustainable forest management by ensuring the uniform application of environmental standards, thereby protecting forests and biodiversity across borders. Evidence from regions such as the European Union, Amazon Cooperation Treaty Organization, and East African Community demonstrates that policy alignment effectively combats environmental degradation and fosters sustainable practices (European Commission 2020; ACTO 2021). By embracing coordinated fiscal policies, CEMAC countries can safeguard their forests, bolster economic growth, and enhance regional resilience against worsening climate impacts.

Regional forest-fiscal alignment can also significantly enhance CEMAC countries' attractiveness to international donors, organizations, and conservation funds. Lending groups such as the World Bank, Global Environment Facility (GEF), and Green Climate Fund (GCF) are more likely to bolster investment in regions where policies are harmonized, as this reduces the risk and complexity of project implementation. Potential funding and technical assistance can be unlocked for development projects such as reforestation, biodiversity conservation, and sustainable land management (World Bank 2021; GEF 2022), strengthening activities including those under the Central African Forest Initiative (CAFI). The World Bank, under the aegis of its Global Challenge Program on Forests for Development, Climate, and Biodiversity, is initiating a regional Congo Basin Sustainable Forest Economies program to increase regional coherence on governance and fiscal policies, strengthen regional institutions such as CEMAC, COMIFAC, and OFAC to access the benefits of recent advances in digital technologies particularly Earth Observation (EO) and Artificial Intelligence (AI) for forest and biodiversity monitoring and MRV systems (measurement, reporting, and verification) and invest in sustainable forest and protected areas management. Financial instruments and mechanisms like the Forest Carbon Partnership Facility (FCPF) and the REDD+ (Reducing Emissions from Deforestation and Forest Degradation) initiative can provide additional vital support. Engaging more with these foreign direct investors and climate-related aid organizations can be achieved through regional cooperation platforms, joint project proposals, and demonstrating a strong commitment to policy coherence and sustainable development. This collaborative approach not only secures financial resources but also brings in expertise and technology essential for long-term environmental and economic sustainability (UNFCCC 2018).

2.7.3 The Congo Basin countries' efforts to preserve their forests provide an essential global public good in the form of climate regulation and biodiversity services and require significantly scaled-up international support and compensation

The international community must urgently provide substantial financial support and fair compensation for the Congo Basin forests' carbon sequestration and ecosystem services. Despite their pivotal role in global climate regulation and biodiversity preservation, these forests receive inadequate financial recognition for their critical environmental contributions. Acting as a significant carbon sink and providing vital ecosystem services that benefit the entire world, the Congo Basin forests are underfunded. The Congo Basin countries face a substantial financing gap for their climate commitments, receiving only a small fraction of the required funds. This stark disparity highlights the urgent need for increased and equitable investment in the conservation and sustainable management of these forests. Adequate financial backing is crucial to sustain conservation efforts, combat deforestation, and promote sustainable development in the region. Fair compensation for these ecosystem services would not only help preserve these vital forests but also bolster the economic stability and growth of Congo Basin countries, paving the way for a more equitable and sustainable future for all. To this end, countries also need to enhance their readiness to effectively mobilize available climate finance options. The World Bank, through its regional Advisory Services and Analytics (ASA)[30] initiative, is supporting these nations in building the necessary capacity for results-based climate financing. This approach considers the comprehensive value of forest ecosystems and environmental services, including carbon sequestration, biodiversity conservation, soil conservation, and water retention.

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[30] The World Bank, through its Congo Basin Forests Advisory Services and Analytics (ASA), is assisting CEMAC countries and the DRC in developing natural capital accounts to capture the comprehensive value of forest assets and ecosystem services, thereby enhancing national planning and decision-making for sustainable forest management. Additionally, the initiative supports these countries in building the necessary capacities and readiness to leverage both existing and innovative options for results-based climate finance.

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